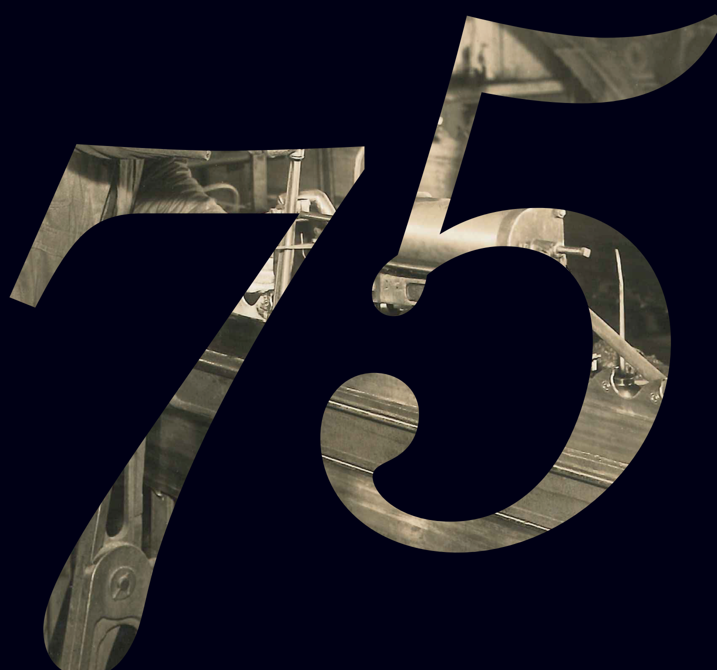
CANFOR CORPORATION

QUARTER 3 INTERIM REPORT 2013

FOR THE THREE MONTHS
ENDED SEPT 30, 2013



To Our Shareholders

Canfor Corporation today reported net income attributable to shareholders ("shareholder net income") of $28.4 million, or $0.20 per share, for the third quarter of 2013, compared to $110.3 million, or $0.77 per share, for the second quarter of 2013 and $20.5 million, or $0.14 per share, for the third quarter of 2012. For the nine months ended September 30, 2013, the Company's shareholder net income was $200.6 million, or $1.41 per share, compared to $5.1 million, or $0.03 per share, reported for the comparable period of 2012.

The shareholder net income for the third quarter of 2013 included various items affecting comparability with prior periods, which had an overall net positive impact on the Company's results of $2.2 million, or $0.02 per share. After adjusting for such items, the Company's adjusted shareholder net income for the third quarter of 2013 was $26.2 million, or $0.18 per share, down $61.5 million, or $0.43 per share, from an adjusted shareholder net income of $87.7 million, or $0.61 per share, for the second quarter of 2013. Adjusted shareholder net income for the third quarter of 2012 was $13.6 million, or $0.09 per share.

The Company reported operating income of $49.3 million for the third quarter of 2013, compared to operating income of $128.2 million for the second quarter. The decline in operating income largely reflected lower lumber sales realizations, increased market stumpage costs and lower lumber and pulp production volumes, partly offset by improved sales realizations for the pulp and paper segment.

The following table summarizes selected financial information for the Company for the comparative periods[1]:

(millions of Canadian dollars, except for per share amounts)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Sales	**$ 755.9**	$ 843.2	**$ 2,385.4**	$ 663.7	$ 1,942.5
Operating income	**$ 49.3**	$ 128.2	**$ 277.5**	$ 18.1	$ 22.3
Net income attributable to equity shareholders of Company	**$ 28.4**	$ 110.3	**$ 200.6**	$ 20.5	$ 5.1
Net income per share attributable to equity shareholders of Company, basic and diluted	**$ 0.20**	$ 0.77	**$ 1.41**	$ 0.14	$ 0.03
Adjusted shareholder net income (loss)	**$ 26.2**	$ 87.7	**$ 184.2**	$ 13.6	$ (1.3)
Adjusted shareholder net income (loss) per share	**$ 0.18**	$ 0.61	**$ 1.29**	$ 0.09	$ (0.02)

In a reversal of the trend experienced in the previous quarter, when North American lumber prices saw a sharp correction after peaking in early April, lumber prices in the third quarter showed a gradual improvement, supported by relatively solid global demand that, in part, reflected improving home prices and low home inventory levels in the U.S. Based on July and August 2013 data (latest data available), total U.S. housing starts were up 2% from the second quarter of 2013, averaging 887,000 units SAAR (seasonally adjusted annual rate). Canadian housing starts rose 4% from the second quarter of 2013 to 194,000 units SAAR, contributing to a marginal increase in lumber consumption. Continued solid demand from offshore markets supported steady offshore lumber shipments in the third quarter.

The average North American benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price for the third quarter of 2013 was US$328 per Mfbm, down US$7 per Mfbm, or 2%, from the previous quarter, while several other grades saw more significant declines. Overall average sales realizations were well down compared to the previous quarter, reflecting lower average prices in both North American and offshore markets and, to a lesser extent, an average export tax of 5% on shipments from Canada to the U.S., partly offset by a slightly weaker Canadian dollar. Price realizations from all markets reflected a carry-over of weaker market conditions experienced in June into the third quarter. In offshore markets, where the majority of pricing is negotiated monthly or quarterly in advance, the carry-over effect on realizations was more marked. Average sales realizations for Southern Yellow Pine ("SYP") products saw a moderate decrease from the previous quarter; while the benchmark SYP 2x4 #2 price of US$393 per Mfbm was down slightly from the second quarter, larger decreases were seen in wider dimension product prices.

Lumber shipments and production were down 56.5 million board feet (5%) and 79.5 million board feet (6%), respectively, from the previous quarter, principally reflecting capital-related downtime and subsequent ramp-ups related to upgrades at the Company's Elko and Mackenzie sawmills, semi-annual maintenance shuts at the Company's southern pine operations, as well as an additional day of statutory downtime in the third quarter.

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.

Lumber unit manufacturing costs increased compared to the previous quarter, principally reflecting market-driven stumpage increases in unit log costs as well as increased costs associated with severe flooding in the southeast area of British Columbia in the previous quarter. Unit manufacturing costs were further impacted by the aforementioned lower production levels in the current quarter.

Global softwood pulp markets were relatively steady through the quarter, despite the seasonally slower summer period. Average Northern Bleached Softwood Kraft ("NBSK") pulp list prices were relatively stable in all regions during the third quarter, with list prices to North America and Europe both up US$10 per tonne, to US$947 per tonne and US$867 per tonne, respectively. The NBSK pulp price to China was down US$15 per tonne, averaging US$685 per tonne in the quarter, but demand from China gathered momentum through the quarter, with the September price settling at US$695 per tonne. Third quarter average pulp sales realizations showed a modest increase, mostly as a result of the weaker Canadian dollar.

The Company's pulp shipments and production levels in the third quarter were impacted by a scheduled major maintenance outage at the Northwood Pulp Mill and lower overall operating rates. The Company's operational performance was also impacted by severe thunderstorms in the Prince George region resulting in power interruptions and shutdowns at all mill operations. Pulp unit manufacturing costs for the current quarter increased modestly from the previous quarter, largely reflecting the lower production levels as well as higher fibre costs, partially offset by the timing of maintenance spending, lower chemical costs and seasonally lower energy costs.

The Company continued to preserve its strong financial position, ending the quarter with cash and cash equivalents of $90 million, and a net debt to capitalization of 7.5%. For Canfor, excluding Canfor Pulp, net debt to capitalization at the end of the third quarter was 3.0%.

During the quarter, the Company completed the first phase of the previously announced purchase of Scotch & Gulf Lumber, LLC ("Scotch Gulf") for $29 million, representing an initial 25% interest in Scotch Gulf, plus transaction closing costs and a proportionate share of working capital. Canfor's interest will increase to 100% by August 2016.

Canfor's collective agreement with the USW expired on June 30, 2013. The Company and the USW have been actively pursuing negotiations for a new collective agreement. The USW has served strike notice for certain mills, however, negotiations are at the mediation stage and as such no strikes or lockouts can occur. Mediation talks are currently being held in abeyance to allow the USW to pursue negotiations with other parties.

As announced last week, the Company will permanently close its sawmill located in Quesnel, British Columbia. The Company anticipates that the closure will occur in March 2014. Canfor also entered into an agreement with West Fraser Mills Ltd. for an exchange in forest tenure rights, a non-replaceable license and undercut volumes. The timber availability in the Quesnel region following the mountain pine beetle infestation unfortunately leaves the Company unable to continue operation of the Quesnel sawmill. The additional fibre the Company has been able to secure in the exchange agreement with West Fraser enhances the fibre requirements for Canfor's Houston facility. Canfor is committed to minimizing the impacts of this closure on its Quesnel employees.

With respect to the fourth quarter of 2013, North American lumber consumption is forecast to show a modest improvement before an anticipated seasonal slowdown late in the period. The repair and remodeling sector is projected to benefit from a continued appreciation in home value, which encourages home improvement projects. Offshore markets are projected to remain fairly stable. Export taxes on shipments to the U.S. remained at 5% for October and will be 0% for November. NBSK pulp markets are projected to improve modestly in the fourth quarter of 2013, while a risk of price weakness continues to exist from further hardwood pulp capacity projected to come online in early 2014.

Ronald L. Cliff
Co - Chairman

Don B. Kayne
President and Chief Executive Officer

Michael J. Korenberg
Co - Chairman

Canfor Corporation
Third Quarter 2013
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended September 30, 2013 relative to the quarters ended June 30, 2013 and September 30, 2012, and the financial position of the Company at September 30, 2013. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2013 and 2012, as well as the 2012 annual MD&A and the 2012 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2012 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at October 30, 2013.

