2021

QUARTER TWO

INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2021

CANFOR CORPORATION

To Our Shareholders

Canfor Corporation ("The Company" or "Canfor") reported its second quarter 2021 results:

Overview

- Record quarterly reported operating income of $1.04 billion driven by unprecedented high lumber prices and a strong operating performance across all regions; record-high quarterly sales of $2.5 billion
- Record shareholder net income of $727 million, or $5.81 per share
- Net cash of $916 million at June 30, 2021; US$150 million repayment of term debt in the current quarter
- Cumulative cash deposits of $645 million on countervailing and anti-dumping duties at June 30, 2021

Financial Results

The following table summarizes selected financial information for the Company for the comparative periods:

(millions of Canadian dollars, except per share amounts)	**Q2 2021**	Q1 2021	**YTD 2021**	Q2 2020	YTD 2020
Sales	**$ 2,495.2**	$ 1,941.8	**$ 4,437.0**	$ 1,115.3	$ 2,286.0
Reported operating income before amortization	**$ 1,134.6**	$ 696.7	**$ 1,831.3**	$ 189.5	$ 195.1
Reported operating income	**$ 1,041.3**	$ 602.6	**$ 1,643.9**	$ 96.9	$ 8.1
Adjusted operating income before amortization[1]	**$ 1,134.6**	$ 694.5	**$ 1,829.1**	$ 131.5	$ 190.4
Adjusted operating income[1]	**$ 1,041.3**	$ 600.4	**$ 1,641.7**	$ 38.9	$ 3.4
Net income (loss)[2]	**$ 726.9**	$ 427.8	**$ 1,154.7**	$ 60.7	$ (9.3)
Net income (loss) per share, basic and diluted[2]	**$ 5.81**	$ 3.42	**$ 9.22**	$ 0.48	$ (0.07)
Adjusted net income[2, 3]	**$ 721.2**	$ 434.2	**$ 1,155.4**	$ 68.9	$ 12.2
Adjusted net income per share, basic and diluted[2, 3]	**$ 5.76**	$ 3.47	**$ 9.23**	$ 0.55	$ 0.10

[1] Adjusted for inventory write-downs and recoveries ($2.2 million recovery in Q1 2021 and YTD 2021, $72.4 million net recovery in Q2 2020, $20.1 million net recovery in YTD 2020), and restructuring costs ($14.4 million in Q2 2020, $15.4 million in YTD 2020). Effective Q1 2021, results were no longer adjusted for countervailing and anti-dumping duties. Prior periods above have been restated to reflect this change ($19.2 million expense in Q2 2020, $63.6 million expense in YTD 2020).

[2] Attributable to equity shareholders of the Company.

[3] Adjusted for after-tax impact of certain one-time items, including restructuring costs, foreign exchange (gain) loss on term-debt, and (gain) loss on derivative financial instruments. Effective Q1 2021, net income (loss) and net income (loss) per share were no longer adjusted for the after-tax impact of duty deposits, net of duties recoverable, and foreign exchange on duty deposits recoverable. Prior periods above have been restated to reflect this change (unfavourable per share impact of $0.12 in Q2 2020).

Reflecting record-high lumber segment earnings and improved pulp and paper segment results, the Company reported operating income of $1,041.3 million for the second quarter of 2021, $438.7 million higher than the operating income of $602.6 million reported for the first quarter of 2021. For the lumber segment, earnings increased $393.8 million quarter-over-quarter, to an all-time high of $1,000.5 million.

Global lumber market conditions remained very strong in the second quarter of 2021, as tight supply coupled with significant demand drove global benchmark lumber prices to new unprecedented highs. This record pricing, combined with moderately higher shipment volumes, substantially outweighed the impact of modestly higher log costs in Western Canada.

Continued strong North American market fundamentals reflected sustained high levels of new home construction activity, despite a slight pull-back in the shift to suburban areas, as coronavirus ("COVID-19") restrictions were gradually lifted. Demand in the North American repair and remodeling sector also showed continued strength early in the current quarter, but weakened over the balance of the period.

For the second quarter of 2021, US housing starts averaged 1,568,000 units on a seasonally adjusted basis, down 2% from the previous quarter. Although well above the five-year rolling average of 1,308,000 units, current quarter US housing starts were down 9% from the near fifteen-year high established in March. In Canada, new home construction remained strong despite a similar decline from the March peak; housing starts averaged 281,000 units on a seasonally adjusted basis for the second quarter of 2021, down 8% from the previous quarter, but still well above historical levels.

Offshore lumber demand and prices in Asia were also strong in the current period, with material price gains recorded in many regions, supported by lean inventories in the supply chain, coupled with steady consumption in the industrial and construction sectors. Western Europe and Scandinavian lumber demand experienced further growth in the current quarter largely in response to continued strength in the repair and remodeling sector in that region.

The North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price posted significant gains early in the second quarter of 2021, reaching a new record high of US$1,630 per Mfbm in early May before declining sharply through the balance of the quarter to end the period at US$875 per Mfbm. Despite this volatility, the Western

SPF 2x4 #2&Btr price averaged US$1,342 per Mfbm for the quarter overall, up US$370 per Mfbm, or 38%, from the previous quarter. The substantial increase in the Company's Western SPF lumber unit sales realizations primarily reflected this record-high North American benchmark pricing, as well as significantly improved offshore unit sales realizations, particularly in Japan.

The Southern Yellow Pine ("SYP") East 2x4 #2 price followed similar trends to Western SPF, climbing to a record of US$1,400 per Mfbm mid-May and ending the quarter at US$755 per Mfbm. As a result, the North American Random Lengths SYP East 2x4 #2 price averaged US$1,163 per Mfbm, broadly in line with the previous quarter. However, pronounced price increases for wider-width dimension products, some of which reflected seasonal factors, contributed to a significant increase in the Company's SYP lumber unit sales realizations.

The Company's European lumber unit sales realizations also experienced a notable uptick compared to the previous quarter, largely driven by ongoing increases in European market demand and the record North American US-dollar benchmark pricing environment, offset somewhat by the traditional quarterly lag in European contract pricing and the timing of orders (versus shipments) to North America.

Total lumber shipments, at 1.54 billion board feet, were 6% higher than the previous quarter largely due to moderately higher North American shipment volumes in the current quarter, while European shipments were comparable quarter-over-quarter. In North America, increased shipments, for the most part, reflected strong demand combined with the gradual release of inventory early in the quarter as trucking availability in the US South and transportation networks in Western Canada, slowly returned to more normal service levels in April and May.

Total lumber production, at 1.51 billion board feet, was 2% higher than the prior quarter principally reflecting modestly higher SYP production following capital-related downtime at the Company's Camden and Estill mills in the previous quarter. Western SPF and European lumber production were broadly in line with the first quarter of 2021.

Lumber unit manufacturing and product costs were broadly in line with the prior quarter, as the per-unit impact of gains in productivity and the benefit of stable log costs in the US South and Europe offset modestly higher log costs in Western Canada.

Looking ahead, with the sharp correction in benchmark lumber prices across North America in recent weeks, market fundamentals in that region are forecast to be more challenging through the third quarter of 2021, as a result of reduced consumer spending in the repair and remodeling sector and some moderation in new home construction activity.

Solid offshore lumber market demand and pricing in Asia, most notably Japan, is expected to persist into the latter half of 2021, supported by increased building activity and lean inventory levels in the region. European lumber markets are projected to remain strong through the third quarter of 2021 with steady consumption in the residential and construction sector. As a result of the traditional lag in European contract pricing, third quarter pricing is anticipated to exceed current quarter levels.

Results in the pulp and paper segment largely reflected materially higher Northern Bleached Softwood Kraft ("NBSK") pulp unit sales realizations, and to a lesser extent, an 8% increase in shipments following transportation disruptions experienced in the first quarter of 2021. These factors more than offset the impact of the stronger Canadian dollar and market-related fibre cost increases in the current quarter.

Following the sharp improvement in market fundamentals earlier in the year, global pulp market conditions were more stable in the second quarter. Demand was solid through the first part of the current quarter but a moderation in purchasing activity from China saw some downward pressure on prices in that region, particularly in June.

The upward trend in NBSK US-dollar pulp list prices to China from the first quarter continued in April, with prices reaching a near-record high of US$995 per tonne in April, before declining in May and June, to end the quarter at US$910 per tonne. As a result, the current quarter US-dollar NBSK pulp list price to China averaged US$962 per tonne, up US$79 per tonne, or 9%, compared to the previous quarter. Prices to North America (before discounts) saw sharp increases in the current quarter, largely in response to the uplift in China prices earlier in the year, up US$296 per tonne, or 23%, from the previous quarter, to US$1,598 per tonne.

In the pulp and paper segment, global softwood kraft pulp markets are projected to soften somewhat through the third quarter of 2021, driven by the current tepid Chinese demand and above-average global pulp inventory levels combined with the traditionally slower summer months. Weakness experienced in the high yield Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") markets, especially in Asia, late in the second quarter is anticipated to continue early into the third quarter of 2021, before a projected stabilization in prices through the balance of the period.

Results in the third quarter of 2021 will reflect the impact of scheduled maintenance outages at Canfor Pulp Product Inc.'s ("CPPI") Prince George and Taylor BCTMP ("Taylor") pulp mills, as well as incremental downtime at the

Northwood NBSK ("Northwood") pulp mill and Taylor reflecting both weather-related rail disruptions and pulp mill inventories nearing capacity, as well as, in the case of Northwood, digester-related operational upsets in July. Combined, the currently anticipated third quarter downtime is projected to reduce NBSK pulp production by approximately 30,000 tonnes and BCTMP production by an estimated 12,000 tonnes.

Extreme wildfire conditions in Western Canada stemming from a heat wave across the region in early July, have significantly impacted the supply chain, with the Company experiencing limited and intermittent rail service to and from its Western Canadian sawmills and pulp mills. As a result of these transportation challenges and with mill inventory levels nearing capacity, the Company recently announced short-term production curtailments at its British Columbia ("BC") sawmills beginning July 26, 2021, reducing production by approximately 115 million board feet in the third quarter of 2021. While the Company continues to closely monitor the situation, shipments of lumber and pulp and paper are also expected to be negatively impacted in the third quarter of 2021 as a result of the rail disruptions.

