INTERFOR CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the integrity and fair presentation of the accompanying consolidated financial statements. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards and, where necessary, are based in part on management's best estimates and judgements.

Management maintains a system of internal controls over financial reporting, policies and procedures which it believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility primarily through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Audit Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report thereon. The Company's independent Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the independent Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP, whose report follows.

"Ian M. Fillinger"	*"Richard Pozzebon"*
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer

February 3, 2022

KPMG LLP
PO Box 10426, 777 Dunsmuir Street
Vancouver, BC V7Y 1K3
Canada
Telephone (604) 691-3000
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Interfor Corporation

Opinion

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

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

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

Evaluation of the acquisition-date fair value of property, plant and equipment acquired from Georgia-Pacific Wood Products LLC and GP Wood Products LLC (“Georgia-Pacific”) through a business combination

Description of the matter

We draw attention to Notes 2(d), 3(b) and 4(a) to the financial statements. The Entity acquired property, plant and equipment through a business combination. The acquisition date fair value for the Georgia-Pacific property, plant and equipment (“this PP&E”) was $245.7 million. The determination of the acquisition-date fair value of this PP&E involves significant estimates, including replacement cost new estimates and physical depreciation assumptions for the acquired property, plant and equipment.

The replacement cost new estimates and physical depreciation assumptions required the expertise of a certified independent third-party appraiser to be engaged by the Entity.

Why the matter is a key audit matter

We identified the evaluation of the acquisition-date fair value of this PP&E acquired through a business combination as a key audit matter. Significant auditor judgment was required in evaluating the results of our audit procedures regarding the estimates of the replacement cost new estimates and physical depreciation assumptions for the acquired property, plant and equipment. Further, specialized skills and knowledge were needed to evaluate these estimates.

How the matter was addressed in the audit

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

We evaluated the competence, capabilities and objectivity of the certified independent third-party appraiser engaged by the Entity

We involved valuation professionals with specialized skills and knowledge who assisted in:

- Assessing the reasonableness of the Entity’s replacement cost new estimates of the acquisition-date fair value of acquired property, plant and equipment by comparing the Entity’s estimate to market data for comparable assets.

- Assessing the appropriateness of physical depreciation assumptions by comparing the Entity’s estimated depreciated cost to a depreciation cost range that was independently developed using market data for comparable assets.

Evaluation of the goodwill impairment analysis of the United States South's group of cash generating units

Description of the matter

We draw attention to Notes 3(j) and 9 to the financial statements. The goodwill balance is $339.9 million of which $293.5 million relates to the United States South's group of cash generating units. The Entity performs goodwill impairment testing on an annual basis and whenever events or circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is calculated based on the higher of its fair value less direct costs to sell and its value in use. Significant assumptions used in determining the value in use include future sales volume, commodity prices, production costs and discount rates.

Why the matter is a Key Audit Matter

We identified the evaluation of the goodwill impairment analysis for the United States South's group of cash generating units to be a key audit matter. The value in use was sensitive to changes in certain significant assumptions. Significant auditor judgment was required in evaluating the results of our audit procedures. Further, specialized skills and knowledge were needed to evaluate the discount rate assumptions.

How the matter was addressed in the audit

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

- We evaluated the Entity's commodity price assumptions for the United States South's group of cash generating units, by comparing those assumptions to expected commodity prices in the Entity's and its peer companies' analyst reports.
- We compared the Entity's forecast sales volume and production costs to actual results to assess the Entity's ability to accurately predict sales volume and production cost assumptions.

We involved a valuation professional with specialized skills and knowledge who assisted in evaluating the discount rate assumptions used in the estimated value in use, by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
February 3, 2022

Interfor Corporation
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian Dollars)
As at December 31, 2021 and 2020

	Note	December 31 2021	December 31 2020
Assets			
Current assets:			
Cash and cash equivalents		$ 538,561	$ 457,392
Trade accounts receivable and other		147,764	117,371
Income tax receivable	*20*	12,776	169
Inventories	*5*	250,481	160,188
Prepayments		16,125	17,970
		965,707	753,090
Employee future benefits	*23(d)*	8,338	106
Deposits and other assets	*6*	52,221	48,957
Right of use assets	*7*	33,547	35,471
Property, plant and equipment	*8*	1,067,754	729,163
Roads and bridges	*9*	27,101	22,379
Timber licences	*9*	106,136	114,953
Goodwill and other intangible assets	*9*	342,291	138,838
Deferred income taxes	*20*	415	230
		$ 2,603,510	$ 1,843,187
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	*10*	$ 2,202	$ -
Trade accounts payable and provisions	*13, 23(c), 23(d)*	218,825	150,509
Current portion of long term debt	*10*	6,868	6,897
Reforestation liability	*11*	16,670	16,181
Lease liabilities	*12*	12,239	11,745
Income taxes payable	*20*	64,838	4,394
		321,642	189,726
Reforestation liability	*11*	29,250	29,735
Lease liabilities	*12*	26,850	28,541
Long term debt	*10*	366,605	375,063
Employee future benefits	*23(c), 23(d)*	9,069	11,137
Provisions and other liabilities	*13*	43,686	26,637
Deferred income taxes	*20*	170,435	102,036
Equity:			
Share capital	*14*	484,721	523,605
Contributed surplus		4,694	5,157
Translation reserve		58,420	49,846
Retained earnings		1,088,138	501,704
		1,635,973	1,080,312
		$ 2,603,510	$ 1,843,187

Commitments and contingencies *(Note 21)*

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder", Director "T.V. Milroy", Director

INTERFOR
Building Value

Interfor Corporation
Consolidated Statements of Earnings
(Expressed in thousands of Canadian Dollars, except earnings per share)
Years ended December 31, 2021 and 2020

	Note	2021	2020
Sales	*25*	$ 3,289,146	$ 2,183,609
Costs and expenses:			
Production		1,948,239	1,583,033
Selling and administration		52,421	40,961
Long term incentive compensation expense	*13, 14(b)*	31,682	12,513
U.S. countervailing and anti-dumping duty deposits	*6, 21(c)*	42,101	13,815
Depreciation of plant and equipment	*8, 15*	97,143	78,459
Depletion and amortization of timber, roads and other	*7, 9, 15*	29,430	37,071
		2,201,016	1,765,852
Operating earnings before asset write-downs and restructuring costs		1,088,130	417,757
Asset write-downs and restructuring costs	*19*	(10,193)	(15,264)
Operating earnings		1,077,937	402,493
Finance costs	*17*	(17,830)	(16,079)
Other foreign exchange loss	*27(d)(iii)*	(2,355)	(16,881)
Other income	*18*	31,338	336
		11,153	(32,624)
Earnings before income taxes		1,089,090	369,869
Income tax expense:	*20*		
Current		205,465	7,043
Deferred		64,614	82,530
		270,079	89,573
Net earnings		$ 819,011	$ 280,296
Net earnings per share			
Basic	*22*	$ 12.88	$ 4.18
Diluted	*22*	$ 12.84	$ 4.18

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2021 and 2020

	Note	2021	2020
Net earnings		$ 819,011	$ 280,296
Other comprehensive income (loss):			
Items that will not be recycled to Net earnings:			
Defined benefit plan actuarial gain (loss), net of tax	*20, 23(d)*	7,729	(907)
Items that are or may be recycled to Net earnings:			
Foreign currency translation differences for foreign operations, net of tax	*20*	8,574	(6,913)
Total other comprehensive income (loss), net of tax		16,303	(7,820)
Comprehensive income		$ 835,314	$ 272,476

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2021 and 2020

	Note	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total Equity
Balance at December 31, 2019		$ 533,685	$ 4,471	$ 56,759	$ 236,067	$ 830,982
Net earnings:		-	-	-	280,296	280,296
Other comprehensive loss:						
Foreign currency translation differences for foreign operations, net of tax		-	-	(6,913)	-	(6,913)
Defined benefit plan actuarial loss, net of tax	*20, 23(d)*	-	-	-	(907)	(907)
Contributions and distributions:						
Share issuance, net of expenses	*14(a)*	598	(180)	-	-	418
Share repurchases	*14(a)*	(10,678)	-	-	(13,752)	(24,430)
Stock options	*14(b)*	-	866	-	-	866
Balance at December 31, 2020		523,605	5,157	49,846	501,704	1,080,312
Net earnings:		-	-	-	819,011	819,011
Other comprehensive income:						
Foreign currency translation differences for foreign operations, net of tax		-	-	8,574	-	8,574
Defined benefit plan actuarial gain, net of tax	*20, 23(d)*	-	-	-	7,729	7,729
Contributions and distributions:						
Share issuance, net of expenses	*14(a)*	4,304	(1,327)	-	-	2,977
Share repurchases	*14(a)*	(43,188)	-	-	(109,681)	(152,869)
Stock options	*14(b)*	-	864	-	-	864
Dividend	*26*	-	-	-	(130,625)	(130,625)
Balance at December 31, 2021		$ 484,721	$ 4,694	$ 58,420	$ 1,088,138	$ 1,635,973

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2021 and 2020

	Note	2021	2020
Cash provided by (used in):			
Operating activities:			
Net earnings		$ 819,011	$ 280,296
Items not involving cash:			
Depreciation of plant and equipment	*8*	97,143	78,459
Depletion and amortization of timber, roads and other	*7, 9*	29,430	37,071
Income tax expense	*20*	270,079	89,573
Finance costs	*17*	17,830	16,079
Other assets		(4,285)	(37,040)
Reforestation liability	*11*	(863)	(2,050)
Provisions and other liabilities		15,867	5,536
Stock options	*14(b)*	864	866
Write-down of plant, equipment and other	*7, 8, 9, 19*	5,637	9,754
Unrealized foreign exchange loss		2,950	17,634
Other income	*18*	(31,338)	(336)
Income taxes paid		(154,851)	(832)
		1,067,474	495,010
Cash generated from (used in) operating working capital:			
Trade accounts receivable and other		(29,163)	(30,206)
Inventories		(53,192)	22,024
Prepayments		1,834	(1,036)
Trade accounts payable and provisions		65,428	40,992
		1,052,381	526,784
Investing activities:			
Additions to property, plant and equipment	*8*	(160,231)	(95,714)
Additions to roads and bridges	*9*	(16,507)	(14,669)
Additions to timber licenses and intangible assets	*9*	(29)	(160)
Acquisitions	*4, 9*	(539,941)	(56,606)
Proceeds on disposal of property, plant and equipment and other	*18*	59,501	4,992
Net proceeds from (additions to) deposits and other assets		714	(462)
		(656,493)	(162,619)
Financing activities:			
Issuance of share capital, net of expenses	*14(a)*	2,977	418
Share repurchases	*14(a)*	(152,869)	(24,430)
Dividend paid	*26*	(130,625)	-
Interest payments		(16,783)	(17,626)
Lease liability payments	*12*	(13,322)	(12,315)
Debt refinancing costs		(1,155)	(133)
Term line net drawings (repayments)	*10*	2,199	(82)
Additions to long term debt	*10*	-	140,770
Repayments of long term debt	*10*	(6,671)	-
		(316,249)	86,602
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency		1,530	(28,275)
Increase in cash		81,169	422,492
Cash and cash equivalents, beginning of year		457,392	34,900
Cash and cash equivalents, end of year		$ 538,561	$ 457,392

See accompanying notes to consolidated financial statements.

