

CANFOR
CORPORATION

FINANCIAL
STATEMENTS

2013

75



MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material.

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

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

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

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

February 5, 2014

"Don B. Kayne"

Don B. Kayne
President and Chief Executive Officer

"Alan Nicholl"

Alan Nicholl
Senior Vice-President, Finance and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canfor Corporation

We have audited the accompanying consolidated financial statements of Canfor Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of income, the consolidated statements of other comprehensive income (loss), the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canfor Corporation and its subsidiaries as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia
February 5, 2014

Canfor Corporation Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012 (Note 33)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 89.5	\$ -
Accounts receivable - Trade	112.6	102.7
- Other	39.3	57.5
Inventories (Note 5)	471.9	431.3
Prepaid expenses and other assets	39.1	23.4
Investment in joint venture held for sale (Note 30)	-	75.1
Total current assets	752.4	690.0
Property, plant and equipment (Note 6)	1,151.9	1,081.7
Timber licenses (Note 7)	534.6	554.6
Goodwill and other intangible assets (Note 8)	93.5	80.4
Retirement benefit surplus (Note 13)	42.2	1.4
Long-term investments and other (Note 9)	112.5	43.2
Deferred income taxes, net (Note 21)	6.2	39.3
Total assets	\$ 2,693.3	\$ 2,490.6
LIABILITIES		
Current liabilities		
Cheques issued in excess of cash on hand	\$ -	\$ 17.1
Operating loans (Note 11)	74.6	27.0
Accounts payable and accrued liabilities (Note 10)	321.8	258.4
Current portion of long-term debt (Note 12)	-	184.1
Current portion of deferred reforestation obligations (Note 14)	44.1	37.3
Total current liabilities	440.5	523.9
Long-term debt (Note 12)	153.1	100.0
Retirement benefit obligations (Note 13)	200.5	311.7
Deferred reforestation obligations (Note 14)	69.8	78.4
Other long-term liabilities	14.9	13.6
Deferred income taxes, net (Note 21)	217.1	151.1
Total liabilities	\$ 1,095.9	\$ 1,178.7
EQUITY		
Share capital (Note 17)	\$ 1,103.7	\$ 1,126.2
Contributed surplus	31.9	31.9
Retained earnings (deficit)	234.2	(35.1)
Accumulated foreign exchange translation differences	4.5	(10.5)
Total equity attributable to equity holders of the Company	1,374.3	1,112.5
Non-controlling interests (Note 18)	223.1	199.4
Total equity	\$ 1,597.4	\$ 1,311.9
Total liabilities and equity	\$ 2,693.3	\$ 2,490.6

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

APPROVED BY THE BOARD

"R.S. Smith"

Director, R.S. Smith

"R.L. Cliff"

Director, R.L. Cliff

Canfor Corporation Consolidated Statements of Income

(millions of Canadian dollars, except per share data)	Year ended December 31,	
	2013	2012
		(Note 33)
Sales	\$ 3,194.9	\$ 2,642.8
Costs and expenses		
Manufacturing and product costs	2,036.8	1,777.6
Freight and other distribution costs	540.4	491.8
Export taxes	9.2	45.5
Amortization	186.2	177.1
Selling and administration costs	67.9	61.0
Restructuring, mill closure and severance costs (Note 16)	23.1	18.5
	2,863.6	2,571.5
Operating income	331.3	71.3
Finance expense, net (Note 20)	(27.9)	(33.8)
Foreign exchange gain (loss) on long-term debt and investments, net	(8.9)	4.7
Gain (loss) on derivative financial instruments (Note 27)	4.4	(0.8)
Gain on sale of Canfor-LP OSB joint venture (Note 30)	38.3	-
Other income, net	1.5	6.6
Net income before income taxes	338.7	48.0
Income tax expense (Note 21)	(88.2)	(12.4)
Net income	\$ 250.5	\$ 35.6
Net income attributable to:		
Equity shareholders of the Company	\$ 228.6	\$ 26.4
Non-controlling interests (Note 18)	21.9	9.2
Net income	\$ 250.5	\$ 35.6
Net income per common share: (in dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 17)	\$ 1.61	\$ 0.18

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

Canfor Corporation
Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars)	Year ended December 31,	
	2013	2012
		(Note 33)
Net income	\$ 250.5	\$ 35.6
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gains (losses) (Note 13)	123.9	(56.8)
Income tax recovery (expense) on defined benefit actuarial gains (losses) (Note 21)	(32.2)	14.4
	91.7	(42.4)
Items that may be recycled through net income:		
Foreign exchange translation differences for foreign operations	15.0	(4.6)
Other comprehensive income (loss), net of tax	106.7	(47.0)
Total comprehensive income (loss)	\$ 357.2	\$ (11.4)
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	\$ 322.3	\$ (15.0)
Non-controlling interests (Note 18)	34.9	3.6
Total comprehensive income (loss)	\$ 357.2	\$ (11.4)