The Honourable John R. Baird
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Second Quarter 2021
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended June 30, 2021 relative to the quarters ended March 31, 2021 and June 30, 2020, and the financial position of the Company at June 30, 2021. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 2021 and 2020, as well as the 2020 annual MD&A and the 2020 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2020 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)") 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 Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the second quarter of 2021.

Factors that could impact future operations are also discussed. These factors may be influenced by both 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 operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; the coronavirus outbreak and opportunities available to or pursued by Canfor.

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 29, 2021.

Forward Looking Statements

Certain statements in this MD&A 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 the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

SECOND QUARTER 2021 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q2 2021	Q1 2021	YTD 2021	Q2 2020	YTD 2020
Operating income (loss) by segment:					
Lumber	**$ 1,000.5**	$ 606.7	**$ 1,607.2**	$ 107.4	$ 18.3
Pulp and Paper	**$ 51.0**	$ 4.9	**$ 55.9**	$ (6.3)	$ (0.2)
Unallocated and Other	**$ (10.2)**	$ (9.0)	**$ (19.2)**	$ (4.2)	$ (10.0)
Total operating income	**$ 1,041.3**	$ 602.6	**$ 1,643.9**	$ 96.9	$ 8.1
Add: Amortization[1]	**$ 93.3**	$ 94.1	**$ 187.4**	$ 92.6	$ 187.0
Total operating income before amortization	**$ 1,134.6**	$ 696.7	**$ 1,831.3**	$ 189.5	$ 195.1
Add (deduct):					
Working capital movements	**$ 88.5**	$ (354.7)	**$ (266.2)**	$ 54.0	$ (22.5)
Defined benefit plan contributions, net	**$ (3.9)**	$ (4.1)	**$ (8.0)**	$ (3.8)	$ (9.1)
Income taxes received (paid), net	**$ (121.7)**	$ (60.1)	**$ (181.8)**	$ 42.5	$ 71.3
Adjustment to accrued duties[2]	**$ 2.0**	$ 10.4	**$ 12.4**	$ (9.6)	$ 1.7
Other operating cash flows, net[3]	**$ (11.2)**	$ 22.2	**$ 11.0**	$ 25.0	$ 54.3
Cash from operating activities	**$ 1,088.3**	$ 310.4	**$ 1,398.7**	$ 297.6	$ 290.8
Add (deduct):					
Capital additions, net	**$ (58.6)**	$ (65.8)	**$ (124.4)**	$ (31.4)	$ (84.5)
Finance expenses paid	**$ (7.1)**	$ (6.8)	**$ (13.9)**	$ (13.7)	$ (27.0)
Proceeds (repayment) of term debt, net	**$ (185.5)**	$ (229.1)	**$ (414.6)**	$ (0.4)	$ 0.2
Share purchases	**$ (8.0)**	$ -	**$ (8.0)**	$ -	$ -
Phased acquisition of Elliott	**$ -**	$ (38.2)	**$ (38.2)**	$ (44.6)	$ (44.6)
Proceeds received from sale of Vavenby forest tenure	**$ -**	$ -	**$ -**	$ -	$ 56.5
Other, net[3]	**$ (20.2)**	$ (20.8)	**$ (41.0)**	$ (4.8)	$ (8.3)
Change in cash / operating loans	**$ 808.9**	$ (50.3)	**$ 758.6**	$ 202.7	$ 183.1
ROIC – Consolidated period-to-date[4]	**29.8%**	17.7%	**47.7%**	3.1%	0.4%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.814**	$ 0.790	**$ 0.802**	$ 0.722	$ 0.733
Average exchange rate (SEK per C$1.00)[5]	**6.851**	6.628	**6.739**	6.983	7.091

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Adjusted to true-up preliminary ADD deposits to the Company's current accrual rates.
[3] Further information on cash flows may be found in the Company's unaudited interim consolidated financial statements.
[4] Consolidated Return on Invested Capital ("ROIC") is equal to operating income plus realized gains (losses) on derivative financial instruments (i.e. excluding mark-to-market adjustments), plus other income and excluding non-controlling interest, divided by the average invested capital during the period. Invested capital represents total assets excluding cash and total liabilities excluding term debt, retirement benefit obligations, long-term deferred reforestation obligations, and deferred taxes.
[5] Source – Bank of Canada (monthly average rate for the period).

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q2 2021	Q1 2021	YTD 2021	Q2 2020	YTD 2020
Shareholder net income (loss), as reported	**$ 726.9**	$ 427.8	**$ 1,154.7**	$ 60.7	$ (9.3)
Foreign exchange (gain) loss on term debt	**$ (5.7)**	$ (2.6)	**$ (8.3)**	$ (5.2)	$ 9.8
Loss on derivative financial instruments	**$ -**	$ 9.0	**$ 9.0**	$ 2.9	$ 0.5
Restructuring, mill closure and severance costs, net	**$ -**	$ -	**$ -**	$ 10.5	$ 11.2
Net impact of above items	**$ (5.7)**	$ 6.4	**$ 0.7**	$ 8.2	$ 21.5
Adjusted shareholder net income[6]	**$ 721.2**	$ 434.2	**$ 1,155.4**	$ 68.9	$ 12.2
Shareholder net income (loss) per share (EPS), as reported	**$ 5.81**	$ 3.42	**$ 9.22**	$ 0.48	$ (0.07)
Net impact of above items per share	**$ (0.05)**	$ 0.05	**$ 0.01**	$ 0.07	$ 0.17
Adjusted shareholder net income per share[6]	**$ 5.76**	$ 3.47	**$ 9.23**	$ 0.55	$ 0.10

[6] Effective Q1 2021, shareholder net income (loss) and shareholder net income (loss) per share were no longer adjusted for the after-tax impact of duty deposits, net of duties recoverable, or foreign exchange on duty deposits recoverable. Prior periods above have been restated to reflect this change (favourable per share impact of $0.12 in Q2 2020).

Reflecting record-high lumber segment earnings and improved pulp and paper segment results, the Company reported operating income of $1,041.3 million for the second quarter of 2021, $438.7 million higher than the operating income of $602.6 million reported for the first quarter of 2021. For the lumber segment, earnings increased $393.8 million quarter-over-quarter, to an all-time high of $1,000.5 million.

Global lumber market conditions remained very strong in the second quarter of 2021, as tight supply coupled with significant demand drove global benchmark lumber prices to new unprecedented highs. This record pricing, combined with moderately higher shipment volumes, substantially outweighed the impact of modestly higher log costs in Western Canada and a 2 cent, or 3%, stronger Canadian dollar.

Results in the pulp and paper segment largely reflected materially higher Northern Bleached Softwood Kraft ("NBSK") pulp unit sales realizations, and to a lesser extent, an 8% increase in shipments following transportation disruptions experienced in the first quarter of 2021. These factors more than offset the impact of the stronger Canadian dollar and market-related fibre cost increases in the current quarter.

Compared to the second quarter of 2020, reported operating income increased $944.4 million from the operating income of $96.9 million recognized in the comparative period, consisting of a $893.1 million increase in lumber segment earnings and a $57.3 million improvement in pulp and paper segment results. Materially higher earnings in the lumber segment reflected record-high Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") US-dollar pricing as well as a significant uplift in European market pricing, combined with substantially higher production and shipment volumes following extensive coronavirus ("COVID-19") related capacity reductions early in the comparative period. These factors more than offset the impact of a 9 cent, or 13%, stronger Canadian dollar and a $80.6 million inventory write-down recovery in the second quarter of 2020.

The improvement in pulp and paper segment operating results reflected substantially higher NBSK pulp US-dollar list pricing and a 12% increase in pulp production, largely reflecting the absence of COVID-19 and market-related downtime in the current period, significantly outweighing a stronger Canadian dollar in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q2 2021	Q1 2021	YTD 2021	Q2 2020	YTD 2020
Sales[7]	**$ 2,161.1**	$ 1,679.5	**$ 3,840.6**	$ 864.6	$ 1,759.8
Operating income before amortization[7]	**$ 1,071.6**	$ 679.7	**$ 1,751.3**	$ 180.1	$ 163.5
Operating income[7]	**$ 1,000.5**	$ 606.7	**$ 1,607.2**	$ 107.4	$ 18.3
Inventory write-down recovery	**$ -**	$ -	**$ -**	$ (80.6)	$ (17.6)
Restructuring, mill closure and severance costs, net	**$ -**	$ -	**$ -**	$ 14.4	$ 15.4
Adjusted operating income[8]	**$ 1,000.5**	$ 606.7	**$ 1,607.2**	$ 41.2	$ 16.1
Average Western SPF 2x4 #2&Btr lumber price in US$[9]	**$ 1,342**	$ 972	**$ 1,157**	$ 357	$ 378
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[9]	**$ 1,649**	$ 1,231	**$ 1,440**	$ 494	$ 515
Average SYP 2x4 #2 lumber price in US$[10]	**$ 1,163**	$ 1,160	**$ 1,162**	$ 463	$ 425
Average SYP 2x4 #2 lumber price in Cdn$[10]	**$ 1,429**	$ 1,469	**$ 1,449**	$ 641	$ 580
Average European indicative lumber price in SEK[11]	**6,101**	4,572	**5,297**	3,254	3,303
Average European indicative lumber price in US$[11]	**$ 725**	$ 545	**$ 630**	$ 336	$ 341
Average European indicative lumber price in Cdn$[11]	**$ 891**	$ 690	**$ 786**	$ 466	$ 466
US housing starts (thousand units SAAR)[12]	**1,568**	1,599	**1,583**	1,086	1,285
Production – Western SPF lumber (MMfbm)[13]	**721**	713	**1,434**	441	1,069
Production – SYP lumber (MMfbm)[13]	**435**	414	**849**	321	685
Production – European SPF lumber (MMfbm)[13]	**351**	347	**698**	278	571
Shipments – Western SPF lumber (MMfbm)[14]	**708**	664	**1,372**	531	1,105
Shipments – SYP lumber (MMfbm)[14]	**431**	390	**821**	350	713
Shipments – European SPF lumber (MMfbm)[14]	**401**	395	**795**	273	587

[7] Q2 2021 includes sales of $445.7 million, operating income of $162.3 million, and operating income before amortization of $180.9 million from European operations (Q1 2021 – sales of $384.5 million, operating income of $88.5 million, and operating income before amortization of $108.6 million; Q2 2020 – sales of $227.2 million, operating income of $12.4 million, and operating income before amortization of $29.3 million). Operating income from European operations in Q2 2021 includes $10.6 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition date (Q1 2021 - $10.8 million; Q2 2020 - $10.4 million).