1. Nature of operations:

Interfor Corporation and its subsidiaries (the "Company" or "Interfor") produce wood products in British Columbia, the U.S. Northwest and the U.S. South for sale to markets around the world.

Interfor Corporation exists under the *Business Corporations Act* (British Columbia) with shares listed on the Toronto Stock Exchange. Its head office, principal address and records office are located at 1600-4720 Kingsway, Burnaby, British Columbia, Canada, V5H 4N2.

These consolidated financial statements of the Company as at and for the years ended December 31, 2021 and 2020 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Board of Directors on February 3, 2022.

Details of Interfor's accounting policies are included in *Note 3*.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for the following items in the Statements of Financial Position:

(i) Liabilities for cash-settled share-based compensation arrangements are measured at fair value at each reporting date;

(ii) Equity-settled share-based compensation are measured at fair value at the grant date;

(iii) Employee benefit plan assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis; and

(iv) Reforestation obligations, lease liabilities and certain other provisions are measured at the discounted value of expected future cash flows.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian Dollars, which is the parent company's functional currency. Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar and are translated to Canadian Dollars. All financial information presented in Canadian Dollars has been rounded to the nearest thousand except number of shares and per share amounts.

2. Basis of Preparation (continued):

(d) Use of estimates and judgements:

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of certain assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized, on a prospective basis, in the period in which the estimates are revised.

Potential impacts of the COVID-19 pandemic on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant changes during the year ended December 31, 2021.

Significant areas requiring the use of management estimates relate to the determination of restructuring, reforestation, road deactivation, environmental and tax obligations, share-based compensation, recoverability of assets, length of lease term including whether extension options will be exercised, rates for depreciation, depletion and amortization, fair values of assets and liabilities acquired in business combinations, including replacement cost new estimates and physical depreciation assumptions, and impairment analysis of non-financial assets including goodwill.

Information about the use of management estimates and judgements and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 3(b)	Business Combinations
Note 3(f)	Inventories
Note 3(j)	Impairment of non-financial assets
Note 3(k)	Reforestation and other decommissioning provisions
Note 3(m),	Lease liabilities and Right of Use ("ROU") assets
Note 3(n), 23(d)	Employee future benefits and other post-retirement plans
Note 3(o)	Cash-settled share based compensation
Note 3(p), 14(b)	Equity-settled share based compensation
Note 4	Acquisitions
Note 9	Roads and bridges, timber licences, other intangible assets and goodwill
Note 11	Reforestation liability

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from their respective dates of acquisition or incorporation. All intercompany balances, including unrealized income and expenses arising from intercompany transactions have been eliminated upon consolidation.

(b) Business Combinations

Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Transaction costs, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the acquired property, plant and equipment generally require the most judgment. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the acquisition equation.

The Company measures goodwill in business acquisitions at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in Net earnings.

(c) Foreign currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are revalued to the functional currency of the respective entity at transaction date exchange rates. Monetary assets and liabilities denominated in foreign currencies are revalued using the exchange rate at the reporting date.

Foreign exchange differences arising on revaluation are recognized in Net earnings. Revaluations related to cash and cash equivalents are adjusted to Other foreign exchange loss, Trade accounts receivable and other are adjusted to Sales, and Trade accounts payable and provisions are adjusted to Production costs in the Statements of Earnings.

(ii) Foreign operations:

Certain of the Company’s subsidiaries have a functional currency of the U.S. Dollar. Revenues and expenses of such foreign operations are translated to Canadian Dollars at the transaction date exchange rate, or at average rates for the period which approximate the transaction date, as appropriate. Assets and liabilities are translated into Canadian Dollars at exchange rates in effect at the reporting date. Related foreign currency translation differences are recognized in Other comprehensive income and recorded to the Translation reserve in Equity.

3. Significant accounting policies (continued):

(c) Foreign currency (continued):

(ii) Foreign operations (continued):

Foreign currency translation differences residing in the Translation reserve will be released to Net earnings upon the reduction of the net investment in foreign operations through the sale or substantial liquidation of an investment position. In the case of a partial disposal not resulting in a loss of control, foreign currency translation differences are reclassified from the Translation reserve to the Non-controlling interest in the foreign subsidiary.

Monetary receivables from a foreign operation, the settlement of which are neither planned nor likely in the foreseeable future are considered to form part of the net investment in the foreign operation. Related foreign exchange translation differences are recognized in Other comprehensive income and presented in the Translation reserve in Equity.

(iii) Hedge of net investment in a foreign operation:

Financial liabilities denominated in foreign currencies are from time to time designated as a hedge of the Company's net investments in foreign operations.

Foreign currency differences arising on the revaluation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in Foreign currency translation differences in Other comprehensive income to the extent that the hedge is effective, and presented in the Translation reserve in Equity. To the extent that the hedge is ineffective, such differences are recognized in Other foreign exchange loss in the Statements of Earnings.

When the Company terminates the designation of the hedging relationship and discontinues its use of hedge accounting, any accumulated unrealized foreign exchange differences remaining in the Translation reserve and subsequent unrealized foreign exchange differences are recorded in Other foreign exchange loss in the Statements of Earnings. When the hedged net investment is disposed of, the relevant amount in the Translation reserve is reclassified to Net earnings.

(d) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, trade accounts receivable and other, income tax receivable, certain deposits and other assets, trade accounts payable and provisions, lease liabilities and loans and borrowings including long term debt.

Cash and cash equivalents, trade accounts receivable and other, income tax receivable and certain deposits and other assets expected to be held to maturity are classified as amortized cost and are initially measured at fair value plus any direct transaction costs and thereafter at amortized cost using the effective interest rate method, less any impairment losses.

The Company applies an "expected credit loss" ("ECL") model to calculate the impairment of financial assets.

3. Significant accounting policies (continued):

(d) Financial instruments (continued):

(i) Non-derivative financial instruments (continued):

Trade accounts payable and provisions, lease liabilities, and loans and borrowings including long term debt are categorized as other financial liabilities and are initially measured at fair value plus any direct transaction costs and thereafter at amortized cost using the effective interest rate method.

(ii) Derivative financial instruments:

The Company at times uses derivative financial instruments for economic hedging purposes in the management of foreign exchange and price risks. The Company does not utilize derivative financial instruments for trading or speculative purposes.

Foreign currency exchange contracts and lumber futures contracts are designated as fair value through profit or loss ("FVTPL"). Consequently, these derivative financial instruments are carried on the Statements of Financial Position at fair value with changes in fair value being recorded in the Statements of Earnings in Other foreign exchange loss for foreign currency exchange contracts and in Sales for lumber futures contracts.

The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis.

(iii) Share capital:

Shares are classified as equity. Incremental costs directly attributable to the issuance of shares and share options are recognized as a deduction from equity, net of any tax effects.

(e) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term interest bearing securities with maturities at their purchase date of three months or less.

(f) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Cost is determined as the weighted average production cost on a three month rolling average, lagged by one month and adjusted for abnormal costs, as in the case of a curtailment. Net realizable value is the estimated selling price in the normal course of business, less estimated costs of completion and selling expenses.

Log inventories are valued at the lower of cost and net realizable value on a specific boom basis where logs are boomed, or in aggregate on a species and sort basis where the logs are not boomed.

Cost for produced log inventories is determined as the weighted average cost of logging on a twelve month rolling average, lagged by one month, for the B.C. Coast and on a three month rolling average, lagged by one month, for the B.C. Interior, and adjusted for abnormal costs, as in the case of a curtailment. Log inventories purchased from external sources are valued at acquisition cost.

3. Significant accounting policies (continued):

(f) Inventories (continued):

Net realizable value of logs is based on either market replacement cost or, for logs designated for lumber processing, on estimated net realizable value less estimated costs of completion and selling expenses.

Other inventories consist primarily of supplies which are recorded at the lower of cost and replacement cost, which approximates net realizable value.

(g) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation on machinery and equipment is provided based on hours operated relative to the asset's lifetime estimated operating hours. Depreciation on all other assets is provided on a straight-line basis (ranging from 2.5% to 33% per year) over the estimated useful lives of the assets.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

Maintenance costs are recorded as expenses as incurred. Costs related to upgrading and extending the useful life of property, plant and equipment are capitalized.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, being those requiring a substantial period of time prior to availability for their intended use, are capitalized.

(h) Logging roads and bridges:

Logging roads with an economic life of greater than one year and bridges are recorded at cost less accumulated amortization and impairment losses. Roads and permanent bridges are amortized on the basis of timber cut relative to available timber. Portable bridges are amortized on a straight line basis over the estimated useful life of the asset.

Amortization methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

Logging roads with an economic life of one year or less are expensed to Production costs.

(i) Intangible assets:

(i) Timber licences:

Timber licences are recorded at cost less accumulated depletion and impairment losses. Timber licence depletion is computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

(ii) Goodwill:

Goodwill is measured at cost less accumulated impairment losses. See *Note 3(b)* for the policy on measurement of goodwill at initial recognition.

3. Significant accounting policies (continued):

(i) Intangible assets (continued):

(iii) Other intangible assets:

Other intangible assets are recorded at cost less accumulated amortization and impairment losses. Amortization on other intangible assets is provided on a straight-line basis ranging from four to ten years, being the estimated useful lives of the assets. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

(j) Impairment of non-financial assets:

The Company's non-financial assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment tests are carried out annually for goodwill or when an indicator of impairment is identified.

An impairment loss is charged to Net earnings if an asset's carrying amount exceeds its recoverable amount. The recoverable amount is calculated based on the higher of its fair value less direct costs to sell and its value in use.

Fair value is determined as the amount that would be obtained from the sale, net of direct selling costs, of the asset in an arm's length transaction between knowledgeable and willing parties. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and does not consider future capital enhancements.

For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (a cash generating unit or "CGU"). Goodwill is allocated to a CGU or group of CGU's expected to benefit from it.

Impairment losses recognized for a CGU are first allocated to reduce the carrying amount of goodwill, if any, assigned to the CGU, and then to amounts of the other assets in the CGU on a pro-rata basis, to the extent that the carrying value of an asset exceeds the higher of its fair value and value in use.

Non-financial assets, other than goodwill, for which an impairment was previously recognized, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined, net of amortization, had the impairment never been recognized.

An impairment loss recorded against goodwill is not reversed.

(k) Reforestation and other decommissioning provisions:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest, timber and tree farm licences and to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of reforestation and road deactivation in the period in which the associated timber is cut. The actual costs that will be incurred at the time of treatment may vary based on, among other things, the current cost at the time the activities are carried out.

3. Significant accounting policies (continued):

(k) Reforestation and other decommissioning provisions (continued):

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on best estimates and can be based on internal or external costs, depending upon which is most likely. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing regulatory requirements and the expertise of Registered Professional Foresters and Engineers employed or contracted by the Company. Examples of considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities in terms of reforestation; and road structure and terrain for road deactivation.

