2021

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR CORPORATION

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This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the year ended December 31, 2021 relative to the year ended December 31, 2020, and the financial position of the Company at December 31, 2021. It should be read in conjunction with Canfor's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2021 and 2020 (available at www.canfor.com). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization and Impairments and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2021 Compared to 2020") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization and Impairments, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization and Impairments, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization and Impairments to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at March 1, 2022.

Forward-Looking Statements

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

2021 HIGHLIGHTS

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

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

For the lumber segment, the Company reported operating income of $2,019.6 million for 2021. After taking account of adjusting items, lumber segment earnings for the current year were a record-high $2,202.8 million, up $1,389.0 million compared to the previous all-time high operating income of $813.8 million in 2020, reflecting unprecedented earnings in all three of Canfor's operating regions.

The considerable strength in global lumber market conditions seen at the end of 2020 continued well into 2021, principally as a result of sustained high levels of North American demand, driven by significant activity in both the residential construction and repair and remodeling sectors in the first half of the year, supported by lean inventory in the supply chain amidst the coronavirus ("COVID-19") outbreak.

New home construction in North American markets reflected the ongoing shift to suburban areas and increased demand for single-family dwellings, supported by historically low mortgage rates, improved housing affordability and favourable demographics as millennials entered into their prime home-buying years. In the repair and remodeling sector, as many consumers continued to spend time at home during the pandemic, with higher disposable income and a substantial increase in home equity positions, demand continued to rise. This unprecedented demand combined with limited global lumber supply propelled global benchmark lumber prices to historical highs in the second quarter of 2021.

As the year progressed, while housing starts remained relatively stable, the high cost of lumber resulted in more cautious consumer spending and a decrease in the sale of building materials across the repair and remodeling segment. The decline in end use activity and an increase in supply both domestically and abroad led to a notable downward correction in benchmark lumber prices to annual lows in the third quarter of 2021.

As a result of these challenging lumber market conditions and transportation disruptions in Western Canada stemming from severe wildfire conditions, the Company implemented temporary capacity curtailments and reduced operating schedules across its BC lumber operations, which decreased production by a total of 380 million board feet in the third and fourth quarters of 2021. Wildfires were followed by unprecedented flooding in BC in November, which severely damaged rail and highway infrastructure and significantly reduced shipment volumes from Western Canada. The disruptions to the supply chain in BC, combined with transportation challenges in the US South and ongoing global port congestion and container shortages, gave rise to a rebound in North American benchmark lumber pricing, driven largely by an uptick in the repair and remodeling sector and unseasonably high US housing starts.

In contrast to North American markets, offshore lumber demand from Asia varied between markets, as certain regions lagged the trends seen in the record North American pricing environment. In Japan, demand strengthened year-over-year, particularly in the third quarter of 2021, as a result of steady consumption in the industrial and construction sectors combined with lean inventories. Demand in China, however, remained well below historical levels throughout much of the year, as reduced imports of softwood lumber into China was largely a reflection of high North American benchmark pricing coupled with a significant slowdown in the growth of real estate development. Demand and pricing in Western Europe and Scandinavia followed similar trends to North America, reinforced by the improved construction sector, a drive for green building initiatives and strength in the "do-it-yourself" space.

Despite continued pricing volatility in 2021, average Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") benchmark lumber prices saw substantial year-over-year increases of 58% and 54%, respectively. The Western SPF 2x4 #2&Btr and SYP East 2x4 #2 prices reached record-highs of US$1,630[1] per Mfbm and US$1,400 per Mfbm, respectively, in May 2021 before declining sharply to lows of US$385 per Mfbm for Western SPF 2x4 #2&Btr in August and US$492 per Mfbm for SYP East 2x4 #2 in July. Through the balance of the third quarter, Western SPF and SYP benchmark lumber prices stabilized before rebounding through the fourth quarter and ending the year above US$1,000 per Mfbm. European lumber prices also reached unprecedented levels in 2021, closely following North American benchmark pricing gains, impacted to some extent by the lag in European contract pricing which is traditionally negotiated a quarter in advance.

From an operational perspective, notwithstanding the challenges in BC, production volumes for the Company's Western Canadian operations were up slightly year-over-year as extreme weather-related impacts in the current year were more than offset by COVID-19 related curtailments in the prior year. In the US South and Europe, the Company continued to benefit from its global diversification strategy, including a full year of operations from the Vida Group's ("Vida") acquisition of Bergs Timber Production AB ("Bergs") sawmill assets in September 2020 and the acquisition of Elliott Sawmilling Co., LLC ("Elliott") in May 2020. These factors, combined with a solid operating performance, resulted in moderately higher production and shipments for the Company's lumber operations overall in 2021.

Following the many challenges driven by the onset of COVID-19 in 2020, Canfor Pulp Products Inc. ("CPPI") experienced improved results in 2021, primarily reflecting the strengthening of global pulp market fundamentals in the first half of the year which more than offset the impacts from extreme weather conditions in BC on supply chain and operations, production downtime and global pulp market weakness in the latter part of the year. Before taking account of adjusting items, largely comprised of an asset impairment, CPPI's operating income was $31.9 million for the current year, an improvement of $96.5 million from the adjusted operating loss of $64.6 million for the prior year. CPPI's reported operating loss for 2021 was $65.5 million, versus $56.1 million for 2020.

For 2021 overall, persistent global supply chain challenges gave rise to more volatility and higher prices in global pulp markets. The printing and writing segment experienced a slight uptick of demand in the current year, following its accelerated decline in the prior year, while demand for tissue products was comparable year-over-year.

Early in the year, global pulp demand saw a sharp improvement, principally driven by strengthening demand, particularly from China. However, a moderation in purchasing activity from China mid-year, resulted in a decline in global pulp market fundamentals through the second half of 2021. As a result, global pulp inventory levels remained at elevated levels through most of 2021, averaging 41 days of supply.

Northern Bleached Softwood Kraft ("NBSK") list prices to China, the world's largest consumer of market pulp, surged in the first half of 2021, reaching a near-record high of US$990[2] per tonne in April. However, as purchasing activity waned, prices to this region declined through the latter part of the year to a low of US$696 per tonne in November. For the 2021 year as a whole, NBSK pulp list prices to China averaged US$850 per tonne, an increase of US$262 per tonne, or 45%, from 2020, while North American NBSK pulp list prices averaged US$1,478[2] per tonne for the current year, up US$339 per tonne, or 30%, from the prior year (before taking account of customer discounts, which were broadly unchanged year-over-year). Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar prices experienced more modest improvements through the first half of 2021, before declining in the second half of the year to levels comparable to 2020.

Extreme weather in BC including wildfires, flooding and intense cold, led to significant rail and road disruptions as well as pulp mill operational challenges through much of the year, with the fourth quarter seeing significant production and supply chain disruptions. These conditions were coupled with global port congestion and container shortages. CPPI responded to these challenges by taking production curtailments at its Northwood NBSK pulp mill ("Northwood") and its Taylor BCTMP mill ("Taylor") in the fourth quarter.

The year also saw the commencement in December of a major rebuild of the lower furnace of the number one recovery boiler ("RB1") at Northwood to ensure its safe and reliable operation, which further reduced production volumes in the fourth quarter.

[1] Random Lengths Publications, Inc.
[2] Resource Information Systems, Inc.

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

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

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

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

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

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

In 2021, the Company continued to pay cash deposits on Canadian lumber exports destined to the US as a result of the imposition of countervailing ("CVD") and anti-dumping duties ("ADD") by the US Department of Commerce ("DOC") in the latter half 2017. As of December 31, 2021, the Company had posted cumulative cash deposits of $682.5 million.

Cash deposits for most of 2021 were made at a combined rate of 4.62% reflecting the DOC's final results for the first period of review ("POR1") announced in November 2020. In November 2021, the Company's cash deposit rate was reset to a combined rate of 19.54%, reflecting the DOC's final results for the second period of review ("POR2").

Upon finalization of these POR2 rates, a net recovery of $48.7 million (US$36.7 million) was recognized in the fourth quarter of 2021, reflecting the difference between the combined accrual rate for accounting purposes of 29.24% and the DOC's final combined rate of 19.54% for POR2.

Subsequent to year-end, in January 2022, the US DOC announced the preliminary results for the third period of review ("POR3"), which indicated that the Company's preliminary CVD and ADD rate for 2020 was 1.83% and 4.92%, respectively. Upon finalization of these rates (anticipated in the third quarter of 2022), a recovery, estimated at $88.8 million (US$66.5 million), will be recognized in the Company's consolidated financial statements to reflect the difference between the combined accrual rate and the DOC rates for POR3. In addition, once final, the Company's current combined cash deposit rate of 19.54% will be reset to the DOC rates for POR3 (currently estimated to be 6.75% based on the preliminary determination). Despite the reduced preliminary rates for the POR3, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled. Further discussion on CVD and ADD is provided in the "Softwood Lumber Agreement" section of this document.

On the acquisition front, from 2018 to 2021, the Company has added 1.5 billion board feet in annual production capacity through its various acquisitions, focused primarily in the US South and Europe. Subsequent to year end, on February 1, 2022, the Vida Group purchased V-Timber AB ("V-Timber") for $13.0 million and on March 1, 2022, Canfor completed the acquisition of Millar Western Forest Products Ltd.'s ("Millar Western") solid wood operations and associated forest tenure located in Alberta, Canada, for $420.0 million, including an estimated $56.0 million in working capital. Together, these recent acquisitions will add 690 million board feet to the Company's annual production capacity, 630 million board feet in Western Canada and 60 million board feet in Europe.

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. ("Peak Mackenzie") 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 in the fourth quarter of 2021.

Further discussion on the more significant developments is provided in the "Overview of 2021" section of this document.

COMPANY OVERVIEW

Canfor is a leading Canadian integrated forest products company based in Vancouver, BC, involved primarily in the lumber business, with production facilities in BC, Alberta, the US, and Sweden. Canfor has a 70% interest in Vida, which has lumber and value-added facilities in Sweden, and a 54.8% interest in CPPI, which is involved in the pulp and paper business with production facilities located in BC. As of December 31, 2021, Canfor employed 7,391 people, of which 1,277 are employed by CPPI.

Significant changes to the Company's business in 2021 include the following:

- On June 8, 2021, the Company announced its plans to build a new, state-of-the-art sawmill near DeRidder, Louisiana, with significant state and local incentives expected to be received in support of the project. The facility is anticipated to have an annual production capacity of 250 million board feet, with the ability to produce a wide variety of high-value wood products. Construction of the sawmill is currently underway, with the startup of the facility anticipated in the fourth quarter of 2022.
- On July 20, 2021, the Company announced temporary curtailments at its Western Canadian operations stemming from extreme wildfire conditions and the associated significant transportation backlog. August 24, 2021, the Company announced the implementation of reduced operating schedules at its BC sawmills, with the exception of WynnWood, effective August 30, 2021. Combined, these factors reduced production by approximately 380 million board feet in the third and fourth quarters of 2021.
- On October 5, 2021, as part of the Arbios Biotech ("Arbios") joint venture, the Company announced its positive financial investment decision in support of the construction of the first phase of Arbios' innovative biomass to low carbon biofuel plant in Prince George, BC. The Company is also in the process of building a Bio-Innovation team to develop Arbios and other sustainable bio-product initiatives.
- On November 16, 2021, the Company closed the sale of its Fort Nelson forest tenure to Peak Fort Nelson Properties Ltd. ("Peak Fort Nelson") for total proceeds of $30.0 million to be paid over multiple years.
- On December 2, 2021, the Company announced temporary NBSK pulp and BCTMP capacity reductions at CPPI's Northwood and Taylor mills in response to significant BC transportation interruptions following catastrophic flooding that substantially damaged rail and highway networks.
- On December 16, 2021, the Company announced that it had entered into an agreement to purchase Millar Western's solid wood operations and associated tenure for $420.0 million, including an estimated $56.0 million in

working capital. Millar Western's solid wood operations, located in Alberta, Canada, consist of two sawmills and one high-value specialty facility. Subsequent to year-end on March 1, 2022, the transaction closed.

- On December 22, 2021, the Company announced an extended outage on one production line at CPPI's Northwood mill to enable the rebuild of the lower furnace of RB1 and ensure the safe and reliable operation of the boiler. The outage is estimated to reduce NBSK pulp production by approximately 80,000 tonnes at an estimate capital cost of $30.0 million.

Lumber

Combined, as at December 31, 2021, Canfor's lumber operations have an annual production capacity of approximately 7.0 billion board feet of lumber (including the Mackenzie sawmill). The majority of lumber produced by Canfor from its facilities is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-six feet. A significant and increasing proportion of Canfor's lumber production is comprised of specialty products that command premium prices, and high-value products including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated ("MSR") lumber used in engineered applications such as roof trusses and floor joists. Canfor has expanded its product offering in recent years to include high-value engineered wood products, higher-grade MSR lumber, premium one-inch boards, as well as an array of custom specialty products, including strength-rated trusses, beams, and tongue-and-groove timber.

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

As at December 31, 2021, Canfor holds approximately 11.2 million cubic metres (including the Mackenzie region forest tenure) of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of BC and northern Alberta, and harvests logs from those tenures to supply its Western Canadian lumber operations. Any shortfalls in mill requirements are made up with wood purchased from other tenure holders in those areas. The wood fibre requirements in the US and Europe are met through open market purchases, substantially from private timberland owners. In 2022, Canfor's BC harvesting rights have been reduced in the PGTSA as a result of the BC Government's apportionment decision following its Timber Supply Review determination. Further discussion regarding this decision is provided in the "Solid Wood Operations – Fibre Supply" and "Risks and Uncertainties" sections of this MD&A.

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

Pulp and Paper

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

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

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

Business Strategy

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

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

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

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

- Attaining world-class safety performance;
- Implementing a sustainability strategy that is helping to protect our planet, support our people and communities, and produce pulp and paper products that are an important part of a low-carbon economy;
- Contributing to the climate change solution through a wide range of innovative high-value carbon-rich sustainable products, and materially reducing its reliance on fossil fuels;
- Optimizing the value from its high-quality premium reinforced pulp and paper products, particularly in specialty end use applications;
- Attaining world-class supply chain performance and providing excellence in customer service;
- Targeting a highly cost-efficient operating position;
- Maintaining a strong financial position;
- Growing an enterprise-wide culture of innovation, diversity and engagement by attracting, retaining and developing our employees; and
- Capitalizing on accretive growth and diversification opportunities, particularly in the bioeconomy sector.

OVERVIEW OF 2021

Markets and Pricing

(i) Solid Wood

With the ongoing impacts of the pandemic continuing into 2021, strong at-home consumer spending drove significant activity in the residential construction and repair and remodeling sectors. These factors combined with high levels of new home construction levels early in the year and lean global inventory levels, resulted in an unprecedented rise in global benchmark lumber prices through the first half of 2021. Elevated building material costs coupled with ongoing supply chain disruptions led to a pullback in demand in the repair and remodeling sector, a modest decline in housing starts in both the US and Canada and subsequent steep drop in lumber prices in the third quarter of 2021. In the fourth quarter of 2021, however, ongoing global port congestion coupled with BC capacity reductions and weather-related transportation constraints led to a tightening of lumber market fundamentals and an uplift in North American benchmark lumber prices towards the end of the year.

The North American Random Lengths Western SPF 2x4 #2&btr price reached a record high of US$1,630 per Mfbm in May 2021. As the retail sales of building materials in both the US and Canada declined sharply, the Western SPF 2x4 #2&btr price fell to a low of US$385 per Mfbm in August 2021. As demand quickly returned in the repair and remodeling space through the fourth quarter, supported by above-average housing starts, the Western SPF 2x4 #2&btr price made a significant recovery and finished the year at US$1,045 per Mfbm.