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

Canfor Corporation

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Year ended December 31,	
	2013	2012
		(Note 33)
Share capital		
Balance at beginning of year	\$ 1,126.2	\$ 1,125.9
Common shares issued on exercise of stock options	-	0.3
Share purchases (Note 17)	(22.5)	-
Balance at end of year (Note 17)	\$ 1,103.7	\$ 1,126.2
Contributed surplus		
Balance at beginning and end of year	\$ 31.9	\$ 31.9
Retained earnings (deficit)		
Balance at beginning of year	\$ (35.1)	\$ (24.7)
Net income attributable to equity shareholders of the Company	228.6	26.4
Defined benefit plan actuarial gains (losses), net of tax	78.7	(36.8)
Share purchases (Note 17)	(37.5)	-
Acquisition of non-controlling interests (Note 17)	(0.5)	-
Balance at end of year	\$ 234.2	\$ (35.1)
Accumulated foreign exchange translation differences		
Balance at beginning of year	\$ (10.5)	\$ (5.9)
Foreign exchange translation differences for foreign operations	15.0	(4.6)
Balance at end of year	\$ 4.5	\$ (10.5)
Total equity attributable to equity holders of the Company	\$ 1,374.3	\$ 1,112.5
Non-controlling interests		
Balance at beginning of year	\$ 199.4	\$ 232.8
Net income attributable to non-controlling interests	21.9	9.2
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	13.0	(5.6)
Distributions to non-controlling interests	(9.3)	(12.0)
Acquisition of non-controlling interests (Note 17)	(1.9)	-
Share exchange (Note 32)	-	(25.0)
Balance at end of year (Note 18)	\$ 223.1	\$ 199.4
Total equity	\$ 1,597.4	\$ 1,311.9

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

Canfor Corporation

Consolidated Statements of Cash Flows

	Year ended December 31	
(millions of Canadian dollars)	2013	2012
		(Note 33)
Cash generated from (used in):		
Operating activities		
Net income	\$ 250.5	\$ 35.6
Items not affecting cash:		
Amortization	186.2	177.1
Income tax expense	88.2	12.4
Long-term portion of deferred reforestation obligations	(9.6)	2.5
Foreign exchange (gain) loss on long-term debt and investments, net	8.9	(4.7)
Changes in mark-to-market value of derivative financial instruments	(4.4)	3.9
Employee future benefits	13.0	(0.7)
Net finance expense	27.9	33.8
Mill closure provisions	20.0	-
Gain on sale of joint venture (Note 30)	(38.3)	-
Other, net	8.7	(8.2)
Defined benefit pension plan contributions	(53.0)	(54.9)
Income taxes paid, net	(0.3)	(8.1)
	497.8	188.7
Net change in non-cash working capital (Note 22)	(7.5)	(71.3)
	490.3	117.4
Financing activities		
Change in operating bank loans	47.6	27.0
Proceeds from long-term debt (Note 12)	53.1	100.0
Repayment of long-term debt (Note 12)	(192.9)	(49.9)
Finance expenses paid	(17.4)	(19.5)
Share purchases (Note 17)	(60.0)	-
Acquisition of non-controlling interests (Note 17)	(2.4)	-
Cash distributions paid to non-controlling interests	(9.3)	(15.9)
Other, net	(0.1)	0.3
	(181.4)	42.0
Investing activities		
Additions to property, plant and equipment and intangible assets	(237.3)	(201.6)
Investment in Scotch & Gulf Lumber, LLC (Note 29)	(29.5)	-
Loan to Scotch & Gulf Lumber, LLC (Note 29)	(31.9)	-
Proceeds on sale of Canfor-LP OSB joint venture (Note 30)	77.9	-
Distributions from (advances to) joint venture (Note 30)	16.5	13.5
Acquisition of Tembec assets (Note 31)	-	(65.6)
Reimbursements from Government under Green Transformation Program	-	19.7
Proceeds from redemption of asset-backed commercial paper	-	12.9
Share exchange (Note 32)	-	6.8
Other, net	2.0	11.2
	(202.3)	(203.1)
Increase (decrease) in cash and cash equivalents*	106.6	(43.7)
Cash and cash equivalents at beginning of year*	(17.1)	26.6
Cash and cash equivalents at end of year*	\$ 89.5	\$ (17.1)

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

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

Canfor Corporation

Notes to the Consolidated Financial Statements

(millions of Canadian dollars unless otherwise noted)

1. Reporting Entity

Canfor Corporation is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its subsidiaries (together referred to as "Canfor" or "the Company") and the Company's interests in associates and jointly controlled entities.