Cash flows reflect the risks specific to the decommissioning provision. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates. Adjustments are made to decommissioning provisions each period for changes in the estimated timing or amount of cash flows, changes in the discount rate and the unwinding of the discount.

In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time are recognized as Finance costs and revisions to fair value calculations are recognized as Production costs in the Statements of Earnings as they occur.

(l) Environmental costs:

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures to prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded when rehabilitation efforts are likely to be required and the costs can be reasonably estimated.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows using a current risk-free rate. The unwinding of the discount is recognized as a Finance cost in the Statements of Earnings.

(m) Lease liabilities and Right of Use ("ROU") assets:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Interfor recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Any leasehold improvements are added to the related ROU asset.

3. Significant accounting policies (continued):

(m) Leases liabilities and Right of Use ("ROU") assets (continued):

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the lesser of the end of the lease term or the useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable, or the Company's incremental borrowing rate. The lease payments include fixed payments, residual value guarantees, and the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the expected future lease payments as a result of a revision to the lease term, for example. Remeasurements to the lease liability are reflected in the ROU asset to the extent that the carrying value of the ROU asset exceeds the adjustment, and to Other income in the Statements of Earnings otherwise.

Interfor does not recognize ROU assets and lease liabilities for leases of low-value assets and short-term leases. Lease payments associated with these leases are expensed on a straight line basis over the lease term.

(n) Employee future benefits and other post-retirement plans:

Defined benefit pension and other post-retirement benefit obligation accruals are estimated using actuarial methods and assumptions, including management's best estimates of the discount rate, salary escalation and health care costs, and are calculated using the projected unit credit method.

Plan assets are valued at fair value.

Actuarial gains and losses arising from actual experience being different from the assumptions, or changes in actuarial assumptions used to determine the defined benefit asset or obligation, are recognized in Other comprehensive income in the year in which they occur.

Pension expenses for defined contribution plans are limited to the Company's contribution to the plans in respect of services rendered by employees, as the Company has no legal or constructive obligation to pay further amounts. Plans administered by the government and the industry-wide unionized employees' pension plan are treated as defined contribution plans.

(o) Cash-settled share based compensation:

The Company has a Share Appreciation Rights ("SAR") Plan, a Deferred Share Unit ("DSU") Plan and a Performance Share Unit ("PSU") Plan, previously named the Total Shareholder Return Plan, for directors, officers and certain other eligible employees. The Company uses the fair value method of accounting for obligations under the SAR, DSU and PSU Plans.

Compensation expense is recorded for SARs over the vesting period based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest.

3. Significant accounting policies (continued):

(o) Cash settled share based compensation (continued):

Compensation expense is recorded for DSUs either at the time of the grant, in the case of DSUs which vest immediately, or over the performance period, in the case of DSUs with deferred vesting, based on the fair value at the date of the grant.

Compensation expense is recorded for PSUs, granted under the PSU Plan, over a three-year performance period based on the estimated grant date fair value.

The fair values of the SARs, DSUs and PSUs are subsequently re-measured at each reporting date and on settlement with any changes in fair value reflected as Long term incentive compensation in the Statements of Earnings. Liabilities are recorded in Trade accounts payable and provisions and Provisions and other liabilities on the Statements of Financial Position.

(p) Equity-settled share based compensation:

The Company has a stock option plan for its key employees and directors. The Company uses the fair value method of accounting at the grant date for obligations under this Plan.

The grant-date fair value of options is recognized as Long term incentive compensation, with a corresponding increase in Contributed surplus, over the vesting period. The fair value of the options is determined using the Black-Scholes option pricing model which takes into account, as of the grant date, the exercise price, the expected option life, the current market price and expected volatility of Interfor common shares, expected dividends, and the risk-free interest rate over the expected option life. Cash consideration received when an option is exercised is credited to Share capital, as is the related compensation expense previously recorded in Contributed surplus.

(q) Sales revenue:

The Company recognizes sales of lumber, logs, chips and by-products or other goods or services typically when the product is loaded onto the mode of transportation or delivered to the transfer point, based on the specified sales terms in the contract. Sales are measured based on the fair value of the consideration specified in a contract, net of applicable sales taxes, returns, rebates and discounts. Revenue includes amounts charged to customers for freight, wharfage and handling costs.

Actual costs of freight, wharfage and handling and duties are recorded to Production cost and U.S. countervailing and anti-dumping duty deposits, respectively, in the Statements of Earnings.

(r) Finance income and costs:

Finance income comprises interest income on the long term receivable for U.S. countervailing and anti-dumping duty deposits and other investments and interest on defined benefit plan assets.

Finance costs comprise interest expense on borrowings, the unwinding of the discount on decommissioning provisions, interest on defined benefit plan liabilities, lease liabilities and other obligations and the amortization of deferred finance costs and other related transaction costs.

3. Significant accounting policies (continued):

(s) Income tax:

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in the Statements of Earnings except to the extent that they relate to a business combination, or items recognized directly in Equity or in Other comprehensive income.

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

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but the intention is to settle current tax liabilities and assets on a net basis or tax assets and liabilities will be realized simultaneously.

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

(t) Earnings per share:

Basic earnings per share is computed by dividing Net earnings by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting Net earnings and the weighted average number of common shares outstanding during the reporting period for the effects of all dilutive potential common shares, including outstanding stock options, if any.

(u) New standards and interpretations not yet adopted:

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2021, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

4. Acquisitions:

a) Acquisitions of sawmills:

On July 9, 2021, a wholly-owned subsidiary of Interfor concluded the acquisition of four sawmill operations located in Bay Springs, MS, Fayette, AL, DeQuincy, LA and Philomath, OR from Georgia-Pacific Wood Products LLC and GP Wood Products LLC (collectively "Georgia-Pacific"), pursuant to an Asset Purchase Agreement. The Company paid total consideration of US$371,859,000 ($466,311,000), which was funded from cash on hand.

On March 12, 2021, a wholly-owned subsidiary of Interfor concluded the acquisition of sawmill operations in Summerville, SC from WestRock Company, pursuant to an Asset Purchase Agreement for total consideration of US$58,618,000 ($73,630,000). The cash purchase price was funded from cash on hand.

The acquisitions have been accounted for as business combinations and the value of the consideration transferred is allocated as follows:

	Summerville	Georgia-Pacific	Total
Cash purchase price	$ 73,630	$ 466,311	$ 539,941
Assets acquired:			
Inventory	$ 10,174	$ 27,290	$ 37,464
Property, plant and equipment	55,414	245,711	301,125
Goodwill	8,137	194,089	202,226
	73,725	467,090	540,815
Current liabilities assumed	(95)	(779)	(874)
	$ 73,630	$ 466,311	$ 539,941

The factors that contributed to the recognition of goodwill of $202,226,000 are the sawmills' historical cash flows and income growth projections, management team and workforce strength, efficiency of operations and assets that are geographically complementary to our existing facilities and offer close access to large markets. These transactions strengthen our core lumber business and give us increased scale and geographic diversification. The goodwill is deductible for tax purposes.

The Company incurred acquisition related transaction costs of approximately $1,189,000 for the year ended December 31, 2021, which are included in Selling and administration in the Statements of Earnings.

For the year ended December 31, 2021, the acquired operations have contributed sales of $172,471,000 and net earnings before tax of $13,634,000. If the acquisitions had occurred on January 1, 2021, management estimates that the Company's consolidated sales would have been approximately $3,601,214,000 and net earnings before tax would have been approximately $1,256,970,000 for the year ended December 31, 2021.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

4. Acquisitions (continued):

b) Acquisition of B.C. Interior cutting rights:

On March 9, 2020, the Company completed the acquisition of two replaceable timber licences with annual cutting rights of approximately 349,000 cubic metres, an interest in a non-replaceable forest licence and other related forestry assets in the Adams Lake area of the B.C. Interior from Canadian Forest Products Ltd. The Company accounted for this transaction as an asset acquisition and the purchase price was allocated to the assets acquired and liabilities assumed on a relative fair value basis as follows:

Cash purchase price	$ 56,606
Net assets acquired:	
Timber licenses	$ 57,937
Roads	1,707
Other assets	1,139
Liabilities assumed	(4,177)
	$ 56,606

5. Inventories:

	2021	2020
Lumber	$ 139,208	$ 80,927
Logs	71,795	54,810
Other	39,478	24,451
	$ 250,481	$ 160,188

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down to record inventory at the lower of cost and net realizable value at December 31, 2021, was $6,537,000 (2020 - $4,319,000).

6. Deposits and other assets:

	Note	2021	2020
Countervailing and anti-dumping duties receivable and related interest	*21(c)*	$ 49,172	$ 44,759
Capital deposits and other		935	2,915
Deferred financing fees, net of accumulated amortization		2,114	1,283
		$ 52,221	$ 48,957

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

7. Right of use assets:

Cost	Note	Property	Facilities	Mobile and other equipment	Foreshore and other rights	Total
Balance at December 31, 2019		$ 15,931	$ 14,391	$ 31,271	$ 5,750	$ 67,343
New leases		6,305	710	9,327	427	16,769
Lease disposals and modifications		-	(784)	(6,850)	(132)	(7,766)
Exchange rate movements		(4)	(78)	(364)	-	(446)
Balance at December 31, 2020		22,232	14,239	33,384	6,045	75,900
New leases		153	60	11,484	658	12,355
Lease disposals and modifications		-	(79)	(9,976)	(390)	(10,445)
Exchange rate movements		(1)	(16)	(103)	-	(120)
Balance at December 31, 2021		$ 22,384	$ 14,204	$ 34,789	$ 6,313	$ 77,690

Accumulated Amortization	Note	Property	Facilities	Mobile equipment and other	Foreshore and other rights	Total
Balance at December 31, 2019		$ 6,460	$ 7,406	$ 17,904	$ 2,793	$ 34,563
Amortization		1,081	1,495	9,200	465	12,241
Lease disposals and modifications		59	(516)	(5,907)	(83)	(6,447)
Impairment	*19*	-	370	-	-	370
Exchange rate movements		(4)	(58)	(236)	-	(298)
Balance at December 31, 2020		7,596	8,697	20,961	3,175	40,429
Amortization		1,631	1,337	9,702	462	13,132
Lease disposals and modifications		-	(79)	(9,891)	(386)	(10,356)
Impairment	*19*	681	-	-	324	1,005
Exchange rate movements		-	(4)	(61)	(2)	(67)
Balance at December 31, 2021		$ 9,908	$ 9,951	$ 20,711	$ 3,573	$ 44,143
Net book value at						
December 31, 2020		$ 14,636	$ 5,542	$ 12,423	$ 2,870	$ 35,471
December 31, 2021		12,476	4,253	14,078	2,740	33,547