Forward Looking Statements

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

THIRD QUARTER 2013 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of Canadian dollars, except per share amounts)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Operating income (loss) by segment:					
Lumber	**$ 43.8**	$ 115.5	**$ 247.7**	$ 34.8	$ 33.1
Pulp and Paper	**$ 11.5**	$ 18.6	**$ 49.0**	$ (7.3)	$ 15.6
Unallocated and Other[6]	**$ (6.0)**	$ (5.9)	**$ (19.2)**	$ (9.4)	$ (26.4)
Total operating income	**$ 49.3**	$ 128.2	**$ 277.5**	$ 18.1	$ 22.3
Add: Amortization	**$ 44.8**	$ 49.6	**$ 141.3**	$ 43.2	$ 129.3
Total operating income before amortization	**$ 94.1**	$ 177.8	**$ 418.8**	$ 61.3	$ 151.6
Add (deduct):					
Working capital movements	**$ 4.6**	$ 96.9	**$ 7.0**	$ (17.2)	$ (21.9)
Defined benefit pension plan contributions	**$ (12.9)**	$ (12.6)	**$ (39.0)**	$ (14.8)	$ (41.5)
Other operating cash flows, net[2]	**$ (10.5)**	$ (1.9)	**$ 4.7**	$ (4.9)	$ 1.6
Cash from operating activities	**$ 75.3**	$ 260.2	**$ 391.5**	$ 24.4	$ 89.8
Add (deduct):					
Finance expenses paid	**$ (1.5)**	$ (7.5)	**$ (11.5)**	$ (1.4)	$ (11.9)
Distributions paid to non-controlling interests	**$ (2.4)**	$ (2.1)	**$ (6.9)**	$ (3.0)	$ (15.5)
Capital additions, net[3]	**$ (74.6)**	$ (48.8)	**$ (169.8)**	$ (44.1)	$ (198.7)
Investment in Scotch & Gulf Lumber, LLC	**$ (29.0)**	$ -	**$ (29.0)**	$ -	$ -
Loan to Scotch & Gulf Lumber, LLC	**$ (34.0)**	$ -	**$ (34.0)**	$ -	$ -
Proceeds from sale of Canfor-LP OSB[6]	**$ 1.3**	$ 76.6	**$ 77.9**	$ -	$ -
Drawdown (repayment) of long-term debt	**$ -**	$ (73.2)	**$ (73.2)**	$ -	$ 50.1
Other, net	**$ (16.9)**	$ 0.3	**$ (11.0)**	$ 10.0	$ 32.7
Change in cash / operating loans	**$ (81.8)**	$ 205.5	**$ 134.0**	$ (14.1)	$ (53.5)
ROIC – Consolidated[4]	**2.2%**	8.8%	**15.9%**	1.4%	1.3%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.963**	$ 0.977	**$ 0.977**	$ 1.005	$ 0.998

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.

[2] Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.

[3] Additions to property, plant and equipment include the acquisition of assets from Tembec Industries Ltd. ("Tembec") in the first quarter of 2012, and are shown net of amount received under Government funding initiatives in the pulp and paper segment.

[4] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives, equity income/loss from joint venture and other income/expense, all net of minority interest, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.

[5] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income (Loss)[1]

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Shareholder Net Income	**$ 28.4**	$ 110.3	**$ 200.6**	$ 20.5	$ 5.1
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (1.0)**	$ 1.8	**$ 3.1**	$ (4.0)	$ (4.3)
(Gain) loss on derivative financial instruments	**$ (2.2)**	$ 1.0	**$ (3.4)**	$ (4.4)	$ (5.3)
Canfor's 50% interest in Canfor-LP OSB's income, net of tax	**$ -**	$ 3.8	**$ 12.1**	$ -	$ -
(Gain) loss on sale of Canfor-LP OSB[6]	**$ 1.0**	$ (33.4)	**$ (32.4)**	$ -	$ -
Change in substantively enacted tax rate	**$ -**	$ 4.2	**$ 4.2**	$ -	$ -
Restructuring charges for management changes	**$ -**	$ -	**$ -**	$ 1.5	$ 1.5
Increase in fair value of ABCP	**$ -**	$ -	**$ -**	$ -	$ (1.1)
Costs related to Tembec acquisition	**$ -**	$ -	**$ -**	$ -	$ 2.8
Net impact of above items	**$ (2.2)**	$ (22.6)	**$ (16.4)**	$ (6.9)	$ (6.4)
Adjusted Shareholder Net Income (Loss)	**$ 26.2**	$ 87.7	**$ 184.2**	$ 13.6	$ (1.3)
Shareholder Net Income (Loss) per share (EPS), as reported	**$ 0.20**	$ 0.77	**$ 1.41**	$ 0.14	$ 0.03
Net impact of above items per share	**$ (0.02)**	$ (0.16)	**$ (0.12)**	$ (0.05)	$ (0.05)
Adjusted Shareholder Net Income (Loss) per share	**$ 0.18**	$ 0.61	**$ 1.29**	$ 0.09	$ (0.02)

[6] The Company completed the sale of its 50% share of the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") in the second quarter of 2013 and recorded a gain of $33.4 million (after tax). As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. An asset was recorded based on the fair value of this additional consideration and will be adjusted to current estimated fair value each reporting period. Based on the estimated fair value at September 30, 2013, a loss of $1.0 million (after tax) was recorded in the third quarter of 2013.

The Company reported operating income of $49.3 million for the third quarter of 2013, compared to operating income of $128.2 million for the second quarter. The decline in operating income largely reflected lower lumber sales realizations, increased market stumpage costs and lower lumber and pulp production volumes, partly offset by improved sales realizations for the pulp and paper segment.

In a reversal of the trend experienced in the previous quarter, when North American lumber prices saw a sharp correction after peaking in early April, lumber prices in the third quarter showed a gradual improvement, supported by relatively solid global demand that, in part, reflected improving home prices and low home inventory levels in the U.S. Based on July and August 2013 data (latest data available), total U.S. housing starts were up 2% from the second quarter of 2013, averaging 887,000 units SAAR (seasonally adjusted annual rate). Canadian housing starts rose 4% from the second quarter of 2013 to 194,000 units SAAR, contributing to a marginal increase in lumber consumption. Continued solid demand from offshore markets supported steady offshore lumber shipments in the third quarter.

The average North American benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price for the third quarter of 2013 was US$328 per Mfbm, down US$7 per Mfbm, or 2%, from the previous quarter, while several other grades saw more significant declines. Overall average sales realizations were well down compared to the previous quarter, reflecting lower average prices in both North American and offshore markets and, to a lesser extent, an average export tax of 5% on shipments from Canada to the U.S., partly offset by a slightly weaker Canadian dollar. Price realizations from all markets reflected a carry-over of weaker market conditions experienced in June into the third quarter. In offshore markets, where the majority of pricing is negotiated monthly or quarterly in advance, the carry-over effect on realizations was more marked. Average sales realizations for Southern Yellow Pine ("SYP") products saw a moderate decrease from the previous quarter; while the benchmark SYP 2x4 #2 price of US$393 per Mfbm was down slightly from the second quarter, larger decreases were seen in wider dimension product prices.

Lumber shipments and production were down 56.5 million board feet (5%) and 79.5 million board feet (6%), respectively, from the previous quarter, principally reflecting capital-related downtime and subsequent ramp-ups related to upgrades at the Company's Elko and Mackenzie sawmills, semi-annual maintenance shuts at the Company's southern pine operations, as well as an additional day of statutory downtime in the third quarter. Lumber unit manufacturing costs increased compared to the previous quarter, principally reflecting market-driven stumpage increases in unit log costs as well as increased costs associated with severe flooding in the southeast area of British Columbia in the previous quarter. Unit manufacturing costs were further impacted by the aforementioned lower production levels in the current quarter.

Global softwood pulp markets were relatively steady through the quarter, despite the seasonally slower summer period. Average Northern Bleached Softwood Kraft ("NBSK") pulp list prices were relatively stable in all regions during the third quarter, with list prices to North America and Europe both up US$10 per tonne, to US$947 per tonne and US$867 per tonne, respectively. The NBSK pulp price to China was down US$15 per tonne, averaging US$685 per tonne in the quarter, but demand from China gathered momentum through the quarter, with the September price settling at US$695 per tonne. Third quarter average pulp sales realizations showed a modest increase, mostly as a result of the weaker Canadian dollar.

The Company's pulp shipments and production levels in the third quarter were impacted by a scheduled major maintenance outage at the Northwood Pulp Mill and lower overall operating rates. The Company's operational performance was also impacted by severe thunderstorms in the Prince George region resulting in power interruptions and shutdowns at all mill operations. Pulp unit manufacturing costs for the current quarter increased modestly from the previous quarter, largely reflecting the lower production levels as well as higher fibre costs, partially offset by the timing of maintenance spending, lower chemical costs and seasonally lower energy costs.

Compared to the third quarter of 2012, operating income was up $31.2 million, driven by improved operating income for both the lumber and pulp and paper segments. For the most part, the improved results for the lumber segment reflected higher sales realizations and increased shipments, offset in part by increased log costs, while the increase in pulp and paper segment earnings was mostly attributable to improved pulp sales realizations.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber[7]

(millions of Canadian dollars unless otherwise noted)	**Q3 2013**	Q2 2013	**YTD 2013**	Q3 2012	YTD 2012
Sales	**$ 529.4**	$ 586.8	**$ 1,658.5**	$ 454.7	$ 1,241.9
Operating income before amortization	**$ 71.4**	$ 145.4	**$ 332.5**	$ 60.3	$ 108.3
Operating income	**$ 43.8**	$ 115.5	**$ 247.7**	$ 34.8	$ 33.1
Negative (positive) impact of inventory valuation adjustments[8]	**$ -**	$ -	**$ -**	$ -	$ (13.1)
Costs related to Tembec acquisition	**$ -**	$ -	**$ -**	$ -	$ 2.5
Operating income excluding impact of inventory valuation adjustments and unusual items	**$ 43.8**	$ 115.5	**$ 247.7**	$ 34.8	$ 22.5
Average SPF 2x4 #2&Btr lumber price in US$[9]	**$ 328**	$ 335	**$ 351**	$ 300	$ 287
Average SPF price in Cdn$	**$ 340**	$ 343	**$ 359**	$ 299	$ 288
Average SYP 2x4 #2 lumber price in US$[10]	**$ 393**	$ 392	**$ 412**	$ 322	$ 315
Average SYP price in Cdn$	**$ 408**	$ 401	**$ 422**	$ 320	$ 316
U.S. housing starts (thousand units SAAR)[11]	**887**	869	**907**	781	745
Production – SPF lumber (MMfbm)	**1,043.5**	1,119.1	**3,227.7**	973.9	2,872.0
Production – SYP lumber (MMfbm)	**131.3**	135.2	**401.2**	118.6	357.3
Shipments – SPF lumber (MMfbm)[12]	**1,066.4**	1,118.2	**3,188.8**	996.8	2,859.6
Shipments – SYP lumber (MMfbm)[12]	**139.5**	142.6	**405.4**	127.9	378.3
Shipments – wholesale lumber (MMfbm)	**5.2**	6.8	**19.1**	7.9	46.7

[7] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.

[8] In accordance with IFRS, Canfor records its log and finished product inventories at the lower of cost and net realizable value ("NRV"). Changes in inventory volumes, market prices, foreign exchange rates and costs over the respective reporting periods can all affect inventory valuation adjustments, if any, required at each period end.

[9] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).

[10] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).

[11] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR"). U.S. housing starts for Q3 2013 and YTD 2013 do not include data for September 2013.

[12] Canfor-produced lumber, including lumber purchased for remanufacture.