[8] Effective Q1 2021, results were no longer adjusted for countervailing and anti-dumping duties. Prior periods above have been restated to reflect this change ($19.2 million expense in Q2 2020).

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

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

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

[12] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").

[13] Excluding production of trim blocks.

[14] Canfor produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

Continued strong North American market fundamentals reflected sustained high levels of new home construction activity, despite a slight pull-back in the shift to suburban areas, as COVID-19 restrictions were gradually lifted. Demand in the North American repair and remodeling sector also showed continued strength early in the current quarter, but weakened over the balance of the period.

For the second quarter of 2021, US housing starts averaged 1,568,000 units on a seasonally adjusted basis, down 2% from the previous quarter, reflecting a 4% decrease in single-family starts and a 6% increase in multi-family starts. Although well above the five-year rolling average of 1,308,000 units, current quarter US housing starts were down 9% from the near fifteen-year high of 1,739,000 units established in March largely reflecting the gradual lifting of COVID-19 related restrictions in the US. In Canada, new home construction remained strong despite a similar decline from the March peak; housing starts averaged 281,000 units on a seasonally adjusted basis for the second quarter of 2021, still well above historical levels but down 8% from the previous quarter as a result of building material supply chain disruptions, cost inflation and moderated spending in the repair and remodeling sector.

Offshore lumber demand and prices in Asia were also strong in the current period, with material price gains recorded in many regions, supported by lean inventories in the supply chain, coupled with steady consumption in the industrial and construction sectors. Western Europe and Scandinavian lumber demand experienced further growth in the current quarter largely in response to continued strength in the repair and remodeling sector in that region.

Sales

Sales revenues for the lumber segment for the second quarter of 2021 were $2,161.1 million, compared to $1,679.5 million in the previous quarter and $864.6 million for the second quarter of 2020. The 29% increase in sales revenue over the prior quarter principally reflected the record-high Western SPF and SYP US-dollar pricing and a significant uplift in European market pricing, combined with an 8% increase in North American shipment volumes. Compared to the second quarter of 2020, sales revenues increased by 150% principally reflecting the unprecedented global benchmark lumber prices in the current period and a 33% increase in shipment volumes due largely to COVID-19 market-related downtime in the same quarter in the prior year, which more than offset the impact of the 13% stronger Canadian dollar.

Total lumber shipments, at 1.54 billion board feet, were 6% higher than the previous quarter largely due to moderately higher North American shipment volumes in the current quarter, while European shipments were comparable quarter-over-quarter. In North America, increased shipments, for the most part, reflected strong demand combined with the gradual release of inventory early in the quarter as trucking availability in the US South and transportation networks in Western Canada, slowly returned to more normal service levels in April and May.

Total lumber shipments were 33% higher than the second quarter of 2020, largely reflecting increased production in the current quarter following the widespread sawmill curtailments taken in April and May of 2020.

The North American Random Lengths Western SPF 2x4 #2&Btr price posted significant gains early in the second quarter of 2021, reaching a new record high of US$1,630 per Mfbm in early May before declining sharply through the balance of the quarter to end the period at US$875 per Mfbm. Despite this volatility, the Western SPF 2x4 #2&Btr price averaged US$1,342 per Mfbm for the quarter overall, up US$370 per Mfbm, or 38%, from the previous quarter. The substantial increase in the Company's Western SPF lumber unit sales realizations primarily reflected this record-high North American benchmark pricing, as well as significantly improved offshore unit sales realizations, particularly in Japan.

The North American Random Lengths SYP East 2x4 #2 price followed similar trends to Western SPF, climbing to a record of US$1,400 per Mfbm mid-May and ending the quarter at US$755 per Mfbm. As a result, the SYP East 2x4 #2 price averaged US$1,163 per Mfbm, broadly in line with the previous quarter. However, pronounced price increases for wider-width dimension products, some of which reflected seasonal factors, contributed to a significant increase in the Company's SYP lumber unit sales realizations.

The Company's European lumber unit sales realizations also experienced a notable uptick compared to the previous quarter, largely driven by ongoing increases in European market demand and the record North American US-dollar benchmark pricing environment, offset somewhat by the traditional quarterly lag in European contract pricing and the timing of orders (versus shipments) to North America.

Compared to the second quarter of 2020, the Company's lumber unit sales realizations were significantly higher in all three operating regions, principally reflecting the material uplift in global lumber market pricing over the depressed benchmark pricing experienced in the comparative period due to pandemic's disruptive impact on global market fundamentals. The North American Random Lengths Western SPF 2x4 #2&Btr price, at US$1,342 per Mfbm, increased nearly three-fold from the second quarter of 2020, while the SYP East 2x4 #2 price increased US$700 per Mfbm, or 151%, with similar increases across all other SYP dimension products. Over the same comparative period, the Company's European lumber unit sales realizations reflected the benefit of record North American US-dollar benchmark prices and a substantial increase in European market pricing, offset in part by a 2% stronger Canadian dollar (versus the Swedish Krona "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) were broadly in line with the previous quarter. Compared to the second quarter of 2020, other revenues experienced a significant increase resulting from COVID-19's impact on operating rates in the prior period.

Operations

Total lumber production, at 1.51 billion board feet, was 2% higher than the prior quarter principally reflecting modestly higher SYP production following capital-related downtime at the Company's Camden and Estill mills in the previous quarter. Western SPF and European lumber production were broadly in line with the first quarter of 2021.

Compared to the second quarter of 2020, total lumber production was up 45%, largely related to the aforementioned COVID-19 related curtailments, most notably in British Columbia ("BC") and the US South, and to a lesser extent, Europe. The acquisition of Elliott Sawmilling Co., LLC ("Elliott") in May 2020, capital ramp-ups in the US South and the Vida Group's ("Vida") purchase of Bergs Timber Production AB ("Bergs") sawmill assets also contributed to increased SYP and European SPF production in the current period, respectively.

Lumber unit manufacturing and product costs were broadly in line with the prior quarter, as the per-unit impact of gains in productivity and the benefit of stable log costs in the US South and Europe offset increased consumption of higher-cost logs in Western Canada stemming from higher stumpage rates in the first quarter of 2021, and to a lesser extent, increased purchased wood costs.

Compared to the second quarter of 2020, lumber unit manufacturing costs increased moderately, largely driven by significantly higher stumpage costs in BC, tied to the unprecedented pricing levels in the first half of 2021 as well as moderately higher European log costs (market-related). Higher log costs were partially offset by the incremental benefit of higher production volumes across the lumber business in the current quarter.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[15]

(millions of Canadian dollars, unless otherwise noted)	**Q2 2021**	Q1 2021	**YTD 2021**	Q2 2020	YTD 2020
Sales	**$ 334.1**	$ 262.3	**$ 596.4**	$ 250.7	$ 526.2
Operating income before amortization[16]	**$ 72.9**	$ 25.7	**$ 98.6**	$ 13.3	$ 41.0
Operating income (loss)	**$ 51.0**	$ 4.9	**$ 55.9**	$ (6.3)	$ (0.2)
Average NBSK pulp price delivered to China – US$[17]	**$ 962**	$ 883	**$ 922**	$ 572	$ 573
Average NBSK pulp price delivered to China – Cdn$[17]	**$ 1,181**	$ 1,118	**$ 1,149**	$ 793	$ 782
Production – pulp (000 mt)	**290**	292	**582**	260	558
Production – paper (000 mt)	**34**	30	**64**	33	63
Shipments – pulp (000 mt)	**285**	265	**550**	248	538
Shipments – paper (000 mt)	**30**	37	**67**	36	70

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

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

[17] Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("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

Following the sharp improvement in market fundamentals earlier in the year, global pulp market conditions were more stable in the second quarter. Demand was solid through the first part of the current quarter but a moderation in purchasing activity from China saw some downward pressure on prices in that region, particularly in June.

The upward trend in NBSK US-dollar pulp list prices to China from the first quarter continued in April, with prices reaching a near-record high of US$995 per tonne in April, before declining in May and June, to end the quarter at US$910 per tonne. As a result, the current quarter US-dollar NBSK pulp list price to China averaged US$962 per tonne, up US$79 per tonne, or 9%, compared to the previous quarter and up US$390 per tonne, or 68%, compared to the second quarter of 2020. Prices to North America (before discounts) saw sharp increases in the current quarter, largely in response to the uplift in China prices earlier in the year, up US$296 per tonne, or 23%, from the previous quarter, and up US$440 per tonne, or 38%, compared to the same period in the prior year, to US$1,598 per tonne.

Despite stable global market fundamentals, global softwood pulp producer inventories at the end of May 2021 were above the balanced range at 38 days[18] of supply, slightly higher than 37 days of supply at the end of March 2021 (market conditions are generally considered balanced when inventories are in the 29-36 days of supply range).

Global kraft paper market demand, especially in North American and European markets, was solid through the second quarter of 2021.

Sales

Pulp shipments for the second quarter of 2021 were 285,000 tonnes, up 20,000 tonnes, or 8%, from the previous quarter and up 37,000 tonnes, or 15%, from the second quarter of 2020. Increased shipments in the current quarter mainly reflected the uptick in global pulp demand early in the current quarter, combined with increased vessel shipments in the current period, as global transportation challenges experienced in early 2021 eased somewhat in April and May 2021, before coming under pressure again in June. Compared to the second quarter of 2020, the increase in pulp shipments primarily reflected the 12% increase in pulp production, tied principally to a three-week COVID-19 related curtailment at Canfor Pulp Products Inc.'s ("CPPI") Northwood NBSK pulp mill ("Northwood") in the comparative period, coupled with the aforementioned timing-related shipment uplift during the current quarter.

CPPI's NBSK pulp unit sales realizations saw a substantial increase in the current quarter compared to both comparative periods, as an uptick in demand and pricing late in the first quarter and early in the current quarter, in combination with a favourable timing lag in shipments (versus orders), significantly outweighed the stronger Canadian dollar in the current period.

Average Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations showed more modest gains from the previous quarter and slight increases compared to the second quarter of 2020, as positive trends in BCTMP US-dollar pricing early in the quarter more than offset the effects of a sharp decline in demand and prices as the quarter progressed, particularly for the printing and writing segment.

Energy revenues were down compared to the first quarter of 2021, largely due to seasonally lower energy prices, and broadly in line with the second quarter of 2020.