Despite the aforementioned pricing volatility in 2021, the North American Random Lengths Western SPF 2x4 #2&btr price averaged US$880 per Mfbm for 2021, up US$324 per Mfbm, or 58% from 2020, with similar increases seen across key grades and widths of Western SPF lumber, as outlined in the table below. Premium lumber products such as J-grade, MSR and Square Edge, also saw historically high pricing in 2021.

(Average Western SPF US$ price, per thousand board feet)[3]	**2021**	2020	Change
2x4 #2&Btr	**$ 880**	$ 556	$ 324
2x4 #3	**$ 762**	$ 435	$ 327
2x6 #2&Btr	**$ 853**	$ 527	$ 326
2x10 #2&Btr	**$ 859**	$ 505	$ 354

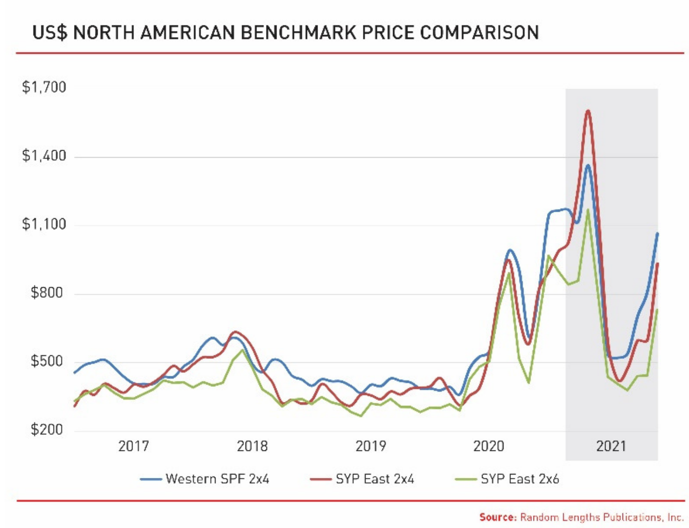
The North American Random Lengths SYP East 2x4 #2 price moved similarly to Western SPF in 2021, rising to an all-time high of US$1,400 per Mfbm in May 2021 before declining rapidly to a low of US$492 per Mfbm in July 2021. Due to strong lumber market fundamentals in the fourth quarter, the SYP East 2x4 #2 price climbed to a near record high of US$1,280 per Mfbm at the end of December 2021. As a result, for 2021 overall, the SYP East 2x4 #2 price increased US$328 per Mfbm, or 54%, from 2020.

Wider width SYP lumber products, including SYP East 2x6 #2, experienced similar volatility throughout 2021 as Western SPF and SYP East 2x4 #2, with the SYP East 2x6 #2 averaging US$699 per Mfbm for 2021, an increase of US$207 per Mfbm, or 42%, year-over-year, as highlighted in the table below. MSR products also saw historically high premiums to these SYP East #2 prices.

(Average SYP East US$ price, per thousand board feet)[3]	**2021**	2020	Change
2x4 #2	**$ 930**	$ 602	$ 328
2x6 #2	**$ 699**	$ 492	$ 207
2x8 #2	**$ 692**	$ 501	$ 191
2x10 #2	**$ 729**	$ 524	$ 205
2x12 #2	**$ 989**	$ 529	$ 460

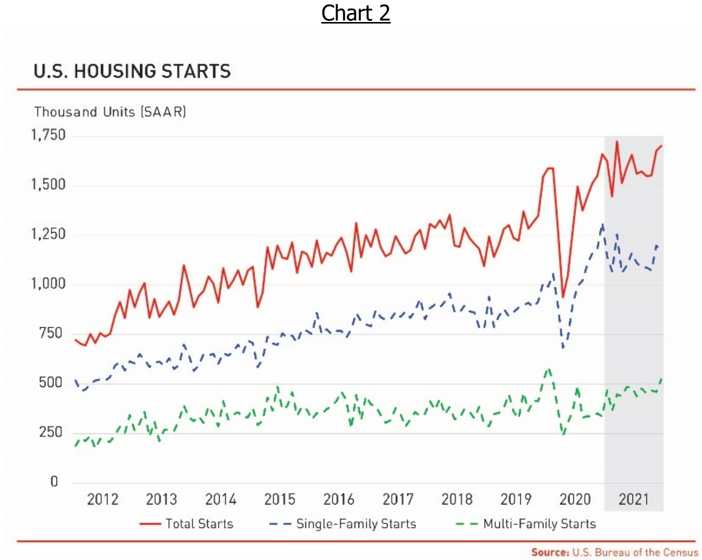
[3] Random Lengths Publications, Inc.

Chart 1



US housing starts, on a seasonally adjusted basis, averaged 1,601,000 units[4] in 2021, an increase of 15% from 2020 and represented the highest annual average since 2006 (Chart 2). Single-family starts, which consume approximately three times more lumber than multi-family homes, were up 13% in 2021, largely reflecting low housing inventory and high levels of demand for homes in suburban areas as a result of the ongoing impacts of COVID-19. Notwithstanding the increased focus on suburban homes, improved affordability and increased competition across the housing sector carried over to multi-family units resulting in a 21% increase year-over-year.

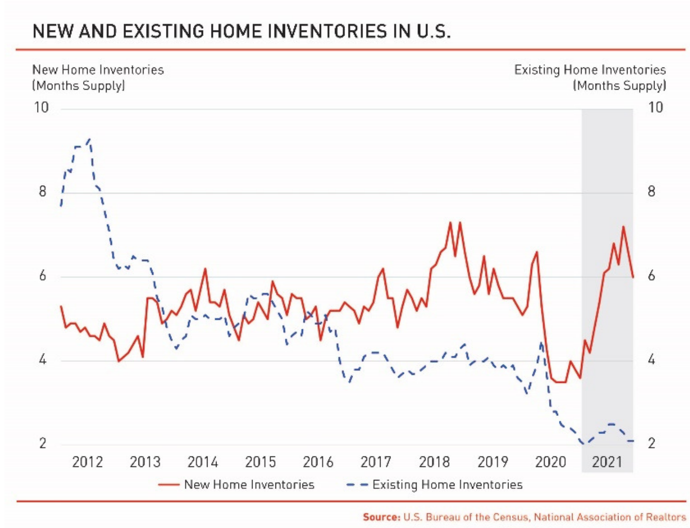
Chart 2



New home inventories were critically low early in 2021 as sustained demand continued to significantly outpace available supply. In March 2021, new home inventories dropped to a low of 3.7 months' supply before trending upwards for the balance of the year to over 7.0 months' supply in the fourth quarter (Chart 3). Similarly, existing home inventory declined significantly at the beginning of the period but improved modestly as the year progressed. In the fourth quarter of 2021, however, existing home inventory fell as a result of unseasonably high home sales.

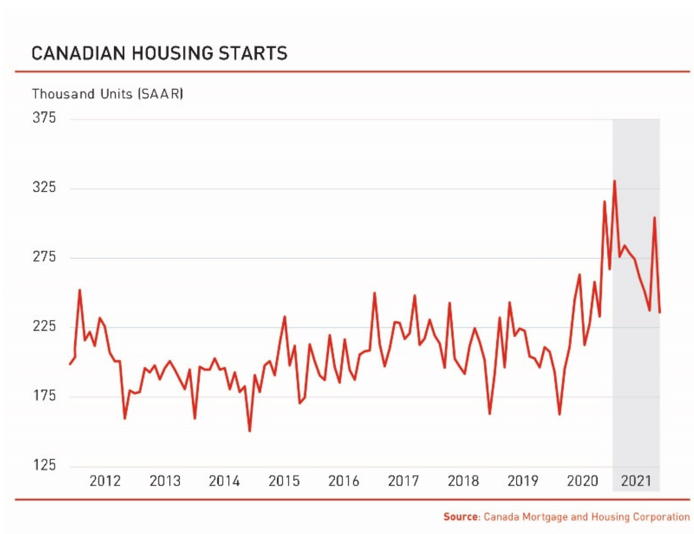
[4] Source: US Bureau of the Census

Chart 3



Overall, the Canadian housing market strengthened through 2021, with housing starts, at 276,000 units[5], up 26% compared to 2020 (Chart 4), largely reflecting a notable uptick in new construction activity, particularly in the Central and Western provinces, in the first half of the year.

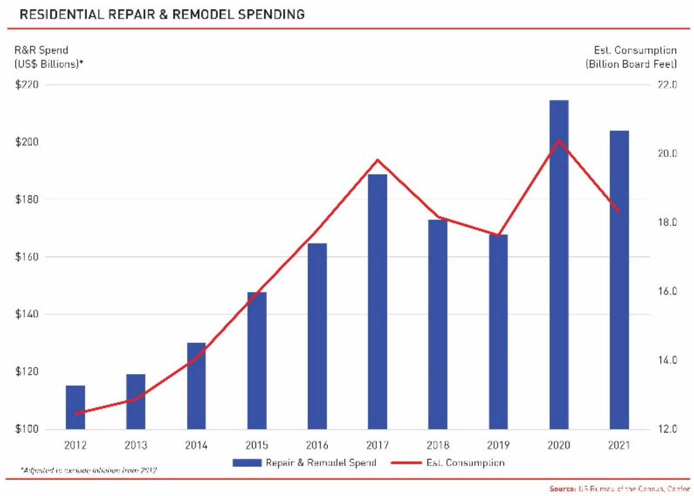
Chart 4



In the repair and remodeling sector, increased time spent at home during the pandemic coupled with higher disposable income and a substantial increase in home equity positions, led to increased demand in early 2021. Due to record-high benchmark lumber prices in the second quarter of 2021, however, elevated building material costs led to more cautious consumer spending and a decrease in the sale of building materials across the segment in the third quarter of 2021, before rebounding somewhat in the fourth quarter of 2021. Despite this volatility, for 2021 overall, spending in the repair and remodeling sector was very strong, albeit down slightly from 2020 levels (Chart 5).

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

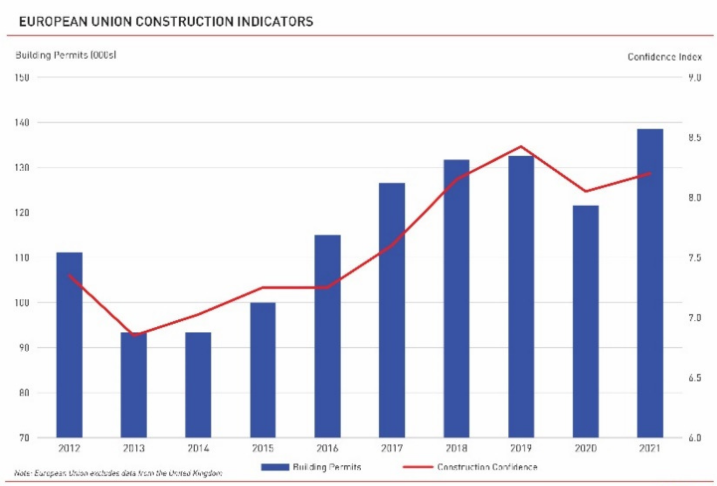
Chart 5



Offshore lumber demand in Japan was relatively strong compared to the prior year, particularly in the third quarter of 2021, as an uptick in demand in the industrial and construction sector combined with lean inventories in the supply chain. Lumber demand in other Asian markets, including China, however, remained well below historical levels throughout much of the year, as reduced imports of softwood lumber was largely a reflection of high North American benchmark pricing coupled with a significant slowdown in housing development.

European demand and pricing were very strong in the period, particularly in the UK, displaying similar trends to North American markets, albeit on a lagged basis. European lumber demand for 2021 surpassed 2020 levels, with increased lumber consumption in the region reflecting increased activity in the construction sector[6] and a push for green building initiatives, as well as strength in the "do-it-yourself" space (Chart 6).

Chart 6



The Canadian dollar strengthened against the US-dollar in 2021, averaging $0.798[7] per US-dollar, up 5 cents, or 7%, from 2020, and remained relatively unchanged against the Swedish Krona ("SEK"), averaging $6.839[7] per SEK in the current year.

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

(ii) Pulp

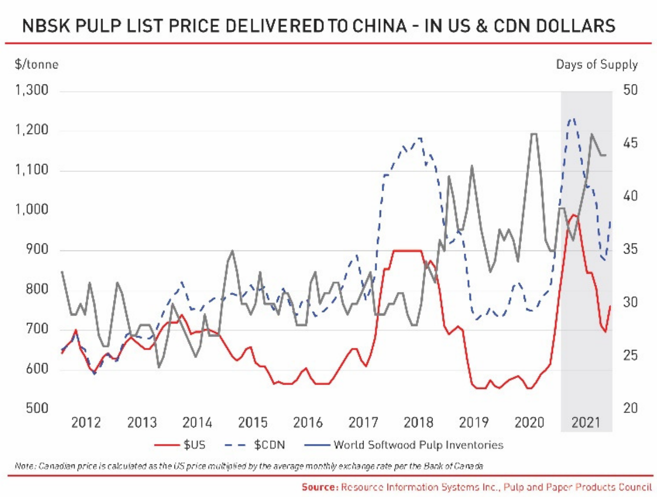
The upward pricing momentum experienced in the latter part of 2020 continued into the first half of 2021, as tight global supply driven by unplanned downtime in the prior year, combined with global logistics constraints, resulted in tightening markets through the first half of 2021. However, as the sustained and uncertain impacts of ongoing global transportation challenges continued into the second half of 2021, rising global pulp inventory levels and softening Chinese demand, tied in part to the energy constraints on the industrial segment in that region, put pressure on global pulp market fundamentals. Late in the year, however, following unplanned pulp downtime coupled with improved demand in China, global pulp pricing experienced some positive momentum.

As a result of the aforementioned factors, NBSK pulp list prices to China for the year averaged US$850 per tonne, US$262 per tonne, or 45%, higher than the 2020 average price; however, prices weakened later in the year in response to slowing demand and oversupply in that region, ending the year at US$760 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US$1,185 per tonne in January to a peak of US$1,615 per tonne in June, before declining to US$1,450 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories increased in the first quarter of 2021, largely as a result of transportation constraints and lower maintenance downtime, before declining slightly through the spring maintenance period in the second quarter of 2021. In the latter part of 2021, mostly in response to the slowdown of demand from China, global pulp inventories increased steadily, ending the year at 43[8] days, well above the balanced range of 29-36 days.

The following charts show the NBSK pulp list price movements in 2021, before taking account of customer discounts and rebates (Chart 7), global pulp shipments by destination (Chart 8), and the global pulp inventory levels (Chart 9).