Overview

Operating income for the lumber segment was $43.8 million for the third quarter of 2013, a decrease of $71.7 million compared to operating income of $115.5 million in the previous quarter, and a $9.0 million improvement from operating income of $34.8 million reported for the third quarter of 2012.

Current quarter results compared to the previous quarter reflected lower prices in most markets, in part reflecting the carry-over of weaker market conditions from June into the third quarter, as well as higher export taxes, market-driven stumpage log cost increases, and lower production volumes resulting from capital projects completed in the current quarter.

The improvement in operating income compared to the third quarter of 2012 reflected higher market prices, lower export taxes and higher operating rates. Offsetting some of these gains were increased log costs reflecting higher market stumpage and to a lesser extent, increased costs associated with severe flooding in the southeast area of British Columbia in the prior quarter, coupled with the impact on production from the capital projects completed in the current quarter.

Markets

The positive trend in North American lumber prices through the third quarter of 2013 was supported by pent-up housing demand and lower home inventory levels. Based on July and August 2013 data (latest data available), total U.S. housing starts averaged 887,000 units[13] SAAR, up 2% from the second quarter and 14% higher compared to the third quarter of 2012. Single-family starts, where dimension lumber is mainly consumed, were up 2% from the previous quarter to an average of 608,000 units[13] SAAR for July and August 2013.

In Canada, lumber consumption increased marginally as Canadian housing starts averaged 194,000 units[14] SAAR for the quarter, up 8,000 units, or 4%, compared to the second quarter of 2013. Compared to the same quarter in 2012, Canadian housing starts were lower by 13% reflecting a slowdown in construction activity in several regions of the country.

The Company's offshore lumber shipments remained relatively unchanged from the previous quarter and were up slightly from the third quarter of 2012, supported principally by solid demand from China, Japan and Korea.

Sales

Sales for the lumber segment for the third quarter of 2013 were $529.4 million, compared to $586.8 million in the previous quarter reflected both reduced production as well as overall lower sales realizations. The increase in sales from $454.7 million in the third quarter of 2012 reflected both improved pricing and increased shipments resulting from higher production levels. Current quarter sales also reflected seasonally higher log sales compared to the previous quarter.

Total shipments in the third quarter of 2013 were just over 1.2 billion board feet, down 5% from the previous quarter, and up 7% from the third quarter of 2012. Compared to the previous quarter, the decrease in third quarter shipments principally reflected fewer operating hours resulting from capital and annual maintenance related downtime, while the increase compared to the same period in the prior year resulted from higher production levels which included the restart of the Radium mill at the end of 2012.

Overall sales realizations were down compared to the second quarter of 2013, reflecting weaker average prices in both North American and offshore markets, and an average export tax of 5% on shipments to the U.S., partly offset by a slightly weaker Canadian dollar over the period. For sales to North America, the average Random Lengths Western SPF 2x4 #2&Btr lumber price moved down US$7 per Mfbm, or 2%, to US$328 per Mfbm, while some other grades experienced more significant declines. Price realizations from all markets reflected a carry-over of weaker market conditions experienced in June into the third quarter, in contrast to the opposite trend seen in the comparable quarter. In offshore markets, due to the majority of pricing being negotiated monthly or quarterly in advance, the carry-over effect on realizations was more marked. Sales realizations for SYP products experienced a moderate decrease from the previous quarter; while the benchmark SYP 2x4 #2 price of US$393 per Mfbm was down slightly from the second quarter, larger decreases were seen in wider dimension products. The average value of the Canadian dollar compared to the US dollar in the third quarter was down 1 cent, or 1%, from the previous quarter, benefitting current quarter sales realizations.

[13] U.S. Census Bureau
[14] CMHC – Canada Mortgage and Housing Corporation

Compared to the third quarter of 2012, sales realizations were also impacted by the aforementioned carry-over of weaker market conditions from the second quarter of 2013, but benefited from increased market prices for most grades as well as lower export taxes and a weaker Canadian dollar. The benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$28 per Mfbm, or 9%, compared to the third quarter of 2012. Solid year-over-year increases were also recorded for most other grades and dimensions, with the exception of low grade prices, which were relatively flat quarter-over-quarter. Offshore pricing also showed solid increases for most grades, except for low grades, compared to the same quarter in 2012. SYP products experienced strong gains, with the benchmark SYP 2X4 #2 price up US$71 per Mfbm, or 22%. Realizations also benefited from a 4 cent, or 4%, weaker Canadian dollar.

Total residual fibre revenue was down from the second quarter of 2013, primarily reflecting lower shipments of sawmill residual chips partially offset by a moderate increase in sawmill residual chip prices tied to higher NBSK pulp sales realizations and other seasonal factors. Compared to the third quarter of 2012, total residual fibre revenue was up, reflecting higher shipments of sawmill residual chips and, to a lesser extent, a market-driven increase in sawmill residual chip prices.

Operations

Lumber production, at just under 1.2 billion board feet, was down 6% from the previous quarter, reflecting downtime and the subsequent ramp-ups related to capital projects at the Company's Elko and Mackenzie sawmills, semi-annual maintenance shuts at the Company's southern pine operations and an additional day of statutory downtime in the current quarter. The reduction in current quarter production also reflected reduced overtime shifts, offset slightly by productivity improvements at several mills. Compared to the third quarter of 2012, lumber production was up 8% primarily reflecting the restart of the Radium mill in late 2012 as well as continued productivity improvements from various capital projects undertaken in the last year.

Overall, the Company's lumber unit manufacturing costs were up compared to the previous quarter, resulting from an increase in unit log costs coupled with moderate increases in unit cash conversions costs. The increase in unit log costs predominantly reflected market-driven increases in stumpage as well as increased costs associated with severe flooding in the prior quarter. The increase in unit cash conversion costs largely reflected the lower production levels relating to planned capital and maintenance downtime in the current quarter as well as costs related to preparation for additional shifts at the Company's southern pine operations.

Compared to the third quarter of 2012, unit manufacturing costs were higher, reflecting higher unit log costs, largely the result of market-related factors in the B.C. timber pricing system and, to a lesser extent, logging rate increases. Unit cash conversions costs in the current period also reflected ongoing dust control initiatives.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[15, 16]

(millions of Canadian dollars unless otherwise noted)	**Q3 2013**	Q2 2013	**YTD 2013**	Q3 2012	YTD 2012
Sales	**$ 224.6**	$ 255.5	**$ 723.6**	$ 206.3	$ 695.1
Operating income before amortization	**$ 28.5**	$ 38.0	**$ 104.8**	$ 8.4	$ 64.1
Operating income (loss)	**$ 11.5**	$ 18.6	**$ 49.0**	$ (7.3)	$ 15.6
Average pulp price delivered to U.S. – US$[17]	**$ 947**	$ 937	**$ 927**	$ 853	$ 874
Average price in Cdn$	**$ 983**	$ 959	**$ 949**	$ 849	$ 876
Production – pulp (000 mt)	**274.8**	301.6	**893.4**	276.8	855.8
Production – paper (000 mt)	**33.8**	35.3	**103.9**	31.9	94.8
Shipments – pulp (000 mt)	**267.5**	307.8	**883.5**	268.9	878.8
Shipments – paper (000 mt)	**35.5**	37.2	**107.7**	30.6	97.0

[15] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.
[16] Includes the Taylor pulp mill and 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's results. Pulp production and shipment volumes presented are for both NBSK and bleached chemi-thermo mechanical pulp ("BCTMP").
[17] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

Operating income for the pulp and paper segment was $11.5 million for the second quarter of 2013, down $7.1 million from the previous quarter, and up $18.8 from the third quarter of 2012.

Compared to the previous quarter, results for the pulp and paper segment reflected lower production and shipment volumes, partially mitigated by a modest improvement in sales realizations resulting mostly from a weakening of the Canadian dollar against the US dollar. Results in the current quarter were impacted by a scheduled maintenance outage at the Northwood Pulp Mill and lower overall operating rates, which contributed to the lower production volumes and increased unit manufacturing costs.

Improved results for the pulp and paper segment compared to the third quarter of 2012 principally reflected improved NBSK pulp sales realizations, resulting from an 11% increase in NBSK pulp list prices and to a lesser extent, a 4% weaker Canadian dollar. Partially offsetting these favourable impacts were increased volume to lower-margin regions, principally China, and upward pressure on discounts in North American markets. Unit manufacturing costs were in line with the same period in 2012, as higher fibre costs, resulting mainly from increased sawmill residual chips market prices (linked to NBSK market pulp sales realizations), were offset by a reduction in chemical and labour costs, the latter reflecting one-time costs of $3.2 million recorded in the third quarter of 2012 associated with new five year collective labour agreements. Pulp shipment and production volumes for the third quarter of 2013 were in line with the comparable period of the prior year.

Markets

Global softwood pulp markets held up relatively well through the seasonally slow summer period with stable pricing and demand through the quarter. Global softwood pulp producer inventory levels were balanced during the quarter, decreasing to 27 days' supply in September 2013, from 28 days in June 2013[18]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood sulphate pulp increased 2% for the first nine months of 2013[19] compared to the same period in 2012. The improvement in softwood pulp shipments was primarily driven by increased demand from North America and Europe, partially offset by reduced demand from China earlier in the quarter. Looking ahead, global softwood pulp markets are projected to improve modestly in the fourth quarter of 2013 with steady demand and balanced producer inventory levels.

Sales

The Company's pulp shipments in the third quarter of 2013 were 267,500 tonnes, a decrease of 40,300 tonnes, or 13%, from the previous quarter, mostly due to lower production volumes. Compared to the third quarter of 2012, shipments were relatively unchanged however, for both periods, shipments were well below historical levels, due largely to the extended maintenance outages in the third quarters of both 2013 and 2012.

Average NBSK pulp list prices were relatively stable in all regions during the third quarter. North American and European NBSK pulp list prices were both up US$10 per tonne, with the list price to North America averaging US$947 per tonne while the list price to Europe averaged US$867 per tonne in the quarter. The North American market continued to experience upward pressure on discounts. The NBSK pulp price to China declined US$15 per tonne averaging US$685 per tonne in the quarter, but demand from China gathered momentum through the quarter, with the September price settling at US$695 per tonne. Current quarter sales realizations showed a modest increase, mostly as a result of 1% weakening of the Canadian dollar against the US dollar. Bleached chemi-thermo mechanical pulp ("BCTMP") average sales realizations showed a modest decrease compared to the previous quarter reflecting continuing downward price pressure for most of the quarter.