Canfor is an integrated forest products company with facilities in Canada and the United States. The Company produces softwood lumber, pulp and paper products, remanufactured lumber products and specialized wood products.

2. Basis of Preparation

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 5, 2014.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items:

- Financial instruments classified as fair value through profit and loss are measured at fair value;
- Asset retirement obligations and deferred reforestation obligations are measured at the discounted value of expected future cash flows; and
- The retirement benefit surplus and obligation related to the defined benefit pension plans is the net of the accrued benefit obligation and the fair value of the plan assets.

Use of estimates and judgments

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

Canfor regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which cause actual results to differ from management estimates, and these differences could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 6 – Property, Plant and Equipment;
- Note 7 – Timber Licenses;
- Note 8 – Goodwill and Other Intangible Assets;
- Note 9 – Long-Term Investments and Other;
- Note 13 – Employee Future Benefits;
- Note 14 – Deferred Reforestation Obligations;
- Note 15 – Asset Retirement Obligations; and
- Note 21 – Income Taxes.

3. Significant Accounting Policies

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

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when Canfor is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Significant subsidiaries include Canadian Forest Products Ltd. and New South Companies Inc. ("New South"), which are wholly owned, and Canfor Pulp Products Inc. ("CPPI"), which is 50.4% owned.

Joint ventures are those entities over whose activities Canfor has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are equity accounted for.

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

Business combinations

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

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of three months or less from the date of acquisition, and are valued at cost, which approximates market value. Cash is presented net of unrepresented cheques. When the amount of unrepresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on the amount, credit quality and term of the Company's deposit.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and advances, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through net income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at fair value through net income - An instrument is classified at fair value through net income if it is held for trading or is designated as such upon initial recognition. Financial instruments at fair value through net income are measured at fair value, and changes therein are recognized in the statements of income, with attributable transaction costs being recognized in net income when incurred.

Available-for-sale financial assets - Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to spread the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for Canfor are trade and other receivables, and cash and cash equivalents.

Other liabilities - All of Canfor's financial liabilities are measured at amortized cost using the effective interest method.

Derivative financial instruments

Canfor uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, energy and commodity price risk. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Canfor's derivative financial instruments are not designated as hedges for accounting purposes. Consequently, such derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value (realized and unrealized) being recognized in the statements of income as 'Gain (loss) on derivative financial instruments'.

The fair value of the derivatives is determined with reference to period end market trading prices for derivatives with comparable characteristics.

Inventories

Inventories include logs, lumber, pulp, kraft paper, chips, and materials and supplies. These are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Property, plant and equipment

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

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

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

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

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

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

Timber licenses

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

Other intangible assets

Goodwill

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

Customer agreements

Canfor's customer agreements were acquired as part of the purchase of New South, and were recognized at fair value at the acquisition date. The customer agreements have a finite useful life and are carried at cost less accumulated amortization, which is recorded on a straight-line basis over 10 years.

Computer software

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over periods not exceeding five years.

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

Asset impairment

Canfor's property, plant and equipment, timber licenses and other intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

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

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

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

Financial assets are reviewed at each reporting date to determine whether there is evidence indicating they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on estimated future cash flows from that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in net income.

Employee benefits

Defined contribution plans

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

For hourly employees covered by industry union defined contribution pension plans, the statements of income are charged with the Company's contributions required under the collective agreements.

Defined benefit plans

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

The surplus and obligation recognized in the balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets for individual defined benefit pension plans. The accrued benefit obligation is calculated separately for each plan by estimating the amount of future benefit earned by employees in respect of their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate used to determine the present value of the obligation is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of Canfor's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method and a measurement date of December 31. The pension surplus or obligation is adjusted on a quarterly basis for any material changes in underlying assumptions.

Canfor recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the year in which they occur.

Provisions

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

Asset retirement obligations

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

Deferred reforestation obligations

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

Restructuring

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

Share-based compensation

Canfor has two share-based compensation plans, as described in Note 19.

Compensation expense is recognized for Canfor's Deferred Share Unit ("DSU") Plans when the DSUs are granted, with a corresponding increase to liabilities. The liability is remeasured at each reporting date and at settlement date, with any changes in the fair value of the liability recognized as compensation expense in net income. The fair value of the DSUs is determined with reference to the market price of Canfor's shares as at the date of valuation. Cash consideration received from employees when they exercise the options is credited to share capital.