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts) 26

8. Property, plant, and equipment:

Cost	Note	Land	Buildings	Machinery and equipment	Mobile equipment	Computer equipment	Site improvements	Other	Projects in process	Total
Balance at December 31, 2019		$ 50,412	$ 141,845	$ 976,199	$ 29,728	$ 60,972	$ 83,569	$ 11,230	$ 136,117	$ 1,490,072
Additions		-	-	-	-	36	-	-	94,483	94,519
Disposals		(605)	(8,708)	(70,790)	(2,814)	(4,647)	(4,944)	(517)	(30)	(93,055)
Transfers		193	6,650	147,608	599	11,048	5,572	14	(171,684)	-
Transfers to other intangibles	*9*	-	-	-	-	-	-	-	(85)	(85)
Impairment	*19*	-	-	-	-	-	-	-	(105)	(105)
Exchange rate movements		(348)	(1,473)	(16,930)	(127)	(1,180)	(868)	(72)	1,239	(19,759)
Balance at December 31, 2020		49,652	138,314	1,036,087	27,386	66,229	83,329	10,655	59,935	1,471,587
Additions		-	-	1	-	-	-	-	161,527	161,528
Acquisitions	*4*	19,088	23,994	230,580	6,489	16,853	3,011	1,110	-	301,125
Disposals		(19,527)	(7,511)	(46,633)	(3,125)	(7,345)	(6,783)	(1,910)	-	(92,834)
Transfers	*9*	-	4,168	67,587	365	8,730	6,332	65	(87,247)	-
Transfers to other intangibles and timber licences	*9*	-	-	-	-	-	-	-	(361)	(361)
Exchange rate movements		125	(8)	(216)	10	(31)	(121)	(4)	122	(123)
Balance at December 31, 2021		$ 49,338	$ 158,957	$ 1,287,406	$ 31,125	$ 84,436	$ 85,768	$ 9,916	$ 133,976	$ 1,840,922

Accumulated Amortization	Note	Land	Buildings	Machinery and equipment	Mobile equipment	Computer equipment	Site improvements	Other	Projects in process	Total
Balance at December 31, 2019			$ 73,245	$ 556,720	$ 22,123	$ 40,271	$ 51,253	$ 6,945		$ 750,557
Depreciation			6,680	56,995	1,789	7,778	4,349	868		78,459
Disposals			(8,198)	(67,855)	(2,668)	(4,638)	(4,304)	(517)		(88,180)
Impairment	*19*		709	7,340	60	30	1,139	-		9,278
Exchange rate movements			(522)	(5,900)	(117)	(617)	(476)	(58)		(7,690)
Balance at December 31, 2020			71,914	547,300	21,187	42,824	51,961	7,238		742,424
Depreciation			7,153	70,391	2,851	11,132	4,707	909		97,143
Disposals			(7,644)	(43,973)	(2,960)	(7,336)	(5,933)	(1,910)		(69,756)
Impairment	*19*		556	3,883	-	31	162	-		4,632
Exchange rate movements			(69)	(974)	(39)	(121)	(67)	(5)		(1,275)
Balance at December 31, 2021			$ 71,910	$ 576,627	$ 21,039	$ 46,530	$ 50,830	$ 6,232		$ 773,168
Net book value at										
December 31, 2020		$ 49,652	$ 66,400	$ 488,787	$ 6,199	$ 23,405	$ 31,368	$ 3,417	$ 59,935	$ 729,163
December 31, 2021		49,338	87,047	710,779	10,086	37,906	34,938	3,684	133,976	1,067,754

There were no borrowing costs capitalized in 2021 or 2020. Additions in 2021 include $2,738,000 of accrued contract costs (2020 - $1,441,000).

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

9. Roads and bridges, timber licences, other intangible assets and goodwill:

Cost	*Note*	Roads and bridges	Timber licences	Other intangibles	Goodwill
Balance at December 31, 2019		$ 121,873	$ 113,341	$ 43,903	$ 138,734
Additions		16,387	160	391	-
Acquisition	*4*	1,707	57,937	-	
Transfers	*8*	-	-	85	-
Disposals		(1,444)	(187)	(27,294)	-
Exchange rate movements		7	-	(23)	(2,734)
Balance at December 31, 2020		138,530	171,251	17,062	136,000
Additions		16,507	29	-	-
Acquisitions	*4*	-	-	-	202,226
Transfers	*8*	-	77	284	-
Disposals		(74,560)	(7,560)	(1,503)	-
Exchange rate movements		-	-	(5)	1,634
Balance at December 31, 2021		$ 80,477	$ 163,797	$ 15,838	$ 339,860

Accumulated amortization	*Note*	Roads and bridges	Timber licences	Other intangibles	Goodwill
Balance at December 31, 2019		$ 97,520	$ 52,745	$ 40,423	$ -
Amortization		20,066	3,663	1,101	-
Disposals		(1,444)	(110)	(27,294)	-
Impairment	*19*	1	-	-	-
Exchange rate movements		8	-	(6)	-
Balance at December 31, 2020		116,151	56,298	14,224	-
Amortization		11,702	3,893	703	-
Disposals		(74,477)	(2,530)	(1,503)	-
Exchange rate movements		-	-	(17)	-
Balance at December 31, 2021		$ 53,376	$ 57,661	$ 13,407	$ -
Net book value at					
December 31, 2020		$ 22,379	$ 114,953	$ 2,838	$ 136,000
December 31, 2021		27,101	106,136	2,431	339,860

For the purpose of impairment testing at December 31, 2021, goodwill of $293,529,000 is attributable to the U.S. South group of cash-generating units ("S Group") and goodwill of $46,331,000 is attributable to the U.S. Northwest group of cash-generating units ("NW Group"). For impairment testing at December 31, 2020, goodwill of $136,000,000 was attributable to the S Group.

The recoverable amounts for the goodwill impairment assessments were based on the cash-generating unit's ("CGU") value in use determined by discounting the future cash flows generated from the continuing use of the units for a period of 20 years. The cash flows were projected based on past experience, actual operating results and the five year business plan in the assessment for both 2021 and 2020. Due to the cyclical nature of the forest industry, cash flows for a further 15 years were extrapolated based on an average trend year.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

9. Roads and bridges, timber licences, other intangible assets and goodwill (continued):

The values assigned to key assumptions represent management's assessment of future trends in the forest industry and are based on both external sources and internal historical data. Significant assumptions include future sales volume, commodity prices, production costs and discount rates. Other assumptions include applicable foreign exchange rates, operating rates of the assets and the future capital required to maintain the assets in their current operating condition.

A post-tax discount rate of 10.5 percent (2020 – 10.0 percent) was applied in determining the recoverable amount of each group of CGU's assessed. The discount rate was estimated with the assistance of external experts, past experience and the industry targeted capital structure. An inflation rate of 5.4 percent (2020 – 1.4 percent) was applied to the projected cash flows for the U.S. sawmills.

The recoverable amount of the S Group as at December 31, 2021 and 2020 was determined to be higher than the related carrying amount and no impairment has been recognized. The recoverable amount of the NW Group as at December 31, 2021 was determined to be higher than the related carrying amount and no impairment has been recognized.

10. Borrowings:

2021	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 500,000	$ 373,473	$ 873,473
Drawings	2,202	373,473	375,675
Outstanding letters of credit	23,246	-	23,246
Unused portion of Revolving Term Line	$ 474,552	$ -	$ 474,552

2020	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 350,000	$ 381,960	$ 731,960
Drawings	-	381,960	381,960
Outstanding letters of credit	19,887	-	19,887
Unused portion of Revolving Term Line	$ 330,113	$ -	$ 330,113

Minimum principal amounts due on long term debt are as follows:

2022	$ 6,868
2023	6,868
2024	42,260
2025	42,260
2026	42,261
Thereafter	232,956
	$ 373,473

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

10. Borrowings (continued):

Reconciliation of movements in borrowings to cash flows arising from financing activities:

	2021	2020
Drawings at opening	$ 381,960	$ 259,760
Revolving Term Line net drawings (repayments)	2,199	(82)
Additions to long term debt	-	140,770
Repayments of long term debt	(6,671)	-
Effects of changes in foreign exchange rates	(1,813)	(18,488)
Drawings at December 31	$ 375,675	$ 381,960

(a) Revolving Term Line:

On December 17, 2021, the Company completed an early renewal and expansion of its Revolving Term Line (the “Term Line”). The commitment under the Term Line has been increased by $150,000,000 to a total of $500,000,000 and the term has been extended from March 28, 2024 to December 17, 2026.

The Term Line may be drawn in either CAD$ or US$ advances, and bears interest at bank prime plus a margin or, at the Company’s option, at rates for Bankers’ Acceptances or SOFR based loans plus a margin, and in all cases dependent upon a financial ratio of net debt to total capitalization.

The Term Line is secured by a general security agreement and mortgage security on certain of the Company’s Canadian assets and is subject to certain financial covenants including a maximum ratio of net debt to total capitalization.

As at December 31, 2021, including letters of credit, the Term Line was drawn by $20,430,000 (2020 - $14,811,000) and US$3,959,000 (2020 – US$3,987,000), revalued at the year-end exchange rate to $5,018,000 (2020 - $5,076,000), for total borrowings of $25,448,000 (2020 - $19,887,000).

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

10. Borrowings (continued):

(b) Senior Secured notes:

As at December 31, the Company's Senior Secured Notes consisted of the following:

	2021	2020
Series A (US$2,966,667) bearing interest at 4.33% with remaining payments of US$1,483,000 due on June 26, 2022, and the balance due on June 26, 2023	$ 3,762	$ 5,666
Series B (US$7,866,667) bearing interest at 4.02% with remaining payments of US$3,933,000 due on June 26, 2022, and the balance due on June 26, 2023	9,973	15,024
Series C (US$100,000,000) bearing interest at 4.17% with payments of US$33,333,000 due on March 26, 2024 and 2025, and the balance due on March 26, 2026	126,780	127,320
Series D (US$45,550,000) bearing interest at 4.95% with payments of US$15,183,000 due on August 14, 2027 and 2028, and the balance due on August 14, 2029	57,748	57,994
Series E (US$38,200,000) bearing interest at 4.82% with payments of US$12,733,000 due on August 14, 2027 and 2028, and the balance due on August 14, 2029	48,430	48,636
Series F (US$50,000,000) bearing interest at 3.34% with payments of US$16,666,666 due on March 26, 2028 and 2029 and the balance due on March 26, 2030	63,390	63,660
Series G (US$50,000,000) bearing interest at 3.25% with payments of US$16,666,666 due on March 26, 2028 and 2029 and the balance due on March 26, 2030	63,390	63,660
	$ 373,473	$ 381,960

On March 26, 2020, the Company issued US$50,000,000 of Series F and US$50,000,000 of Series G Senior Secured Notes with interest rates and payment terms described in the table above.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $1,816,000 (2020 – $18,570,000) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income (loss) for the year ended December 31, 2021.