Compared to the third quarter of 2012, NBSK pulp sales realizations were higher, with an 11% gain in the average NBSK pulp list price to North America and a 4% weaker Canadian dollar, more than offsetting increased volume to lower-margin regions, principally China, and higher discounts in North American markets. The North American average NBSK pulp list price increased US$94 per tonne and the list price to Europe increased US$90 per tonne. The NBSK pulp list price to China increased US$55 per tonne. BCTMP sales realizations experienced modest decreases compared to the third quarter of 2012, principally reflecting lower market pricing, offset in part by the weaker Canadian dollar.

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

[19] As reported by Pulp and Paper Products Council ("PPPC") statistics.

Operations

Pulp production in the current quarter was 274,800 tonnes, down 26,800 tonnes, or 9%, from the previous quarter, and was relatively unchanged when compared to the third quarter of 2012.

The reduced production in the current quarter reflected completion of the scheduled major maintenance outage at the Northwood Pulp Mill and lower overall operating rates compared to both comparable periods. The outage at the Northwood Pulp Mill included upgrades to the recovery boiler, and impacted production by 32,000 tonnes in the current quarter, in addition to the impact of 12,000 tonnes in the prior quarter. The Company's operational performance in the current quarter was also impacted by severe thunderstorms in the Prince George region which resulted in power interruptions and related shutdown of all operations, impacting production by 10,000 tonnes. In the third quarter of 2012, production levels included an extended scheduled outage for maintenance and capital upgrades at the Company's Prince George Pulp Mill.

Pulp unit manufacturing costs experienced a modest increase from the previous quarter, largely reflecting the impact of lower production levels and higher fibre costs, partially offset by the timing of maintenance spending, lower chemical costs and seasonally lower energy costs. Fibre costs increased moderately compared to the previous quarter, reflecting higher-cost sawmill residual chips, where prices are linked to NBSK pulp sales realizations, and increased whole log chip costs mainly related to pressure on stumpage rates.

Compared to the third quarter of 2012, unit manufacturing costs were largely unchanged, primarily reflecting the impact of reduced chemical costs and lower labour costs, offset by higher fibre costs. The higher labour costs in the third quarter of 2012 reflected one-time costs of $3.2 million associated with payments made upon ratification of the new five year collective labour agreements. Fibre costs saw a moderate increase, reflecting increased prices for sawmill residual chips (linked to NBSK market pulp sales realizations) coupled with increased prices for higher-cost whole log chips.

Unallocated and Other Items

Selected Financial Information[20]

(millions of Canadian dollars)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Operating income (loss) of Panels operations[21]	**$ 0.1**	$ (0.6)	**$ (1.2)**	$ (1.9)	$ (4.3)
Corporate costs	**$ (6.1)**	$ (5.3)	**$ (18.0)**	$ (7.5)	$ (22.1)
Finance expense, net	**$ (6.4)**	$ (6.3)	**$ (21.5)**	$ (8.1)	$ (25.1)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ 2.3**	$ (4.0)	**$ (5.5)**	$ 6.5	$ 6.7
Gain (loss) on derivative financial instruments	**$ 4.0**	$ (2.7)	**$ 4.6**	$ 6.8	$ 7.9
Gain on sale of Canfor–LP OSB joint venture	**$ -**	$ 38.3	**$ 38.3**	$ -	$ -
Other income (expense), net	**$ (3.9)**	$ 6.8	**$ 4.6**	$ 1.4	$ 3.4

[20] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.

[21] The Panels operations include the Company's PolarBoard OSB plant, which is currently indefinitely idled and its Tackama plywood plant, which was closed in January 2012.

Corporate costs were $6.1 million for the third quarter of 2013, up $0.8 million from the previous quarter, primarily reflecting higher share-based compensation expenses. Corporate costs were down $1.4 million compared to the third quarter of 2012, largely due to restructuring costs associated with the integration of Canfor Pulp included in the comparative period of 2012.

Net finance expense for the third quarter of 2013 was $6.4 million, in line with the previous quarter. Compared to the third quarter of 2012, finance expense was down $1.7 million, principally reflecting the lower debt level and higher cash balance through the current quarter. Net finance expense for the 2012 periods has been restated for adoption of amended IAS 19, *Employee Benefits*, as further discussed in the "Changes in Accounting Policies" section later in this document.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt of $2.3 million for the third quarter of 2013, as a result of a slightly stronger Canadian dollar against the US dollar at the close of the third quarter of 2013 compared to the end of the prior quarter, with the closing quarter end exchange rate rising by 2% over that period. In the second quarter of 2013, a weakening of the Canadian dollar at the quarter end close dates resulted in a translation loss of $4.0 million, while the third quarter of 2012 showed a gain of $6.5 million due to a strengthening of the Canadian dollar against the US dollar at the respective quarter ends.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices and interest rates. For the third quarter of 2013, the Company recorded a net gain of $4.0 million related to derivative financial instruments, primarily reflecting unrealized gains on the US dollar collars, related to the strengthening of the Canadian dollar at the close of the current quarter relative to the exchange rate at the close of the second quarter of 2013.

The following table summarizes the gains (losses) on derivative financial instruments for the comparable periods:

(millions of Canadian dollars)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Foreign exchange collars and forward contracts	**$ 3.9**	$ (5.4)	**$ (0.1)**	$ 3.8	$ 4.2
Energy derivatives	**$ 0.3**	$ (0.3)	**$ 0.1**	$ 1.5	$ 0.9
Lumber futures	**$ 0.4**	$ 1.4	**$ 4.0**	$ 1.3	$ 3.9
Interest rate swaps	**$ (0.6)**	$ 1.6	**$ 0.6**	$ 0.2	$ (1.1)
	$ 4.0	$ (2.7)	**$ 4.6**	$ 6.8	$ 7.9

Other expense, net for the third quarter of 2013 included a $1.4 million negative fair value adjustment to the Canfor-LP OSB contingent consideration asset, largely reflecting weaker OSB prices during the quarter. In the previous quarter, the initial fair value estimate for the contingent consideration arrangement was included in the gain on sale of the Canfor-LP OSB joint venture (see further discussion in the "Sale of Peace Valley OSB Joint Venture" section later in this document). Contributing to other expense in the third quarter of 2013 were unfavourable foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations of $2.7 million, compared to a favourable movement of $3.2 million in the previous quarter and an unfavourable movement of $2.5 million in the third quarter of 2012.

Other Comprehensive Income (Loss)

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods[22]:

(millions of Canadian dollars)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Foreign exchange translation differences for foreign operations	**$ (5.6)**	$ 9.1	**$ 7.0**	$ (7.0)	$ (6.5)
Defined benefit actuarial gains (losses), net of tax	**$ 17.1**	$ 28.4	**$ 51.3**	$ (14.8)	$ (38.8)
Other comprehensive income (loss), net of tax	**$ 11.5**	$ 37.5	**$ 58.3**	$ (21.8)	$ (45.3)

[22] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits.* Further details can be found in the Company's unaudited interim consolidated financial statements.

In the third quarter of 2013, the Company recorded an after-tax credit to the statements of other comprehensive income (loss) of $17.1 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The gain principally reflects the return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation. In the previous quarter, a credit of $28.4 million (after-tax) was recorded, while an after-tax charge of $14.8 million was recorded in the third quarter of 2012.

In addition, the Company recorded $5.6 million of other comprehensive loss in the quarter for foreign exchange differences for foreign operations, reflecting unfavourable foreign exchange movements during the quarter. The Canadian dollar weakened over the previous quarter, resulting in other comprehensive income of $9.1 million, while the strengthening of the Canadian dollar over the third quarter of 2012 resulted in other comprehensive loss of $7.0 million in that quarter.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow and selected ratios for and as at the end of the following periods[23]:

(millions of Canadian dollars, except for ratios)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Increase (decrease) in cash and cash equivalents	**$ (81.8)**	$ 165.5	**$ 107.0**	$ (14.1)	$ (36.5)
Operating activities	**$ 75.3**	$ 260.2	**$ 391.5**	$ 24.4	$ 89.8
Financing activities	**$ (3.9)**	$ (122.8)	**$ (118.6)**	$ (4.4)	$ 40.0
Investing activities	**$ (153.2)**	$ 28.1	**$ (165.9)**	$ (34.1)	$ (166.3)
Ratio of current assets to current liabilities			**1.6 : 1**		1.4 : 1
Net debt to capitalization			**7.5%**		19.3%
ROIC – Consolidated	**2.2%**	8.8%	**15.9%**	1.4%	1.3%
ROCE - Canfor solid wood business[24]	**2.5%**	7.0%	**15.3%**	2.5%	1.1%

[23] Certain prior period amounts have been restated due to the adoption of IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.

[24] Return on Capital Employed ("ROCE") for the Canfor solid wood business represents consolidated ROCE adjusted to remove the Company's interest in Canfor-LP OSB and pulp and paper operations, including Canfor Pulp and the Taylor pulp mill. Consolidated ROCE is equal to shareholder net income for the period plus finance expense, after tax, divided by the average capital employed during the period (which consists of current and long-term debt and operating loans, and shareholders' equity, less cash and temporary investments).

Changes in Financial Position

Cash generated from operating activities was $75.3 million in the third quarter of 2013, compared to cash generated of $260.2 million in the previous quarter and $24.4 million in the same quarter of 2012. The decrease in cash generated from operating activities compared to the previous quarter reflected lower cash earnings coupled with a seasonal increase in log inventory levels as timber harvesting resumed subsequent to the Canadian spring break-up period in the second quarter. Partially offsetting these decreases in operating cash flows were lower accounts receivable balances, in part reflecting lower lumber prices and sales volumes compared to the previous quarter, and higher stumpage payable balances consistent with stumpage rate increases in the current quarter. The second quarter of 2013 also included seasonally higher reforestation related payments. Compared to the third quarter of 2012, the increase in cash generated from operating activities principally reflects higher cash earnings and favourable working capital movements.

Financing activities used cash of $3.9 million in the current quarter, compared to $122.8 million in the previous quarter and $4.4 million in the third quarter of 2012. Finance expenses paid in the current quarter were $1.5 million, down $6.0 million from the previous quarter and in line with the third quarter of 2012, principally reflecting the timing of scheduled interest payments on long-term debt. Cash distributions to non-controlling interests were $2.4 million, compared to $2.1 million in the previous quarter and $3.0 million in the same quarter in the prior year. In the previous quarter, the Company also repaid its US$75 million 5.42% term debt and repaid $40.0 million outstanding operating loans.