Revenue recognition

Canfor's revenues are derived from the sale of lumber, pulp, kraft paper, residual fibre and logs. Revenue is measured at the fair value of the consideration received or receivable net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amounts of revenue can be measured reliably.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by Canfor are reported as a component of freight and other distribution costs. Lumber export taxes are recorded as a component of operating income.

Income taxes

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

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

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

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

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's balance sheet, depending upon when the benefit is expected to be received.

Foreign currency translation

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

The majority of Canfor's sales are denominated in foreign currencies, principally the US dollar. Transactions in foreign currencies are translated to the functional currencies of the respective entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Canadian dollar at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates at the transaction dates. Foreign exchange differences are recognized in other comprehensive income, and recorded to the accumulated foreign exchange translation account. Canfor's foreign operations include New South, which is a wholly-owned subsidiary based in the U.S.

Segment reporting

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

4. Changes in Accounting Policy

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 of 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 33). Canfor sold its 50% interest in the Canfor-LP OSB joint venture to the Louisiana Pacific Corporation ("LP") on May 31, 2013 (Note 30).
- 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 33).
- 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*. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. IFRS 9 also replaces models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The required adoption date for IFRS 9 has been deferred and is not expected until January 1, 2017, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.

5. Inventories

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Logs	\$ 134.5	\$ 119.4
Finished products	222.3	205.8
Residual fibre	14.9	11.5
Processing materials and supplies	100.2	94.6
	\$ 471.9	\$ 431.3

In 2013, costs of raw materials, consumables and finished products recognized as manufacturing and product costs amounted to \$925.9 million (2012 - \$762.8 million).

6. Property, Plant and Equipment

(millions of Canadian dollars)	Land	Pulp and kraft paper mills	Sawmills, plywood and OSB plants	Logging assets and other equipment	Total
Cost					
Balance at January 1, 2012	\$ 45.5	\$ 1,442.3	\$ 1,330.1	\$ 194.0	\$ 3,011.9
Additions ¹	0.3	65.7	101.8	8.2	176.0
Additions due to acquisition (Note 31)	3.0	-	6.5	-	9.5
Disposals	(2.7)	(25.0)	(82.4)	(1.5)	(111.6)
Effect of movements in exchange rates	(0.4)	-	(2.9)	-	(3.3)
Balance at December 31, 2012	\$ 45.7	\$ 1,483.0	\$ 1,353.1	\$ 200.7	\$ 3,082.5
Additions ¹	-	67.8	160.9	5.7	234.4
Disposals	-	(41.7)	(29.6)	(7.0)	(78.3)
Effect of movements in exchange rates	1.1	-	8.8	-	9.9
Balance at December 31, 2013	\$ 46.8	\$ 1,509.1	\$ 1,493.2	\$ 199.4	\$ 3,248.5
Amortization and impairment losses					
Balance at January 1, 2012	\$ (7.0)	\$ (911.4)	\$ (860.3)	\$ (173.5)	\$ (1,952.2)
Amortization for the year	-	(68.3)	(84.2)	(4.4)	(156.9)
Disposals	-	24.6	80.9	1.2	106.7
Effect of movements in exchange rates	-	-	1.6	-	1.6
Balance at December 31, 2012	\$ (7.0)	\$ (955.1)	\$ (862.0)	\$ (176.7)	\$ (2,000.8)
Amortization for the year	-	(71.0)	(91.4)	(5.0)	(167.4)
Disposals	-	41.1	29.1	6.9	77.1
Effect of movements in exchange rates	-	-	(5.5)	-	(5.5)
Balance at December 31, 2013	\$ (7.0)	\$ (985.0)	\$ (929.8)	\$ (174.8)	\$ (2,096.6)
Carrying amounts					
At January 1, 2012	\$ 38.5	\$ 530.9	\$ 469.8	\$ 20.5	\$ 1,059.7
At December 31, 2012	\$ 38.7	\$ 527.9	\$ 491.1	\$ 24.0	\$ 1,081.7
At December 31, 2013	\$ 39.8	\$ 524.1	\$ 563.4	\$ 24.6	\$ 1,151.9

¹Net of capital expenditures by CPPI that are financed by the federal government-funded Green Transformation Program and other government grants.

Included in the above are assets under construction in the amount of \$43.3 million (2012 - \$28.9 million), which as at December 31, 2013 have not been amortized.

A review of the carrying values of the Company's sawmill and panel operations and various other assets was undertaken in 2013 and 2012. Recoverable amounts were determined at all CGU's with indicators of impairment in these years and no impairments were identified.