Paper shipments in the second quarter of 2021 were 30,000 tonnes, down 7,000 tonnes from the prior quarter and down 6,000 tonnes from the second quarter of 2020, largely due to the timing of shipments quarter-over-quarter.

Paper unit sales realizations in the second quarter of 2021 saw a moderate increase compared to the previous quarter, primarily reflecting higher market-driven US-dollar pricing in North American, offset in part by the stronger Canadian dollar. Compared to the second quarter of 2020, paper unit sales realizations declined slightly, as a significant increase in US-dollar pricing quarter-over-quarter was more than offset by the stronger Canadian dollar in the current period.

Operations

Pulp production was 290,000 tonnes for the second quarter of 2021, broadly in line with the previous quarter, principally reflecting improved operating rates at CPPI's Northwood and Prince George ("Prince George") NBSK pulp mills throughout much of the current quarter, largely offsetting a decrease in operating days associated with the completion of a scheduled maintenance outage at CPPI's Intercontinental ("Intercon") NBSK pulp mill (approximately 15,000 tonnes). In the first quarter of 2021, pulp production was principally impacted by the completion in mid-January of Northwood's recovery boiler number five ("RB5") capital-related downtime (approximately 10,000 tonnes), combined with several operational issues experienced at the Prince George pulp mill.

Compared to the second quarter of 2020, pulp production was up 30,000 tonnes, or 12%, largely as a result of the three-week COVID-19 related curtailment at Northwood in the comparative period (which reduced pulp production by 35,000 tonnes), along with increased productivity in the current quarter, which more than offset the impact of the planned maintenance downtime at Intercon in April.

Pulp unit manufacturing costs saw a slight increase compared to the previous quarter as increased fibre costs more than offset the benefits of higher production and seasonally lower energy prices and usage in the current quarter. The higher fibre costs reflected increased market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) combined with a seasonal improvement in chip quality, offset by a lower proportion of higher-cost whole log chips in the period.

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

Compared to the second quarter of 2020, pulp unit manufacturing costs were largely unchanged, as lower fibre costs and improved operating rates were counterbalanced by increased spend on maintenance and supplies (timing-related) in the current period. Fibre costs were down compared to the second quarter of 2020, primarily driven by an increased proportion of lower-cost sawmill residual chips, attributable mostly to higher operating rates at Canfor's sawmills.

Paper production for the second quarter of 2021 was 34,000 tonnes, up 4,000 tonnes from the previous quarter, largely due to improved productivity in the current quarter following several operational challenges in the first quarter of 2021. Paper production was in line with the second quarter of 2020.

Paper unit manufacturing costs were significantly higher than the first quarter of 2021, largely due to notably higher slush pulp costs (tied to increased Canadian dollar NBSK pulp unit sales realizations), offset in part by the benefit of increased production in the current quarter combined with reduced spend on operating supplies (timing-related). Compared to the second quarter of 2020, paper unit manufacturing costs also saw a substantial increase primarily driven by higher slush pulp costs, with conversion costs comparable quarter-over-quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	**Q2 2021**	Q1 2021	**YTD 2021**	Q2 2020	YTD 2020
Corporate costs	**$ (10.2)**	$ (9.0)	**$ (19.2)**	$ (4.2)	$ (10.0)
Finance expense, net	**$ (6.4)**	$ (7.5)	**$ (13.9)**	$ (13.4)	$ (29.1)
Foreign exchange gain (loss) on term debt and duties recoverable, net	**$ 3.3**	$ 0.5	**$ 3.8**	$ 5.3	$ (9.4)
Gain (loss) on derivative financial instruments	**$ 0.5**	$ (13.1)	**$ (12.6)**	$ (4.5)	$ (0.5)
Other income, net	**$ 1.3**	$ 13.2	**$ 14.5**	$ 4.2	$ 11.5

Corporate costs were $10.2 million for the second quarter of 2021, up $1.2 million from the previous quarter largely reflecting higher incentive expenses following the unprecedented pricing in the first half of 2021, as well as increased legal costs associated with the softwood lumber dispute. Compared to the second quarter of 2020, corporate costs were up $6.0 million primarily as a result of the continued improvement in earnings in the current period and the corresponding increase in incentive expenses.

Net finance expense of $6.4 million for the second quarter of 2021 was down $1.1 million from the previous quarter, largely due to lower interest expense associated with the repayment of the Company's $225.0 million term debt facility in the first quarter of 2021. Compared to the second quarter of 2020, net finance expense was down $7.0 million, principally reflecting significantly lower debt levels in the current period.

In the second quarter of 2021, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities, partially offset by a loss on US-dollar denominated net duty deposits recoverable, due to the strengthening of the Canadian dollar at the end of the current quarter compared to the end of March 2021 (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the second quarter of 2021, the Company recorded a net gain of $0.5 million related to its derivative instruments, primarily reflecting realized mark-to-market gains on SEK foreign exchange forward contracts, mostly offset by net realized losses on lumber futures contracts. The $13.1 million loss in the first quarter of 2021 primarily reflected unrealized mark-to-market losses on lumber futures contracts and realized losses on SEK foreign exchange forward contracts.

Other income, net, in both comparative periods primarily reflected the receipt of insurance proceeds related to unscheduled downtime at Northwood in 2018 to enable the necessary tube replacements to RB5, adjusted for foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods:

(millions of Canadian dollars)	Q2 2021	Q1 2021	YTD 2021	Q2 2020	YTD 2020
Defined benefit actuarial gain (loss), net of tax	**$ (5.3)**	$ 23.2	**$ 17.9**	$ (15.4)	$ (6.6)
Foreign exchange translation differences for foreign operations, net of tax	**$ (14.3)**	$ (63.7)	**$ (78.0)**	$ 15.4	$ 68.2
Other comprehensive income (loss), net of tax	**$ (19.6)**	$ (40.5)	**$ (60.1)**	$ -	$ 61.6

In the second quarter of 2021, the Company recorded a loss of $7.2 million (before tax) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), largely reflecting a 0.2% decrease in the discount rate used to value the defined benefit plans, partially offset by a higher than anticipated return on plan assets. This compared to a gain of $31.8 million (before tax) in the first quarter of 2021 attributable to a 0.5% increase in the discount rate used to value the defined benefit plans, offset in part by a lower than anticipated return on plan assets. In the second quarter of 2020, the Company recorded a loss of $21.0 million (before tax), largely reflecting a 0.7% decrease in the discount rate used to value the defined benefits plans, partially offset by a higher than anticipated return on plan assets.

In addition, the Company recorded an accounting loss of $14.3 million in the second quarter of 2021 related to foreign exchange differences for foreign operations, with the strengthening of the Canadian dollar relative to the US-dollar at the end of the quarter significantly outweighing the impact of the weakening of the Canadian dollar relative to the SEK. This compared to a loss of $63.7 million in the first quarter of 2021 and a gain of $15.4 million in the second quarter of 2020.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except ratios)	Q2 2021	Q1 2021	YTD 2021	Q2 2020	YTD 2020
Increase (decrease) in cash and cash equivalents[19]	**$ 799.6**	$ (27.5)	**$ 772.1**	$ 45.0	$ 98.6
Operating activities	**$ 1,088.3**	$ 310.4	**$ 1,398.7**	$ 297.6	$ 290.8
Financing activities	**$ (225.8)**	$ (225.8)	**$ (451.6)**	$ (178.0)	$ (122.2)
Investing activities	**$ (62.9)**	$ (112.1)	**$ (175.0)**	$ (74.6)	$ (70.0)
Ratio of current assets to current liabilities		2.3:1	**2.7:1**		1.6:1
Net debt (cash) to capitalization[20]		2.7%	**(32.0)%**		28.8%
Cumulative duty deposits paid		$ 614.7	**$ 644.7**		$ 483.3

[19] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[20] Net debt (cash) to capitalization is equal to net debt (cash) divided by net capitalization. Net debt (cash) is equal to interest-bearing debt less cash and cash equivalents on hand. Net capitalization is equal to net debt (cash) plus total equity.

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

Operating Activities

Operating activities generated $1,088.3 million of cash in the second quarter of 2021, compared to cash generated of $310.4 million in the previous quarter and cash generated $297.6 million in the second quarter of 2020. The increase in operating cash flows from the previous quarter primarily reflected significantly higher cash earnings combined with favourable working capital movements. The latter primarily reflected a seasonal draw-down of log inventories during the spring break-up period in Western Canada, partially offset by higher trade accounts receivable due to the substantial uplift in pricing and moderately improved shipments in the current quarter. Compared to the second quarter of 2020, the increase in operating cash flows primarily reflected materially higher cash earnings.

Financing Activities

Cash used for financing activities was $225.8 million in both the first and second quarters of 2021 compared to cash used of $178.0 million in the second quarter 2020. Financing activities in the current quarter primarily reflected a $185.0 million (US$150.0 million) repayment of the Company's US-dollar denominated floating rate term debt, compared to a $225.0 million repayment of the Company's floating rate term debt facility in the first quarter of 2021.

In the second quarter of 2020, cash used for financing activities mainly reflected repayments of amounts drawn on the Company's operating loan facilities to finance the Vida and Elliott acquisitions in 2019.

Investing Activities

Cash used for investing activities in the second quarter of 2021 was $62.9 million, compared to cash used of $112.1 million for the previous quarter and cash used of $74.6 million for the second quarter of 2020. Investing activities in the current quarter principally reflected capital additions. In the comparative periods, the Company paid the third and final instalment of $38.2 million (US$30.3 million) associated with the phased acquisition of Elliott in the first quarter of 2021 and the second instalment of $50.4 million (US$37.0 million) in the second quarter of 2020.

Capital additions in the second quarter of 2021 were $58.6 million, down $7.2 million from the previous quarter and up $27.2 million from the second quarter of 2020. In the lumber segment, current quarter capital expenditures primarily related to maintenance-of-business in Western Canada and minor capital upgrades in the US South. In the pulp and paper segment, current quarter expenditures were principally comprised of maintenance-of-business capital.

Liquidity and Financial Requirements

Operating Loans – Consolidated

At June 30, 2021, on a consolidated basis, including CPPI and Vida, the Company had cash of $1,184.5 million, with $19.0 million drawn on its operating loan facilities, and an additional $81.1 million reserved for several standby letters of credit. At the end of the quarter, the Company had available, undrawn operating loan facilities of $1,143.7 million, including the undrawn facilities for letters of credit.