Chart 7



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

Chart 8

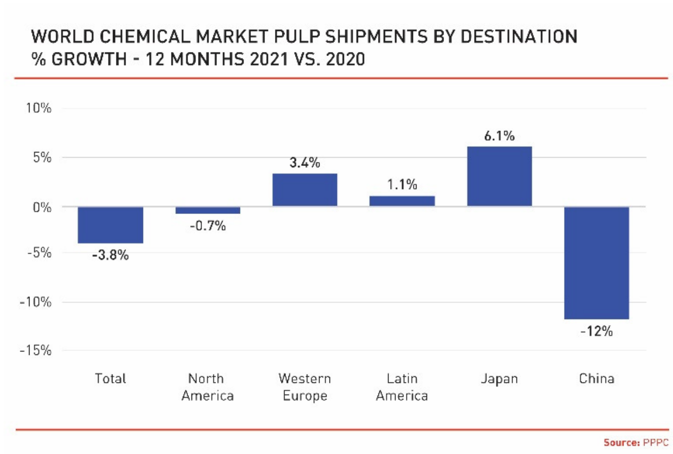
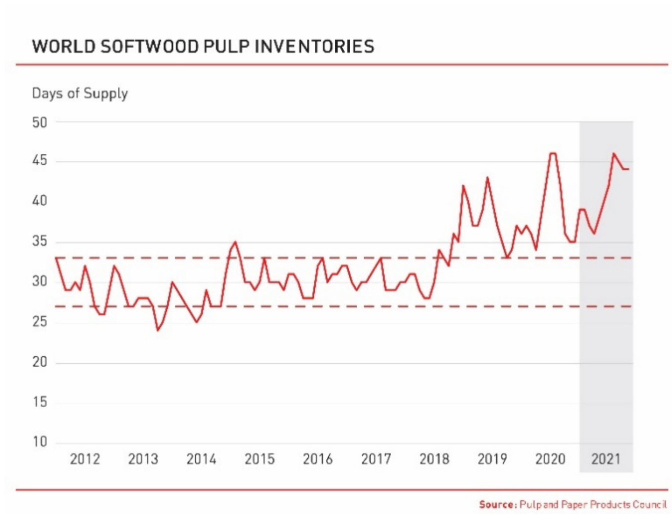


Chart 9



Solid Wood Operations – External Growth and Capital Investments

The Company's confidence in the longer-term prospects of the lumber industry has driven an investment strategy over the last 10 years aimed at positioning itself as a top-quartile margin performer.

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

In 2021, such strategic initiatives included the third and final instalment in the phased acquisition of Elliott, as well as the commencement of the previously announced construction of a new, 250 million board feet, greenfield sawmill near DeRidder, Louisiana. Upon completion (currently anticipated in the fourth quarter of 2022), the Company's SYP total operating capacity is anticipated to be approximately 2.2 billion board feet, with the full run-rate anticipated to be achieved in 2023.

Recently, the Company finalized the acquisition of Millar Western's solid wood operations and associated tenure, adding approximately 630 million board feet of annual production capacity. These assets, located in Alberta, Canada, consist of three well-capitalized operations with access to high-quality sustainable fibre supply, including two sawmills in Whitecourt and Fox Creek, and a high-value, specialty Spruceland Millworks facility in Acheson, that is dedicated to serving strategic markets and focused on generating higher, more stable returns. Including the Millar Western acquisition and other recent announcements in February 2022, the Company's Western SPF total operating capacity is approximately 3.6 billion board feet.

Excluding acquisitions, capital spending in the lumber segment for 2021 totaled $344.5 million, up $219.1 million, or 175%, from 2020. Capital projects in the current year included spend on the Company's aforementioned greenfield sawmill in DeRidder, Louisiana, as well as capital upgrades aimed at increasing productivity, including investments at the Company's Camden mill in the US South and Borgstena mill in Sweden, combined with various smaller high-returning capital projects.

Solid Wood Operations – Fibre Supply

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

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

Looking forward, there remains significant uncertainty with regards to the future of economically viable fibre within BC. The Company's access to economically viable timber could be further impacted by unsettled land and title claims by various Indigenous Nations in BC. The impacts of BC's Declaration on the Rights of Indigenous Peoples Act, the federal government's Bill C-15, the William decision[9] and the Blueberry River decision[10] on the timber supply from Crown lands and on Canfor's operations is unknown at this time, especially as they pertain to Canfor's current timber supply and operational activities. As well, Canfor does not know if these rulings or decisions will lead to changes in BC or federal laws or policies which may affect its forestry operations. However, there is the potential for adverse timber supply and operational implications associated with the outcome of these ongoing negotiations and issues.

Furthermore, in 2021, the BC Government announced its intention to defer the harvest of 2.6 million hectares of BC's old-growth forests. Initial industry-wide analysis indicates that these deferrals, if made permanent, would result in the removal of close to 1.4 million hectares from the Timber Harvesting Land Base and a reduction in AAC by approximately 4.0 million cubic metres, of which 70% of this reduction is in the BC Interior. Other BC Government policies and legislative initiatives, including with respect to the redistribution of Crown tenure in the province including to Indigenous Nations, creates additional uncertainty for the industry.

Consequently, the BC sawmill manufacturing industry faces significant uncertainty and a constrained fibre supply environment, where existing sawmill capacity outstrips the available timber supply in BC. Until this imbalance is corrected, the Company anticipates ongoing log cost pressures in BC.

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

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

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

In contrast to BC, log costs in the US South have experienced modest pressures in the current year, largely reflecting transportation-related constraints, as there remains a strong supply of high-quality fibre in close proximity to Canfor's sawmills in that region. In Europe, log supply remains balanced, with movements in log costs largely correlated to European lumber prices.

Pulp and Paper – Operations

Total pulp and paper production in 2021 at 1,144,000 tonnes was broadly in line with prior year, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Following the completion in mid-January of Northwood's recovery boiler number five ("RB5") rebuild, CPPI's pulp mills had a strong start to the year, with solid operating rates throughout much of the first half of 2021. However, the onset of wildfires, flooding and intense cold in the latter part of the year contributed to transportation-related production curtailments at Northwood and Taylor and placed a significant strain on CPPI's pulp mills.

In addition, in late-December CPPI extended its outage on one production line at Northwood to enable the replacement of the lower furnace on RB1. This lower furnace capital rebuild is progressing as planned and is anticipated to be completed late-March, for a total capital cost of approximately $30.0 million and total reduction in NBSK pulp production of approximately 80,000 tonnes (10,000 tonnes in 2021 and a further 70,000 tonnes in the first quarter of 2022).

Combined, these factors reduced pulp production by approximately 170,000 tonnes in 2021. Furthermore, CPPI completed scheduled outages in the current year at its Intercontinental, Prince George and Taylor mills which reduced pulp production by 25,000 tonnes.

In 2020, pulp production was most notably impacted by COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage, which reduced pulp production by 133,000 tonnes, as well as scheduled outages at the CPPI's Northwood and Taylor pulp mills (approximately 55,000 tonnes).

Capital spending for the pulp and paper segment in 2021 totaled $78.7 million and was principally comprised of Northwood's RB5 lower furnace replacement early in the year, combined with maintenance-of-business capital spending. In 2022, Management currently anticipates capital spending to comprise the lower furnace rebuild of Northwood's RB1, strategic projects focused on enhancing long-term fibre optimization, improving its carbon footprint as well as various projects aimed at improving operational reliability.

CPPI maintained its strong balance sheet position in 2021, finishing the year with a positive net cash position.

Pulp and Paper – Fibre Supply

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

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

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

CPPI has taken a number of actions in response to these fibre constraints, including securing additional fibre supply, prioritizing discretionary capital spend on optimizing fibre procurement and maximizing fibre utilization and recovery. However, recognizing the increased fibre cost pressures and ongoing uncertainty surrounding fibre availability for CPPI's pulp mills, the Company performed an impairment test as of December 31, 2021, which resulted in an impairment charge of $95.0 million being recognized in the current year as a reduction to the carrying value of pulp assets within the pulp and paper segment.

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

One of Canfor's primary objectives is to be the leading global supplier of sustainable wood products. As a Company that uses a renewable resource to produce sustainable products, it is part of the climate change solution and the circular economy.

In 2021, as part of this leading role, the Company launched its sustainability strategy, including an updated 2020 Sustainability Report prepared in accordance with Global Reporting Initiative Standards. The latest Sustainability Report includes the Company's new goals and targets and demonstrates progress made to date, reiterating a commitment to providing comprehensive and transparent reporting of sustainability practices, goals and metrics. The Company's sustainability strategy marks a new era in sustainability for Canfor. Canfor's vision of creating a future as sustainable as the forests is grounded in a deep respect for the people the business touches, the products it creates and the planet it relies on to thrive.

In the 2021 Sustainability Report, the Company will continue its evolution in ESG reporting by providing increasing transparency and disclosure, including defining additional goals and targets for its ESG material topics. The Company is actively monitoring the changing landscape of ESG reporting regulations and is aligning disclosures with the recommendations from the Task Force on Climate-Related Financial Disclosures ("TCFD") and with the standards of the Sustainability Accounting Standards Board ("SASB"). More details will be included in Canfor's 2021 Sustainability Report (to be issued in the second quarter of 2022).

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

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

OVERVIEW OF CONSOLIDATED RESULTS – 2021 COMPARED TO 2020

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		2021		2020
Sales	**$**	**7,684.9**	$	5,454.4
Operating income before amortization and impairments[11,12]	**$**	**2,578.4**	$	1,108.2
Operating income	**$**	**1,908.1**	$	727.3
Adjusted operating income before amortization and impairments[11,12,13]	**$**	**2,565.5**	$	1,097.5
Adjusted operating income[13]	**$**	**2,188.7**	$	716.6
Net income	**$**	**1,458.8**	$	559.9
Net income attributable to equity shareholders of the Company	**$**	**1,341.6**	$	544.4
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$**	**10.74**	$	4.35
Adjusted net income[13]	**$**	**1,519.0**	$	555.6
Adjusted net income per share, basic and diluted[13]	**$**	**12.16**	$	4.44
ROIC – Consolidated[13]		**55.4%**		23.5%
Average exchange rate (US$ per Cdn$1.00)[14]	**$**	**0.798**	$	0.746
Average exchange rate (SEK per Cdn$1.00)[14]		**6.839**		6.862

[11] Amortization includes amortization of certain capitalized major maintenance costs.
[12] Adjusted for asset impairment charges of $293.5 million in 2021.
[13] Adjusted results and consolidated ROIC are non-IFRS financial measures. Refer to the "Non-IFRS Financial Measures" section for further details.
[14] Source – Bank of Canada (monthly average for the period).

Selected Cash Flow Information

(millions of Canadian dollars)		2021		2020
Operating income (loss) by segment:				
Lumber	**$**	**2,019.6**	$	816.0
Pulp and Paper	**$**	**(65.5)**	$	(56.1)
Unallocated and Other	**$**	**(46.0)**	$	(32.6)
Total operating income	**$**	**1,908.1**	$	727.3
Add: Amortization[15]	**$**	**376.8**	$	380.9
Add: Asset impairments	**$**	**293.5**	$	-
Total operating income before amortization and impairments	**$**	**2,578.4**	$	1,108.2
Add (deduct):				
Working capital movements	**$**	**(383.3)**	$	33.6
Defined benefit plan contributions, net	**$**	**(13.6)**	$	(13.5)
Income taxes received (paid), net	**$**	**(273.6)**	$	54.5
Adjustment to accrued duties[16]	**$**	**11.9**	$	(153.8)
Other operating cash flows, net[17]	**$**	**(4.9)**	$	44.6
Cash from operating activities	**$**	**1,914.9**	$	1,073.6
Deduct:				
Capital additions	**$**	**(428.2)**	$	(201.5)
Finance expenses paid	**$**	**(25.1)**	$	(46.1)
Repayments of term debt	**$**	**(422.8)**	$	(8.2)
Share purchases	**$**	**(19.2)**	$	-
Phased acquisition of Elliott	**$**	**(38.2)**	$	(44.6)
Other, net[17]	**$**	**(52.2)**	$	(44.4)
Change in cash / operating loans	**$**	**929.2**	$	728.8

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

Analysis of Specific Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)		2021		2020
Shareholder net income, as reported	**$**	**1,341.6**	$	544.4
Foreign exchange gain on term debt	**$**	**(5.5)**	$	(3.6)
Loss on derivative financial instruments	**$**	**11.2**	$	3.6
Asset impairments	**$**	**182.9**	$	-
Restructuring, mill closure and other items, net	**$**	**(11.2)**	$	11.2
Net impact of above items	**$**	**177.4**	$	11.2
Adjusted shareholder net income[18]	**$**	**1,519.0**	$	555.6
Shareholder net income per share (EPS), as reported	**$**	**10.74**	$	4.35
Net impact of above items per share	**$**	**1.42**	$	0.09
Adjusted shareholder net income per share[18]	**$**	**12.16**	$	4.44

[18] Adjusted shareholder net income is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

OPERATING RESULTS BY BUSINESS SEGMENT – 2021 COMPARED TO 2020

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

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for 2021 and 2020 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2021		2020
Sales[19]	**$**	**6,540.5**	$	4,464.1
Operating income before amortization and impairment[19]	**$**	**2,506.2**	$	1,113.5
Operating income[19]	**$**	**2,019.6**	$	816.0
Asset impairment	**$**	**198.5**	$	-
Inventory write-down recovery, net	**$**	**-**	$	(17.6)
Restructuring, mill closure and other items, net[20]	**$**	**(15.3)**	$	15.4
Adjusted operating income[21]	**$**	**2,202.8**	$	813.8
Capital expenditures	**$**	**344.5**	$	125.4
Average Western SPF 2x4 #2&Btr lumber price in US$[22]	**$**	**880**	$	556
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[22,24]	**$**	**1,102**	$	745
Average SYP 2x4 #2 lumber price in US$[23]	**$**	**930**	$	602
Average SYP 2x4 #2 lumber price in Cdn$[23,24]	**$**	**1,165**	$	807
Average SYP 2x6 #2 lumber price in US$[23]	**$**	**699**	$	492
Average SYP 2x6 #2 lumber price in Cdn$[23,24]	**$**	**876**	$	660
US housing starts (thousand units SAAR)[25]		**1,601**		1,397
Production – Western SPF lumber (MMfbm)[26]		**2,513**		2,492
Production – SYP lumber (MMfbm)[26]		**1,641**		1,549
Production – European lumber (MMfbm)[26]		**1,397**		1,163
Shipments – Western SPF lumber (MMfbm)[27]		**2,458**		2,505
Shipments – SYP lumber (MMfbm)[27]		**1,637**		1,580
Shipments – European lumber (MMfbm)[27]		**1,528**		1,251

[19] 2021 includes sales of $1,697.2 million, operating income of $555.7 million and operating income before amortization of $631.3 million from European operations (2020 – sales of $970.2 million, operating income of $107.5 million and operating income before amortization of $178.3 million). Operating income from the European operations in 2021 includes $42.1 million (2020 - $42.1 million) of incremental amortization and other expenses driven by the purchase price allocation at the acquisition date.
[20] Adjusted for restructuring, mill closure and other items, net, related to closures and permanent or indefinite curtailments and dispositions of non-operating assets.
[21] Adjusted operating income is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[22] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[23] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[24] Average lumber prices in Cdn$ calculated as average price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.
[25] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[26] Excluding production of trim blocks.
[27] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

As highlighted in the "Overview of 2021: Markets and Pricing – Solid Wood" section of this document, with the ongoing impacts of the pandemic continuing into 2021, strong at-home consumer spending drove significant activity in the residential construction and repair and remodeling sectors. These factors combined with high levels of new home construction levels early in the year and lean global inventory levels, resulted in an unprecedented rise in global benchmark lumber prices through the first half of 2021. Elevated building material costs coupled with ongoing supply chain disruptions led to a pullback in demand in the repair and remodeling sector, a modest decline in housing starts in both the US and Canada and subsequent steep drop in lumber prices in the third quarter of 2021. In the fourth quarter of 2021, however, ongoing global port congestion coupled with BC capacity reductions and weather-related transportation constraints led to a tightening of lumber market fundamentals and an uplift in North American benchmark lumber prices towards the end of the year.