Investing activities used cash of $153.2 million in third quarter of 2013, compared to cash generated of $28.1 million in previous quarter and cash used of $34.1 million in the same quarter in 2012. During the current quarter, Canfor completed the first phase of the purchase of Scotch & Gulf Lumber, LLC which included payment of $29.0 million for an initial 25% equity investment plus transaction closing costs and a proportionate share of working capital and $34.0 million loaned to Scotch & Gulf Lumber, LLC under a term loan agreement (see further discussion in the "Phased Purchase of Scotch & Gulf Lumber, LLC" section later in this document). Cash used for capital additions was $74.6 million, up $25.8 million from the previous quarter and up $20.5 million from the third quarter of 2012. Capital additions for lumber segment in the current quarter included the Mackenzie and Elko sawmill rebuilds. In the pulp segment, current quarter capital expenditures of $26.8 million primarily related to continued preparation for the turbine upgrades at the Company's Northwood Pulp Mill planned for early in 2014, work performed on a power boiler precipitator at the Prince George Pulp Mill as well as maintenance capital related to the scheduled outages in the current and previous quarter.

Cash used for investing activities in the current quarter also included share purchases of $17.7 million (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following “Liquidity and Financial Requirements” section). Investing activities in the previous quarter also included $76.6 million in proceeds from the sale of the Company’s 50% share in Canfor-LP OSB joint venture. Both comparative quarters included distributions received from the Canfor-LP OSB joint venture, with $9.5 million received in the second quarter of 2013 and $8.5 million received in the third quarter of 2012.

Liquidity and Financial Requirements

At September 30, 2013, the Company on a consolidated basis had cash of $89.9 million and operating loan facilities of $467.5 million which were unused, except for $25.9 million reserved for several standby letters of credit.

The Company and Canfor Pulp remained in compliance with the covenants relating to their operating loans and long-term debt during the quarter, and expect to remain so for the foreseeable future.

Canfor Pulp has US$110.0 million of term debt that is scheduled for repayment on November 30, 2013, and the Company currently intends to repay this using a combination of cash on hand and its revolving operating loan facility. Canfor’s $100.0 million term debt is scheduled for repayment on February 13, 2017.

The Company’s consolidated net debt to total capitalization at the end of the third quarter of 2013 was 7.5%. For Canfor, excluding Canfor Pulp, net debt to capitalization at the end of the third quarter was 3.0%.

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 7,137,621 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid may continue until March 4, 2014. During the third quarter of 2013, Canfor purchased 609,700 common shares for $12.5 million. Also during the third quarter of 2013, $3.8 million was paid for share purchases made late in the previous quarter. For the nine months ended September 30, 2013, Canfor purchased 1,373,238 common shares for $26.6 million. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor’s ownership of CPPI to 50.4% by quarter end.

Phased Purchase of Scotch & Gulf Lumber, LLC

On August 9, 2013, the Company completed the first phase of the previously announced purchase of Scotch & Gulf Lumber, LLC (“Scotch Gulf”) for $29.0 million, representing an initial 25% interest in Scotch Gulf, plus transaction closing costs and a proportionate share of working capital. Canfor’s initial 25% interest will increase over a 3 year period to 33% after twelve months, 50% after eighteen months and 100% at the end of the term in August 2016. Both Canfor and Scotch Gulf have options under the purchase agreement to accelerate the final closing of the phased purchase to a date earlier than August 2016 under certain conditions. The aggregate purchase price for Scotch Gulf is US$80 million, plus working capital and transaction closing costs of US$30.5 million.

As part of the transaction, Scotch Gulf borrowed $34.0 million from Canfor in the form of a term loan that will be repaid from the distribution of cash earnings over the course of the phased purchase agreement with any net outstanding amount at August 2016 applied against the final phase purchase price payment. The term loan has an interest rate equal to the floating rate on Canfor’s principal operating loans plus 1.00% and is secured by Scotch Gulf’s operating assets. At September 30, 2013, the term loan receivable is included in Long-term Investments and Other on the balance sheet.

Sale of Canfor-LP OSB Joint Venture

On May 31, 2013, the Company completed the sale of its 50% share in Canfor-LP OSB, which owns the Peace Valley OSB mill, to Louisiana-Pacific Corporation for cash proceeds of $77.9 million including working capital. A pre-tax gain on sale of $38.3 million was recorded in the second quarter of 2013 which included recognition of Canfor’s share of the operating income for the first half of 2013.

As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, contingent on Peace Valley OSB’s annual adjusted earnings before interest, tax, depreciation and amortization. The fair value of the contingent consideration as at the close of the current quarter was $17.6 million, with the current portion presented in Other Accounts Receivable and the long-term portion presented in Long-Term Investments and Other. During the third quarter of 2013, Canfor recognized a $1.4 million negative fair value adjustment on the contingent consideration.

Canfor’s Collective Agreement with the United Steelworkers (USW)

Canfor’s collective agreement with the USW expired on June 30, 2013. The Company and the USW have been actively pursuing negotiations for a new collective agreement. The USW has served strike notice for certain mills, however, negotiations are at the mediation stage and as such no strikes or lockouts can occur. Mediation talks are currently being held in abeyance to allow the USW to pursue negotiations with other parties.

OUTLOOK

Lumber

With respect to the fourth quarter of 2013, North American lumber consumption is forecast to show a modest improvement before an anticipated seasonal slowdown late in the period. The repair and remodeling sector is projected to also benefit from a continued appreciation in home value, which encourages home improvement projects. Offshore markets are projected to remain fairly stable. Export taxes on shipments to the U.S. remained at 5% for October and will be 0% for November.

Pulp and Paper

NBSK pulp markets are projected to improve modestly in the fourth quarter of 2013. Producer inventories are balanced with steady demand and solid order files through the first half of the fourth quarter. For the month of October, Canfor Pulp has announced an increase in the NBSK pulp list price of US$20 per tonne in all regions and an additional price increase of US$20 per tonne for all regions effective November 1st. A risk of price weakness continues to exist from further hardwood pulp capacity projected to come online in early 2014.

OUTSTANDING SHARES

At October 30, 2013, there were 141,379,193 common shares outstanding.

SUBSEQUENT EVENT

On October 24, 2013, the Company announced that it will permanently close its sawmill located in Quesnel, British Columbia. The Company anticipates that the closure will occur in March 2014. The accounting impact of severance and closure costs is currently estimated to be in the range of $18 to $20 million (before tax).

On October 24, 2013, Canfor also announced that it has entered into an agreement with West Fraser Mills Ltd. (“West Fraser”) for an exchange in forest tenure rights. Canfor is exchanging 382,194 m3 of replaceable forest license allowable annual cut in the Quesnel Timber Supply Area with West Fraser in exchange for receiving 324,500 m3 of replaceable forest license allowable annual cut in the Morice Timber Supply Area. The companies are also exchanging a non-replaceable license and undercut volumes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans and asset retirement and deferred reforestation obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company’s financial condition.

CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- The Company adopted IFRS 11, *Joint Arrangements*, which redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. Under the new Standard, joint ventures are accounted for using the equity method accounting as set out in IAS 28, *Investments in Associates and Joint Ventures*, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operations. Canfor’s 50% interest in Canfor-LP OSB was classified as a joint venture and accounted for using the equity method. The Company has restated its comparative period results for adoption of IFRS 11. Further details can be found in Note 13 to the Company's unaudited interim consolidated financial statements.

- The Company adopted the amended IAS 19, *Employee Benefits* which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset). The Company has restated its comparative period results for adoption of amended IAS 19. Further details can be found in Note 13 to the Company's unaudited interim consolidated financial statements.

- The Company also adopted IFRS 10, *Consolidated Financial Statements,* IFRS 13, *Fair Value Measurement,* and IAS 1, *Presentation of Financial Statements,* effective January 1, 2013. These Standards did not result in material impacts on the amounts recorded in the financial statements of Canfor.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.

Further details of the new accounting Standard and the potential impact on Canfor can be found in the Company's Annual Report for the year ended December 31, 2012.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2013, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2012 annual statutory reports which are available on www.canfor.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION[25]

	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Sales and income								
(millions of Canadian dollars)								
Sales	**$ 755.9**	$ 843.2	$ 786.3	$ 700.3	$ 663.7	$ 685.0	$ 593.8	$ 576.2
Operating income (loss)	**$ 49.3**	$ 128.2	$ 100.0	$ 49.0	$ 18.1	$ 22.6	$ (18.4)	$ (63.1)
Net income (loss)	**$ 33.6**	$ 114.3	$ 67.5	$ 24.7	$ 18.8	$ 5.0	$ (12.9)	$ (38.1)
Shareholder net income (loss)	**$ 28.4**	$ 110.3	$ 61.9	$ 21.3	$ 20.5	$ 2.6	$ (18.0)	$ (44.1)
Per common share (dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.20**	$ 0.77	$ 0.43	$ 0.15	$ 0.14	$ 0.02	$ (0.13)	$ (0.31)
Statistics								
Lumber shipments (MMfbm)	**1,211**	1,268	1,135	1,149	1,133	1,158	994	974
Pulp shipments (000 mt)	**268**	308	308	298	269	282	328	275
Average exchange rate – US$/Cdn$	**$ 0.963**	$ 0.977	$ 0.991	$ 1.009	$ 1.005	$ 0.990	$ 0.999	$ 0.977
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 328**	$ 335	$ 391	$ 335	$ 300	$ 295	$ 266	$ 238
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 393**	$ 392	$ 452	$ 386	$ 322	$ 325	$ 298	$ 260
Average OSB price – North Central (US$)	**$ 252**	$ 345	$ 418	$ 332	$ 312	$ 235	$ 202	$ 190
Average NBSK pulp list price delivered to U.S. (US$)	**$ 947**	$ 937	$ 897	$ 863	$ 853	$ 900	$ 870	$ 920

[25] Certain 2012 amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements*. 2011 amounts have not been restated. Further details can be found in the Company's unaudited interim consolidated financial statements.

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to manufacturing facilities. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and summer months. These factors, along with global supply and demand conditions, affect the Company's shipment volumes.