Operating Loans – Canfor, excluding Vida and CPPI

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 US$150.0 million committed revolving credit facility, which was undrawn as at June 30, 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.

Interest is payable on Canfor's committed operating 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 June 30, 2021, Canfor, excluding CPPI and Vida, had operating loan facilities totaling $1,030.3 million, with no amounts drawn on its principal committed operating loan facility or revolving credit facility, and $68.2 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $962.1 million available and undrawn on its operating loan facilities at the end of the period.

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 3.4%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At June 30, 2021, Vida had $19.0 million drawn on its $103.5 million operating loan facilities, leaving $84.5 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

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

At June 30, 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 quarter.

Term Debt

As outlined above, on June 28, 2021, Canfor, excluding CPPI and Vida, repaid $185.0 million (US$150.0 million) of its US$200.0 million US-dollar denominated floating rate term debt, with the maturity date of the remaining $61.8 million (US$50.0 million) extended from January 2, 2027 to June 28, 2031.

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

Net Debt (Cash) and Liquidity

At June 30, 2021, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $916.0 million, a $1,001.0 million improvement from net debt of $85.0 million at the end of the previous quarter. Available liquidity of $2,328.2 million increased by $1,001.1 million during the current quarter.

The Company's consolidated net cash to total capitalization at the end the second quarter of 2021 was 32.0%. For Canfor, excluding CPPI, net cash to capitalization at the end of the second quarter of 2021 was 35.9%.

Debt Covenants

Canfor, Vida and CPPI remained in compliance with all covenants relating to their respective operating loan facilities and term debt during the current quarter and expect to remain so for the foreseeable future. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

Normal Course Issuer Bid

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

Shares Outstanding

During the second quarter of 2021, the Company purchased 310,800 common shares for $8.5 million (an average price of $27.35 per common share), of which $8.0 million was paid in the current quarter.

As at June 30, 2021 and July 29, 2021, there were 124,908,600 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was at 54.8% and 70.0%, respectively.

Countervailing and Anti-Dumping Duties

In May 2021, the US Department of Commerce ("DOC") announced the preliminary results for the second period of review ("POR2"), which is based on sales and cost data in 2019. The Company's preliminary countervailing duty ("CVD") cash deposit rate was determined to be 2.42% for 2019 (versus a cash deposit rate of 13.24%), while the preliminary anti-dumping duty ("ADD") cash deposit rate was 18.62% (versus a cash deposit rate of 7.28% and estimated accrual rate of 16.00%).

Upon finalization of these rates (currently anticipated in the fourth quarter of 2021), a net recovery will be recognized in the Company's consolidated financial statements to reflect the difference between the accrual rate of 29.24% and final rates as established by the DOC for the second period of review. The net recovery is currently estimated at $37.2 million (US$30.6 million).

In addition, upon finalization of these rates, the Company's current combined cash deposit rate of 4.62% will be reset to the final rates as determined in the second period of review (21.04% based on the preliminary determination). This new cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the third period of review (anticipated in 2022). Despite the reduced preliminary rates for the second 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.

Greenfield Sawmill

On June 8, 2021, the Company announced its plans to invest approximately US$160.0 million 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. Startup of the sawmill is currently anticipated late in the third quarter of 2022.

OUTLOOK

Lumber

Looking ahead, with the sharp correction in benchmark lumber prices across North America in recent weeks, market fundamentals in that region are forecast to be more challenging through the third quarter of 2021, as a result of reduced consumer spending in the repair and remodeling sector and some moderation in new home construction activity.

Solid offshore lumber market demand and pricing in Asia, most notably Japan, is expected to persist into the latter half of 2021, supported by increased building activity and lean inventory levels in the region. European lumber markets are projected to remain strong through the third quarter of 2021 with steady consumption in the residential and construction sector. As a result of the traditional lag in European contract pricing, third quarter pricing is anticipated to exceed current quarter levels.

Pulp and Paper

In the pulp and paper segment, global softwood kraft pulp markets are projected to soften somewhat through the third quarter of 2021, driven by the current tepid Chinese demand and above-average global pulp inventory levels combined with the traditionally slower summer months. Weakness experienced in the high yield BCTMP markets, especially in Asia, late in the second quarter is anticipated to continue early into the third quarter of 2021, before a projected stabilization in prices through the balance of the period.

Results in the third quarter of 2021 will reflect the impact of scheduled maintenance outages at CPPI's Prince George and Taylor BCTMP ("Taylor") pulp mills, as well as incremental downtime at Northwood and Taylor reflecting both weather-related rail disruptions and pulp mill inventories nearing capacity, as well as, in the case of Northwood, digester-related operational upsets in July. Combined, the currently anticipated third quarter downtime is projected to reduce NBSK pulp production by approximately 30,000 tonnes and BCTMP production by an estimated 12,000 tonnes.

Bleached kraft paper demand in North America is currently anticipated to show continued strength through the third quarter of 2021, largely driven by ongoing tight supply in the region. Offshore bleached kraft paper markets are also anticipated to be strong over the same period. A maintenance outage is currently planned at CPPI's Prince George paper machine in September 2021 with a projected 5,000 tonnes of reduced paper production.

Other Matters

Extreme wildfire conditions in Western Canada stemming from a heat wave across the region in early July, have significantly impacted the supply chain, with the Company experiencing limited and intermittent rail service to and from its Western Canadian sawmills and pulp mills. As a result of these transportation challenges and with mill inventory levels nearing capacity, the Company recently announced short-term production curtailments at its BC sawmills beginning July 26, 2021, reducing production by approximately 115 million board feet in the third quarter of 2021. While the Company continues to closely monitor the situation, shipments of lumber and pulp and paper are also expected to be negatively impacted in the third quarter of 2021 as a result of the rail disruptions.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans, asset retirement and deferred reforestation obligations, and the determination of ADD expensed and recorded as recoverable based upon 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 the Company's financial condition, 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 4 and 13 of the consolidated interim financial statements.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2021, the Company has adopted amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, and IFRS 16 *Leases, Interest Rate Benchmark Reform – Phase 2* ("Phase 2") as issued in August 2020. Phase 2 of the amendments required financial instruments measured using amortized cost to be adjusted to reflect changes to the effective interest rate. For the Company, the adoption of Phase 2 is applicable to its Canadian dollar denominated floating rate term debt and its committed operating loan facilities, excluding Vida, which have yet to transition to an alternative benchmark interest rate as at June 30, 2021. As a result, there was no impact to the Company's financial results upon adoption of Phase 2.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2021, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2020 annual statutory reports which are available on www.canfor.com or www.sedar.com.

There have been no adverse impacts of COVID-19 on the Company in the second quarter of 2021. Please see the Company's annual disclosures referenced above for further information.

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, as well as wildfires, 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 2,495.2**	$ 1,941.8	$ 1,618.0	$ 1,550.4	$ 1,115.3	$ 1,170.7	$ 1,105.2	$ 1,091.4
Operating income (loss)	**$ 1,041.3**	$ 602.6	$ 419.6	$ 299.6	$ 96.9	$ (88.8)	$ (59.6)	$ (120.3)
Net income (loss)	**$ 784.6**	$ 452.9	$ 346.7	$ 216.0	$ 62.4	$ (65.2)	$ (46.1)	$ (103.9)
Shareholder net income (loss)	**$ 726.9**	$ 427.8	$ 335.6	$ 218.1	$ 60.7	$ (70.0)	$ (39.1)	$ (88.5)
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 5.81**	$ 3.42	$ 2.68	$ 1.74	$ 0.48	$ (0.56)	$ (0.31)	$ (0.71)
Book value[21]	**$ 26.26**	$ 20.64	$ 17.63	$ 15.04	$ 13.51	$ 13.04	$ 13.14	$ 13.33
Statistics								
Lumber shipments (MMfbm)[22]	**1,540**	1,449	1,560	1,371	1,154	1,251	1,224	1,232
Pulp shipments (000 mt)	**285**	265	258	249	248	290	267	213
Average exchange rate – US$/Cdn$	**$ 0.814**	$ 0.790	$ 0.767	$ 0.751	$ 0.722	$ 0.744	$ 0.758	$ 0.757
Average exchange rate – SEK/Cdn$	**6.851**	6.628	6.608	6.650	6.983	7.203	7.281	7.262
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 1,342**	$ 972	$ 700	$ 768	$ 357	$ 399	$ 380	$ 356
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 1,163**	$ 1,160	$ 777	$ 782	$ 463	$ 386	$ 406	$ 410
Average European indicative lumber price in SEK[23]	**6,101**	4,572	4,115	3,414	3,254	3,352	3,540	3,652
Average NBSK pulp list price delivered to China (US$)[24]	**$ 962**	$ 883	$ 637	$ 572	$ 572	$ 573	$ 563	$ 555

[21] 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.
[22] Canfor-produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.
[23] European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.
[24] Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

Other material 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)	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Shareholder net income (loss), as reported	**$ 726.9**	$ 427.8	$ 335.6	$ 218.1	$ 60.7	$ (70.0)	$ (39.1)	$ (88.5)
Foreign exchange (gain) loss on term debt	**$ (5.7)**	$ (2.6)	$ (11.7)	$ (1.7)	$ (5.2)	$ 15.0	$ (4.2)	$ 2.6
(Gain) loss on derivative financial instruments	**$ -**	$ 9.0	$ (2.2)	$ 5.3	$ 2.9	$ (2.4)	$ 0.2	$ 0.1
Restructuring, mill closure and severance costs, net	**$ -**	$ -	$ -	$ -	$ 10.5	$ 0.7	$ 2.4	$ 4.7
Net impact of above items	**$ (5.7)**	6.4	$ (13.9)	$ 3.6	$ 8.2	$ 13.3	$ (1.6)	$ 7.4
Adjusted shareholder net income (loss)[25]	**$ 721.2**	$ 434.2	$ 321.7	$ 221.7	$ 68.9	$ (56.7)	$ (40.7)	$ (81.1)
Shareholder net income (loss) per share (EPS), as reported	**$ 5.81**	$ 3.42	$ 2.68	$ 1.74	$ 0.48	$ (0.56)	$ (0.31)	$ (0.71)
Net impact of above items per share	**$ (0.05)**	$ 0.05	$ (0.11)	$ 0.03	$ 0.07	$ 0.11	$ (0.01)	$ 0.06
Adjusted net income (loss) per share[25]	**$ 5.76**	$ 3.47	$ 2.57	$ 1.77	$ 0.55	$ (0.45)	$ (0.32)	$ (0.65)