US housing starts, on a seasonally adjusted basis, averaged 1,601,000 units in 2021, an increase of 15% from 2020 and represented the highest annual average since 2006. Single-family starts, which consume approximately three times more lumber than multi-family homes, were up 12% in 2021, largely reflecting low housing inventory and high levels of demand for homes in suburban areas as a result of the ongoing impacts of COVID-19. Notwithstanding the increased focus on suburban homes, improved affordability and increased competition across the housing sector carried over to multi-family units resulting in a 21% increase year-over-year.

In Canada, the housing market strengthened through 2021, with housing starts, at 277,000 units, up 27% compared to 2020, largely reflecting a notable uptick in new construction activity, particularly in the Central and Western provinces, in the first half of the year.

In contrast to North American markets, offshore lumber demand from Asia varied between markets, as certain regions lagged the trends seen in the record North American pricing environment. In Japan, demand strengthened year-over-year, particularly in the third quarter of 2021, as a result of steady consumption in the industrial and construction sectors combined with lean inventories. Demand for Canfor's products in China, however, remained well below historical levels throughout much of the year, as reduced imports of softwood lumber into China was largely a reflection of high North American benchmark pricing coupled with a significant slowdown in the growth of real estate development. Demand and pricing in Western Europe and Scandinavia followed similar trends to North America, reinforced by the improved construction sector, a drive for green building initiatives and strength in the "do-it-yourself" space.

Sales

Revenues for the lumber segment were $6.54 billion for 2021, an all-time annual record, and up 47% from the previous record set in 2020. This notable increase was principally due to materially higher unit sales realizations across all lumber operating regions, driven by record global benchmark lumber pricing experienced through the first half of 2021, and to a lesser extent, higher European and SYP lumber shipments. These factors were offset in part by a 5 cent, or 7%, stronger Canadian dollar and a slight decline in Western SPF lumber shipments compared to 2020.

Total lumber shipments were approximately 5.62 billion board feet for the year, up 5% from 5.34 billion board feet shipped in the previous year, largely due to a 7% increase in production volumes year-over-year. This increase in production was offset, to a degree, by transportation disruptions, most notably due to extensive flooding in BC which reduced Western SPF shipment volumes in the fourth quarter of 2021.

As previously mentioned, with the strength in lumber market fundamentals at the end of 2020 continuing into early 2021, the North American Random Lengths Western SPF 2x4 #2&btr price reached a record high of US$1,630 per Mfbm in May 2021. As the retail sales of building materials in both the US and Canada declined sharply, the Western SPF 2x4 #2&btr price fell to a low of US$385 per Mfbm in August 2021. As demand quickly returned in the repair and remodeling space through the fourth quarter, supported by above-average housing starts, the Western SPF 2x4 #2&btr price made a significant recovery and finished the year at US$1,045 per Mfbm.

Notwithstanding the aforementioned pricing volatility, the Western SPF 2x4 #2&btr price averaged US$880 per Mfbm for 2021, up US$324 per Mfbm, or 58% from 2020. The Company's Western SPF unit sales realizations were substantially higher in the current year, as unprecedented high North American benchmark pricing along with historically high prime grade premiums (J-Grade, MSR) was combined with pronounced increases in offshore unit sales realizations year-over-year, particularly in Japan, as well as lower duties, offset in part by the 7% stronger Canadian dollar.

The North American Random Lengths SYP East 2x4 #2 price moved similarly to Western SPF in 2021, rising to an all-time high of US$1,400 per Mfbm in May 2021 before declining rapidly to a low of US$492 per Mfbm in July 2021. Due to strong lumber market fundamentals in the fourth quarter, the SYP East 2x4 #2 price climbed to a near record high of US$1,280 per Mfbm at the end of December 2021. As a result, for 2021 overall, the SYP East 2x4 #2 price increased US$328 per Mfbm, or 54%, from 2020. Wider width SYP lumber products, including SYP East 2x6 #2, experienced similar volatility throughout 2021 as Western SPF and SYP East 2x4 #2, albeit to a lesser degree, with the SYP East

2x6 #2 averaging US$699 per Mfbm for 2021, an increase of US$207 per Mfbm, or 42%, year-over-year. MSR products also saw historically high premiums to these SYP East #2 prices.

As a result, for 2021, the Company's SYP lumber unit sales realizations were materially higher than the prior year, principally reflecting the marked increases in SYP lumber benchmark pricing across all products.

Consistent with the Company's Western SPF and SYP unit sales realizations, European lumber unit sales realizations also increased significantly year-over-year driven by strong European demand, particularly in the UK, and the record North American US-dollar benchmark pricing environment.

Other revenues for the lumber segment (which are primarily comprised of residual fibre, pulp log and pellet sales as well as the Company's European operations' other related revenues) were substantially higher than the prior year, largely reflecting a notable uplift in other European revenues attributed to market-related increases in packaging and modular housing revenues, and to a lesser degree, residual fibre revenues.

Operations

Total lumber production for 2021 was 5.55 billion board feet, up 7% from the prior year, as higher European lumber production, largely tied to the full year benefit of the Bergs acquisition, was combined with a more modest increase in production in the US South.

Production at the Company's US South operations was up 6% from the prior year, as a full year of production from the Company's recently acquired Estill sawmill and increased operating days following COVID-19 related downtime in the prior year, more than offset the productivity impacts from log shortages and COVID-19 in the current year.

In Western Canada, production was broadly comparable year-over-year, as the impact of curtailments at the Company's BC operations in the current year (driven by market-related pressures as well as fibre constraints and transportation challenges), was similar to the extensive COVID-19 capacity reductions seen in the prior year.

Lumber unit manufacturing costs increased significantly compared to the previous year largely due to higher log costs in BC and to a lesser extent, Europe. In BC, substantial log cost increases were driven by historically high Western SPF benchmark lumber prices which gave rise to a notable escalation in market-based stumpage rates, in combination with increased purchased wood costs in the current year. In Europe, a moderate uplift in log costs primarily reflected tight supply across the region and strong lumber markets. Log costs in the US South were broadly in line with the prior year. Unit manufacturing costs increased moderately year-over-year, principally reflecting the effects of COVID-19 and higher repair and maintenance spending.

Asset Impairment

In 2021, the Company recorded an asset impairment charge in the lumber segment of $198.5 million, principally reflecting reduced fibre availability in the Company's Western Canadian lumber operations driven by an insufficient supply of economically viable timber following the MPB epidemic, wildfire events and a reduction in AAC in the PGTSA.

More information on the asset impairment is contained under "Critical Accounting Estimates – Asset Impairments".

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[28]

Summarized results for the Pulp and Paper segment for 2021 and 2020 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2021**		**2020**
Sales	**$**	**1,144.4**	$	990.3
Operating income before amortization and impairment[29]	**$**	**116.8**	$	26.1
Operating income (loss)	**$**	**(65.5)**	$	(56.1)
Asset impairment	**$**	**95.0**	$	-
Inventory write-down (recovery)	**$**	**2.4**	$	(8.5)
Adjusted operating income (loss)[30]	**$**	**31.9**	$	(64.6)
Capital expenditures	**$**	**78.7**	$	73.3
Average NBSK pulp price delivered to China - US$[31]	**$**	**850**	$	588
Average NBSK pulp price delivered to China - Cdn$[31]	**$**	**1,065**	$	789
Production – pulp (000 mt)		**1,018**		1,018
Production – paper (000 mt)		**126**		123
Shipments – pulp (000 mt)		**1,007**		1,045
Shipments – paper (000 mt)		**127**		131

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

Markets

As previously highlighted, the upward pricing momentum experienced in the latter part of 2020 continued into the first half of 2021, as tight global supply driven by unplanned downtime in the prior year, combined with global logistics constraints resulted in tightening markets through the first half of 2021. However, as the sustained and uncertain impacts of ongoing global transportation challenges continued into the second half of 2021, rising global pulp inventory levels and softening Chinese demand, tied in part to the energy constraints on the industrial segment in that region, put pressure on global pulp market fundamentals. Late in the year, however, following unplanned pulp downtime coupled with improved demand in China, global pulp pricing experienced some positive momentum.

NBSK pulp list prices to China for the year averaged US$850 per tonne, US$262 per tonne, or 45%, higher than the 2020 average price; however, prices weakened later in the year in response to slowing demand and oversupply in that region, ending the year at US$760 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US$1,185 per tonne in January to a peak of US$1,615 per tonne in June, before declining to US$1,450 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories increased in the first quarter of 2021, largely as a result of transportation constraints and lower maintenance downtime, before declining slightly through the spring maintenance period in the second quarter of 2021. In the latter part of 2021, mostly in response to the slowdown of demand from China, global pulp inventories increased steadily, ending the year at 43 days[32], well above the balanced range of 29-36 days.

With the global pandemic continuing into 2021, the demand for food grade kraft paper products and home building supplies packaged in kraft paper remained strong. Demand in offshore markets that had been lagging North America experienced an uptick in the current year and gave rise to increased global supply pressures. As a result, overall global kraft paper pricing strengthened year-over-year.

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

Sales

CPPI's pulp shipments in 2021 were 1.01 million tonnes, down 38,000 tonnes, or 4%, from 2020, principally due to the substantial vessel delays and global port congestion experienced throughout 2021 combined with weather-related rail disruptions due to wildfires and flooding in BC.

As mentioned, for the 2021 year as a whole, NBSK pulp list prices to China averaged near record-highs at US$850 per tonne, up US$262 per tonne, or 45%, compared to 2020. North American NBSK pulp list prices averaged US$1,478 per tonne for the current year, up US$339 per tonne, or 30%, year-over-year (before discounts, which were largely unchanged). Accordingly, average NBSK pulp unit sales realizations experienced a significant increase compared to 2020, moderated in part by the 5 cent, or 7%, stronger Canadian dollar. Average BCTMP unit sales realizations were broadly comparable to the historical lows experienced in 2020 as a gradual improvement in BCTMP US-dollar prices through the first half of the year was offset by a decline in pricing through most of the second half of 2021 and the stronger Canadian dollar.

Energy revenues in 2021 were broadly in line with the prior year as turbine operating days and energy generation were comparable year-over-year.

CPPI's paper shipments in 2021, at 127,000 tonnes, were down 4,000 tonnes from 2020, primarily driven by the timing of shipments year-over-year. Paper unit sales realizations for the current year were modestly up from prior year, reflecting an improvement in US-dollar kraft paper prices mostly offset by the stronger Canadian dollar.

Operations

Pulp production in 2021, at 1.02 million tonnes, was broadly in line with that produced in 2020, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Following the completion in mid-January of Northwood's RB5 rebuild, CPPI's pulp mills had a strong start to the year, with solid operating rates throughout much of the first half of 2021. However, the onset of wildfires, flooding and intense cold in the latter half of the year contributed to transportation-related production curtailments at Northwood and Taylor and placed a significant strain on of CPPI's pulp mills. In addition, in late December, CPPI commenced the rebuild of Northwood's RB1. Combined, these factors reduced pulp production by approximately 170,000 tonnes in 2021. Furthermore, CPPI completed scheduled outages in the current year at its Intercontinental, Prince George and Taylor mills which reduced pulp production by 25,000 tonnes.

In 2020, pulp production was most notably impacted by COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage, which reduced pulp production by 133,000 tonnes, as well as scheduled outages at CPPI's Northwood and Taylor pulp mills (approximately 55,000 tonnes).

Pulp unit manufacturing costs were moderately higher compared to the prior year, principally reflecting higher fibre costs, and an increase in pulp unit conversion costs associated with higher maintenance and energy costs resulting from the aforementioned downtime. The increase in fibre costs compared to 2020 largely reflected higher market-based prices for sawmill residuals (linked to higher Canadian NBSK pulp prices), partially offset by a decrease in the proportion of higher-cost whole log chips.

Paper production in 2021 was 126,000 tonnes, up 3,000 tonnes, from 2020, as the scheduled maintenance outage in the current year more than offset the impact of fibre-related curtailments in the prior year. Notably higher paper unit manufacturing costs in 2021 were primarily due to a significant increase in slush pulp costs (linked to higher Canadian dollar NBSK market pulp prices), as paper unit conversion costs were largely unchanged year-over-year.

Asset Impairment

In 2021, CPPI recorded an asset impairment charge of $95.0 million, driven by increased fibre costs as well as ongoing uncertainty surrounding fibre availability for CPPI's pulp mills.

More information on the asset impairment is contained under "Critical Accounting Estimates – Asset Impairment".

Unallocated and Other Items

(millions of Canadian dollars)		2021		2020
Corporate costs	**$**	**(46.0)**	$	(32.6)
Finance expense, net	**$**	**(24.1)**	$	(36.2)
Foreign exchange gain (loss) on term debt and duty deposits recoverable, net	**$**	**1.9**	$	(3.0)
Loss on derivative financial instruments	**$**	**(16.1)**	$	(4.1)
Other income, net	**$**	**27.0**	$	36.1

Corporate Costs

Corporate costs were $46.0 million in 2021, up $13.4 million from 2020, largely due to an increase in corporate office and general administrative expenses following COVID-19 cost reduction initiatives in the prior year, combined with higher incentive expenses associated with record operating results in the current period, an increase in strategic-related spend and higher legal costs related to the recent acquisition of Millar Western.

Finance Expense, Net

Net finance expense for 2021 was $24.1 million, down $12.1 million from 2020, primarily reflecting a notable decrease in interest expense following term debt repayments in the current year. This was offset to a degree by lower accrued interest income on recoverable duty deposits in the current period.

See the "Liquidity and Financial Requirements" and "Countervailing and Anti-Dumping Duties" sections for further discussion.

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

In 2021, the Company recognized a foreign exchange gain of $6.3 million on its US-dollar term debt held by Canadian entities, offset by a $4.4 million loss on US-denominated duty deposits receivable, both due to the strengthening of the Canadian dollar at the close of 2021 relative to the exchange rate at the close of 2020 (see further discussion on term debt in the "Liquidity and Financial Requirements" section).

Loss on Derivative Financial Instruments

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In 2021, the Company recorded a net loss of $16.1 million (2020 – $4.1 million) in relation to its derivative financial instruments, which principally reflected mark-to-market losses realized on lumber futures contracts, and to a lesser extent realized mark-to-market losses on foreign exchange forward contracts (see further discussion in the "Liquidity and Financial Requirements" and "Derivative Financial Instruments" sections).

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

(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)

During 2021 a loss of $3.5 million (2020 – $44.6 million) was recognized in 'Other equity' on the Company's consolidated balance sheet following remeasurement of the put liability.

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

Other Income, Net

Other income, net of $27.0 million in 2021 decreased $9.1 million from 2020 principally reflecting the receipt in the current year of the final instalment of insurance proceeds related to CPPI's Northwood RB5 outage in 2018 combined with favourable foreign exchange movements on US-dollar denominated cash and receivables of the Canadian operations in the period. In 2020, other income, net of $36.1 million included the initial receipt of insurance proceeds related to CPPI's Northwood RB5 outage in 2018, offset in part by unfavourable foreign exchange movements on US-dollar denominated cash and receivables of the Canadian operations.

Income Tax Expense

The Company recorded an income tax expense of $438.0 million in 2021, compared to an expense of $160.2 million in 2020, with an overall effective tax rate of approximately 23% (2020 - 22%).

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
Net income before income taxes	**$**	**1,896.8**	$	720.1
Income tax expense at statutory rate of 27% (2020 – 27%)	**$**	**(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)

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

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

Other Comprehensive Income (Loss)

(millions of Canadian dollars)		2021		2020
Defined benefit plan actuarial gains, net of tax	**$**	**33.7**	$	8.9
Foreign exchange translation of foreign operations, net of tax		**(73.8)**		53.8
Other comprehensive income (loss), net of tax	**$**	**(40.1)**	$	62.7

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

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

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

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.