Other material factors that impact the comparability of the quarters are noted below[26]:

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Shareholder net income (loss), as reported	**$ 28.4**	$ 110.3	$ 61.9	$ 21.3	$ 20.5	$ 2.6	$ (18.0)	$ (44.1)
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (1.0)**	$ 1.8	$ 2.3	$ 1.2	$ (4.0)	$ 2.4	$ (2.7)	$ (3.3)
(Gain) loss on derivative financial instruments	**$ (2.2)**	$ 1.0	$ (2.2)	$ 6.5	$ (4.4)	$ 4.2	$ (5.1)	$ (6.7)
Canfor's 50% interest in Canfor-LP OSB's income, net of tax	**$ -**	$ 3.8	$ 8.3	$ -	$ -	$ -	$ -	$ -
(Gain) loss on sale of Canfor-LP OSB	**$ 1.0**	$ (33.4)	$ -	$ -	$ -	$ -	$ -	$ -
Change in substantively enacted tax rate	**$ -**	$ 4.2	$ -	$ -	$ -	$ -	$ -	$ -
Net gain on post retirement and pension plan amendments	**$ -**	$ -	$ -	$ (8.7)	$ -	$ -	$ -	$ -
Restructuring costs related to changes in management group	**$ -**	$ -	$ -	$ -	$ 1.5	$ -	$ -	$ -
Decrease (increase) in fair value of asset-backed commercial paper	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (1.1)	$ (0.5)
Costs recorded in relation to Tembec acquisition	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 2.8	$ -
Mill closure provisions	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 17.0
Asset impairment charges	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 5.5
Net impact of above items	**$ (2.2)**	$ (22.6)	$ 8.4	$ (1.0)	$ (6.9)	$ 6.6	$ (6.1)	$ 12.0
Adjusted shareholder net income (loss)	**$ 26.2**	$ 87.7	$ 70.3	$ 20.3	$ 13.6	$ 9.2	$ (24.1)	$ (32.1)
Shareholder net income (loss) per share (EPS), as reported	**$ 0.20**	$ 0.77	$ 0.43	$ 0.15	$ 0.14	$ 0.02	$ (0.13)	$ (0.31)
Net impact of above items per share	**$ (0.02)**	$ (0.16)	$ 0.06	$ (0.01)	$ (0.05)	$ 0.05	$ (0.05)	$ 0.09
Adjusted net income (loss) per share	**$ 0.18**	$ 0.61	$ 0.49	$ 0.14	$ 0.09	$ 0.07	$ (0.18)	$ (0.22)

[26] Certain 2012 amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* 2011 amounts have not been restated. Further details can be found in the Company's unaudited interim consolidated financial statements.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2013**		As at December 31, 2012 (Note 13)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**89.9**	$	-
Accounts receivable - Trade		**126.3**		102.7
- Other		**48.5**		57.5
Inventories (Note 2)		**448.2**		431.3
Prepaid expenses and other assets		**47.5**		23.4
Investment in joint venture held for sale (Note 12)		**-**		75.1
Total current assets		**760.4**		690.0
Property, plant and equipment		**1,129.9**		1,081.7
Timber licenses		**542.1**		554.6
Goodwill and other intangible assets		**88.3**		80.4
Long-term investments and other (Note 3)		**114.8**		44.6
Deferred income taxes, net		**6.4**		39.3
Total assets	**$**	**2,641.9**	$	2,490.6
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**-**	$	17.1
Operating loans (Note 4(a))		**-**		27.0
Accounts payable and accrued liabilities		**324.7**		258.4
Current portion of long-term debt (Note 4(b))		**113.3**		184.1
Current portion of deferred reforestation obligations		**37.2**		37.3
Total current liabilities		**475.2**		523.9
Long-term debt (Note 4(b))		**103.0**		100.0
Retirement benefit obligations		**223.1**		311.7
Deferred reforestation obligations		**69.8**		78.4
Other long-term liabilities		**14.0**		13.6
Deferred income taxes, net		**207.1**		151.1
Total liabilities	**$**	**1,092.2**	$	1,178.7
EQUITY				
Share capital	**$**	**1,115.4**	$	1,126.2
Contributed surplus		**31.9**		31.9
Retained earnings (deficit)		**195.5**		(35.1)
Accumulated foreign exchange translation differences		**(3.5)**		(10.5)
Total equity attributable to equity holders of the Company		**1,339.3**		1,112.5
Non-controlling interests		**210.4**		199.4
Total equity	**$**	**1,549.7**	$	1,311.9
Total liabilities and equity	**$**	**2,641.9**	$	2,490.6

Subsequent Event (Note 14)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, R.L. Cliff

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2013	3 months ended September 30, 2012 (Note 13)	9 months ended September 30, 2013	9 months ended September 30, 2012 (Note 13)
Sales	**$ 755.9**	$ 663.7	**$ 2,385.4**	$ 1,942.5
Costs and expenses				
Manufacturing and product costs	**507.6**	449.3	**1,508.0**	1,325.6
Freight and other distribution costs	**132.2**	120.3	**403.1**	369.8
Export taxes	**6.5**	10.6	**6.5**	35.7
Amortization	**44.8**	43.2	**141.3**	129.3
Selling and administration costs	**15.0**	15.2	**46.1**	46.1
Restructuring, mill closure and severance costs	**0.5**	7.0	**2.9**	13.7
	706.6	645.6	**2,107.9**	1,920.2
Operating income	**49.3**	18.1	**277.5**	22.3
Finance expense, net	**(6.4)**	(8.1)	**(21.5)**	(25.1)
Foreign exchange gain (loss) on long-term debt and investments, net	**2.3**	6.5	**(5.5)**	6.7
Gain on derivative financial instruments (Note 6)	**4.0**	6.8	**4.6**	7.9
Gain on sale of Canfor-LP OSB joint venture (Note 12)	**-**	-	**38.3**	-
Other income (expense), net	**(3.9)**	1.4	**4.6**	3.4
Net income before income taxes	**45.3**	24.7	**298.0**	15.2
Income tax expense (Note 7)	**(11.7)**	(5.9)	**(82.6)**	(4.3)
Net income	**$ 33.6**	$ 18.8	**$ 215.4**	$ 10.9
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ 28.4**	$ 20.5	**$ 200.6**	$ 5.1
Non-controlling interests	**5.2**	(1.7)	**14.8**	5.8
Net income	**$ 33.6**	$ 18.8	**$ 215.4**	$ 10.9
Net income per common share: (in dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	**$ 0.20**	$ 0.14	**$ 1.41**	$ 0.03

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

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2013**	2012	9 months ended September 30, **2013**	2012
		(Note 13)		(Note 13)
Net income	**$ 33.6**	$ 18.8	**$ 215.4**	$ 10.9
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 5)	**23.1**	(19.8)	**69.3**	(52.0)
Income tax recovery (expense) on defined benefit actuarial gains (losses) (Note 7)	**(6.0)**	5.0	**(18.0)**	13.2
	17.1	(14.8)	**51.3**	(38.8)
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations	**(5.6)**	(7.0)	**7.0**	(6.5)
Other comprehensive income (loss), net of tax	**11.5**	(21.8)	**58.3**	(45.3)
Total comprehensive income (loss)	**$ 45.1**	$ (3.0)	**$ 273.7**	$ (34.4)
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 38.3**	$ 0.8	**$ 253.9**	$ (35.4)
Non-controlling interests	**6.8**	(3.8)	**19.8**	1.0
Total comprehensive income (loss)	**$ 45.1**	$ (3.0)	**$ 273.7**	$ (34.4)

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2013	3 months ended September 30, 2012 (Note 13)	9 months ended September 30, 2013	9 months ended September 30, 2012 (Note 13)
Share capital				
Balance at beginning of period	**$ 1,120.2**	$ 1,126.2	**$ 1,126.2**	$ 1,125.9
Common shares issued on exercise of stock options	**-**	-	**-**	0.3
Share purchases (Note 8)	**(4.8)**	-	**(10.8)**	-
Balance at end of period	**$ 1,115.4**	$ 1,126.2	**$ 1,115.4**	$ 1,126.2
Contributed surplus				
Balance at beginning and end of period	**$ 31.9**	$ 31.9	**$ 31.9**	$ 31.9
Retained earnings (deficit)				
Balance at beginning of period	**$ 159.5**	$ (61.4)	**$ (35.1)**	$ (24.7)
Net income attributable to equity shareholders of the Company	**28.4**	20.5	**200.6**	5.1
Defined benefit plan actuarial gains (losses), net of tax	**15.5**	(12.7)	**46.3**	(34.0)
Share purchases (Note 8)	**(7.7)**	-	**(15.8)**	-
Acquisition of non-controlling interests (Note 8)	**(0.2)**	-	**(0.5)**	-
Balance at end of period	**$ 195.5**	$ (53.6)	**$ 195.5**	$ (53.6)
Accumulated foreign exchange translation differences				
Balance at beginning of period	**$ 2.1**	$ (5.4)	**$ (10.5)**	$ (5.9)
Foreign exchange translation differences for foreign operations	**(5.6)**	(7.0)	**7.0**	(6.5)
Balance at end of period	**$ (3.5)**	$ (12.4)	**$ (3.5)**	$ (12.4)
Total equity attributable to equity holders of the Company	**$ 1,339.3**	$ 1,092.1	**$ 1,339.3**	$ 1,092.1
Non-controlling interests				
Balance at beginning of period	**$ 206.7**	$ 204.0	**$ 199.4**	$ 232.8
Net income (loss) attributable to non-controlling interests	**5.2**	(1.7)	**14.8**	5.8
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	**1.6**	(2.1)	**5.0**	(4.8)
Distributions to non-controlling interests	**(2.4)**	(3.0)	**(6.9)**	(11.6)
Acquisition of non-controlling interests (Note 8)	**(0.7)**	-	**(1.9)**	-
Share exchange	**-**	-	**-**	(25.0)
Balance at end of period	**$ 210.4**	$ 197.2	**$ 210.4**	$ 197.2
Total equity	**$ 1,549.7**	$ 1,289.3	**$ 1,549.7**	$ 1,289.3