[25] Effective Q1 2021, shareholder net income (loss) and shareholder net income (loss) per share were no longer adjusted for the after-tax impact of duty deposits, net of duties recoverably, or foreign exchange on duty deposits recoverable. Prior periods have been restated to reflect this change.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2021**		As at December 31, 2020
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**1,184.5**	$	419.2
Accounts receivable - Trade		**561.0**		359.4
- Other		**65.0**		73.3
Inventories (Note 3)		**930.4**		867.5
Prepaid expenses and other		**96.7**		73.8
Total current assets		**2,837.6**		1,793.2
Property, plant and equipment		**1,861.1**		1,976.1
Right-of-use assets		**71.9**		79.3
Timber licenses		**424.3**		431.3
Goodwill and other intangible assets		**516.3**		543.5
Long-term investments and other (Note 4)		**281.9**		277.9
Deferred income taxes, net		**20.9**		7.5
Total assets	**$**	**6,014.0**	$	5,108.8
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**681.5**	$	667.7
Operating loans (Note 5(a))		**19.0**		12.3
Current portion of deferred reforestation obligations		**52.9**		52.9
Current portion of term debt (Note 5(b))		**9.1**		13.9
Other current liabilities (Note 12(b))		**-**		38.6
Current portion of lease obligations		**23.5**		24.1
Income tax payable		**263.0**		38.9
Total current liabilities		**1,049.0**		848.4
Term debt (Note 5(b))		**240.4**		662.9
Retirement benefit obligations (Note 6)		**219.5**		233.4
Lease obligations		**53.9**		60.5
Deferred reforestation obligations		**74.0**		61.8
Other long-term liabilities		**32.6**		35.0
Put liability (Note 7)		**170.1**		170.0
Deferred income taxes, net		**394.5**		403.1
Total liabilities	**$**	**2,234.0**	$	2,475.1
EQUITY				
Share capital	**$**	**985.4**	$	987.9
Contributed surplus and other equity		**(139.7)**		(127.4)
Retained earnings		**2,392.7**		1,227.3
Accumulated other comprehensive income		**41.7**		119.7
Total equity attributable to equity shareholders of the Company		**3,280.1**		2,207.5
Non-controlling interests		**499.9**		426.2
Total equity	**$**	**3,780.0**	$	2,633.7
Total liabilities and equity	**$**	**6,014.0**	$	5,108.8

Contingencies (Note 14)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, The Hon. J.R. Baird

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2021**	3 months ended June 30, 2020	6 months ended June 30, **2021**	6 months ended June 30, 2020
Sales	**$ 2,495.2**	$ 1,115.3	**$ 4,437.0**	$ 2,286.0
Costs and expenses				
Manufacturing and product costs	**1,102.8**	739.1	**2,095.8**	1,676.9
Freight and other distribution costs	**190.6**	142.0	**378.2**	299.1
Countervailing and anti-dumping duty expense, net (Note 13)	**32.0**	19.2	**63.1**	63.6
Amortization	**93.3**	92.6	**187.4**	187.0
Selling and administration costs	**35.2**	25.5	**68.6**	51.3
	1,453.9	1,018.4	**2,793.1**	2,277.9
Operating income	**1,041.3**	96.9	**1,643.9**	8.1
Finance expense, net	**(6.4)**	(13.4)	**(13.9)**	(29.1)
Foreign exchange gain (loss) on term debt	**6.6**	6.0	**9.6**	(11.3)
Foreign exchange gain (loss) on duties recoverable, net	**(3.3)**	(0.7)	**(5.8)**	1.9
Gain (loss) on derivative financial instruments (Note 7)	**0.5**	(4.5)	**(12.6)**	(0.5)
Other income, net	**1.3**	4.2	**14.5**	11.5
Net income (loss) before income taxes	**1,040.0**	88.5	**1,635.7**	(19.4)
Income tax recovery (expense) (Note 8)	**(255.4)**	(26.1)	**(398.2)**	16.6
Net income (loss)	**$ 784.6**	$ 62.4	**$ 1,237.5**	$ (2.8)
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ 726.9**	$ 60.7	**$ 1,154.7**	$ (9.3)
Non-controlling interests	**57.7**	1.7	**82.8**	6.5
Net income (loss)	**$ 784.6**	$ 62.4	**$ 1,237.5**	$ (2.8)
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 9)	**$ 5.81**	$ 0.48	**$ 9.22**	$ (0.07)

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

Canfor Corporation
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2021**	3 months ended June 30, 2020	6 months ended June 30, **2021**	6 months ended June 30, 2020
Net income (loss)	**$ 784.6**	$ 62.4	**$ 1,237.5**	$ (2.8)
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income (loss):				
Defined benefit plan actuarial gains (losses), net (Note 6)	**(7.2)**	(21.0)	**24.6**	(9.0)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses), net (Note 8)	**1.9**	5.6	**(6.7)**	2.4
	(5.3)	(15.4)	**17.9**	(6.6)
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange gains (losses) from translation of foreign operations, net of tax	**(14.3)**	15.4	**(78.0)**	68.2
Other comprehensive income (loss), net of tax	**(19.6)**	-	**(60.1)**	61.6
Total comprehensive income	**$ 765.0**	$ 62.4	**$ 1,177.4**	$ 58.8
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 708.2**	$ 62.9	**$ 1,093.4**	$ 52.7
Non-controlling interests	**56.8**	(0.5)	**84.0**	6.1
Total comprehensive income	**$ 765.0**	$ 62.4	**$ 1,177.4**	$ 58.8

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2021**	3 months ended June 30, 2020	6 months ended June 30, **2021**	6 months ended June 30, 2020
Share capital				
Balance at beginning of period	**$ 987.9**	$ 987.9	**$ 987.9**	$ 987.9
Share purchases (Note 9)	**(2.5)**	-	**(2.5)**	-
Balance at end of period	**$ 985.4**	$ 987.9	**$ 985.4**	$ 987.9
Contributed surplus and other equity				
Balance at beginning of period	**$ (135.7)**	$ (85.1)	**$ (127.4)**	$ (82.8)
Put liability (Note 7)	**(4.0)**	(4.1)	**(12.3)**	(6.4)
Balance at end of period	**$ (139.7)**	$ (89.2)	**$ (139.7)**	$ (89.2)
Retained earnings				
Balance at beginning of period	**$ 1,676.2**	$ 611.3	**$ 1,227.3**	$ 674.3
Net income (loss) attributable to equity shareholders of the Company	**726.9**	60.7	**1,154.7**	(9.3)
Defined benefit plan actuarial gains (losses), net of tax	**(4.4)**	(13.2)	**16.7**	(6.2)
Share purchases (Note 9)	**(6.0)**	-	**(6.0)**	-
Balance at end of period	**$ 2,392.7**	$ 658.8	**$ 2,392.7**	$ 658.8
Accumulated other comprehensive income				
Balance at beginning of period	**$ 56.0**	$ 118.7	**$ 119.7**	$ 65.9
Foreign exchange gains (losses) from translation of foreign operations, net of tax	**(14.3)**	15.4	**(78.0)**	68.2
Balance at end of period	**$ 41.7**	$ 134.1	**$ 41.7**	$ 134.1
Total equity attributable to equity shareholders of the Company	**$ 3,280.1**	$ 1,691.6	**$ 3,280.1**	$ 1,691.6
Non-controlling interests				
Balance at beginning of period	**$ 452.7**	$ 428.5	**$ 426.2**	$ 423.6
Net income attributable to non-controlling interests	**57.7**	1.7	**82.8**	6.5
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**(0.9)**	(2.2)	**1.2**	(0.4)
Distributions to non-controlling interests	**(9.6)**	-	**(10.3)**	(1.7)
Balance at end of period	**$ 499.9**	$ 428.0	**$ 499.9**	$ 428.0
Total equity	**$ 3,780.0**	$ 2,119.6	**$ 3,780.0**	$ 2,119.6

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2021	3 months ended June 30, 2020	6 months ended June 30, 2021	6 months ended June 30, 2020
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ 784.6**	$ 62.4	**$ 1,237.5**	$ (2.8)
Items not affecting cash:				
Amortization	**93.3**	92.6	**187.4**	187.0
Income tax expense (recovery)	**255.4**	26.1	**398.2**	(16.6)
Change in long-term portion of deferred reforestation obligations, net	**(2.0)**	5.8	**12.0**	23.8
Foreign exchange (gain) loss on term debt	**(6.6)**	(6.0)	**(9.6)**	11.3
Foreign exchange (gain) loss on duties recoverable, net	**3.3**	0.7	**5.8**	(1.9)
Adjustment to accrued duties (Note 13)	**2.0**	(9.6)	**12.4**	1.7
Changes in mark-to-market value of derivative financial instruments (Note 7)	**(12.0)**	3.6	**(0.8)**	2.0
Employee future benefits expense	**3.4**	2.7	**5.9**	5.2
Finance expense, net	**6.4**	13.4	**13.9**	29.1
Other, net	**(2.4)**	13.2	**(8.0)**	12.3
Defined benefit plan contributions, net	**(3.9)**	(3.8)	**(8.0)**	(9.1)
Income taxes received (paid), net	**(121.7)**	42.5	**(181.8)**	71.3
	999.8	243.6	**1,664.9**	313.3
Net change in non-cash working capital (Note 10)	**88.5**	54.0	**(266.2)**	(22.5)
	1,088.3	297.6	**1,398.7**	290.8
Financing activities				
Operating loan drawings (repayments), net (Note 5(a))	**(9.2)**	(158.0)	**7.9**	(82.2)
Proceeds from (repayments of) term debt, net (Note 5(b))	**(185.5)**	(0.4)	**(414.6)**	0.2
Payment of lease obligations	**(6.4)**	(5.9)	**(12.7)**	(11.5)
Finance expenses paid	**(7.1)**	(13.7)	**(13.9)**	(27.0)
Share purchases (Note 9)	**(8.0)**	-	**(8.0)**	-
Cash distributions paid to non-controlling interests	**(9.6)**	-	**(10.3)**	(1.7)
	(225.8)	(178.0)	**(451.6)**	(122.2)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(58.6)**	(31.4)	**(124.4)**	(84.5)
Proceeds from sale of Vavenby forest tenure	**-**	-	**-**	56.5
Phased acquisition of Elliott (Note 12(b))	**-**	(44.6)	**(38.2)**	(44.6)
Other, net	**(4.3)**	1.4	**(12.4)**	2.6
	(62.9)	(74.6)	**(175.0)**	(70.0)
Foreign exchange gain (loss) on cash and cash equivalents	**(0.1)**	0.3	**(6.8)**	3.1
Increase in cash and cash equivalents*	**799.5**	45.3	**765.3**	101.7
Cash and cash equivalents at beginning of period*	**385.0**	116.5	**419.2**	60.1
Cash and cash equivalents at end of period*	**$ 1,184.5**	$ 161.8	**$ 1,184.5**	$ 161.8

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiaries, hereinafter referred to as "Canfor" or "the Company." Significant subsidiaries include Canfor Southern Pine, Inc. ("CSP"), which is wholly owned, as well as Canfor Pulp Products Inc. ("CPPI") and the Vida Group ("Vida"), of which Canfor owned 54.8% and 70.0%, respectively, at June 30, 2021.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2020, available at www.canfor.com or www.sedar.com.