The recoverable amounts of the CGU's for impairment assessment purposes was the higher of the value in use, determined using a discounted cash flow calculation, or the fair value less cost to sell. Key assumptions used in the cash flow forecasts included forecast prices and foreign exchange rates which the Company's management determined with reference to external publications including Resource Information Systems, Inc. ("RISI") and Forest Economic Advisors ("FEA") publications. A pre-tax discount rate of 11.0% and inflation rate of 2.0% were used for the purposes of the calculations in 2013 and 2012.

7. Timber Licenses

(millions of Canadian dollars)

Cost	
Balance at January 1, 2012	\$ 840.2
Additions due to acquisition (Note 31)	43.5
Disposals	(2.0)
Balance at December 31, 2012	881.7
Additions (Note 28)	20.0
Disposals (Note 28)	(77.4)
Balance at December 31, 2013	\$ 824.3
Amortization and impairment losses	
Balance at January 1, 2012	\$ (310.1)
Amortization for the year	(17.1)
Disposals	0.1
Balance at December 31, 2012	\$ (327.1)
Amortization for the year	(16.4)
Disposals (Note 28)	53.8
Balance at December 31, 2013	\$ (289.7)
Carrying amounts	
At January 1, 2012	\$ 530.1
At December 31, 2012	\$ 554.6
At December 31, 2013	\$ 534.6

Additions and disposals of timber licenses during 2013 related to the timber exchange with West Fraser Mills Ltd. ("West Fraser") (Note 28). In 2012, additions related to the acquisition of Tembec Industries Ltd.'s ("Tembec") Southern British Columbia Interior wood product assets (Note 31), which included approximately 1.1 million cubic meters of combined crown, private land and contract annual allowable cut.

8. Goodwill and Other Intangible Assets

(millions of Canadian dollars)	Goodwill	Other Intangible Assets	Total
Cost			
Balance at January 1, 2012	\$ 71.2	\$ 50.1	\$ 121.3
Additions	-	2.2	2.2
Effect of movement in exchange rates	(1.5)	(0.6)	(2.1)
Balance at December 31, 2012	\$ 69.7	\$ 51.7	\$ 121.4
Additions	-	10.6	10.6
Effect of movement in exchange rates	4.7	1.8	6.5
Balance at December 31, 2013	\$ 74.4	\$ 64.1	\$ 138.5
Amortization			
Balance at January 1, 2012	\$ -	\$ (38.3)	\$ (38.3)
Amortization for the year	-	(3.1)	(3.1)
Effect of movement in exchange rates	-	0.4	0.4
Balance at December 31, 2012	\$ -	\$ (41.0)	\$ (41.0)
Amortization for the year	-	(2.9)	(2.9)
Effect of movement in exchange rates	-	(1.1)	(1.1)
Balance at December 31, 2013	\$ -	\$ (45.0)	\$ (45.0)
Carrying amounts			
At January 1, 2012	\$ 71.2	\$ 11.8	\$ 83.0
At December 31, 2012	\$ 69.7	\$ 10.7	\$ 80.4
At December 31, 2013	\$ 74.4	\$ 19.1	\$ 93.5

Goodwill relates to Canfor's U.S. subsidiary, New South, and is denominated in US dollars. Goodwill is not allocated any level lower than New South and for purposes of the goodwill impairment review is tested as part of the New South CGU. The recoverable amount of the goodwill is determined based on an assessment of the value in use of the CGU. This is estimated using a discounted cash flow model to value New South.

As part of this process, assumptions are made in relation to forecast prices and exchange rates. Key assumptions used in the cash flow model included forecast prices and foreign exchange rates which the Company's management determined with reference to external publications including RISI and FEA publications. A pre-tax discount rate of 11.0% and inflation rate of 2.0% were used for the purposes of the calculations in 2013 and 2012. The net present value of the future expected cash flows is compared to the carrying value of the Company's investment in these assets, including goodwill, at year end.

Based upon management's analysis, no impairment of goodwill was required in 2013 or 2012.

9. Long-Term Investments and Other

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Investments	\$ 53.8	\$ 23.7
Term loan to Scotch & Gulf Lumber, LLC (Note 29)	33.0	-
Contingent consideration (Note 30)	11.4	-
Other deposits, loans and advances	14.3	19.5
	\$ 112.5	\$ 43.2

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 (Note 29).

Investments also include Canfor's 33.3% interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd. The Company does not exercise significant influence over Lakeland Mills Ltd. or Winton Global Lumber Ltd. In 2013 and 2012, indicators of impairment existed at Lakeland Mills Ltd. as a result of a fire in 2012 which destroyed the Company's sawmill. The fair value less cost to sell of Canfor's 33.3% interest was calculated and no impairment charges were required as a result of the impairment test.

10. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Trade payables and accrued liabilities	\$ 180.4	\$ 145.6
Accrued payroll and related liabilities	83.3	77.7
Restructuring, mill closure and severance costs	23.2	7.4
Income taxes payable	13.5	-
Other	21.4	27.7
	\$ 321.8	\$ 258.4

11. Operating Loans

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Canfor (excluding CPPI)		
Available Operating Loans:		
Total operating loans - Canfor (excluding CPPI)	\$ 350.0	\$ 350.0
Drawn	(64.0)	(27.0)
Letters of credit (principally unregistered pension plans)	(14.8)	(18.0)
Total available operating loans - Canfor (excluding CPPI)	\$ 271.2	\$ 305.0
CPPI		
Available Operating Loans:		
Operating loan facility	\$ 110.0	\$ 110.0
Facility for letters of credit related to energy agreements	20.0	7.5
Total operating loans - CPPI	130.0	117.5
Drawn	(10.6)	-
Energy letters of credit	(12.2)	(9.2)
Total available operating loans - CPPI	\$ 107.2	\$ 108.3
Consolidated:		
Total operating loans	\$ 480.0	\$ 467.5
Total available operating loans	\$ 378.4	\$ 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 total capitalization, 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. During 2013, CPPI extended the maturity date of the operating loan facility from November 13, 2016 to January 31, 2018.

During 2013, CPPI replaced its facility for energy-related letters of credit with a new \$20.0 million facility maturing on June 30, 2015. At December 31, 2013, \$9.8 million of energy-related letters of credit were covered under the new facility.

As at December 31, 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.

12. Long-Term Debt

Canfor has the following long-term debt, all of which is unsecured:

Summary of long-term debt

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Privately placed senior notes		
Canfor Corporation		
US\$75 million, interest at 5.42%, repaid April 1, 2013	\$ -	\$ 74.7
CAD\$100 million, floating interest, repayable February 13, 2017	100.0	100.0
Other ¹	3.1	-
Canfor Pulp Products Inc.		
US\$110 million, interest at 6.41%, repaid November 29, 2013	-	109.4
CAD\$50 million, floating interest, repayable November 5, 2018	50.0	-
	\$ 153.1	\$ 284.1
Less: current portion	-	(184.1)
Long-term portion	\$ 153.1	\$ 100.0

¹In 2013 the Company obtained \$3.1 million in net financing with interest rates between 1.0% and 2.0% related to specific capital projects at its U.S. sawmills.

In 2013, the Company repaid its \$76.3 million (US\$75.0 million) 5.42% term debt and CPPI repaid its \$116.6 million (US\$110.0 million) 6.41% term debt. On November 5, 2013, CPPI completed a \$50.0 million unsecured non-revolving term debt financing, which is repayable on November 5, 2018 with no penalty for early repayment. The interest rate on the new term debt is based on the lender's Canadian prime rate, or bankers acceptance rate in the year of payment.

As at December 31, 2013, the Company and CPPI were in compliance with all covenants relating to their long-term debt.

Fair value of total long-term debt

At December 31, 2013, the fair value of the Company's long-term debt approximates its amortized cost of \$153.1 million (2012 - \$288.8 million).

13. Employee Future Benefits

Effective January 1, 2013, Canfor adopted amended IAS 19, *Employee Benefits*, and has restated the comparative period. For details related to the adoption of the new Standard refer to Note 4.

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

Total cash payments for employee future benefits for 2013 were \$75.1 million (2012 – \$76.9 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans, and cash contributed to forest industry union defined benefit plans.

Defined benefit plans

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

In 2013, Canfor had five registered defined benefit plans for which actuarial valuations are performed every three years. The largest plan will undergo an actuarial valuation for funding purposes as of December 31, 2013, which will be completed in 2014. Subsequent to the December 31, 2013 valuation, the next actuarial valuation for funding purposes is currently scheduled for December 31, 2016.

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

Fair Market Value of Plan Assets

	2013		2012	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 591.8	\$ -	\$ 529.9	\$ -
Interest income on plan assets	24.8	-	26.8	-
Return on plan assets greater than discount rate	51.6	-	33.4	-
Canfor contributions	46.8	5.6	48.5	5.7
Employee contributions	0.6	-	0.7	-
Settlements	-	-	(7.1)	-
Benefit payments	(45.1)	(5.6)	(39.6)	(5.7)
Administration expenses	(0.8)	-	(0.8)	-
End of year	\$ 669.7	\$ -	\$ 591.8	\$ -

Plan assets consist of the following:	As at December 31, 2013	As at December 31, 2012
	Percentage of Plan Assets	
Asset category		
Equity securities	60%	66%
Debt securities	35%	33%
Cash and cash equivalents	5%	1%
	100%	100%