11. Reforestation liability:

The Company has an obligation to reforest areas harvested under various timber rights. The obligation is incurred as logging occurs and the fair value of the liability for reforestation is determined with reference to the present value of estimated future cash flows required to settle the obligation.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

11. Reforestation liability (continued):

Changes in the reforestation liability for the years ended December 31 are as follows:

	Note	2021	2020
Reforestation liability, beginning of year		$ 45,916	$ 40,422
Reforestation expense on current logging and market logging agreements		15,177	14,848
Acquisition	*Note 4(b)*	-	4,125
Reforestation expenditures		(14,647)	(14,284)
Unwind of discount		377	259
Changes in estimated future reforestation expenditures		(903)	546
		$ 45,920	$ 45,916
Consisting of:			
Current reforestation liability		$ 16,670	$ 16,181
Long term reforestation liability		29,250	29,735
		$ 45,920	$ 45,916

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation, adjusted for inflation, at December 31, 2021 is $47,937,000 (2020 - $46,674,000). The reforestation expenditures are expected to occur over the next one to seventeen years and have been discounted at a long term risk-free interest rate of 2 percent (2020 – 1 percent). Reforestation expense resulting from obligations arising from current logging and changes in estimated future expenditures are included in Production costs for the year and expense related to the unwinding of the discount is included in Finance costs.

12. Lease liabilities:

Changes in the lease liabilities for the years ended December 31 are as follows:

	Note	2021	2020
Lease liabilities, beginning of year		$ 40,286	$ 37,823
New leases		12,338	16,605
Payment of lease liabilities		(13,322)	(12,315)
Payment of interest		(1,484)	(1,812)
Interest expense	*17*	1,484	1,812
Lease modifications		(118)	(1,623)
Exchange rate movements		(95)	(204)
		$ 39,089	$ 40,286
Consisting of:			
Current lease liabilities		$ 12,239	$ 11,745
Long term lease liabilities		26,850	28,541
		$ 39,089	$ 40,286

Maturity analysis – contractual undiscounted cash flows are as follows:

	2021	2020
Due within one year	$ 13,479	$ 12,350
One to five years	21,133	21,054
More than five years	9,807	11,830
Total undiscounted lease liabilities	$ 44,419	$ 45,234

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

12. Lease liabilities (continued):

For the year ended December 31, 2021, the Company recorded expenses of $3,065,000 (2020 – $2,832,000) related to short-term leases and $876,000 (2020 – $634,000) related to low-value leases in Production costs. Cash payments for short-term and low-value leases for the year ended December 31, 2021 totaled $3,941,000 (2020 - $3,466,000).

13. Provisions and other liabilities:

2021	*Note*	Current	Non-current	Total
Restructuring	*13(a), 19*	$ 467	$ -	$ 467
Road deactivation	*13(a)*	867	3,572	4,439
Environmental	*13(a)*	143	656	799
Cash-settled share based compensation				
SAR Plan	*13(b)*	2,178	-	2,178
PSU Plan	*13(c)*	12,404	17,214	29,618
DSU Plan	*13(d)*	-	21,195	21,195
Deferred charges and other		1,884	1,049	2,933
		$ 17,943	$ 43,686	$ 61,629

2020	*Note*	Current	Non-current	Total
Restructuring	*13(a), 19*	$ 3,795	$ 260	$ 4,055
Road deactivation	*13(a)*	1,020	3,353	4,373
Environmental	*13(a)*	50	789	839
Cash-settled share based compensation				
SAR Plan	*13(b)*	2,281	-	2,281
PSU Plan	*13(c)*	1,901	6,869	8,770
DSU Plan	*13(d)*	3,819	11,516	15,335
Deferred charges and other		4,043	3,850	7,893
		$ 16,909	$ 26,637	$ 43,546

The current portion of Provisions and other liabilities is included in Trade accounts payable and provisions in the Statements of Financial Position.

(a) Provisions:

Forestry legislation in British Columbia requires the Company to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of road deactivation in the period in which the timber is harvested, with the fair value of the liability determined with reference to the present value of estimated future cash flows.

Environmental provisions are made when rehabilitation efforts are likely required and the costs can be reasonably estimated.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows using a current risk-free discount rate. The unwinding of the discount is recognized as a Finance cost in the Statements of Earnings.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

13. Provisions and other liabilities (continued):

(a) Provisions (continued):

	Note	Restructuring	Road deactivation	Environmental
Balance at December 31, 2019		$ 7,420	$ 4,242	$ 822
Provisions made during year	*19*	2,679	721	-
Expenditures made during year		(6,036)	(688)	-
Unwind of discount		-	31	6
Changes in estimated future expenditures		-	67	11
Exchange rate movements		(8)	-	-
Balance at December 31, 2020		4,055	4,373	839
Provisions made during year	*19*	205	806	-
Expenditures made during year		(3,785)	(678)	(30)
Unwind of discount		-	43	9
Changes in estimated future expenditures		-	(105)	(19)
Exchange rate movements		(8)	-	-
Balance at December 31, 2021		$ 467	$ 4,439	$ 799

(b) Share Appreciation Rights Plan:

Awards under the SAR Plan have been granted to directors, officers and certain employees of the Company. The vesting of SARs occurs at a rate of 40% two years after granting and 20% per annum thereafter. SARs expire ten years after the date of grant. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash and recorded as liabilities. Under the SAR Plan, awards are expensed over the vesting periods based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest. Fair value of the SARs is subsequently re-measured at each reporting date with any change in fair value resulting in a change in the measure of the compensation for the award, which is amortized over the remaining vesting periods.

Details of the Company's SAR Plan for the years ended December 31 are as follows:

	2021		2020	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	179,506	$11.71	289,444	$10.20
Exercised	(95,928)	11.06	(103,674)	7.31
Expired or cancelled	-	-	(6,264)	15.00
Outstanding, end of year	83,578	$12.45	179,506	$11.71
Units exercisable, end of year	83,578	$12.45	179,506	$11.71

There were no grants under the SAR Plan in 2021 or 2020.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

13. Provisions and other liabilities (continued):

(b) Share Appreciation Rights Plan (continued):

Details of units outstanding under the SAR Plan at December 31, 2021 are as follows:

	Units outstanding			Units exercisable	
Strike price	Number outstanding, December 31, 2021	Weighted average remaining unit life (yrs.)	Weighted average strike price	Number exercisable, December 31, 2021	Weighted average strike price
$4.64	6,750	0.2	4.64	6,750	4.64
$9.18	40,000	1.2	9.18	40,000	9.18
$17.43	36,828	2.2	17.43	36,828	17.43
	83,578		$12.45	83,578	$12.45

For the year ended December 31, 2021, the Company recorded Long term incentive compensation expense in respect of the SAR Plan of $1,876,000 (2020 - $1,393,000).

(c) Performance Share Unit Plan:

The number of PSUs outstanding at December 31 are as follows:

	2021	2020
Outstanding, beginning of year	807,091	698,335
Granted	194,555	335,392
Matured	(200,677)	(226,636)
Outstanding, end of year	800,969	807,091

Long term incentive compensation expense is recorded for PSUs granted under the PSU Plan over a three year performance period based on the estimated grant date fair value of the PSUs. The fair value of PSUs is subsequently re-measured at each reporting date and on settlement with any changes in fair value reflected in Long term incentive compensation in the Statements of Earnings.

PSU’s granted in 2021 and 2020 reflect a new long-term incentive plan. These PSUs vest over three years and the payout for each vested unit is based on the three year average Return on Invested Capital resulting in a payout range between 0 percent to 200 percent of the target award. An additional adjustment factor of 0 percent or plus or minus 20 percent is applied based on total shareholder return of Interfor shares relative to a select peer group of companies. The fair value at the grant date and the reporting date reflects management’s best estimate of the expected number of units to vest.

For PSUs granted in 2019, the payout was determined based on the absolute total shareholder return over 3 years. The fair value of PSUs was measured based on a combination of call options which are valued using a Black-Scholes option pricing model.

During the year ended December 31, 2021, the Company granted 194,555 PSUs (2020 – 335,392) with a weighted average grant date fair value per unit of $23.84 (2020 - $14.81). For the year ended December 31, 2021, the Company recorded

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

13. Provisions and other liabilities (continued):

(c) Performance Share Unit Plan (continued):

Long term incentive compensation expense under the PSU Plan of $18,409,000 (2020 - $4,095,000).

(d) Deferred Share Unit Plan:

DSUs may be granted directly to directors or officers of the Company at the discretion of the Board of Directors, who are required to take DSU's as payment of at least 60% of their annual retainer. The DSU Plan allows for the issuance of DSUs with immediate or deferred vesting. There were no unvested DSU's outstanding as at December 31, 2021 and 2020.

The number of DSUs outstanding at December 31 are as follows:

	2021		2020	
	Units	Average unit value	Units	Average unit value
Outstanding, beginning of year	647,877	$23.67	663,596	$14.98
Granted[1]	64,424	21.57	89,966	10.84
Exercised	(161,355)	28.36	(105,685)	16.46
Outstanding, end of year	550,946	$38.47	647,877	$23.67

[1]Fair value at the date of the grants.

Changes to the market value of the Company's common shares subsequent to issuance of awards results in adjustments to the compensation accrual and Long term incentive compensation in the Statements of Earnings. For the year ended December 31, 2021, the Company recorded an expense of $10,436,000 (2020 - $7,134,000) in respect of the DSU Plan. This expense is comprised of two components, an expense of $9,460,000 (2020 - $6,159,000) recorded in Long term compensation for the change in value of outstanding DSUs due to market value fluctuations, and an expense of $975,000 (2020 - $975,000) recorded in Selling and administration for the value of DSUs issued in the year related to directors and officers compensation.

14. Share capital and contributed surplus:

(a) Share transactions:

Authorized capital at December 31, 2021 consists of:

- 150,000,000 common shares without par value; and
- 5,000,000 preference shares without par value.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

14. Share capital and contributed surplus (continued):

(a) Share transactions (continued):

Common share transactions were as follows:

Issued and Fully Paid	*Note*	Number		Share capital		Contributed surplus
Balance, December 31, 2019		67,259,959	$	533,685	$	4,471
Exercise of stock options	*14(b)*	31,614		598		(180)
Repurchase of common shares		(1,327,420)		(10,678)		-
Stock options	*14(b)*	-		-		866
Balance, December 31, 2020		65,964,153	$	523,605	$	5,157
Exercise of stock options	*14(b)*	185,262		4,304		(1,327)
Repurchase of common shares		(5,345,238)		(43,188)		-
Stock options	*14(b)*	-		-		864
Balance, December 31, 2021		60,804,177	$	484,721	$	4,694

On November 5, 2020, the Company announced a normal course issuer bid ("NCIB") commencing on November 11, 2020 and ending on November 10, 2021, for the purchase of up to 5,981,751 common shares. On September 16, 2021, the Company announced an amendment to its NCIB increasing the maximum number of common shares that may be purchased by an additional 690,906 common shares. The amended NCIB allowed for the purchase of up to 6,672,658 common shares. As at December 31, 2021, the Company had purchased all of the common shares permitted under the NCIB.

On November 4, 2021, the Company announced a renewal of its NCIB commencing on November 11, 2021 and ending on November 10, 2022, for the purchase of up to 6,041,701 common shares. No common shares under this NCIB were purchased in 2021.

During 2021, Interfor purchased 5,345,238 common shares at an average price of $28.59 per share for a cost of $152,869,000 with $43,188,000 charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $109,681,000 to Retained earnings.

During 2020, Interfor purchased 1,327,420 common shares at an average price of $18.40 per share for a cost of $24,430,000 with $10,678,000 charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $13,752,000 to Retained earnings.