After taking into account the impact of annuities, 46% 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% is partially offset through the plan's investment in debt securities.

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

The Company recorded an after-tax loss of $73.8 million in other comprehensive income (loss) in 2021 related to foreign exchange differences for foreign operations, largely reflecting a stronger Canadian dollar through the majority of 2021 relative to the SEK, compared to one year earlier. This compared to an after-tax gain of $53.8 million in 2020 resulting from a weaker Canadian dollar relative to the SEK, offset by a stronger Canadian dollar relative to the US-dollar.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at December 31, 2021 and 2020:

(millions of Canadian dollars, except for ratios)		2021		2020
Cash and cash equivalents	**$**	**1,354.8**	$	419.2
Operating working capital		**727.0**		525.6
Net working capital		**2,081.8**		944.8
Property, plant and equipment		**1,812.7**		1,976.1
Right-of-use assets		**65.5**		79.3
Timber licenses		**313.2**		431.3
Goodwill and other intangible assets		**514.8**		543.5
Long-term investments and other		**298.9**		277.9
Net working capital and long-term assets	**$**	**5,086.9**	$	4,252.9
Term debt (long-term portion)	**$**	**245.5**	$	662.9
Retirement benefit obligations		**205.5**		233.4
Lease obligations		**49.2**		60.5
Deferred reforestation obligations (long-term portion)		**54.6**		61.8
Other long-term liabilities		**31.0**		35.0
Put liability		**156.2**		170.0
Deferred income taxes, net		**335.8**		395.6
Non-controlling interests		**525.1**		426.2
Equity attributable to shareholders of Company		**3,484.0**		2,207.5
	$	**5,086.9**	$	4,252.9
Ratio of current assets to current liabilities		**2.9 : 1**		2.1 : 1
Net debt (cash) to total capitalization[33]		**(37.3)%**		9.3%
Cumulative duty deposits paid	**$**	**682.5**	$	594.0

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

The ratio of current assets to current liabilities at the end of 2021 was 2.9:1 compared to 2.1:1 at the end of 2020, largely reflecting the unprecedented operating results in the current period and the associated significant increase in the Company's cash balance, combined with, to a lesser extent, higher inventories.

The Company's net cash to capitalization was 37.3% at December 31, 2021 (December 31, 2020 – net debt of 9.3%) and principally reflected the material increase in cash earnings in the year and the repayment of term debt during the current year, offset to a degree, by higher capital spending.

In 2021, the Company continued to pay cash deposits on Canadian lumber exports destined to the US as a result of the imposition of duties by the US DOC in the latter half 2017. As of December 31, 2021, the Company had paid cumulative duty deposits of $682.5 million (December 31, 2020 - $594.0 million) and had accrued interest on duty deposits recoverable of $24.8 million (December 31, 2020 - $20.0 million). Further discussion on CVD and ADD is provided in the "Countervailing and Anti-Dumping Duties" section of this document.

CHANGES IN FINANCIAL POSITION

At the end of 2021, Canfor had $1,354.8 million of cash and cash equivalents.

(millions of Canadian dollars)		2021		2020
Increase (decrease) in cash and cash equivalents[34]	**$**	**942.4**	$	363.7
Operating activities	**$**	**1,914.9**	$	1,073.6
Financing activities	**$**	**(504.1)**	$	(463.0)
Investing activities	**$**	**(468.4)**	$	(246.9)

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

The changes in the components of cash flows during 2021 are discussed in the following sections.

Operating Activities

For the 2021 year, Canfor generated cash from operations of $1,914.9 million, up $841.3 million from cash generated of $1,073.6 million in the previous year. The increase in operating cash flows was largely a result of record-high cash earnings in 2021, offset in part by higher income tax payments in the current year and unfavourable movements in non-cash working capital. The latter primarily reflected higher lumber and log inventory carrying costs as well as an increase in volumes on hand at the end of the year, due in part to transportation constraints, combined with, to a lesser extent, an increase in accounts receivable driven by an uplift in benchmark pricing towards the end of the year. Cash duty deposits paid in 2021 were $88.5 million compared to $172.6 million in the prior year.

Financing Activities

Financing activities in 2021 used cash of $504.1 million compared to $463.0 million in 2020. As a result of significant cash earnings in both years, financing activities in 2021 primarily consisted of term debt facility repayments of $422.8 million, while financing activities in 2020 were largely comprised of operating loan facility repayments of $371.3 million. In addition to the repayment of borrowings, financing activities in 2021 and 2020 consisted of payments of interest, lease obligations and distributions to non-controlling interests.

Investing Activities

In 2021, the Company used net cash for investing activities of $468.4 million, compared to $246.9 million in 2020. The significant increase in 2021 was principally associated with increased capital expenditures in the current year.

Additions to property, plant and equipment totaled $428.2 million in 2021, up $226.7 million from 2020. Sustained cash earnings supported more strategic capital investments in the current period after the cost containment measures implemented across the business in the first half of 2020 stemming from COVID-19.

In the lumber segment, capital expenditures of $344.5 million included spend on the Company's greenfield sawmill in DeRidder, Louisiana (see further discussion in the "Greenfield Sawmill" section) as well as capital upgrades aimed at increasing productivity, including investments at the Company's Camden mill in the US South and Borgstena mill in Sweden.

In the pulp and paper segment, capital spending of $78.7 million in 2021 was principally comprised of Northwood's RB5 lower furnace replacement early in the year combined with capital spending on reducing fossil fuel consumption and maintenance-of-business projects.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans

Operating Loans - Consolidated

At December 31, 2021, on a consolidated basis, including CPPI and Vida, the Company had cash and cash equivalents of $1,354.8 million, with $18.7 million drawn on its operating loans and facilities, and an additional $80.7 million reserved for several standby letters of credit. At the end of the year, the Company had available, undrawn operating loan facilities of $1,147.3 million, including an undrawn committed revolving credit facility and undrawn facilities for letters of credit.

Operating Loans – Canfor, excluding Vida and CPPI

On March 26, 2021, Canfor, excluding Vida and CPPI, repaid its Canadian-dollar denominated floating rate term debt of $225.0 million 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 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.

As at December 31, 2021, Canfor, excluding Vida and CPPI, had available operating loan facilities totaling $1,035.2 million, with no amounts drawn on its committed revolving credit facility, and $67.8 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $967.4 million available and undrawn on its operating loan facilities at the end of the year.

Operating Loans – Vida

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.5%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At December 31, 2021, Vida had $18.7 million drawn on its $101.5 million operating loan facilities, leaving $82.8 million available and undrawn at the end of the year.

Operating Loans – CPPI

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.

At December 31, 2021, CPPI had a $110.0 million operating loan facility, with $12.9 million reserved for several standby letters of credit under the operating loan facility, leaving $97.1 million available and undrawn on its operating loan facility at the end of the year.

Term Debt

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

As mentioned, on March 26, 2021, Canfor, excluding Vida and CPPI, repaid its Canadian-dollar denominated floating rate term debt of $225.0 million 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.

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 of its $50.0 million non-revolving term debt from September 30, 2022 to December 15, 2024, with the calculation of interest and covenants consistent with CPPI's existing operating loan facility.

Debt Covenants

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

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

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

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

Management reviews results and forecasts in monitoring the Company's compliance with these covenant requirements. Canfor, Vida and CPPI were fully in compliance with all debt covenants for the year ended December 31, 2021 and expects to remain so for the foreseeable future.

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

Normal Course Issuer Bid

On June 16, 2021, Canfor's normal course issuer bid was re-instituted whereby the Company 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.

In 2021, 725,800 common shares were purchased under this normal course issuer bid for $19.2 million (an average price 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%).

Greenfield Sawmill

As mentioned, on June 8, 2021 the Company announced its plans to build a new, state-of-the-art sawmill near DeRidder, Louisiana. As at December 31, 2021, Canfor had made capital investments 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.

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 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 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 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 in the fourth quarter of 2021.

Further details related to restructuring and other items are provided under Note 20 of Canfor's consolidated financial statements.

Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US DOC and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017, 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 mentioned, 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 ("US-Mexico-Canada Agreement") and through the World Trade Organization ("WTO"), 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 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 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%).

As mentioned, 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 2020	20.52%	18.24%	Anticipated in 2022	POR3
December 2020	4.62%	7.63%	Anticipated in 2022	POR3
January 2021 – November 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 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)[35, 36]	60.6
Duty recovery attributable to POR2 – CVD (2.42% versus 13.24%)[37]	(63.7)
Duty expense attributable to POR2 – ADD (17.12% versus 16.00%)[38]	15.0
Duty expense, net	$ 100.4

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

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

[37] 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.

[38] 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.

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

2022 Projected Capital Spending and Debt Repayments

During the first quarter of 2022, the Company has invested approximately $430 million in relation to the aforementioned Millar Western and V-Timber acquisitions. In addition, based on its current outlook, assuming no deterioration in market conditions during the year, the Company anticipates it will invest approximately $500 million in 2022, which will include approximately $430 million in the lumber business and $70 million in the pulp and paper business (excluding costs related to scheduled maintenance outages).

For the lumber business, projected spending is anticipated to be focused on the Company's greenfield sawmill in DeRidder, Louisiana, as well as various high-returning discretionary projects, concentrated in the US South and European operating regions, on optimization and automation of the manufacturing process as well as adding additional drying capacity.

For CPPI, it is anticipated that capital projects in 2022 will be primarily focused on the rebuild of Northwood's RB1 lower furnace as well as strategic projects aimed at enhancing long-term fibre optimization, improving its carbon footprint and operational reliability.

There are no term debt payments for the Company, excluding Vida, scheduled for 2022. Canfor (including CPPI) has sufficient liquidity in its cash reserves and operating loans to finance its planned investments and support its lumber and pulp operations during 2022.

Derivative Financial Instruments

As at December 31, 2021, the Company had the following significant derivative financial instruments outstanding:

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

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

		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**

Other Commitments

The following table summarizes Canfor's term debt obligations excluding interest at December 31, 2021 for each of the next five years and thereafter:

(millions of Canadian dollars)	2022	2023	2024	2025	2026	Thereafter	Total
Term debt obligations	$ 0.5	$ 42.4	$ 92.4	$ 42.4	$ -	$ 68.3	$ 246.0

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

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

- Contractual commitments of $124.5 million (US$98.2 million) related to the construction of the DeRidder greenfield sawmill, $112.1 million (US$88.4 million) of which are expected to be settled within one year and $12.4 million (US$9.8 million) within two years.
- Other contractual commitments totaling $125.8 million, which include commitments for the construction of capital assets, excluding those related to DeRidder above, and other working capital items. Commitments related to leases of property, plant and equipment are detailed in Note 6 of Canfor's 2021 consolidated financial statements.
- Deferred reforestation, for which a liability of $112.9 million has been recorded at December 31, 2021. The reforestation liability is a fluctuating obligation, based on the area harvested. The future cash outflows are a function of the actual costs of silviculture programs and of harvesting and are based on, among other things, the location of the harvesting and the activities necessary to adequately stock harvested areas and achieve a "free-to-grow" state.
- Obligations to pay pension and other post-employment benefits, for which the net liability for accounting purposes at December 31, 2021 was $181.5 million. As at December 31, 2021, Canfor estimates that total contribution payments of $10.0 million will be made to its defined benefit pension plans in 2022.
- CPPI has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of the Company's kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements includes incentive funding from a BC energy company to support capital investments for a turbo generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2021 the Company had posted $2.2 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.
- Purchase obligations and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

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

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 51.2% at December 31, 2021. During 2021, subsidiaries owned by The Jim Pattison Group provided lease, insurance and other services to Canfor totaling $4.9 million, with net $0.1 million outstanding at December 31, 2021.

During 2021, CPPI sold paper to subsidiaries owned by the Jim Pattison Group totaling $1.7 million. CPPI also made purchases from subsidiaries owned by the Jim Pattison group totaling $0.6 million. At December 31, 2021, $0.1 million was outstanding related to these transactions. Additional details on related party transactions are contained in Note 23 to Canfor's 2021 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,571.3**	**$ 1,676.6**	**$ 2,495.2**	**$ 1,941.8**	$ 1,618.0	$ 1,550.4	$ 1,115.3	$ 1,170.7
Operating income (loss) before amortization and impairments[39]	**$ 321.7**	**$ 425.4**	**$ 1,041.3**	**$ 600.4**	$ 520.0	$ 393.1	$ 189.5	$ 5.6
Operating income (loss)	**$ (66.8)**	**$ 331.0**	**$ 1,041.3**	**$ 602.6**	$ 419.6	$ 299.6	$ 96.9	$ (88.8)
Net income (loss)	**$ (35.5)**	**$ 256.8**	**$ 784.6**	**$ 452.9**	$ 346.7	$ 216.0	$ 62.4	$ (65.2)
Shareholder net income (loss)	**$ (23.1)**	**$ 210.0**	**$ 726.9**	**$ 427.8**	$ 335.6	$ 218.1	$ 60.7	$ (70.0)
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.19)**	**$ 1.68**	**$ 5.81**	**$ 3.42**	$ 2.68	$ 1.74	$ 0.48	$ (0.56)
Book value[40]	**$ 27.99**	**$ 28.23**	**$ 26.26**	**$ 20.64**	$ 17.63	$ 15.04	$ 13.51	$ 13.04
Statistics								
Lumber shipments (MMfbm)[41]	**1,320**	**1,316**	**1,540**	**1,449**	1,560	1,371	1,154	1,251
Pulp shipments (000 mt)	**216**	**241**	**285**	**265**	258	249	248	290
Average exchange rate – US$/Cdn$	**$ 0.794**	**$ 0.794**	**$ 0.814**	**$ 0.790**	$ 0.767	$ 0.751	$ 0.722	$ 0.744
Average exchange rate – SEK/Cdn$	**7.026**	**6.865**	**6.851**	**6.628**	6.608	6.650	6.983	7.203
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 711**	**$ 494**	**$ 1,342**	**$ 972**	$ 700	$ 768	$ 357	$ 399
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 862**	**$ 533**	**$ 1,163**	**$ 1,160**	$ 777	$ 782	$ 463	$ 386
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 538**	**$ 407**	**$ 946**	**$ 904**	$ 537	$ 716	$ 410	$ 307
Average NBSK pulp list price delivered to China (US$)	**$ 723**	**$ 832**	**$ 962**	**$ 883**	$ 637	$ 572	$ 572	$ 573

39 Amortization includes amortization of certain capitalized major maintenance costs; includes asset impairment charges of $293.5 million in 2021.