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

These financial statements were authorized for issue by the Company's Board of Directors on July 29, 2021.

Change in Accounting Policy

Effective January 1, 2021, the Company has adopted amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures,* and IFRS 16 *Leases, Interest Rate Benchmark Reform – Phase 2* ("Phase 2") as issued in August 2020. Phase 2 of the amendments required financial instruments measured using amortized cost to be adjusted to reflect changes to the effective interest rate. For the Company, the adoption of Phase 2 is applicable to its Canadian-dollar denominated floating rate term debt and its committed operating loan facilities, excluding Vida, which have yet to transition to an alternative benchmark interest rate at June 30, 2021. As a result, there was no impact to the Company's financial results upon adoption of Phase 2.

2. Seasonality of Operations

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions such as forest fires, hurricanes and flooding, 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. Building activity and repair and renovation work, which affect demand for solid wood products, are generally stronger in the spring and fall months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

3. Inventories

(millions of Canadian dollars, unaudited)	**As at June 30, 2021**	As at December 31, 2020
Logs	**$ 212.8**	$ 224.5
Finished products	**524.4**	458.2
Residual fibre	**67.1**	61.2
Materials and supplies	**126.1**	123.6
	$ 930.4	$ 867.5

The above inventory balances are stated at the lower of cost and net realizable value. For the three and six months ended June 30, 2021, no inventory valuation adjustment was recognized for the lumber segment (three and six months ended June 30, 2020 – write-down recoveries of $80.6 million and $17.6 million, net, respectively). No provision for logs and lumber remains at June 30, 2021 (December 31, 2020 – no provision).

For the three months ended June 30, 2021, no inventory valuation adjustment was recognized for the pulp and paper segment (six months ended June 30, 2021 – $2.2 million write-down recovery). For the three months ended June 30, 2020, an $8.2 million inventory write-down expense was recognized (six months ended June 30, 2020 – $2.5 million write-down recovery). No provision for finished pulp and raw materials remains at June 30, 2021 (December 31, 2020 – $2.2 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		As at June 30, 2021		As at December 31, 2020
Duty deposits recoverable, net (Note 13)	**$**	**183.3**	$	199.9
Other deposits, loans, advances and long-term assets		**47.7**		50.5
Other investments		**31.3**		18.0
Retirement benefit surplus		**19.6**		9.5
	$	**281.9**	$	277.9

The duty deposits recoverable, net balance represents US-dollar countervailing duties ("CVD") and anti-dumping duties ("ADD") and duty cash deposits paid in excess of the calculated expense accrued at June 30, 2021, including interest receivable of $21.0 million (December 31, 2020 – $20.0 million) (Note 13).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		As at June 30, 2021		As at December 31, 2020
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**775.0**	$	550.0
Revolving credit facility		**185.3**		200.0
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**1,030.3**		820.0
Letters of credit		**(68.2)**		(67.2)
Total available operating loan facilities - Canfor	**$**	**962.1**	$	752.8
Vida				
Available operating loans:				
Operating loan facilities	**$**	**73.3**	$	78.8
Overdraft facilities		**30.2**		22.2
Total operating loan facilities		**103.5**		101.0
Operating loan facilities drawn		**(0.4)**		(0.3)
Overdraft facilities drawn		**(18.6)**		(12.0)
Total available operating loan facilities - Vida	**$**	**84.5**	$	88.7
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(12.9)**		(12.9)
Total available operating loan facility - CPPI	**$**	**97.1**	$	97.1
Consolidated:				
Total operating loan facilities	**$**	**1,243.8**	$	1,031.0
Total operating loan facilities drawn	**$**	**(19.0)**	$	(12.3)
Total letters of credit	**$**	**(81.1)**	$	(80.1)
Total available operating loan facilities	**$**	**1,143.7**	$	938.6

On March 26, 2021, Canfor (excluding Vida and CPPI) repaid its Canadian-dollar denominated floating rate term debt of $225.0 million (Note 5(b)) and in turn, increased the principal of its committed operating loan facility by $225.0 million, to $775.0 million, with no changes to the existing terms. In addition, on March 26, 2021, Canfor (excluding Vida and CPPI) cancelled its $200.0 million revolving credit facility.

On June 28, 2021, Canfor (excluding Vida and CPPI) repaid $185.0 million (US$150.0 million) of its US$200.0 million US-dollar denominated floating rate term debt (Note 5(b)) and in turn, added a $185.3 million (US$150.0 million) committed revolving credit facility, which was undrawn as at June 30, 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.

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

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At June 30, 2021, $65.8 million of letters of credit outstanding are covered under this facility with the balance of $2.4 million covered under Canfor's general committed operating loan facility.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.4%.

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

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at June 30, 2021, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

(b) Term Debt

(millions of Canadian dollars, unaudited)	**As at June 30, 2021**	As at December 31, 2020
Canfor (excluding Vida and CPPI)		
CAD$225.0 million, floating interest, repaid on March 26, 2021 (Note 5(a))	**$ -**	$ 225.0
US$50.0 million, floating interest, repayable on June 28, 2031 (Note 5(a))	**61.8**	254.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025	**123.5**	127.3
Other[1]	**4.7**	5.0
Vida		
SEK 55.0 million, floating interest, repayable in instalments up to December 31, 2021[2]	**7.7**	12.4
SEK 5.0 million, floating interest, repayable April 30, 2022	**0.7**	1.2
SEK 1.7 million, floating interest, repayable August 31, 2024	**0.2**	0.3
SEK 1.8 million, floating interest, repayable April 30, 2022	**0.3**	0.4
AUD 4.2 million, floating interest, repayable between January 23, 2022 and July 22, 2030	**0.6**	0.5
CPPI		
CAD$50.0 million, floating interest, repayable September 30, 2022	**50.0**	50.0
Term debt at end of period	**$ 249.5**	$ 676.8
Less: Current portion	**(9.1)**	(13.9)
Long-term portion	**$ 240.4**	$ 662.9

[1] Amount relates to net financing for specific capital projects at Canfor's U.S. sawmills.
[2] Renewed annually.

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 $61.8 million (US$50.0 million) extended from January 2, 2027 to June 28, 2031.

Canfor's and CPPI's term debt (excluding Vida) is unsecured. Vida's term debt is secured by its property, plant and equipment. Canfor's and CPPI's borrowings (excluding Vida) are subject to certain financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at June 30, 2021, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At June 30, 2021, the fair value of the Company's term debt is $254.9 million (December 31, 2020 – $685.6 million), determined based on prevailing market rates for term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three months ended June 30, 2021, actuarial losses of $7.2 million (before tax) were recognized in other comprehensive income (loss), reflecting a lower discount rate used to value the net defined benefit obligations (comprised of defined benefit pension plans as well as other benefit plans), offset in part by a higher than anticipated return on plan assets. For the six months ended June 30, 2021, actuarial gains of $24.6 million (before tax) were recognized in other comprehensive income (loss).

For the three months ended June 30, 2020, actuarial losses of $21.0 million (before tax) were recognized in other comprehensive income (loss), reflecting a lower discount rate used to value the net defined benefit obligations, offset in part by a higher than anticipated return on plan assets. For the six months ended June 30, 2020, actuarial losses of $9.0 million (before tax) were recognized in other comprehensive income (loss).

The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

	Defined Benefit Pension Plans	**Other Benefit Plans**
June 30, 2021	**3.0%**	**3.0%**
March 31, 2021	3.2%	3.2%
December 31, 2020	2.7%	2.7%
June 30, 2020	3.0%	3.0%
March 31, 2020	3.7%	3.7%
December 31, 2019	3.0%	3.0%

7. Financial Instruments

IFRS 13 *Fair Value Measurement* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at June 30, 2021**		As at December 31, 2020
Financial assets measured at fair value					
Investments	Level 1	**$**	**30.2**	$	17.3
Derivative financial instruments	Level 2		**1.8**		1.1
Duty deposits recoverable, net (Note 4)	Level 3		**183.3**		199.9
		$	**215.3**	$	218.3
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**0.2**	$	0.3
Put liability	Level 3		**170.1**		170.0
		$	**170.3**	$	170.3

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

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars, unaudited)		**2021**		2020		**2021**		2020
Interest rate swaps	**$**	**-**	$	(0.4)	**$**	**-**	$	(0.4)
Lumber futures		**(1.6)**		(1.8)		**(11.3)**		(1.0)
Foreign exchange forward contracts		**2.1**		(2.3)		**(1.3)**		0.9
Gain (loss) on derivative financial instruments	**$**	**0.5**	$	(4.5)	**$**	**(12.6)**	$	(0.5)

During the three and six months ended June 30, 2021, losses of $4.0 million and $12.3 million, respectively, were recognized in 'Other Equity' on the Company's condensed consolidated balance sheet following remeasurement of the put liability, primarily reflecting the passage of time (three and six months ended June 30, 2020 – losses of $4.1 million and $6.4 million, respectively). As a result of this remeasurement, combined with a foreign exchange loss of $0.2 million for the three months ended June 30, 2021, and a foreign exchange gain of $12.2 million for the six months ended June 30, 2021 (three and six months ended June 30, 2020 – losses of $4.3 million and $5.7 million, respectively), the balance of the put liability was $170.1 million at June 30, 2021 (December 31, 2020 – $170.0 million).