Since the outset of the NCIB ending on November 10, 2021, the Company purchased 6,672,658 common shares for total consideration of $177,299,000, representing an average price of $26.56 per share.

No common shares were purchased in 2020 under the Company's prior NCIB that expired on March 6, 2020.

All repurchased common shares were cancelled.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

14.Share capital and contributed surplus (continued):

(b) Equity-settled share based compensation:

The Company has a stock option plan for its key employees and directors under which options may be granted to purchase up to 1,631,740 common shares, of which 904,687 remain reserved for issuance. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. The exercise price of a stock option is at a price not less than the closing price of a common share on the trading day immediately preceding the grant date.

Details of the Company's stock option plan for the years ended December 31 are as follows:

	2021		2020	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	639,273	$ 16.23	482,118	$ 17.08
Granted	82,820	25.55	270,310	14.63
Exercised	(185,262)	16.21	(31,614)	13.21
Expired or cancelled	(48,798)	17.81	(81,541)	17.15
Outstanding, end of year	488,033	$ 17.66	639,273	$ 16.23
Options exercisable, end of year	102,930	$ 17.05	187,288	$ 16.40

Weighted average fair value assumptions for grants made in 2021 and 2020 are as follows:

	2021	2020
Risk-free interest rate	0.57%	1.38%
Expected life	6.6 years	6.7 years
Annualized volatility	48%	41%
Dividend rate	0%	0%
Termination rate	7%	6%
Grant date fair value per unit	$12.15	$6.29

Details of stock options outstanding at December 31, 2021 are as follows:

	Units outstanding			Units exercisable	
Strike price	Number outstanding, December 31, 2021	Weighted average remaining unit life (yrs.)	Weighted average exercise price	Number exercisable, December 31, 2021	Weighted average strike price
$9.78-$14.63	230,283	7.7	$ 14.10	22,807	$ 10.13
$14.64-$18.10	122,501	6.3	16.92	46,572	16.32
$18.11-$26.19	135,249	7.4	24.40	33,551	22.78
	488,033		$ 17.66	102,930	$ 17.05

The Company recognized an expense of $1,937,000 for the year ended December 31, 2021 (2020 – $866,000) in Long term incentive compensation.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

15. Depreciation, depletion, and amortization:

Depreciation, depletion and amortization by function is as follows:

	2021	2020
Production	$ 124,726	$ 113,046
Selling and administration	1,847	2,484
	$ 126,573	$ 115,530

16. Personnel expenses:

	Note	2021	2020
Wages, salaries, and benefits		$ 391,249	$ 324,325
Contributions to defined contribution plans	*23*	11,641	9,548
Expenses related to defined benefit plans	*23*	1,426	1,459
Cash-settled share based payments and other long term compensation	*13, 14(b)*	31,682	12,513
		$ 435,998	$ 347,845

17. Finance costs:

	Note	2021	2020
Interest expense on:			
Borrowings		$ 16,698	$ 17,113
Lease liabilities	*12*	1,484	1,812
Pension obligations	*23(c), 23(d)*	2,082	2,554
Duty deposits	*21(c)*	1,189	-
Interest revenue from:			
Duty deposits and other	*21(c)*	(3,113)	(4,221)
Pension assets	*23(d)*	(1,253)	(1,793)
Unwind of discount on provisions	*11, 13(a)*	429	296
Amortization of deferred finance costs		314	318
		$ 17,830	$ 16,079

18. Other income:

	Note	2021	2020
Gain on disposal of property, plant and equipment, and other	*8,9*	$ 31,309	$ 28
Gain on lease modifications		29	308
		$ 31,338	$ 336

On July 21, 2021, the Company completed the sale of property, plant and equipment at its former Hammond sawmill located in Maple Ridge, British Columbia for total net cash proceeds of $39,702,000 and recorded a gain of $22,853,000.

On December 7, 2021, the Company sold a forest license for total cash proceeds of $9,023,000 and recorded a gain of $8,607,000.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

19. Asset write-downs and restructuring costs:

	Note	2021	2020
Write-down of plant, equipment and other	*7, 8, 9*	$ 5,637	$ 9,754
Severance and other closure costs	*13(a)*	4,556	4,385
Write-down of parts inventory		-	1,125
		$ 10,193	$ 15,264

Asset impairments were recorded on plant and equipment to be replaced in conjunction with capital projects to rebuild and modernize multiple sawmills in the U.S. South of $4,632,000 in 2021 and nil in 2020.

On October 29, 2020, the Company sold its specialty sawmill located in Gilchrist, Oregon to Neiman Enterprises Inc. In relation to the sale, the Company recognized $10,759,000 in impairment losses on the remeasurement of property, plant and equipment and parts inventory to the lower of their carrying amount and the fair value less costs to sell.

20. Income taxes:

	2021	2020
Current tax expense:		
Current year	$ 205,134	$ 7,384
Adjustments for prior periods	331	(341)
	205,465	7,043
Deferred income tax expense:		
Origination and reversal of temporary differences	64,614	82,530
	$ 270,079	$ 89,573

Income tax expense (recovery) recognized in Other comprehensive income is as follows:

	2021	2020
Defined benefit plan actuarial gain (loss)	$ 2,859	$ (336)
Foreign exchange gain on financing	678	1,610
Foreign currency translation differences for foreign operations	(2,781)	(2,782)
	$ 756	$ (1,508)

The reconciliation of income taxes at the statutory rate to the income tax expense is as follows:

	2021	2020
Income tax expense at the statutory rate of 27.00% (2020 – 27.00%)	$ 294,055	$ 99,865
Entities with different tax rates and foreign rate adjustments	(20,491)	(8,348)
Benefit of non-taxable portion of capital tax	(3,808)	-
Adjustment to state tax temporary differences	(3,520)	(1,550)
Other	3,843	(394)
	$ 270,079	$ 89,573

20. Income taxes (continued):

There was no change in Canadian statutory tax rate of 27% in 2021 (2020 – 27%). Interfor recorded a deferred income tax expense in respect of its U.S. operations in 2021 at a combined federal and state income tax rate of 24.5% (2020 – 24%).

The Company has Canadian non-capital loss carry-forwards which total approximately $603,000 (2020 - $27,327,000) and expire between 2031 and 2036.

As at December 31, 2021, the Company recognized a deferred tax asset of $415,000 (2020 – $230,000) in Canada to the extent its non-capital loss carry-forwards and other deductible temporary differences exceed taxable temporary differences because management believes it is probable that future taxable profit will be sufficient to utilize available non-capital losses and other deductible temporary differences in Canada within their carry forward periods.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

20. Income taxes (continued):

Recognized deferred income taxes:

December 31, 2021	Opening balance	Recognized in Income tax expense	Recognized in Other Comprehensive income (loss)	Ending balance
Deferred income tax assets				
Losses	$ 9,274	$ (8,448)	$ -	$ 826
Reserves	25,056	7,197	-	32,253
Defined benefit plan	429	-	(2,859)	(2,430)
Other	5,180	899	-	6,079
Foreign currency				
Translation differences for foreign operations	1,408	-	(63)	1,345
Deferred income tax liabilities				
Capital assets	(130,367)	(63,054)	-	(193,421)
Accrued duty refund	(11,176)	(1,208)	-	(12,384)
Foreign currency				
Foreign exchange gain on financing	(1,610)	-	(678)	(2,288)
Total	$ (101,806)	$ (64,614)	$ (3,600)	$ (170,020)

December 31, 2020	Opening balance	Recognized in Income tax expense	Recognized in Other Comprehensive income (loss)	Ending balance
Deferred income tax assets				
Losses	$ 56,089	$ (46,815)	$ -	$ 9,274
Reserves	22,795	2,261	-	25,056
Tax credits	27	(27)	-	-
Defined benefit plan	93	-	336	429
Other	5,803	(623)	-	5,180
Deferred income tax liabilities				
Capital assets	(104,217)	(26,150)	-	(130,367)
Accrued duty refund	-	(11,176)	-	(11,176)
Foreign currency				
Foreign exchange gain on financing	-	-	(1,610)	(1,610)
Translation differences for foreign operations	(1,238)	-	2,646	1,408
Total	$ (20,648)	$ (82,530)	$ 1,372	$ (101,806)

Represented by the following:

	2021	2020
Deferred income tax assets	$ 415	$ 230
Deferred income tax liabilities	(170,435)	(102,036)
	$ (170,020)	$ (101,806)

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

21. Commitments and contingencies:

(a) Contractual obligations:

The Company is obligated under various contracts requiring minimum payments in each of the next five years as follows:

2022	$ 6,550
2023	1,240
2024	620
2025	400
2026	400

Interfor also has contractual obligations for capital projects of $124,251,000 expected to be paid in 2022.

On November 23, 2021, the Company announced it had reached an agreement with an affiliate of Kelso & Company to acquire 100% of the equity interests of EACOM Timber Corporation for a purchase price of $490,000,000, which includes $120,000,000 of net working capital. In addition, Interfor will assume EACOM's countervailing and anti-dumping duty deposits at closing, for consideration equal to 55% of the total deposits on an after-tax basis. The completion of the acquisition is subject to customary conditions and regulatory approvals for a transaction of this kind and is expected to close in the first quarter of 2022.

(b) Surety bonds:

The Company has posted $38,118,000 in surety performance, bid and payment bonds, with various expiry dates extending through January 2025.

(c) U.S. countervailing and anti-dumping duty deposits:

In late 2016, a petition was filed by the U.S. Lumber Coalition and other petitioners seeking countervailing ("CV") and anti-dumping ("AD") duties on Canadian softwood lumber imports to the U.S. On January 6, 2017, a preliminary determination was announced by the U.S. International Trade Commission ("ITC") that there was reasonable indication that the U.S. industry is materially injured by imports of softwood lumber products from Canada and the U.S Department of Commerce ("DoC") imposed duties on Canadian shipments of softwood lumber into the U.S.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards.

The CV duties cash deposit rate was initially imposed at 19.88% and subsequently amended to 14.19%. The AD duties cash deposit rate was initially imposed at 6.87% and subsequently amended to 6.04%. During the fourth quarter 2020, the DoC published the final CV and AD duties rates based on the results of its first administrative review of shipments for the years ended December 31, 2017 and 2018. During the fourth quarter 2021, the DoC published the final CV and AD duties rates based on the results of its second administrative review of shipments for the year ended December 31, 2019.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

21. Commitments and contingencies (continued):

(c) U.S. countervailing and anti-dumping duty deposits (continued):

The following table summarizes the cash deposit rates that were in effect and the preliminary and final revised rates for those periods:

Year ended December 31			
First administrative review		Cash deposit rates in effect	Final rates
2017			
AD		6.04%	1.57%
CV		14.19%	7.26%
Total		20.23%	8.83%
2018			
AD		6.04%	1.57%
CV		14.19%	7.42%
Total		20.23%	8.99%
Second administrative review		Cash deposit rates in effect	Final rates
2019			
AD		6.04%	11.59%
CV		14.19%	6.32%
Total		20.23%	17.91%
Third administrative review	Cash deposit rates in effect Jan to Nov	Cash deposit rates in effect Dec	Preliminary rates
2020			
AD	6.04%	1.57%	4.76%
CV	14.19%	7.42%	6.88%
Total	20.23%	8.99%	11.64%

The final AD and CV duties rates for the first administrative review were published November 30, 2020 and December 1, 2020 respectively, and starting on these dates the final first administrative review AD and CV duty rates of 1.57% and 7.42% respectively, were applied as the cash deposit rates to new lumber shipments.