40 Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

41 Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

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

(millions of Canadian dollars)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Operating income (loss) by segment:								
Lumber	$ 86.3	$ 326.1	$ 1,000.5	$ 606.7	$ 461.0	$ 336.7	$ 107.4	$ (89.1)
Pulp and Paper	$ (137.2)	$ 15.8	$ 51.0	$ 4.9	$ (28.3)	$ (27.6)	$ (6.3)	$ 6.1
Unallocated and Other	$ (15.9)	$ (10.9)	$ (10.2)	$ (9.0)	$ (13.1)	$ (9.5)	$ (4.2)	$ (5.8)
Total operating income (loss)	$ (66.8)	$ 331.0	$ 1,041.3	$ 602.6	$ 419.6	$ 299.6	$ 96.9	$ (88.8)
Add: Amortization[42]	$ 95.0	$ 94.4	$ 93.3	$ 94.1	$ 100.4	$ 93.5	$ 92.6	$ 94.4
Add: Asset impairments	$ 293.5	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total operating income before amortization and impairments	$ 321.7	$ 425.4	$ 1,134.6	$ 696.7	$ 520.0	$ 393.1	$ 189.5	$ 5.6
Add (deduct):								
Working capital movements	$ (147.9)	$ 30.8	$ 88.5	$ (354.7)	$ (21.2)	$ 77.3	$ 54.0	$ (76.5)
Defined benefit plan contributions, net	$ (2.3)	$ (3.3)	$ (3.9)	$ (4.1)	$ (2.4)	$ (2.0)	$ (3.8)	$ (5.3)
Income taxes received (paid), net	$ (48.1)	$ (43.7)	$ (121.7)	$ (60.1)	$ (14.5)	$ (2.3)	$ 42.5	$ 28.8
Adjustment to accrued duties[43]	$ (27.5)	$ 27.0	$ 2.0	$ 10.4	$ (142.0)	$ (13.5)	$ (9.6)	$ 11.3
Other operating cash flows, net[44]	$ (0.1)	$ (15.8)	$ (11.2)	$ 22.2	$ 20.2	$ (29.9)	$ 25.0	$ 29.3
Cash from (used in) operating activities	$ 95.8	$ 420.4	$ 1,088.3	$ 310.4	$ 360.1	$ 422.7	$ 297.6	$ (6.8)
Add (deduct):								
Capital additions, net	$ (175.3)	$ (128.5)	$ (58.6)	$ (65.8)	$ (93.9)	$ (23.1)	$ (31.4)	$ (53.1)
Finance expenses paid	$ (7.7)	$ (3.5)	$ (7.1)	$ (6.8)	$ (10.3)	$ (8.8)	$ (13.7)	$ (13.3)
Proceeds from (repayment) of term debt, net	$ (7.9)	$ (0.3)	$ (185.5)	$ (229.1)	$ (8.3)	$ (0.1)	$ (0.4)	$ 0.6
Share purchases	$ (0.3)	$ (10.9)	$ (8.0)	$ -	$ -	$ -	$ -	$ -
Phased acquisition of Elliott	$ -	$ -	$ -	$ (38.2)	$ -	$ -	$ (44.6)	$ -
Consideration paid for Bergs sawmill assets	$ -	$ -	$ -	$ -	$ -	$ (58.7)	$ -	$ -
Proceeds received from sale of Vavenby tenure	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 56.5
Other, net[44]	$ (13.2)	$ 2.0	$ (20.2)	$ (20.8)	$ (19.0)	$ (14.9)	$ (4.8)	$ (3.5)
Change in cash / operating loans	$ (108.6)	$ 279.2	$ 808.9	$ (50.3)	$ 228.6	$ 317.1	$ 202.7	$ (19.6)

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

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2021	2020	2019
Sales	$ 7,684.9	$ 5,454.4	$ 4,658.3
Net income (loss)	$ 1,458.8	$ 559.9	$ (269.7)
Shareholder net income (loss)	$ 1,341.6	$ 544.4	$ (263.0)
Total assets	$ 6,173.9	$ 5,108.8	$ 4,527.0
Term debt	$ 246.0	$ 676.8	$ 694.7
Shareholder net income (loss) per share, basic and diluted	$ 10.74	$ 4.35	$ (2.10)

FOURTH QUARTER RESULTS

Overview of Operating Results

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

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

Results for the pulp and paper segment in the current quarter reflected weaker global pulp market conditions, combined with the significant impact of severe weather conditions on CPPI's operation and shipments, most notably at its Northwood and Taylor mills, as well as capital-related downtime at Northwood relating to CPPI's decision to rebuild the lower furnace of RB1.

Compared to the fourth quarter of 2020, adjusted operating income decreased $200.3 million from the comparative period, consisting of a $187.7 million decrease in adjusted lumber segment earnings and $9.8 million lower adjusted pulp and paper segment results.

The decline in lumber segment earnings from the fourth quarter of 2020 was principally related to lower earnings from the Company's North American operations, offset in part by significantly higher earnings from the Company's European operations. In Western Canada, a decrease in earnings quarter-over-quarter primarily reflected the impact of BC's reduced operating schedules in the fourth quarter of 2021, materially higher log costs, and to a lesser extent, a 3 cent, or 3%, stronger Canadian dollar. In the US South, lower results in the current quarter were largely reflective of reduced production and shipment volumes, as well as higher unit manufacturing costs. In contrast, an increase in earnings from the Company's European operations was primarily driven by a substantial uptick in unit sales realizations combined with significantly higher production and shipments compared to the fourth quarter of 2020.

For the pulp and paper segment, earnings decreased compared to the fourth quarter of 2020, as substantially higher US-dollar NBSK pulp list prices in the current period were more than outweighed by an 18% reduction in pulp production and the stronger Canadian dollar.

An overview of the results by business segment for the fourth quarter of 2021 compared to the third quarter of 2021 and fourth quarter of 2020 follows.

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q4 2021	Q3 2021	Q4 2020
Sales[45]	**$ 1,322.0**	$ 1,377.9	$ 1,380.2
Operating income before amortization and impairment[45]	**$ 356.8**	$ 398.1	$ 539.0
Operating income[45]	**$ 86.3**	$ 326.1	$ 461.0
Asset impairment	**$ 198.5**	$ -	$ -
Restructuring, mill closure and other items, net[46]	**$ (11.5)**	$ (3.8)	$ -
Adjusted operating income[47]	**$ 273.3**	$ 322.3	$ 461.0
Average Western SPF 2x4 #2&Btr lumber price in US$[48]	**$ 711**	$ 494	$ 700
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[48,50]	**$ 895**	$ 622	$ 911
Average SYP 2x4 #2 lumber price in US$[49]	**$ 862**	$ 533	$ 777
Average SYP 2x4 #2 lumber price in Cdn$[49,50]	**$ 1,085**	$ 671	$ 1,012
Average SYP 2x6 #2 lumber price in US$[49]	**$ 538**	$ 407	$ 537
Average SYP 2x6 #2 lumber price in Cdn$[49,50]	**$ 678**	$ 513	$ 700
US housing starts (thousand units SAAR)[51]	**1,654**	1,562	1,575
Production – Western SPF lumber (MMfbm)[52]	**529**	550	697
Production – SYP lumber (MMfbm)[52]	**379**	413	433
Production – European lumber (MMfbm)[52]	**383**	316	331
Shipments – Western SPF lumber (MMfbm)[53]	**517**	570	733
Shipments – SYP lumber (MMfbm)[53]	**377**	440	438
Shipments – European lumber (MMfbm)[53]	**426**	306	389

45 Q4 2021 includes sales of $434.7 million, operating income of $137.1 million and operating income before amortization of $155.3 million from European operations (Q3 2021 – sales of $432.3 million, operating income of $167.8 million and operating income before amortization of $186.5 million; Q4 2020 – sales of $282.0 million, operating income of $63.1 million and operating income before amortization of $82.7 million). Operating income from European operations in Q4 2021 includes $10.2 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition (Q3 2021 - $10.5 million; Q4 2020 - $10.9 million).
46 Adjusted for restructuring, mill closure and other items, net, related to closures and permanent or indefinite curtailments and dispositions of non-operating assets.
47 Adjusted operating income is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
48 Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
49 Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
50 Average lumber prices in Cdn$ calculated as average price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.
51 Source – US Census Bureau, SAAR.
52 Excluding production of trim blocks.
53 Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

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

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

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

Sales

Sales for the lumber segment for the fourth quarter of 2021 were $1,322.0 million, compared to $1,377.9 million for the previous quarter and $1,380.2 million for the fourth quarter of 2020. The 4% decrease in sales revenue compared to the prior quarter largely reflected lower Western SPF and SYP shipment volumes, primarily tied to transportation constraints, offset to a degree by higher North American benchmark lumber prices. These factors were combined with lower European unit sales realizations, which outweighed the benefit of higher European production and shipment volumes in the current quarter. Similarly, sales revenues were down 4% from the fourth quarter of 2020 primarily as a result of significantly lower Western SPF and SYP shipment volumes and, to a lesser extent, the 3% stronger Canadian dollar in the current period, partially offset by higher European unit sales realizations.

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

Total lumber shipments were 15% lower than the fourth quarter of 2020, primarily reflecting reduced operating schedules in BC in the current period, and to a lesser extent, the aforementioned transportation constraints in Western Canada and the US South.

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

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

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

The average North American Random Lengths Western SPF 2x4 #2&Btr price was up slightly from the fourth quarter of 2020, while the Company's Western SPF lumber unit sales realizations were notably higher due to significantly improved offshore unit sales realizations, particularly in Japan, in the current quarter. SYP lumber unit sales realizations were broadly in line with the comparative period, as the benefit of a US$85 per Mfbm, or 11%, increase in the average SYP East 2x4 #2 lumber price was tempered by more moderate pricing movements experienced in wider-width dimension productions, including the SYP East 2x6 #2 price, which was comparable quarter-over-quarter. European lumber unit sales realizations were significantly higher than the fourth quarter of 2020 principally reflecting a significant increase in European lumber market pricing, offset to a degree by a 6% stronger Canadian dollar (versus the SEK).

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log and pellets sales, as well as the Company's European operations' other related revenues) increased moderately compared to the previous quarter primarily due to the impact of the seasonal production downtime taken at the Company's European operations in the prior quarter. Compared to the fourth quarter of 2020, an increase in other revenues largely reflected higher packaging revenues at the Company's European operations in the current period.

Operations

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

Compared to the fourth quarter of 2020, lumber production was down 12%, largely due to the reduced operating schedules across the Company's BC sawmills in the current period, and, to a lesser extent, lower SYP production attributable to low log inventories, offset to a degree by an increase in European lumber production tied to increased productivity in the current quarter.

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

Compared to the fourth quarter of 2020, lumber unit manufacturing costs were significantly higher, principally due to log cost increases, and in part, the impact of lower North American production volumes on unit cash conversion costs in the current period. Higher log costs primarily reflected material increases in BC due to escalation in market-based stumpage costs following record pricing earlier in the year, as well as increased competition for logs and higher hauling rates. Log costs in Europe were also notably higher in comparison to the fourth quarter of 2020 due to market-based increases in the region.

Asset Impairment

An asset impairment charge of $198.5 million was recorded in the fourth quarter of 2021 on the timber licenses and property, plant and equipment for the Company's Western Canadian lumber operations. See "Critical Accounting Estimates – Asset Impairments" for further details.

Pulp and Paper

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

Summarized results for the Pulp and Paper segment for the fourth quarter of 2021, third quarter of 2021 and fourth quarter of 2020 were as follows:

(millions of Canadian dollars, unless otherwise noted)		Q4 2021		Q3 2021		Q4 2020
Sales	**$**	**249.3**	$	298.7	$	237.8
Operating income (loss) before amortization and impairment[55]	**$**	**(19.6)**	$	37.8	$	(6.2)
Operating income (loss)	**$**	**(137.2)**	$	15.8	$	(28.3)
Asset impairment	**$**	**95.0**	$	-	$	-
Inventory write-down (recovery)	**$**	**1.1**	$	3.5	$	(3.0)
Adjusted operating income (loss)[56]	**$**	**(41.1)**	$	19.3	$	(31.3)
Average NBSK pulp price delivered to China – US$[57]	**$**	**723**	$	832	$	637
Average NBSK pulp price delivered to China – Cdn$[57]	**$**	**911**	$	1,048	$	830
Production – pulp (000 mt)		**190**		247		233
Production – paper (000 mt)		**31**		31		36
Shipments – pulp (000 mt)		**216**		241		258
Shipments – paper (000 mt)		**27**		34		35

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

Markets

After declining in October and November, NBSK pulp prices to China, the world's largest pulp consumer, showed a modest recovery in December following unexpected global supply disruptions and ended the quarter at US$760 per tonne. As a result, average US-dollar NBSK pulp list prices to China averaged US$723 per tonne during the current quarter, down US$109 per tonne, or 13%, from the previous quarter. Prices to other global regions experienced more modest declines compared to the comparative period, with the average US-dollar NBSK pulp list price to North America at US$1,472 per tonne (before discounts), down US$70 per tonne, or 5%, from the comparative period.

Global softwood pulp producer inventories at the end of December 2021 remained well above the balanced range at 43 days[58] of supply, a decrease of two days from September 2021 (market conditions are generally considered balanced when inventories are in the 29-36 days of supply range), as a decline in demand from China was intensified by ongoing global supply chain disruptions.

Global kraft paper markets continued to strengthen through the fourth quarter of 2021, supported by solid demand from the North American and Asian markets.

Sales

CPPI's pulp shipments for the fourth quarter of 2021 totaled 216,000 tonnes, down 25,000 tonnes, or 10%, from the third quarter of 2021 and down 42,000 tonnes, or 16%, from the fourth quarter of 2020. Decreased shipments compared to the previous quarter principally reflected the impact of weather-related transportation disruptions in BC and the associated decrease in production volumes, combined with the ongoing effects of a constrained global logistics network, offset in part by a drawdown of inventory in the current quarter during the aforementioned Northwood RB1 downtime. Compared to the fourth quarter of 2020, the decrease in pulp shipments corresponded to an 18% decrease in pulp production in the current quarter, as well as the timing of shipments quarter-over-quarter.

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

CPPI's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally tied to the declines in global US-dollar list prices. The downward trend in demand and US-dollar prices for BCTMP, particularly from the printing and writing segment, continued through the current quarter giving rise to a significant decline in CPPI's BCTMP unit sales realizations quarter-over-quarter.

Compared to the fourth quarter of 2020, the average China US-dollar NBSK pulp list price was up US$86 per tonne, or 14%, while US-dollar list prices on shipments to North America were up US$333 per tonne, or 29%, over the same period. These higher global US-dollar prices resulted in substantially higher average NBSK pulp unit sales realizations, offset in part, by a 3 cent, or 3%, stronger Canadian dollar. Average BCTMP unit sales realizations were moderately down compared to the same quarter in the prior year, as modest upward momentum in BCTMP US-dollar pricing late in the current period was more than offset by the stronger Canadian dollar.

Energy revenues were moderately lower than the prior quarter as decreased energy generation, primarily due to Northwood downtime, was offset by seasonally higher energy prices in the current quarter. Energy revenues were broadly in line with the fourth quarter of 2020.

CPPI's paper shipments in the fourth quarter of 2021 were 27,000 tonnes, down 7,000 tonnes from the previous quarter, and down 8,000 tonnes from the fourth quarter of 2020, principally reflecting lower paper production in the current period combined with the timing of shipments quarter-over-quarter.

Paper unit sales realizations in the fourth quarter of 2021 were moderately higher than the previous quarter, largely attributable to the strengthening of global US-dollar paper pricing in the current period. Compared to the fourth quarter of 2020, paper unit sales realizations experienced a substantial increase, primarily reflecting a notable improvement in US-dollar prices, especially to North American markets, quarter-over-quarter, offset in part by the stronger Canadian dollar.

<u>Operations</u>

Pulp production was 190,000 tonnes for the fourth quarter of 2021, down 57,000 tonnes, or 23%, from the third quarter of 2021, largely reflecting the quarter-over-quarter impact of downtime.

The current quarter was particularly challenging as unprecedented flooding and harsh winter conditions in BC significantly impacted the operational performance at all CPPI's pulp mills and resulted in material transportation-related downtime at Northwood and Taylor. Production at Northwood was also impacted by the extended outage on one production line from early December to enable the replacement of RB1's lower furnace. Combined, these factors reduced current quarter NBSK pulp production by approximately 100,000 tonnes and BCTMP production by 20,000 tonnes.