Accrued Benefit Obligations

(millions of Canadian dollars)	2013		2012	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Beginning of year	\$ 711.0	\$ 188.2	\$ 648.4	\$ 174.5
Current service cost	9.9	3.1	10.1	2.5
Interest cost	28.9	7.9	31.6	8.8
Employee contributions	0.6	-	0.7	-
Benefit payments	(45.1)	(5.6)	(39.6)	(5.7)
Plan amendments / settlements	-	-	(5.6)	(15.7)
Actuarial loss (gain)	(33.4)	(38.2)	65.4	24.2
Other	-	(1.1)	-	(0.4)
End of year	\$ 671.9	\$ 154.3	\$ 711.0	\$ 188.2

Of the defined benefit plan obligation of \$671.9 million (2012 - \$711.0 million), \$644.6 million (2012 - \$682.2 million) relates to plans that are wholly or partly funded and \$27.3 million (2012 - \$28.8 million) relates to plans that are wholly unfunded. At December 31, 2013, certain liabilities for unregistered plans were secured by a letter of credit in the amount of \$10.5 million (2012 - \$12.2 million).

The total obligation for the other benefit plans of \$154.3 million (2012 - \$188.2 million) is unfunded.

Reconciliation of Funded Status of Benefit Plans to Amounts Recorded in the Financial Statements

(millions of Canadian dollars)	December 31, 2013		December 31, 2012	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plans assets	\$ 669.7	\$ -	\$ 591.8	\$ -
Accrued benefit obligation	(671.9)	(154.3)	(711.0)	(188.2)
Funded status of plans – deficit	\$ (2.2)	\$ (154.3)	\$ (119.2)	\$ (188.2)
Other pension plans	(1.8)	-	(2.9)	-
Total accrued benefit liability, net	\$ (4.0)	\$ (154.3)	\$ (122.1)	\$ (188.2)

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

(millions of Canadian dollars)	December 31, 2013		December 31, 2012	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Retirement benefit surplus	\$ 42.2	\$ -	\$ 1.4	\$ -
Retirement benefit obligations	(46.2)	(154.3)	(123.5)	(188.2)
Total accrued benefit liability, net	\$ (4.0)	\$ (154.3)	\$ (122.1)	\$ (188.2)

At December 31, 2013, certain post-employment defined benefit pension plans are in a surplus position reflecting the return on plan assets, actuarial gains and employer contributions to the pension plans during 2013. The plans with a net retirement surplus have been classified as non-current assets on the balance sheet.

Components of pension cost

The following table shows the before tax impact on net income and other comprehensive income of the Company's pension and other defined benefit plans:

(millions of Canadian dollars)	2013		2012	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Recognized in net income				
Current service cost	\$ 9.9	\$ 3.1	\$ 10.1	\$ 2.5
Administration expenses	1.0	-	1.0	-
Interest cost	4.1	7.9	4.8	8.8
Plan amendment / settlement loss (gain)	-	-	1.5	(15.7)
Other	-	(1.1)	-	(0.4)
Total included in net income	\$ 15.0	\$ 9.9	\$ 17.4	\$ (4.8)
Recognized in other comprehensive income				
Actuarial loss (gain) – experience	\$ 0.9	\$ (21.0)	\$ (1.9)	\$ (1.3)
Actuarial loss – demographic assumptions	15.2	3.4	-	-
Actuarial loss (gain) – financial assumptions	(49.5)	(20.6)	67.3	25.5
Return on plan assets (greater) than discount rate	(51.6)	-	(33.4)	-
Administrative costs less than expected	(0.2)	-	(0.2)	-
Other	(0.5)	-	0.8	-
Total included in other comprehensive income	\$ (85.7)	\$ (38.2)	\$ 32.6	\$ 24.2

Significant assumptions

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

	December 31, 2013		December 31, 2012	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Discount rate	4.80%	4.90%	4.20%	4.40%
Rate of compensation increases	3.00%	n/a	3.00%	n/a
Future salary increases	3.00%	n/a	3.00%	n/a
Initial medical cost trend rate	n/a	7.00%	n/a	10.00%
Ultimate medical cost trend rate	n/a	4.50%	n/a	4.50%
Year ultimate rate is reached	n/a	2021	n/a	2029

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2013 is between 19.8 years and 23.0 years (2012 – 19.8 years and 22.0 years). As at December 31, 2013, the weighted average duration of the defined benefit obligation is 11.4 years (2012 – 11.2 years). The weighted average duration of the other benefit plans is 13.7 years (2012 – 15.9 years).