The final AD and CV duties rates for the second administrative review were published on December 2, 2021 and starting on this date the final second administrative review AD and CV duty rates of 11.59% and 6.31% respectively, were applied as the cash deposit rates to new lumber shipments. On January 10, 2022, the final CV duty rate was amended to 6.32% by the DoC.

The finalization of the first administrative review rates in 2020 indicated an overpayment of duty deposits in 2017 and 2018 of US$32,931,000 of which US$3,187,000 was recorded in 2019 and US$29,744,000 in 2020. The impact to the Statements of Earnings in 2020 was a reduction to the U.S. countervailing and anti-dumping duty deposits of $38,434,000.

21. Commitments and contingencies (continued):

(c) U.S. countervailing and anti-dumping duty deposits (continued):

The finalization of the second administrative review rates in the fourth quarter of 2021 and amended in the first quarter 2022 indicated an overpayment of duty deposits in 2019 of US$3,226,000. The impact to the Statements of Earnings in

2021 was a reduction to the U.S. countervailing and anti-dumping duty deposits of $4,281,000.

On January 31, 2022, the DoC issued its preliminary revised CV and AD duty rates based on completion of its third administrative review of shipments for the year ended December 31, 2020. The table above summarizes the cash deposit rates that were in effect for the year ended December 31, 2020 and the issued preliminary revised rates.

The DoC may further amend the preliminary revised duty rates at any time, with final rate determinations expected to be published in August 2022. At such time, the final rates determined and published for 2020 will be applied to new lumber shipments.

As at December 31, 2021, Interfor has a long term receivable of US$36,157,000 (December 31, 2020 - US$32,931,000) in Deposits and other assets on the Statements of Financial Position, revalued at the year-end exchange rate to $45,839,000 (December 31, 2020 - $41,927,000). Interfor has recorded interest on the long term receivable of US$2,629,000 (December 31, 2020 - US$2,224,000) in Deposits and other assets on the Statements of Financial Position, revalued at the year-end exchange rate to $3,333,000 (December 31, 2020 - $2,832,000).

Interfor paid duties of US$18,424,000 in 2017, US$42,016,000 in 2018, US$33,765,000 in 2019, US$39,761,000 in 2020, and US$36,478,000 in 2021 all of which remain held in trust by U.S. Customs and Border Protection. With the exception of US$36,157,000 (December 31, 2020 – US$32,931,000) recorded as a long term receivable, Interfor has recorded the duty deposits as an expense.

Interfor is of the view that the DoC’s positions are without merit and politically driven. As such, Interfor intends to defend its position through various appeals processes, in conjunction with the B.C. and Canadian Governments.

The final amount and effective date of countervailing and anti-dumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on decisions yet to be made by any reviewing courts, USMCA or WTO panels to which the DoC and ITC determinations may be appealed.

(d) Other contingencies:

The Company is subject to a number of claims arising in the normal course of business, for which either an adequate provision has been made or no material liability is expected.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

22. Net earnings per share:

Net earnings per share is calculated utilizing the treasury stock method for determining the dilutive effect of options issued.

The reconciliation of the numerator and denominator is determined as follows:

	2021			2020		
	Net earnings	Weighted average number of shares	Per share	Net earnings	Weighted average number of shares	Per share
Issued shares at December 31		65,964,153			67,259,959	
Effect of shares issued		119,865			7,221	
Effect of shares repurchased		(2,490,566)			(148,660)	
Basic earnings per share	$819,011	63,593,452	$12.88	$280,296	67,118,520	$4.18
Effect of dilutive securities:						
Stock options	-	169,944		-	13,666	
Diluted earnings per share	$819,011	63,763,396	$12.84	$280,296	67,132,186	$4.18

23. Employee future benefits and other post-retirement plans:

The Company maintains several savings and retirement plans that are available to employees who meet certain eligibility requirements.

(a) Defined contribution plans:

In Canada, salaried employees of the Company are provided with the opportunity to make voluntary contributions to a Registered Retirement Savings Plan ("RRSP") based on a percentage of an employee's earnings. The Company matches employees' RRSP contributions with contributions to a Deferred Profit Sharing Plan ("DPSP") with the employee's future retirement benefits based on these contributions along with investment earnings on the contributions.

For the DPSP, the Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2021, the pension expense for this plan is equal to the Company's contribution of $2,383,000 (2020 - $1,936,000).

For certain eligible employees of the Canadian Merchant Services Guild ("CMSG"), the Company makes required contributions based on a percentage of earnings into a defined contribution plan. For 2021, the pension expense is equal to the Company's contribution of $34,000 (2020 - $57,000).

Employees of the Company's U.S. operating subsidiaries contribute a percentage of their earnings to a 401(k) plan which the Company matches and which vest immediately. The Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2021, the pension expense for this plan is equal to the Company's contribution of $5,425,000 (2020 - $4,358,000).

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

23. Employee future benefits and other post-retirement plans (continued):

(b) Unionized employees' pension plan:

The Company contributes to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2021, the pension expense for this plan is equal to the Company's contribution of $2,273,000 (2020 - $2,171,000). As there is insufficient information available to enable the

Company to account for this plan as a defined benefit plan, the plan has been accounted for as a defined contribution plan. The Company's liability is limited to its contributions.

(c) Supplementary pension plans:

The Company provides supplementary pension benefits to certain members of its senior management in the form of a notional extension to the DPSP in Canada and the 401(k) plan in the U.S. These commitments are not funded but are fully accrued by the Company, with a portion of the commitments being secured by irrevocable letters of credit.

During 2021, the Company recorded an expense of $1,526,000 (2020 - $1,025,000) in respect of these plans of which $835,000 (2020 - $678,000) has been recorded in Finance costs.

The accrued obligation for this plan is included in the Company's Statements of Financial Position as follows:

	2021	2020
Trade accounts payable and provisions	$ 2,016	$ 1,847
Employee future benefits obligation	8,180	8,658
	$ 10,196	$ 10,505

(d) Defined benefit plans:

The Company and the non-union hourly employees at the Adams Lake operations make contributions to a defined benefit pension plan that provides pension benefits upon retirement. The plan entitles a retired employee to receive monthly payments based on a schedule of defined benefit accruals for different periods of service. On July 14, 2021, the Company completed a partial settlement of the Adams Lake pension plan with the purchase of an annuity. The settlement resulted in a loss of $16,000 due to the net effect of discharging $26,167,000 of defined benefit obligation and $26,183,000 of plan assets.

The Company makes contributions to a defined benefit pension plan that provides pension benefits to certain eligible employees of the CMSG upon retirement. The plan provides a retired employee a monthly payment based on a percentage of their average earnings at retirement, and their years of service. In addition, the Company provides post-retirement medical and life insurance benefits to certain eligible CMSG retirees.

On December 12, 2020, the Company completed a partial settlement of the CMSG pension plan with the purchase of an annuity. The settlement resulted in a gain of $281,000 due to the net effect of discharging $9,896,000 of defined benefit obligation and $9,615,000 of plan assets.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

23. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans:

The Company maintains a non-contributory defined benefit pension plan for a former senior executive, during the year the last surviving spouse passed away and the plan is in the process of being wound up.

The Company provides post retirement life insurance benefits to eligible retirees of a wholly-owned subsidiary, Seaboard Shipping Company Limited ("SSCL").

The Company measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

The most recent and the next scheduled actuarial valuations for funding purposes for the plans are:

	Most Recent Valuation	Next Scheduled Valuation
Adams Lake Pension Plan	December 31, 2019	December 31, 2022
Executive Plan - Funded	December 31, 2021	Not Applicable
Executive Plan - Unfunded	December 31, 2021	Not Applicable
CMSG Pension Plan	December 31, 2019	December 31, 2022
CMSG Post-Retirement Benefits	December 31, 2018	December 31, 2022

The pension plans are subject to the statutory requirements (including minimum funding requirements) of their respective jurisdictions and the Income Tax Act. Each plan's pace of funding is determined by the Company, subject to the statutory minimums and maximums.

In 2021, the Company paid contributions of $727,000 (2020 - $1,630,000). In 2022, the Company expects to pay contributions of $707,000 to its defined benefit plans.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

23. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

The Company has determined that, in accordance with statutory requirements of the plans (such as minimum funding requirements), the present value of refunds or reductions in future contributions for all plans is not lower than the balance of the total fair value of the plan assets less the total present value of obligations.

	Pension Benefits		Other Post-retirement Benefits	
	2021	2020	2021	2020
Defined benefit obligation:				
Beginning of year	$ 58,847	$ 61,302	$ 994	$ 943
Service cost	1,239	1,300	11	9
Employee contributions	358	356	-	-
Interest cost	1,222	1,846	25	29
Benefit payments	(1,906)	(2,876)	(39)	(33)
Settlements	(26,167)	(9,896)	-	-
Actuarial (gain) loss due to:				
Financial assumptions	(5,361)	4,547	(67)	46
Experience adjustment	163	2,268	-	-
End of year	$ 28,395	$ 58,847	$ 924	$ 994
Plan assets:				
Beginning of year	$ 57,366	$ 60,842	$ -	$ -
Interest on plan assets	1,253	1,793	-	-
Employer contributions	688	1,597	39	33
Employee contributions	358	356	-	-
Benefit payments	(1,906)	(2,876)	(39)	(33)
Administration costs	(166)	(349)	-	-
Settlements	(26,183)	(9,615)	-	-
Actuarial gain	5,323	5,618	-	-
End of year	$ 36,733	$ 57,366	$ -	$ -
Net employee future benefits asset (liability)	$ 8,338	$ (1,481)	$ (924)	$ (994)

The following summarizes the balances recognized in the Statements of Financial Position:

	Pension Benefits		Other Post-retirement Benefits	
	2021	2020	2021	2020
Employee future benefits asset	$ 8,338	$ 106	$ -	$ -
Trade accounts payable and provisions	-	(67)	(35)	(35)
Employee future benefits obligation	-	(1,520)	(889)	(959)
Net employee future benefits asset (liability)	$ 8,338	$ (1,481)	$ (924)	$ (994)

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

23. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

The following table shows the Company's net expense recognized in the Statements of Earnings and the actuarial (gains) losses recognized in Other comprehensive income:

	Pension Benefits		Other Post-retirement Benefits	
	2021	2020	2021	2020
Statements of Earnings				
Production expense	$ 1,421	$ 1,368	$ 11	$ 9
Finance costs	(31)	53	25	29
	$ 1,390	$ 1,421	$ 36	$ 38
Other comprehensive income				
Actuarial gain (loss)	$ 10,521	$ $(1,197)	$ 67	$ (46)

Plan assets consist of:

Asset category	2021	2020
Investment Funds		
Fixed Income	$ 12,299	$ 17,519
Global Equity	12,061	19,923
Canadian Equity	11,269	17,984
Money Market	706	1,156
Balanced	322	337
Cash	76	447
Total	$ 36,733	$ 57,366

The plan assets held in investment funds are managed by third party investment managers and the fair values of these investments have been determined based on the unit price of the underlying funds. As such, all investment funds are categorized as Level 2 in the fair value hierarchy.