In the third quarter of 2021, decreased operating days largely reflected scheduled maintenance outages at CPPI's Prince George NBSK pulp mill ("PG") and Taylor, as well as incremental downtime at Northwood and Taylor reflecting both weather-related rail disruptions and, in the case of Northwood, digester-related operational upsets in July (combined, reducing pulp production by approximately 42,000 tonnes). In addition, the previous quarter's pulp production reflected various smaller operational upsets through the quarter (approximately 15,000 tonnes).

Compared to the fourth quarter of 2020, pulp production was down 43,000 tonnes, or 19%, reflecting the increased downtime in the current quarter. In the comparative 2020 period, completion of Northwood's scheduled maintenance outage in October, as well as an extended outage on one production line at Northwood to enable the replacement of RB5's lower furnace, reduced pulp production by approximately 85,000 tonnes.

Pulp unit manufacturing costs were significantly higher than the prior quarter principally reflecting reduced production in the current period, offset in part by decreased energy usage and lower maintenance spend. Compared to the fourth quarter of 2020, pulp unit manufacturing costs were notably higher, mostly attributable to lower production combined with market-related increases in fibre costs in the current quarter.

Paper production for the fourth quarter of 2021 was 31,000 tonnes, broadly in line with the previous quarter, as reduced productivity tied to several operational challenges at the PG pulp and paper mill in the current quarter, offset the PG pulp and paper mill's scheduled maintenance outage in the previous period. Compared to the fourth quarter of 2020, paper production was down 5,000 tonnes largely due to reduced productivity in the current quarter.

Paper unit manufacturing costs were moderately lower than the third quarter of 2021, primarily reflecting a decline slush pulp costs, driven by the decrease in average NBSK pulp unit sales realizations in the current quarter and, to a lesser extent, reduced spend on operating supplies (timing-related). Compared to the fourth quarter of 2020, paper unit manufacturing costs saw a substantial increase, principally driven by higher slush pulp costs, with conversion costs comparable quarter-over-quarter.

Asset Impairment

An asset impairment charge of $95.0 million was recorded in the fourth quarter of 2021 on the pulp assets within the pulp and paper segment. See "Critical Accounting Estimates – Asset Impairments" for further details.

Unallocated and Other Items

(millions of Canadian dollars)		**Q4 2021**		Q3 2021		Q4 2020
Corporate costs	**$**	**(15.9)**	$	(10.9)	$	(13.1)
Finance income (expense), net	**$**	**(4.2)**	$	(6.0)	$	4.1
Foreign exchange gain (loss) on term debt and duty deposits recoverable, net	**$**	**(3.0)**	$	1.1	$	5.3
Gain (loss) on derivative financial instruments	**$**	**(4.6)**	$	1.1	$	4.3
Other income, net	**$**	**5.3**	$	7.2	$	18.7

Corporate costs were $15.9 million for the fourth quarter of 2021, up $5.0 million from the third quarter of 2021, primarily reflecting higher incentive expenses associated with record operating results in 2021, and to a lesser extent, increased legal fees associated with the recent acquisition of Millar Western.

Net finance expense of $4.2 million in the fourth quarter of 2021, down $1.8 million compared to the previous quarter, largely reflected an increase in accrued interest income associated with recoverable duty deposits. Net finance income of $4.1 million in the fourth quarter of 2020 reflected a larger adjustment to accrued interest income associated with the finalization of CVD and ADD rates for POR1 in the comparative period.

In the fourth quarter of 2021, the Company recognized a foreign exchange loss on US-dollar denominated net duty deposits recoverable due to the POR2 duty adjustment in December 2021, despite a slight weakening of the Canadian dollar at the end of the current quarter compared to the end of September 2021. This was combined with a loss on the Company's US-dollar term debt held by Canadian entities.

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the fourth quarter of 2021, the Company recognized a net loss of $4.6 million, primarily related to unrealized mark-to-market losses on lumber futures contracts, and to a lesser extent, realized losses on SEK foreign exchange forward contracts.

Other income, net, of $5.3 million in the fourth quarter of 2021, was primarily comprised of favourable foreign exchange movements on US-dollar and SEK denominated working capital. In the fourth quarter of 2020, other income, net, largely reflected the receipt of insurance proceeds relation to CPPI's 2018 unscheduled downtime at Northwood, and to a lesser extent, favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

(millions of Canadian dollars)		**Q4 2021**		Q3 2021		Q4 2020
Defined benefit actuarial gain, net of tax	**$**	**6.7**	$	9.1	$	28.5
Foreign exchange translation differences for foreign operations, net of tax		**(26.4)**		30.6		(2.3)
Other comprehensive income (loss), net of tax	**$**	**(19.7)**	$	39.7	$	26.2

In the fourth quarter of 2021, the Company recorded a gain of $9.9 million (before tax) in relation to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), primarily reflecting a higher than anticipated return on plan assets.

This compared to a gain of $12.4 million (before tax) recognized in the third quarter of 2021, largely attributable to a higher than anticipated return on plan assets. In the fourth quarter of 2020, the Company recorded a gain of $39.1

million (before tax) primarily reflecting a higher than anticipated return on plan assets and favourable actuarial experience adjustments. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

In addition, the Company recorded an accounting loss of $26.4 million in the fourth quarter of 2021 related to foreign exchange differences for foreign operations mostly reflecting strengthening of the Canadian dollar relative to the SEK at the end of the quarter. This compared to a gain of $30.6 million in the previous quarter and a loss of $2.3 million in the fourth quarter of 2020.

CHANGES IN FINANCIAL POSITION

At the end of 2021, Canfor had $1,354.8 million of cash and cash equivalents.

(millions of Canadian dollars)	**Q4 2021**	Q3 2021	Q4 2020
Increase (decrease) in cash and cash equivalents[59]	**$ (95.0)**	$ 265.3	$ (232.6)
Operating activities	**$ 95.8**	$ 420.4	$ 360.1
Financing activities	**$ (23.6)**	$ (28.9)	$ (32.0)
Investing activities	**$ (167.2)**	$ (126.2)	$ (95.5)

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

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

Operating Activities

Cash generated from operating activities was $95.8 million in the fourth quarter of 2021, compared to cash generated of $420.4 million in the previous quarter and cash generated of $360.1 million in the fourth quarter of 2020. The decrease in operating cash flows from the previous quarter primarily reflected lower cash earnings and unfavourable movements in non-cash working capital. Unfavourable working capital movements primarily reflected an increase in finished lumber and log inventories at the end of the period, in part due to transportation constraints.

Compared to the fourth quarter of 2020, operating cash flows were down $264.3 million, principally due to lower cash earnings, unfavourable non-cash working capital movements, and to a lesser extent, higher tax instalment payments in the current period.

Financing Activities

Cash used in financing activities was $23.6 million in the current quarter, compared to cash used of $28.9 million in the previous quarter and cash used of $32.0 million in the fourth quarter of 2020. Financing activities in the current quarter principally related to interest, lease and debt payments, while financing activities in the third quarter of 2021 largely consisted of share repurchases and lease payments. Cash used for financing activities in the fourth quarter of 2020 primarily reflected interest payments and repayments of term debt.

Investing Activities

Cash used for investing activities was $167.2 million in the current quarter, compared to $126.2 million in the previous quarter and $95.5 million in the same quarter of 2020, and were largely comprised of capital additions.

Capital additions in the fourth quarter of 2021 were $175.3 million, up $46.8 million from the previous quarter and $81.4 million from the fourth quarter of 2020. In the lumber segment, current quarter capital expenditures primarily reflected costs related to the construction of the Company's greenfield sawmill in DeRidder, Louisiana (see further discussion in the "Greenfield Sawmill" section), as well as maintenance-of-business capital across all lumber operating regions. In the pulp and paper segment, current quarter expenditures principally comprised of maintenance-of-business capital.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Shareholder Net Income (Loss)

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Shareholder net income (loss), as reported	**$ (23.1)**	**$ 210.0**	**$ 726.9**	**$ 427.8**	$ 335.6	$ 218.1	$ 60.7	$ (70.0)
Foreign exchange (gain) loss on term debt	**$ 0.2**	**$ 2.6**	**$ (5.7)**	**$ (2.6)**	$ (11.7)	$ (1.7)	$ (5.2)	$ 15.0
(Gain) loss on derivative financial instruments	**$ 3.0**	**$ (0.8)**	**$ -**	**$ 9.0**	$ (2.2)	$ 5.3	$ 2.9	$ (2.4)
Asset impairments	**$ 182.9**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Restructuring, mill closure and other items, net	**$ (8.4)**	**$ (2.8)**	**$ -**	**$ -**	$ -	$ -	$ 10.5	$ 0.7
Net impact of above items	**$ 177.7**	**$ (1.0)**	**$ (5.7)**	**$ 6.4**	$ (13.9)	$ 3.6	$ 8.2	$ 13.3
Adjusted shareholder net income (loss)[60]	**$ 154.6**	**$ 209.0**	**$ 721.2**	**$ 434.2**	$ 321.7	$ 221.7	$ 68.9	$ (56.7)
Shareholder net income (loss) per share (EPS), as reported	**$ (0.19)**	**$ 1.68**	**$ 5.81**	**$ 3.42**	$ 2.68	$ 1.74	$ 0.48	$ (0.56)
Net impact of above items per share	**$ 1.43**	**$ -**	**$ (0.05)**	**$ 0.05**	$ (0.11)	$ 0.03	$ 0.07	$ 0.11
Adjusted net income (loss) per share[60]	**$ 1.24**	**$ 1.68**	**$ 5.76**	**$ 3.47**	$ 2.57	$ 1.77	$ 0.55	$ (0.45)

[60] Adjusted shareholder net income (loss) is a non-IFRS financial measure. Effective Q1 2021, shareholder net income and shareholder net income per share were no longer adjusted for the after-tax impact of duty deposits, net duty deposits recoverable, and foreign exchange on duty deposits recoverable. Prior periods above have been restated to reflect this change (favourable per share impact of $0.51 in Q4 2020, unfavourable of $0.15 in YTD 2020). Refer to the "Non-IFRS Financial Measures" section for further details.

OUTLOOK

Lumber Markets

Looking ahead, strength in North American lumber market fundamentals is projected to continue through the first quarter of 2022, supported by lean existing home inventory, an aging housing stock and strong household balance sheets. Activity in the repair and remodeling sector, however, is anticipated to experience downward pressure in the near term as a result of seasonally slower consumption and reduced consumer spending, with an uptick estimated towards the end of the first quarter of 2022. Notwithstanding favourable lumber demand fundamentals overall, transportation congestion across Western Canada has significantly impacted rail service to and from the Company's sawmills in recent weeks. Reduced lumber shipments, combined with rising inflationary cost pressures, are anticipated to somewhat impact results in the first quarter of 2022.

Offshore lumber demand in Asia, particularly in China, is projected to weaken slightly in the first quarter of 2022 as ongoing pandemic related concerns are projected to combine with growing uncertainty in the real estate market and increasing inventory levels in that region. In Japan, demand in the first quarter of 2022 is anticipated to be lower than that experienced in the fourth quarter, as the market adjusts to changes in inventory levels in that region. European lumber markets are forecast to be relatively solid early in 2022 driven by a continued focus on green building initiatives and a projected uptick in demand in the repair and remodeling sector.

Pulp and Paper Markets

In early 2022, global softwood kraft pulp market conditions have strengthened somewhat, largely in response to unexpected global supply outages and a heavily congested supply chain network, combined with an uptick in market demand from China. Notwithstanding high inventory levels and the potential for ongoing supply chain driven pricing volatility, global softwood kraft pulp markets are projected to continue to strengthen moderately through the first quarter of 2022, reflecting the ongoing improvement in demand from China coupled with tight global supply. Modest increases experienced in the high yield BCTMP market through the fourth quarter of 2021 are anticipated to continue through the first quarter of 2022.

Despite the recent uplift in global pulp markets, the limited and intermittent rail service in BC experienced in recent weeks has put further pressure on an already constrained global logistics network. Consequently, as previously announced, CPPI's results in the first quarter of 2022 will reflect a minimum six-week curtailment at Taylor, with a projected 25,000 tonnes of reduced BCTMP production. CPPI also anticipates that the transportation disruptions will result in lower projected NBSK pulp and paper shipment volumes in the first quarter of 2022. CPPI will continue to monitor and adapt to the unfolding logistic situation over the coming weeks. In addition, global inflationary cost increases, particularly for chemicals, are projected to weigh on CPPI's results in the first quarter of 2022.

Furthermore, CPPI's results in the first quarter of 2022 will reflect the impact of the RB1 capital-related outage at Northwood into late-March, including reduced pulp production (approximately 70,000 tonnes) and shipments, as well as higher pulp unit manufacturing costs. As the RB1 rebuild approaches completion a key focus of CPPI's kraft pulp mills in 2022 will be on improving operational reliability and closely managing manufacturing and fibre costs.

No major maintenance outages are planned for the first quarter of 2022. In the second quarter of 2022, a maintenance outage is currently planned at Northwood and Taylor, with a projected 25,000 tonnes of reduced NBSK pulp production and an estimated 5,000 tonnes of reduced BCTMP production, respectively. In addition, a maintenance outage is scheduled at the Intercontinental NBSK pulp mill in the third quarter of 2022 with a projected 10,000 tonnes of reduced NBSK pulp production.

Bleached kraft paper markets are anticipated to continue to strengthen through the first quarter of 2022, as growing demand for paper products, largely driven by the environmental, social and regulatory pressures to eliminate single-use plastics, is combined with tight supply and low inventories in the North American and Asian paper markets.

NON-IFRS FINANCIAL MEASURES

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

(millions of Canadian dollars)	**Q4 2021**	Q3 2021	**YTD 2021**	Q4 2020	YTD 2020
Reported operating income (loss)	**$ (66.8)**	$ 331.0	**$ 1,908.1**	$ 419.6	$ 727.3
Asset impairment	**$ 293.5**	$ -	**$ 293.5**	$ -	$ -
Inventory write-down (recovery), net	**$ 1.1**	$ 3.5	**$ 2.4**	$ (3.0)	$ (26.1)
Restructuring, mill closure and other items, net	**$ (11.5)**	$ (3.8)	**$ (15.3)**	$ -	$ 15.4
Adjusted operating income[61]	**$ 216.3**	$ 330.7	**$ 2,188.7**	$ 416.6	$ 716.6
Amortization	**$ 95.0**	$ 94.4	**$ 376.8**	$ 100.4	$ 380.9
Adjusted operating income (loss) before amortization and impairments[61]	**$ 311.3**	$ 425.1	**$ 2,565.5**	$ 517.0	$ 1,097.5

[61] Effective Q1 2021, results were no longer adjusted for countervailing and anti-dumping duties. Prior periods above have been restated to reflect this change ($95.5 million recovery in Q4 2020, $18.8 million expense in YTD 2020).