8. Income Taxes

The components of the Company's income tax recovery (expense) are as follows:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2021**	2020	**2021**	2020
Current	**$ (259.9)**	$ (26.2)	**$ (418.3)**	$ 25.5
Deferred	**4.5**	0.1	**20.1**	(8.9)
Income tax recovery (expense)	**$ (255.4)**	$ (26.1)	**$ (398.2)**	$ 16.6

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2021**	2020	**2021**	2020
Income tax recovery (expense) at statutory rate of 27% (2020 – 27%)	**$ (280.8)**	$ (23.9)	**$ (441.6)**	$ 5.2
Add (deduct):				
Non-taxable income (loss) related to non-controlling interests	**0.4**	(0.2)	**0.2**	(0.3)
Entities with different income tax rates and other tax adjustments	**24.0**	(3.0)	**41.8**	13.1
Permanent difference from capital gains and losses and other non-deductible items	**1.0**	1.0	**1.4**	(1.4)
Income tax recovery (expense)	**$ (255.4)**	$ (26.1)	**$ (398.2)**	$ 16.6

In addition to the amounts recorded to net income (loss), a tax recovery of $1.9 million was recorded to other comprehensive income (loss) in relation to actuarial losses, net, on the defined benefit plans for the three months ended June 30, 2021 (three months ended June 30, 2020 – recovery of $5.6 million). For the six months ended June 30, 2021, a tax expense of $6.7 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans (six months ended June 30, 2020 – recovery of $2.4 million in relation to actuarial losses).

9. Earnings (Loss) Per Common Share and Normal Course Issuer Bid

Basic net income (loss) per common share is calculated by dividing the net income (loss) attributable to common equity shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended June 30,		6 months ended June 30,	
	2021	2020	**2021**	2020
Weighted average number of common shares	**125,184,329**	125,219,400	**125,201,864**	125,219,400

On June 16, 2021, the Company re-instituted its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 common shares, or approximately 5% of its issued and outstanding common shares as at June 10, 2021. The normal course issuer bid is set to expire on June 15, 2022. During the three and six months ended June 30, 2021, the Company purchased 310,800 common shares for $8.5 million (an average of $27.35 per common share). Cash payments for share purchases totalled $8.0 million during the three and six months ended June 30, 2021.

As at June 30, 2021 and July 29, 2021, based on the trade date, there were 124,908,600 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

10. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2021	3 months ended June 30, 2020	6 months ended June 30, 2021	6 months ended June 30, 2020
Accounts receivable	**$ (53.4)**	$ (8.3)	**$ (210.7)**	$ (42.0)
Inventories	**183.1**	132.7	**(82.8)**	69.9
Prepaid expenses and other	**(20.5)**	(10.8)	**(27.1)**	(25.1)
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations	**(20.7)**	(59.6)	**54.4**	(25.3)
Net change in non-cash working capital	**$ 88.5**	$ 54.0	**$ (266.2)**	$ (22.5)

11. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment), which offer different products and are managed separately because they require different production processes and marketing strategies.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process.

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended June 30, 2021					
Sales from contracts with customers	**$ 2,161.1**	**$ 334.1**	**$ -**	**$ -**	**$ 2,495.2**
Sales to other segments	**53.7**	**0.2**	**-**	**(53.9)**	**-**
Operating income (loss)	**1,000.5**	**51.0**	**(10.2)**	**-**	**1,041.3**
Amortization	**71.1**	**21.9**	**0.3**	**-**	**93.3**
Capital expenditures[3]	**42.1**	**15.4**	**1.1**	**-**	**58.6**
3 months ended June 30, 2020					
Sales from contracts with customers	$ 864.6	$ 250.7	$ -	$ -	$ 1,115.3
Sales to other segments	48.8	-	-	(48.8)	-
Operating income (loss)	107.4	(6.3)	(4.2)	-	96.9
Amortization	72.7	19.6	0.3	-	92.6
Capital expenditures[3]	18.6	12.2	0.6	-	31.4
6 months ended June 30, 2021					
Sales from contracts with customers	**$ 3,840.6**	**$ 596.4**	**$ -**	**$ -**	**$ 4,437.0**
Sales to other segments	**103.6**	**0.3**	**-**	**(103.9)**	**-**
Operating income (loss)	**1,607.2**	**55.9**	**(19.2)**	**-**	**1,643.9**
Amortization	**144.1**	**42.7**	**0.6**	**-**	**187.4**
Capital expenditures[3]	**74.3**	**48.4**	**1.7**	**-**	**124.4**
Identifiable assets	**3,611.6**	**921.0**	**1,481.4**	**-**	**6,014.0**
6 months ended June 30, 2020					
Sales from contracts with customers	$ 1,759.8	$ 526.2	$ -	$ -	$ 2,286.0
Sales to other segments	109.2	0.1	-	(109.3)	-
Operating income (loss)	18.3	(0.2)	(10.0)	-	8.1
Amortization	145.2	41.2	0.6	-	187.0
Capital expenditures[3]	52.6	31.0	0.9	-	84.5
Identifiable assets	3,426.3	842.2	313.6	-	4,582.1

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

Geographic information

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

	3 months ended June 30,					6 months ended June 30,				
(millions of Canadian dollars, unaudited)		**2021**		2020			**2021**		2020	
Sales by location of customer										
Canada	**10%**	**$ 238.9**	8%	$ 91.3		**10%**	**$ 463.3**	10%	$ 221.2	
United States	**59%**	**1,480.0**	51%	572.1		**58%**	**2,570.0**	50%	1,140.2	
Europe	**13%**	**327.4**	16%	172.4		**14%**	**629.6**	16%	363.7	
Asia	**16%**	**404.4**	21%	237.8		**16%**	**692.1**	21%	484.0	
Other	**2%**	**44.5**	4%	41.7		**2%**	**82.0**	3%	76.9	
	100%	**$ 2,495.2**	100%	$ 1,115.3		**100%**	**$ 4,437.0**	100%	$ 2,286.0	

12. Acquisitions

(a) Bergs Timber Production AB Sawmill Assets

On September 1, 2020, the Company's 70% owned subsidiary, Vida, completed the purchase of sawmill assets from Bergs Timber Production AB ("Bergs") for $45.6 million (303 million SEK), plus working capital and other adjustments of $13.1 million (87 million SEK). The sawmills (three operating and one idled) are located in southern Sweden and add 215 million board feet of spruce and pine products to Vida's annual capacity. The acquisition of 100% of the sawmill assets, which included the retention of Bergs employees, was accounted for as a business combination under IFRS 3 *Business Combinations* ("IFRS 3") and is included in Canfor's lumber segment.

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

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

Property, plant and equipment required significant preliminary fair value adjustments for purchase price accounting. Internal Management specialists, having the appropriate experience, determined the preliminary fair value of property, plant and equipment using the market comparison and cost technique, considering market prices for similar items when they are available, and depreciated replacement cost when appropriate. As the Company is in the process of finalizing its internal valuation (to be completed in the third quarter of 2021), the preliminary fair value of property, plant and equipment and associated deferred tax, may be revised.

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

(b) Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first of a two-phase purchase of Elliott Sawmilling Co., LLC ("Elliott") with an aggregate purchase price of US$110.5 million (paid in three instalments), plus a net working capital adjustment of $4.1 million (US$3.1 million). On May 31, 2020, Canfor completed the second phase (51%) purchase for $50.4 million (US$37.0 million, the second instalment), bringing its ownership interest in Elliott to 100%, and on February 19, 2021, the Company paid $38.2 million (US$30.3 million, the third instalment) to settle the remaining consideration payable in connection with the purchase of Elliott.

13. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017, with cash deposits posted at an ADD rate of 7.28% and CVD rate of 13.24% (combined cash deposit rate of 20.52%) from 2017 to November 2020, and at a combined cash deposit rate of 4.62% thereafter. As at June 30, 2021, Canfor has paid cumulative cash deposits of $644.7 million.

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

On January 1, 2021, the Company moved into the fourth period of review ("POR4"), 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 the three and six months ended June 30, 2021 in POR4, while ADD was expensed at an estimated rate of 3.0%, resulting in a combined CVD and ADD accrual rate of 5.63% (versus the combined cash deposit rate of 4.62%, comprised of a CVD rate of 2.63% and ADD rate of 1.99%) for the quarter. Despite cash deposits being made in 2021 at rates determined by the DOC (4.62%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC.

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. The Company's preliminary CVD cash deposit rate was determined to be 2.42% for 2019 (versus a cash deposit rate of 13.24%), while the preliminary ADD cash deposit rate was 18.62% (versus a cash deposit rate of 7.28% and estimated accrual rate of 16.00%). Upon finalization of these rates (currently anticipated in the fourth quarter of 2021), a net recovery will be recognized in the Company's condensed consolidated financial statements to reflect the difference between the accrual rate of 29.24% and the final rates as established for POR2. The net recovery is currently estimated at $37.2 million (US$30.6 million).

In addition, upon finalization of these rates, the Company's current combined cash deposit rate of 4.62% will be reset to the final rates as determined in the second period of review (21.04% based on the preliminary determination). This new cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the third period of review (anticipated in 2022). Despite the reduced preliminary rates for the second 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.

Summary

For accounting purposes, a net duty recoverable of $183.3 million is included on the Company's condensed consolidated balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review (first period of review: 4.62%, second period of review: 29.24%, third period of review: 18.24% and POR4: 5.63%), including interest.

For the three and six months ended June 30, 2021, the Company recorded a net duty expense of $32.0 million and $63.1 million, respectively (three and six months ended June 30, 2020 – net duty expense of $19.2 million and $63.6 million, respectively), comprised of cash deposits paid of $30.0 million and $50.7 million, respectively (three and six months ended June 30, 2020 – cash deposits paid of $28.8 million and $61.9 million, respectively), and an additional expense of $2.0 million and $12.4 million, respectively (three and six months ended June 30, 2020 – recovery of $9.6 million and expense of $1.7 million, respectively), reflecting a higher combined accrual rate (5.63%) compared to the DOC's cash deposit rate (4.62%) for POR4 to date.

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 condensed consolidated statement of income (loss) while the Administrative Reviews are taking place. Changes to the DOC's existing CVD and ADD rates during the course of each administrative review may also result in material adjustments to the condensed consolidated statement of income (loss).

14. Contingencies

On March 11, 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic. Although there have been no adverse impacts of COVID-19 on the Company in the first half of 2021, Management continues to closely monitor its effects on the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.