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2013	3 months ended September 30, 2012 (Note 13)	9 months ended September 30, 2013	9 months ended September 30, 2012 (Note 13)
Cash generated from (used in):				
Operating activities				
Net income	**$ 33.6**	$ 18.8	**$ 215.4**	$ 10.9
Items not affecting cash:				
Amortization	**44.8**	43.2	**141.3**	129.3
Income tax expense	**11.7**	5.9	**82.6**	4.3
Long-term portion of deferred reforestation obligations	**(10.5)**	(8.5)	**(9.3)**	(6.4)
Foreign exchange (gain) loss on long-term debt and investments, net	**(2.3)**	(6.5)	**5.5**	(6.7)
Changes in mark-to-market value of derivative financial instruments	**(3.2)**	(3.6)	**(4.6)**	(1.9)
Employee future benefits	**3.6**	3.4	**10.3**	10.5
Net finance expense	**6.4**	8.1	**21.5**	25.1
Gain on sale of joint venture (Note 12)	**-**	-	**(38.3)**	-
Other, net	**-**	(3.6)	**(0.9)**	(6.5)
Defined benefit pension plan contributions	**(12.9)**	(14.8)	**(39.0)**	(41.5)
Income taxes paid, net	**(0.5)**	(0.8)	**-**	(5.4)
Net change in non-cash working capital (Note 9)	**4.6**	(17.2)	**7.0**	(21.9)
	75.3	24.4	**391.5**	89.8
Financing activities				
Change in operating bank loans	**-**	-	**(27.0)**	17.0
Proceeds from long-term debt	**-**	-	**3.1**	100.0
Repayment of long-term debt	**-**	-	**(76.3)**	(49.9)
Finance expenses paid	**(1.5)**	(1.4)	**(11.5)**	(11.9)
Cash distributions paid to non-controlling interests	**(2.4)**	(3.0)	**(6.9)**	(15.5)
Other, net	**-**	-	**-**	0.3
	(3.9)	(4.4)	**(118.6)**	40.0
Investing activities				
Investment in Scotch & Gulf Lumber, LLC (Note 11)	**(29.0)**	-	**(29.0)**	-
Loan to Scotch & Gulf Lumber, LLC (Note 11)	**(34.0)**	-	**(34.0)**	-
Additions to property, plant and equipment	**(74.6)**	(54.1)	**(169.8)**	(152.1)
Share purchases (Note 8)	**(16.3)**	-	**(26.6)**	-
Acquisition of non-controlling interests (Note 8)	**(1.4)**	-	**(2.4)**	-
Proceeds on sale of Canfor-LP OSB joint venture (Note 12)	**1.3**	-	**77.9**	-
Distributions from (advances to) joint venture (Note 12)	**-**	8.5	**16.5**	7.5
Reimbursements from Government under Green Transformation Program	**-**	10.0	**-**	19.0
Acquisition of Tembec assets	**-**	-	**-**	(65.6)
Share exchange	**-**	-	**-**	6.8
Proceeds from redemption of asset-backed commercial paper	**-**	-	**-**	12.9
Other, net	**0.8**	1.5	**1.5**	5.2
	(153.2)	(34.1)	**(165.9)**	(166.3)
Increase (decrease) in cash and cash equivalents*	**(81.8)**	(14.1)	**107.0**	(36.5)
Cash and cash equivalents at beginning of period*	**171.7**	4.2	**(17.1)**	26.6
Cash and cash equivalents at end of period*	**$ 89.9**	$ (9.9)	**$ 89.9**	$ (9.9)

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, hereinafter referred to as "Canfor" or "the Company".

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in Canfor's Annual Report for the year ended December 31, 2012, available at www.canfor.com or www.sedar.com.

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for solid wood products, are generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

The currency of presentation for these financial statements is the Canadian dollar.

Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- The Company adopted IFRS 11, *Joint Arrangements*, which redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. Under the new Standard, joint ventures are accounted for using the equity method accounting as set out in IAS 28, *Investments in Associates and Joint Ventures*, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operations. Canfor's 50% interest in the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") was classified as a joint venture and accounted for using the equity method. The Company has restated its comparative period results for adoption of IFRS 11 (Note 13). Canfor sold its 50% interest in the Canfor-LP OSB to Louisiana Pacific Corporation ("LP") on May 31, 2013 (Note 12).
- The Company adopted the amended IAS 19, *Employee Benefits,* which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset). The Company has restated its comparative period results for adoption of amended IAS 19 (Note 13).
- The Company also adopted IFRS 10, *Consolidated Financial Statements,* IFRS 13, *Fair Value Measurement,* and IAS 1, *Presentation of Financial Statements,* effective January 1, 2013. These Standards did not result in material impacts on the amounts recorded in the financial statements of Canfor.

Accounting Standards Issued and Not Applied

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.

Further details of the new accounting Standard and the potential impact on Canfor can be found in the Company's Annual Report for the year ended December 31, 2012.

2. Inventories

(millions of Canadian dollars)		As at September 30, 2013		As at December 31, 2012
Logs	**$**	**95.3**	$	119.4
Finished products		**235.9**		205.8
Residual fibre		**16.9**		11.5
Processing materials and supplies		**100.1**		94.6
	$	**448.2**	$	431.3

3. Long-term Investments and Other

(millions of Canadian dollars)		As at September 30, 2013		As at December 31, 2012
Investments		**52.5**		23.7
Term loan to Scotch & Gulf Lumber, LLC (Note 11)		**34.0**		-
Contingent consideration (Note 12)		**9.9**		-
Defined benefit plan assets		**1.9**		1.4
Investment tax credits		**1.6**		8.6
Other deposits, loans and advances		**14.9**		10.9
	$	**114.8**	$	44.6

On August 9, 2013, Canfor completed the first phase of the purchase of Scotch & Gulf Lumber, LLC (“Scotch Gulf”). Included in Long-term Investments and Other is Canfor’s initial 25% interest in Scotch Gulf and a term loan receivable from Scotch Gulf. Refer to Note 11 for further discussion of Canfor’s investment in Scotch Gulf.

As part of the sale of the Canfor-LP OSB joint venture, Canfor may receive additional consideration contingent on Peace Valley OSB’s annual adjusted earnings before interest, tax, depreciation and amortization. The contingent consideration is revalued to fair value at each reporting period. At the end of the third quarter, the total fair value of the contingent consideration was $17.6 million, resulting in a loss of $1.4 million. The current portion of the contingent consideration is recorded in Other Accounts Receivable (Note 12).

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars)		As at September 30, 2013		As at December 31, 2012
Canfor (excluding CPPI)				
Total operating loans - Canfor (excluding CPPI)	**$**	**350.0**	$	350.0
Drawn		**-**		(27.0)
Letters of credit (principally unregistered pension plans)		**(14.8)**		(18.0)
Total available operating loans - Canfor (excluding CPPI)	**$**	**335.2**	$	305.0
CPPI				
Operating loan facility	**$**	**110.0**	$	110.0
Facility for BC Hydro letter of credit		**7.5**		7.5
Total operating loans - CPPI		**117.5**		117.5
Drawn		**-**		-
BC Hydro letters of credit		**(11.1)**		(9.2)
Total available operating loans - CPPI	**$**	**106.4**	$	108.3
Consolidated:				
Total operating loans	**$**	**467.5**	$	467.5
Total available operating loans	**$**	**441.6**	$	413.3

Canfor's principal operating loans, excluding Canfor Pulp Products Inc. ("CPPI"), mature on February 28, 2018. Interest is payable at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. The maturity date of the facility is November 13, 2016. CPPI has a separate facility with a maturity date of November 30, 2013 to cover a $7.5 million standby letter of credit issued to BC Hydro.

As at September 30, 2013, the Company and CPPI were in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI (operating loans and long-term debt) are non-recourse to other entities within the Company.

(b) Long-Term Debt

At September 30, 2013, the fair value of the Company's long-term debt, measured at its amortized cost of $216.3 million, was $217.1 million. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

5. Employee Future Benefits

For the nine months ended September 30, 2013, an amount of $69.3 million (before tax) was credited to other comprehensive income. The gain reflects the return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation at September 30, 2013. For the three months ended September 30, 2013, the gain was $23.1 million (before tax). For the nine months ended September 30, 2012, an amount of $52.0 million (before tax) was charged to other comprehensive income. For the three months ended September 30, 2012, the charge was $19.8 million (before tax).

For the Company's single largest pension plan, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the funded deficit by an estimated $58.3 million.

The assumptions used to estimate the changes in net accrued benefit liabilities were as follows:

Pension Benefit Plans	
Discount rate	
September 30, 2013	**4.70%**
June 30, 2013	4.60%
December 31, 2012	4.20%
September 30, 2012	4.30%
June 30, 2012	4.65%
December 31, 2011	5.00%
Rate of return on plan assets	
9 months ended September 30, 2013	**6.60%**
6 months ended June 30, 2013	3.20%
9 months ended September 30, 2012	6.60%
6 months ended June 30, 2012	2.60%
Other Benefit Plans	
Discount rate	
September 30, 2013	**4.80%**
June 30, 2013	4.70%
December 31, 2012	4.40%
September 30, 2012	4.50%
June 30, 2012	4.90%
December 31, 2011	5.30%

6. Financial Instruments

Canfor's cash and cash equivalents, accounts receivable, other deposits, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition.

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement,* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

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

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

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

The following table summarizes Canfor's financial instruments measured at fair value at September 30, 2013 and December 31, 2012, and shows the level within the fair value hierarchy in which they have been classified:

(millions of Canadian dollars)	Fair Value Hierarchy Level	**As at September 30, 2013**	As at December 31, 2012
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	**$ 0.5**	$ 0.7
Loans and Receivables			
Royalty receivable	Level 3	**6.2**	6.5
Contingent consideration	Level 3	**17.6**	-
		$ 24.3	$ 7.2
Financial liabilities			
Held for trading			
Derivative financial instruments	Level 2	**$ 0.1**	$ 4.8
		$ 0.1	$ 4.8

The royalty receivable and contingent consideration are measured at fair value at each reporting period and are presented in Other Accounts Receivable and Long-term Investments and Other on the consolidated balance sheet. The fair value of the royalty receivable is determined by discounting future expected cash flows based on energy price assumptions and future sales volume assumptions until the termination of the royalty agreement in September 2015. The fair value of the contingent consideration is determined by discounting future expected cash flows based on forecast OSB prices, sales volumes and margins for the Peace Valley OSB mill (Note 12).

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, energy costs, electricity sales and floating interest rates on certain long-term debt. At September 30, 2013, the fair value of derivative financial instruments was a net asset of $0.4 million (December 31, 2012 – net liability of $4.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three and nine month periods ended September 30, 2013 and 2012:

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Foreign exchange collars and forward contracts	**$ 3.9**	$ 3.8	**$ (0.1)**	$ 4.2
Energy derivatives	**0.3**	1.5	**0.1**	0.9
Lumber futures	**0.4**	1.3	**4.0**	3.9
Interest rate swaps	**(0.6)**	0.2	**0.6**	(1.1)
	$ 4.0	$ 6.8	**$ 4.6**	$ 7.9

The following table summarizes the fair value of the derivative financial instruments included in the balance sheet at September 30, 2013 and December 31, 2012:

(millions of Canadian dollars)	**As at September 30, 2013**	As at December 31, 2012
Foreign exchange collars and forward contracts	**$ (0.1)**	$ 0.3
Energy derivatives	**0.1**	0.3
Lumber futures	**-**	(4.1)
Interest rate swaps	**0.4**	(0.6)
Total asset (liability), net	**0.4**	(4.1)
Less: current portion asset (liability), net	**-**	(3.5)
Long-term portion asset (liability), net	**$ 0.4**	$ (0.6)

7. Income Taxes

(millions of Canadian dollars)	3 months ended September 30, **2013**	3 months ended September 30, 2012	9 months ended September 30, **2013**	9 months ended September 30, 2012
Current	**$ 1.9**	$ 1.5	**$ (11.6)**	$ (0.7)
Deferred	**(13.6)**	(7.4)	**(71.0)**	(3.6)
Income tax expense	**$ (11.7)**	$ (5.9)	**$ (82.6)**	$ (4.3)

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

(millions of Canadian dollars)	3 months ended September 30, **2013**	3 months ended September 30, 2012	9 months ended September 30, **2013**	9 months ended September 30, 2012
Income tax expense at statutory rate 2013 – 25.75% (2012 – 25.0%)[1]	**$ (11.7)**	$ (6.2)	**$ (76.7)**	$ (3.8)
Add (deduct):				
Non-taxable income related to non-controlling interests in limited partnerships	**0.2**	0.2	**0.3**	1.5
Entities with different income tax rates and other tax adjustments	**(0.4)**	(0.5)	**(4.9)**	(2.7)
Permanent difference from capital gains and losses and other non-deductible items	**0.2**	0.7	**4.1**	0.6
Change in substantively enacted tax rate[1]	**-**	-	**(5.4)**	-
Tax recovery at rates other than statutory rate	**-**	(0.1)	**-**	0.1
Income tax expense	**(11.7)**	(5.9)	**(82.6)**	(4.3)

[1]In the second quarter of 2013, the British Columbia Provincial Government increased the corporate tax rate from 10% to 11%.