Actuarial assumptions used in accounting for the Company maintained benefit plans (expressed as weighted averages) are:

	Pension Benefits		Other Post-retirement Benefits	
	2021	2020	2021	2020
Defined benefit obligation as of December 31				
Discount rate	3.25%	2.50%	3.25%	2.50%
Compensation increases[1]	3.50%	3.50%	-	-
Pension expense				
Discount rate	2.67%	3.00%	2.50%	3.00%
Compensation increases[1]	3.50%	3.50%	-	-

[1]Compensation increases only relate to the CMSG plan.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

23. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

For measurement purposes at December 31, 2021, the Company has assumed a 6.00% health care cost trend in 2022 grading down to 5.00% in 2024 (2020 – 6.50% health care cost trend in 2021 grading down to 5.00% in 2024).

	Pension Benefits	Other Post-retirement Benefits
Effect of 1% decrease in discount rate on defined benefit obligation	$ 4,965	$ 88

The sensitivity to the discount rate has been determined assuming all other assumptions remain unchanged. An increase in the discount rate would have an opposite effect of similar magnitude.

The weighted average durations of the defined benefit pension plans and other post-retirement benefit plans is 18 years.

Through its defined benefit pension plans and other post-retirement benefits, the Company is exposed to several risks, the most significant of which are detailed below:

Asset liability mismatch – The defined benefit plan obligations are calculated using a discount rate set with reference to corporate bond yields. While the Adams Lake and CMSG pension plans hold some fixed income investments, both plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term. However, in the short term, there will be volatility in the funded status of the plans.

Life expectancy – The majority of obligations are to provide benefits for the life of the member, so increases in life expectancy would result in increased obligations.

24. Related party transactions:

Key management personnel are comprised of the Company’s directors and executive officers. The remuneration of key management personnel was as follows:

	2021	2020
Salary and short-term employee benefits	$ 8,241	$ 8,034
Post-employment benefits	924	383
Share-based compensation expense	23,518	9,001
	$ 32,683	$ 17,418

Obligations in relation to key management personnel, including directors, are as follows:

	2021	2020
Trade accounts payable and provisions	$ 10,485	$ 5,289
Employee future benefits obligation	2,464	1,632
Provisions and other liabilities	32,136	15,021
	$ 45,085	$ 21,942

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

25. Segmented information:

The Company manages its business as a single operating segment, being solid wood. The Company harvests and purchases logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills or sold. Substantially all operations are located in British Columbia, Canada and the Northwest and South regions of the U.S.

The Company sells to both foreign and domestic markets as follows:

	2021	2020
United States	$ 2,737,422	$ 1,709,385
Canada	372,541	313,445
Japan	60,364	75,227
China/Taiwan	45,470	46,331
Other export	73,349	39,221
	$ 3,289,146	$ 2,183,609

Sales by product line are as follows:

	2021	2020
Lumber	$ 2,926,336	$ 1,838,737
Logs	141,858	170,916
Wood chips and other by-products	174,635	154,571
Other	46,317	19,385
	$ 3,289,146	$ 2,183,609

Non-current assets by geographic location are as follows:

	2021	2020
United States	$ 1,263,280	$ 690,628
Canada	374,523	399,469
	$ 1,637,803	$ 1,090,097

26. Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital position. The Company's target is to create value for its shareholders over the long term through increases in share value.

Under its debt financing agreements, the Company cannot exceed a net debt to total capitalization ratio of 50 percent, with net debt under banking arrangements defined as the total of indebtedness, including letters of credit and long term debt, net of cash and cash equivalents and government securities maturing within 365 days, up to a limit; and total capitalization defined as total debt plus shareholders' equity and subordinated debt, excluding non-controlling interests, deferred income taxes, and a maximum of $20 million cumulative (from January 1, 2012) non-cash asset revaluations. The financial covenants under the debt financing agreements also carry a minimum EBITDA to interest expense coverage ratio dependent upon the net debt to total capitalization ratio.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

26. Capital management (continued):

The Company is in compliance with all debt covenants.

The Company monitors capital using a ratio of "net debt" to "invested capital" and manages to a target range. Net debt is calculated as the total of long term debt and bank indebtedness, less cash and cash equivalents. Invested capital is the total of net debt and equity. Interfor's net debt to invested capital ratio as at December 31, 2021 and 2020 was as follows:

	2021	2020
Long term debt	$ 373,473	$ 381,960
Bank indebtedness	2,202	-
Less:		
Cash and cash equivalents	(538,561)	(457,392)
Net debt	(162,886)	(75,432)
Add: Equity	1,635,973	1,080,312
Invested capital	$1,473,087	$1,004,880
Net debt to invested capital ratio	(11.1)%	(7.5)%

From time to time, the Company purchases its own shares in the open market under a defined NCIB. All repurchased common shares are cancelled.

On May 12, 2021, Interfor's Board of Directors declared a one-time special cash dividend of $2.00 per share, which was paid on June 28, 2021 to shareholders of record on May 28, 2021. The special dividend resulted in an aggregate distribution of $130,625,000. The dividend was funded from cash on hand.

27. Financial instruments:

(a) Fair value of financial instruments:

At December 31, 2021, the fair value of the Company's Long term debt exceeded its carrying value by $26,710,000 (2020 – $27,915,000).

The fair values of other financial instruments approximate their carrying values.

Derivative financial instruments in an asset position are classified as Trade accounts receivable and other in the Statements of Financial Position, while derivative financial instruments in a liability position are classified as Trade accounts payable and provisions. Financial instrument assets and liabilities are not netted for purposes of presentation in the financial statements.

(b) Derivative financial instruments:

The Company did not trade any foreign exchange contracts or lumber futures in 2021 and 2020.

27. Financial instruments (continued):

(c) Hedge of investment in foreign operations:

Certain U.S. Dollar drawings under the Revolving Term Line and all drawings under the Senior Secured Notes were designated as hedges against the Company's investment in its U.S. operations and repayments were de-designated as a hedge. Interfor recorded an unrealized foreign exchange gain of $1,816,000 (2020 - $18,570,000) arising on revaluation of hedged U.S. Dollar debt in Other comprehensive income for the year ended December 31, 2021.

(d) Financial risk management:

The use of financial instruments exposes the Company to credit, liquidity and market risk.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Through its standards and procedures, management has developed a control environment in which employees are clear on roles and obligations and management regularly monitors compliance with its risk management policies and procedures.

(i) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers, and investments in marketable securities.

Accounts receivable

The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer based on terms which are secured by a guarantee or cash deposit or alternatively by insuring the accounts receivable.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. A $236,000 reserve in respect of doubtful accounts was recorded as at December 31, 2021 (2020 - $96,000).

The carrying amount of financial assets represents the maximum credit exposure for receivables in North America. As log and lumber sales outside of the North American markets are typically insured by the Export Development Corporation to 90% or secured by irrevocable letters of credit, or both, credit exposure for these sales is limited.

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

27. Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

Accounts receivable carrying values at the reporting date by geographic region were as follows:

	2021	2020
United States	$ 84,651	$ 54,721
Canada	52,065	55,797
Japan	1,471	1,508
China/Taiwan	7,718	4,464
Other	1,859	881
	$ 147,764	$ 117,371

Guarantees

The Company did not provide any guarantees in 2021 and 2020.

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly.

The Company maintains a $500,000,000 Revolving Term Line credit facility with a syndicate of highly rated Canadian and international banks which can be drawn in either Canadian or US funds and matures in the year 2026.

The following table summarizes Interfor's available liquidity as of December 31, 2021:

Unused portion of Revolving Term Line, see *Note 10*	$ 474,552
Add: Cash and cash equivalents	538,561
Available liquidity at December 31, 2021	$ 1,013,113

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts)

27. Financial instruments (continued):

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

The estimated cash payments due in respect of contractual and legal obligations including debt and interest payments and capital commitments are summarized as follows:

		Payments due by period			
	Total	Up to 1 year	2-3 years	4-5 years	After 5 years
Operating Line	$ 2,202	$ 2,202	$ -	$ -	$ -
Trade accounts payable and provisions	198,457	198,457	-	-	-
Income taxes payable	64,838	64,838	-	-	-
Reforestation liability	47,937	16,670	13,102	7,343	10,822
Lease liabilities	44,419	13,479	15,016	6,117	9,807
Long term debt	456,556	21,947	77,260	105,904	251,445
Provisions and other liabilities	71,402	18,797	23,460	2,762	26,383
Capital commitments and other	712,966	710,199	1,870	797	100
Total obligations	$ 1,598,777	$1,046,589	$ 130,708	$ 122,923	$ 298,557

(iii) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return relative to risk.

Currency risk

The Company is exposed to currency risk on cash and cash equivalents, accounts receivable, duty deposits, accounts payable and provisions, long term debt, lease liabilities and intercompany loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations.

The Company routinely assesses its foreign exchange exposure and may use foreign currency exchange forward, collar and option contracts to manage its currency risk from time to time.

At December 31, 2021, the Company has U.S. Dollar drawings under its Senior Secured Notes of US$294,583,000 (2020 - US$300,000,000). These U.S. Dollar drawings have been designated as a hedge against the Company's net investment in its U.S. operations.

27. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

As at December 31, 2021, the domestic operations of the Company held cash and cash equivalents of US$134,430,000 (2020 – US$124,639,000). Cash and cash equivalents held by foreign subsidiaries totaled US$284,476,000 (2020 - US$229,075,000).

As at December 31, the Company's accounts receivable were denominated in the following currencies (in thousands):

2021	CAD	USD	Japanese ¥
Accounts receivable	52,269	18,246	-
Accounts receivable held by foreign subsidiaries with USD functional currency	-	57,077	-
	52,269	75,323	-
2020	**CAD**	**USD**	**Japanese ¥**
Accounts receivable	54,187	9,084	3,915
Accounts receivable held by foreign subsidiaries with USD functional currency	-	40,504	-
	54,187	49,588	3,915

Based on the Company's net exposure to foreign currencies as at December 31, 2021, the sensitivity of Company's annual Net earnings and Other comprehensive income (loss) are as follows:

U.S. Dollar	$0.01 increase vs CAD	$6,305,000 increase in Net earnings
U.S. Dollar	$0.01 increase vs CAD	$8,023,000 increase in OCI

Interest rate risk

Borrowings under the Revolving Term Line were minimal in 2021, resulting in little exposure to floating interest rate changes under its credit facilities. As a result, the sensitivity of a 100 basis point increase in interest rates would result in a negligible decrease in Net earnings.

Other market risk:

The Company does not enter into significant commodity contracts other than to meet the Company's expected usage and sale requirements.