(millions of Canadian dollars, except ratios)	**2021**	2020
Reported operating income (loss)	**$ 1,908.1**	$ 727.3
Realized loss on derivative financial instruments	**$ 13.2**	$ 3.6
Other income (expense), net	**$ 27.0**	$ 36.1
Less: non-controlling interests	**$ 180.6**	$ 22.6
Return	**$ 1,767.7**	$ 744.4
Average invested capital[62]	**$ 3,189.2**	$ 3,173.6
Return on invested capital (ROIC)	**55.4%**	23.5%

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

(millions of Canadian dollars, except ratios)		**As at December 31, 2021**		As at December 31, 2020
Term-debt	**$**	**246.0**	$	676.8
Operating loans	**$**	**18.7**	$	12.3
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
Total capitalization	**$**	**2,919.0**	$	2,903.6
Net debt (cash) to total capitalization		**(37.3%)**		9.3%

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise, which cause actual results to differ from these estimates, Management does not believe it is likely that any such differences will materially affect Canfor's financial position, other than the possibility of material effects to the income statement from the Company's estimated ADD net duty deposits recoverable as discussed in Notes 9 and 29 of the consolidated financial statements. Unless otherwise indicated, the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

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

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

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

	December 31, 2021		December 31, 2020	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	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

Assumed discount rates, medical cost trend rates and mortality assumptions have a significant effect on the accrued benefit obligation and related plan assets. In addition, the average life expectancy of a 65-year-old at December 31, 2021 is between 21.3 years and 24.3 years. As at December 31, 2021, the weighted average duration of the defined benefit obligation, which reflects the average age of the plan members, is 12.8 years. The weighted average duration of the other benefit plans is 12.1 years.

Deferred Reforestation

Canfor accrues an estimate of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation on its forestry tenures in BC and Alberta. An estimate is recorded in the financial statements based on the number of hectares of timber harvested in the period and the estimated costs of fulfilling Canfor's obligation. Payments in relation to reforestation are expected to occur over periods of up to 15 years and have been discounted accordingly at risk-free rates ranging from 0.8% to 1.5%. The actual costs that will be incurred in the future may vary based on, among other things, the actual costs at the time of silviculture activities.

Deferred Taxes

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

Asset Retirement Obligations

Canfor records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period when it is incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 1 to 30 years and have been discounted at risk-free rates ranging from 0.6% to 1.7%. The actual closure costs and periods of payment may differ from the estimates used in determining the year-end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Environmental Remediation Costs

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

Asset Impairments

As previously indicated, the Company recorded asset impairments totaling $293.5 million in 2021, consisting of $198.5 million for the Company's Western Canadian lumber operations in the lumber segment and $95.0 million related to pulp assets within the pulp and paper segment.

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

In 2021, as a result of reduced fibre availability 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, 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.

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.

Impairment of Goodwill

Goodwill, which is the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired, is not amortized, but is assessed annually for impairment, or more frequently if events or circumstances indicate that it may be impaired. Canfor's goodwill relates to its US and European subsidiaries 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 the Company's Management determined with reference to both internal and external publications. For the 2021 goodwill impairment assessment, a discount rate of 9% (12% before tax) was utilized for both regions, based on the Company's current weighted average cost of capital.

In this analysis prepared by Management, the net present value of future expected cash flows was compared to the carrying value of the Company's investment in these assets, including goodwill, at year end, with no impairment of goodwill required at December 31, 2021. If actual results are materially lower than the forecast assumptions, there is a possibility that an impairment of goodwill may be required in future periods.

Valuation of Log and Finished Product Inventories

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

RISKS AND UNCERTAINTIES

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

Capital Requirements

The forest products industry is capital intensive, and the Company regularly incurs capital expenditures to enhance its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2021 were $428.2 million. The Company anticipates available cash and operating loans, as well as cash generated from operations, will be sufficient to fund its operating needs and capital expenditures.

Climate Change

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

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

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

Competitive Markets

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

Coronavirus Outbreak (COVID-19)

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. During the year ended December 31, 2021, there were 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.

Currency Exchange Risk

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

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

Cyclicality of Product Prices

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

Employee Future Benefits

Canfor has several defined benefit plans, which provide pension and other post-retirement benefits to certain salaried and hourly employees. Pension plan benefits are based on years of service and final average salary (for salaried employees), and flat rate benefit and years of service (for hourly employees). Canfor's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Canfor also provides pension bridge benefits to certain eligible former employees.

Cash payments required to fund the pension plan are determined through an actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan conducted as of December 31, 2020, and completed in 2021. Other non-pension post-retirement benefit plans are unfunded, and the Company makes payments as required to cover liabilities as they arise.

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

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

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

For Canfor's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation, net of annuity assets, by an estimated $49.8 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation, net of annuity assets, by an estimated $61.4 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Issues

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

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

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

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

Canfor's US operations are subject to laws and regulations of the *Federal Clean Air Act* (CAA) 42 U.S.C. §7401 et seq. (1970) is the comprehensive federal law that regulates air emissions from stationary and mobile sources. Among other things, this law authorizes EPA to establish National Ambient Air Quality Standards (NAAQS) to protect public health and public welfare and to regulate emissions of hazardous air pollutants. Additionally, the *Federal Clean Water Act* (CWA) 33 U.S.C. §1251 et seq. (1972) establishes the basic structure for regulating discharges of pollutants into the waters of the United States and regulating quality standards for surface waters. The basis of the CWA was enacted in 1948 and was called the Federal Water Pollution Control Act, but the Act was significantly reorganized and expanded in 1972. "Clean Water Act" became the Act's common name with amendments in 1972. Under the CWA, EPA has implemented pollution control programs such as setting wastewater standards for industry. EPA has also developed national water quality criteria recommendations for pollutants in surface waters.

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

Fibre Cost and Availability

The Company's fibre costs are affected by a number of different factors which could have a significant impact on operating results. Lumber market fluctuations and log market bidding each play a significant role in both fibre supply and costs. In Western Canada, harvesting operations have transitioned away from MPB impacted timber stands (see "Forest Health" below for more commentary regarding MPB). The AAC in BC in particular has been reduced in many areas, but in several cases, the AAC has not yet been determined and apportioned by the BC Government, resulting in a log supply and demand imbalance. In 2021, the PGTSA was directly negatively impacted through the Minister's apportionment decision, with further reductions to the AAC of the PGTSA anticipated in 2023. As a result, the existing manufacturing capacity in this area continues to outstrip the available timber supply and until this imbalance is corrected, Canfor expects to see a continuation of higher log costs in BC for the foreseeable future.

Canfor's ability to access timber could also be impacted by unsettled land and title claims by various Indigenous Nations in BC. The BC *Declaration on the Rights of Indigenous People Act* was brought into force in November 2019 based on the United Nations Declaration on the Rights of Indigenous Peoples. Among other things, it reflects the BC Government's process to achieve free and informed consent of Indigenous Nations in connection with government approval of resource-based projects (for additional discussion of this legislation, see the "Indigenous Relations" section of this MD&A below). In 2021, the BC Supreme Court released its decision in *Yahey v British Columbia*, in which it ruled that the Crown had unjustifiably infringed the Treaty 8 rights of the BRFN in permitting the cumulative impacts of industrial development to meaningfully diminish BRFN's ability to exercise its treaty rights in its traditional territory (the "Blueberry River decision"). The specific impact of the Blueberry River decision on timber supply from Crown lands and on the Company's tenure and operations in the Treaty 8 area are unknown at this time, especially as they pertain to the Company's current timber supply and operational activities on the traditional territory of BRFN. As well, the Company does not know if, how or the extent to which the decision will lead to changes in BC or federal laws or policies which may affect its forestry operations. However, there is the potential for adverse timber supply and operational implications associated with the outcome of the ongoing negotiations between the Province of BC and BRFN (see "Indigenous Relations" below for more commentary).

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

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

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

Financial Risk Management and Earnings Sensitivities

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

Financial Risk Management

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

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

(a) Credit Risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable, and certain investments and advances. Contract assets are also subject to credit risk. Cash and cash equivalents include cash held through major Canadian and international financial institutions as well as temporary investments 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.

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2021, approximately 56% of the outstanding trade accounts receivables 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. At December 31, 2021, approximately 97% of the trade accounts receivable balance are within Canfor's established credit terms.

(b) Liquidity risk:

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

At December 31, 2021, Canfor had cash and cash equivalents of $1,354.8 million, with $18.7 million drawn on its operating loans and facilities, leaving $1,147.3 million available and undrawn. As a result, at December 31, 2021, Canfor had available liquidity of $2,502.1 million, accounts payable and accrued liabilities of $730.2 million, and term debt of $246.0 million. For details of the Company's term debt obligations and maturities refer to the "Other Commitments" section of this document.

(c) Market risk:

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

(i) *Interest rate risk*:

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

Canfor may use interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2021, 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 (see "Derivative Financial Instruments" section later in this document).

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

(ii) *Currency risk:*

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $0.9 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable); and a (ii) gain (loss) of approximately $1.6 million in relation to term debt denominated in US-dollars and 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.

The Company also sells certain products in GBP, AUD, EUR and NOK and holds US, GBP, AUD and EUR denominated operating loan and term debt facilities and limits its exposure to foreign exchange risk using forward foreign exchange contracts and foreign exchange options (see "Derivative Financial Instruments" section later in this document).

(iii) *Commodity price risk:*

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

(iv) *Energy price risk:*

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

The annual exposure is from time to time hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years (see "Derivative Financial Instruments" section later in this document).

Derivative Financial Instruments

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

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

Earnings Sensitivities

Estimates of the sensitivity of Canfor's pre-tax results to currency fluctuations and prices for its principal products, based on 2022 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	**Impact on annual pre-tax earnings**
Western SPF lumber – US$10 change per Mfbm[63,64]	$ 32
SYP lumber – US$10 change per Mfbm[63,64]	$ 17
European lumber – SEK100 change per Mfbm[63,64]	$ 18
Softwood lumber duties – 5% change	$ 41
Pulp – US$10 change per tonne[65]	$ 11
Canadian dollar – 1% change per US dollar[66]	$ 16
Canadian dollar – 1% change per SEK[66]	$ 3

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

Forest Health

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

Given the nature and extent of the infestation, the mid-term and long-term operational and financial impacts on Canfor may be significant. In response, the Company has taken various steps to mitigate its exposure to these impacts, by modifying manufacturing and harvesting operations as follows: repurposing manufacturing facilities (e.g. the Prince George, Houston, Chetwynd, Fort St. John, Plateau and Polar sawmills) to optimize harvest of greener, non-pine leading stands and to better align with existing timber supply; and by closing certain other manufacturing facilities indefinitely (Mackenzie sawmill) or permanently (Isle Pierre and Vavenby sawmills). In addition, the Company has taken steps to fully utilize as much of the residual, non-sawlog fibre it harvests by redirecting this to its whole log chipping plants located throughout North Central BC.

In Alberta, detection surveys in 2021 continue to indicate a slow but steady rate of MPB spread in certain areas with declining populations in others. The largest active beetle populations can be found in the West Central portion of the Province, particularly within the Jasper National Park boundary and along the adjacent eastern slopes of the Rocky Mountains. An accelerated harvest of susceptible pine on the Canfor Forest Management Agreement ("FMA") area since 2009 in conjunction with government control efforts, has largely contained the spread in this area and recent surveys indicate a very low rate of spread. MPB populations are now largely at endemic levels in the Northwest portion of the Province. Subsequently, pine mortality in areas north of the Peace River, including the Canfor quota area, has been extensive and harvesting objectives continue to be focused on the salvage of the remaining dead pine prior to expiration of its economic shelf life.

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

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

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

Wildfire activity in Canfor operating areas remained relatively low in 2021, particularly when compared to some areas in southern British Columbia which experienced very intense and destructive mega wildfires. However, with significant warming trends in the summer, resultant severe drought, along with increased human recreational activity on the landscape, wildfire activity continues to grow. Spurred by record breaking wildfire seasons in 2017 and 2018, Canfor along with other forest companies and forest sector associations began to collaborate much more closely with BC Wildfire Service. Our objectives were to strengthen our wildfire preparedness through strategic placement of resources and better training, and to elevate our response action effectiveness through better and more frequent communication, along with making our company and contractor resources readily available where required.

Government and Other Regulations

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

In 2021, the BC Government introduced legislation that may have a significant impact on the Company and operations (see "Fibre Cost and Availability" section of this MD&A above).

Indigenous Relations

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

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

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

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

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

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

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

On October 7, 2021, BRFN and the Province of BC reached an initial agreement that is described by the Province as a first step in responding to the Blueberry River decision, which requires the Province and BRFN to work together to develop land management processes in BRFN territory. As part of this initial agreement, a number of forestry and oil and gas projects which were permitted or authorized prior to the Blueberry River decision and where activities had not started, including some held by Canfor, will be allowed to proceed. However, certain other previously approved authorizations, which relate to areas of high cultural importance, will not proceed without further negotiation and agreement by the Province with BRFN, including some held by Canfor but which are not material to its current operations. Negotiations between the Province of BC and BRFN are now focused on establishing a process that assesses and manages the impacts of future industrial development activities, including new permits and authorizations, on BRFN's Treaty rights. The timing and outcome of these negotiations and their potential impacts on activities in the Treaty 8 area are not presently known.

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

Information Technology

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

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

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

Labour Agreements and Competition for Professional Skilled Labour

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

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

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

In 2017 Canfor negotiated its labour agreement with UNIFOR at its Grande Prairie lumber operation; the new agreement expires October 1, 2022.

For the Company's European lumber operations, 47% of workers are represented by GS and Unionen, with the current agreements effective until March 31, 2023.

The Company's operations in the US South are not unionized.

CPPI negotiated its collective agreements with UNIFOR and PPWC at its PG operations in 2017; both labour agreements expired on April 30, 2021 and a new four-year agreement was ratified in February 2022. The new agreement will expire on April 30, 2025.

Maintenance Obligations and Facility Disruptions

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

Residual Fibre Revenues

Wood chips are a residual product of Canfor's lumber manufacturing process and, in Canada, are primarily sold to CPPI. These chips are the principal raw material utilized by CPPI in its pulp manufacturing operations. Canfor has two Fibre Supply Agreements with CPPI, which contain pricing formulas that currently result in CPPI paying Canfor a price for wood chips based on pulp markets and CPPI's product mix. In 2021, Canfor provided approximately 60% of CPPI's chip requirements. The chip pricing under one of these Fibre Supply Agreements with CPPI expired on June 30, 2021 and is expected to be renewed in the second quarter of 2022. If market conditions caused CPPI to cease pulp operations for an extended period of time, Canfor would have a limited market and/or reduced value for its chip supply and this could affect its ability to run its sawmills economically. Similarly, if lumber market conditions or fibre availability were such that Canfor or other suppliers were unable to provide the current volume of chips to CPPI as a result of AAC reductions, lower sawmill production or sawmill closures, whether temporary or permanent, CPPI's chip supply, chip cost and production results could be materially affected.

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

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

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

Softwood Lumber Agreement

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

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

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

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

In May 2021, the DOC announced the preliminary results for the second period of review (POR2), which 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%, while the final ADD rate was 17.12%. 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 (anticipated in the third quarter of 2022).

In January 2022, the DOC announced the preliminary results for the third period of review (POR3), which indicated that the Company's preliminary CVD and ADD cash deposit rate for 2020 was 1.83% and 4.92%, respectively.

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

Species at Risk

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

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

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

Stumpage Rates

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

The BC Government is scheduled to make its next annual update to the MPS on July 1, 2022. Further changes to the BC Interior market driven stumpage system and resulting stumpage rates could have a material impact on Canfor's business. The Alberta Government will be reviewing their provincial stumpage rates (timber dues); however, the Company is not aware of any planned material changes at this point in time.

Transportation Services

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

Wood Dust Management

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

OUTSTANDING SHARE DATA

At March 1, 2022, there were 124,493,600 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related consolidated financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2021 and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR") and confirm that there were no changes in the Company's ICFR during the year ended December 31, 2021 that materially affected, or would be reasonably likely to materially affect, such controls.

Based upon their evaluation of these controls for the year ended December 31, 2021, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2021 Annual Information Form, is available at www.sedar.com or at www.canfor.com.