In addition to the amounts recorded to net income, a tax expense of $6.0 million was recorded to other comprehensive income for the three month period ended September 30, 2013 (three months ended September 30, 2012 – tax recovery of $5.0 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the nine months ended September 30, 2013, the tax expense was $18.0 million (nine months ended September 30, 2012 – tax recovery of $13.2 million).

8. Earnings Per Share and Normal Course Issuer Bid

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. As at September 30, 2013 and 2012, there were no outstanding stock options.

	3 months ended September 30, **2013**	3 months ended September 30, 2012	9 months ended September 30, **2013**	9 months ended September 30, 2012
Weighted average number of common shares	**141,607,876**	142,752,431	**142,245,452**	142,747,976

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 7,137,621 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid may continue until March 4, 2014. During the third quarter of 2013, Canfor purchased 609,700 common shares for $12.5 million. Also during the third quarter of 2013, $3.8 million was paid for share purchases made late in the previous quarter. For the nine months ended September 30, 2013, Canfor purchased 1,373,238 common shares for $26.6 million. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor's ownership of CPPI to 50.4% by quarter end.

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	3 months ended September 30, **2013**	3 months ended September 30, 2012	9 months ended September 30, **2013**	9 months ended September 30, 2012
Accounts receivable	**$ 30.3**	$ 16.6	**$ (10.4)**	$ (10.3)
Inventories	**(41.1)**	(35.9)	**(16.1)**	(17.5)
Prepaid expenses	**(3.1)**	2.0	**(14.5)**	(11.4)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**18.5**	0.1	**48.0**	17.3
Net decrease (increase) in non-cash working capital	**$ 4.6**	$ (17.2)	**$ 7.0**	$ (21.9)

10. Segment Information

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

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

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below. On May 31, 2013, Canfor sold its 50% share of Canfor-LP OSB (Note 12). Prior to completion of the sale, the Company's share of Canfor-LP OSB's 2013 sales and operating income was $43.5 million and $16.1 million, respectively. As a result of the classification of Canfor's investment in Canfor-LP OSB as held for sale, these amounts were not included in the segment results of the Company. For the three and nine months ended September 30, 2012, the results of Canfor-LP OSB were presented in equity income (loss).

(millions of Canadian dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended September 30, 2013							
Sales to external customers	**$**	**529.4**	**224.6**	**1.9**	**-**	**$**	**755.9**
Sales to other segments	**$**	**32.7**	**-**	**-**	**(32.7)**	**$**	**-**
Operating income (loss)	**$**	**43.8**	**11.5**	**(6.0)**	**-**	**$**	**49.3**
Amortization	**$**	**27.6**	**17.0**	**0.2**	**-**	**$**	**44.8**
Capital expenditures[1]	**$**	**45.5**	**26.8**	**2.3**	**-**	**$**	**74.6**
3 months ended September 30, 2012							
Sales to external customers	$	454.7	206.3	2.7	-	$	663.7
Sales to other segments	$	27.4	-	-	(27.4)	$	-
Operating income (loss)	$	34.8	(7.3)	(9.4)	-	$	18.1
Amortization	$	25.5	15.7	2.0	-	$	43.2
Capital expenditures[1]	$	24.1	30.0	-	-	$	54.1
9 months ended September 30, 2013							
Sales to external customers	**$**	**1,658.5**	**723.6**	**3.3**	**-**	**$**	**2,385.4**
Sales to other segments	**$**	**99.3**	**-**	**-**	**(99.3)**	**$**	**-**
Operating income (loss)	**$**	**247.7**	**49.0**	**(19.2)**	**-**	**$**	**277.5**
Amortization	**$**	**84.8**	**55.8**	**0.7**	**-**	**$**	**141.3**
Capital expenditures[1]	**$**	**121.2**	**42.5**	**6.1**	**-**	**$**	**169.8**
Identifiable assets	**$**	**1,706.7**	**784.7**	**150.5**	**-**	**$**	**2,641.9**
9 months ended September 30, 2012							
Sales to external customers	$	1,241.9	695.1	5.5	-	$	1,942.5
Sales to other segments	$	85.8	-	-	(85.8)	$	-
Operating income (loss)	$	33.1	15.6	(26.4)	-	$	22.3
Amortization	$	75.2	48.5	5.6	-	$	129.3
Capital expenditures[1]	$	76.1	76.0	-	-	$	152.1
Identifiable assets	$	1,527.3	795.1	174.5	-	$	2,496.9

[1] Capital expenditures represent cash paid for capital assets, excluding acquisition of Tembec assets in 2012. Pulp & Paper includes capital expenditures by CPPI in 2012 that were financed by the federal government-funded Green Transformation Program.

11. Phased Purchase of Scotch & Gulf Lumber, LLC

On August 9, 2013, the Company completed the first phase of the purchase of Scotch Gulf for $29.0 million, representing an initial 25% interest in Scotch Gulf, plus transaction closing costs and a proportionate share of working capital. Canfor's initial 25% interest will increase over a 3 year period to 33% after twelve months, 50% after eighteen months and 100% at the end of the term. Both Canfor and Scotch Gulf have options under the purchase agreement to accelerate the final closing of the phased purchase to a date earlier than August 2016 under certain conditions. The aggregate purchase price for Scotch Gulf is US$80.0 million, plus working capital and transaction closing costs of US$30.5 million.

As part of the transaction, Scotch Gulf borrowed $34.0 million from Canfor in the form of a term loan that will be repaid from the distribution of cash earnings over the course of the phased purchase agreement with any net outstanding amount at August 2016 applied against the final phase purchase price payment. The term loan has an interest rate equal to the floating rate on Canfor's principal operating loans plus 1.00% and is secured by Scotch Gulf's operating assets. At September 30, 2013, the term loan receivable is included in Long-term Investments and Other on the balance sheet (Note 3).

12. Sale of Canfor-LP OSB Joint Venture

On May 31, 2013, the Company completed the sale of its 50% share in Canfor-LP OSB, which owns the Peace Valley OSB mill, to LP for cash proceeds of $77.9 million including working capital. A pre-tax gain on sale of $38.3 million was recorded in the second quarter of 2013 which included recognition of Canfor's share of the operating income for the first half of 2013.

As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, contingent on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. At September 30, 2013, the fair value of the contingent consideration is $17.6 million, with the current portion presented in Other Accounts Receivable and the long-term portion presented in Long-Term Investments and Other (Note 3). During the third quarter of 2013, Canfor recognized a $1.4 million negative fair value adjustment on the contingent consideration in other expense.

13. Transition to New Accounting Standards

Effective January 1, 2013, the Company adopted IFRS 11, *Joint Arrangements,* and as a result reclassified its 50% interest in Canfor-LP OSB from a jointly controlled entity to a joint venture. The Company's interest in Canfor-LP OSB was previously accounted for using the proportionate consolidation method accounting and upon adoption of the new Standard was accounted for using the equity method of accounting. The comparative period financial statements have been restated for adoption of IFRS 11 with impacts to the financial statements discussed below.

The adoption of IFRS 11 resulted in a decrease in sales of $49.8 million and a decrease in operating income of $3.6 million for the nine months ended September 30, 2012 (for the three months ended September 30, 2012, a decrease of $20.1 million and a decrease of $4.0 million, respectively). IFRS 11 had no impact on net income or other comprehensive income in the comparative periods. Further, adoption of IFRS 11 resulted in a decrease in cash flow from operating activities of $8.0 million and an increase in cash flow from investing activities of $7.5 million for the nine months ended September 30, 2012 (for the three months ended September 30, 2012, a decrease in operating activities of $9.5 million and an increase in cash flow from investing activities of $8.5 million).

Also effective January 1, 2013, the Company adopted amended IAS 19, *Employee Benefits,* which amends certain requirements for defined benefit plans and termination benefits. The comparative period financial statements have been restated for adoption of revised IAS 19 with impacts to the financial statements discussed below.

The adoption of amended IAS 19 resulted in a decrease in operating income of $0.9 million, an increase of finance expense of $6.9 million and a decrease in income tax expense of $1.9 million for the nine months ended September 30, 2012 (for the three months ended September 30, 2012, a decrease of $0.2 million, an increase of $2.3 million and a decrease of $0.6 million, respectively). Amended IAS 19 decreased net income and increased other comprehensive income by $5.9 million (after-tax) for the nine months ended September 30, 2012 (for the three months ended September 30, 2012, a decrease to net income and an increase to other comprehensive income of $1.9 million (after-tax), respectively). The impact on earnings per share for the nine months ended September 30, 2012 was a decrease of $0.05 per share (three months ended September 30, 2012 – decrease of $0.02 per share).

The impacts to the current period condensed consolidated statement of income (loss) and the current period condensed consolidated statement of other comprehensive income (loss) as a result of amended IAS 19, *Employee Benefits*, are comparable to the impacts in the 2012 period (disclosed above). Refer to the Company's first quarter 2013 interim financial statements for impacts to the condensed consolidated opening balance sheet at January 1, 2012 and the comparative balance sheet at December 31, 2012.

14. Subsequent Event

On October 24, 2013, the Company announced that it will permanently close its sawmill located in Quesnel, British Columbia. The Company anticipates that the closure will occur in March 2014. The accounting impact of severance and closure costs is currently estimated to be in the range of $18 to $20 million (before tax).

On October 24, 2013, Canfor also announced that it has entered into an agreement with West Fraser Mills Ltd. ("West Fraser") for an exchange in forest tenure rights. Canfor is exchanging 382,194 m3 of replaceable forest license allowable annual cut in the Quesnel Timber Supply Area with West Fraser in exchange for receiving 324,500 m3 of replaceable forest license allowable annual cut in the Morice Timber Supply Area. The companies are also exchanging a non-replaceable license and undercut volumes.