Sensitivity analysis

Assumed discount rates and medical cost trend rates have a significant effect on the accrued benefit obligation. A one percentage point change in these assumptions would have the following effects on the accrued benefit obligation for 2013:

(millions of Canadian dollars)	1% Increase	1% Decrease
Pension benefit plans		
Discount rate	\$ (78.1)	\$ 88.0
Other benefit plans		
Discount rate	\$ (18.8)	\$ 23.2
Initial medical cost trend rate	\$ 15.9	\$ (13.5)

As at December 31, 2013, Canfor estimated that it will make contribution payments of \$38.9 million to its defined benefit plans in 2014 based on the last actuarial valuation for funding purposes. Canfor's largest pension plan will undergo an actuarial valuation for funding purposes as at December 31, 2013 in 2014.

Defined contribution and other plans

The total expense recognized in 2013 for Canfor's defined contribution plans was \$3.2 million (2012 - \$5.0 million).

Canfor contributes to various forest industry union defined benefit pension plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the expense for defined contribution plans above, amounted to \$19.5 million in 2013 (2012 - \$17.4 million).

Employee future benefit plan amendments / settlements

During 2012, the Company amended the salaried post retirement benefit plans for certain employees and retirees. The amendments reduced the Company's retirement benefit obligation by \$15.7 million (before tax) which resulted in recognition of a corresponding gain of \$15.7 million (before tax). In addition, certain other pension plan settlements in 2012 resulted in a loss of \$1.5 million (before tax).

Other

Canfor's total employee benefits expense includes expense for salaries and wages, benefits and employee future benefits. The total employee benefits expense in 2013 was \$535.5 million (2012 - \$478.9 million).

14. Deferred Reforestation Obligations

The following table provides a reconciliation of the deferred reforestation obligations as at December 31, 2013 and 2012:

(millions of Canadian dollars)	2013	2012
Reforestation obligations at beginning of year	\$ 115.7	\$ 96.6
Expense for year	39.7	38.4
Accretion expense	1.1	0.7
Additions due to acquisition (Note 31)	-	16.5
Changes in estimates	(4.0)	(1.7)
Paid during the year	(38.6)	(34.8)
Reforestation obligations at end of year	\$ 113.9	\$ 115.7
Less: current portion	(44.1)	(37.3)
Long-term portion	\$ 69.8	\$ 78.4

The total undiscounted amount of the estimated cash flows required to settle the obligations at December 31, 2013 was \$119.4 million (2012 - \$120.0 million) with payments spread over 15 years. Due to the general long-term nature of the liability, the most significant area of uncertainty in estimating the provision is the future costs that will be incurred. The estimated cash flows have been adjusted for inflation and discounted using risk-free rates ranging from 1.0% to 3.1% at December 31, 2013.

15. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2013 and 2012:

(millions of Canadian dollars)	2013	2012
Asset retirement obligations at beginning of year	\$ 7.0	\$ 6.6
Accretion expense	0.2	0.1
Paid during the year	-	(0.1)
Changes in estimates	(0.7)	0.1
Additions due to acquisition (Note 31)	-	0.3
Asset retirement obligations at end of year	\$ 6.5	\$ 7.0

Canfor's asset retirement obligations include \$2.7 million in relation to landfill closure costs at CPPI. This obligation represents estimated undiscounted future payments of \$7.2 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 5 to 38 years and have been discounted at risk-free rates ranging from 1.9% to 3.2%.

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

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in other long-term liabilities on the balance sheet.

16. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with the indefinite or permanent closures of facilities and staff reductions. The expense for the year ended December 31, 2013 amounted to \$23.1 million (2012 - \$18.5 million). Of the 2013 expense, \$20.0 million related to estimated closure costs at the Quesnel sawmill which is anticipated to occur in March 2014. In addition, the 2013 expense also includes ongoing costs of the Company's indefinitely idled PolarBoard panels plant, permanently closed Rustad sawmill and permanently closed Tackama panel operations.

The 2012 expense principally related to ongoing costs of the Company's indefinitely idled PolarBoard panels plant and the costs of the Company's Radium sawmill prior to its restart in the fourth quarter of 2012. Costs associated with the permanently closed Rustad sawmill and permanently closed Tackama panel operations and certain restructuring costs made up the balance in 2012.

The following table provides a breakdown of the restructuring, mill closure and severance costs by business segment:

(millions of Canadian dollars)	2013	2012
Lumber	\$ 20.6	\$ 11.0
Pulp & paper	0.6	1.7
Unallocated and other	1.9	5.8
	\$ 23.1	\$ 18.5

The following table provides a reconciliation of the restructuring, mill closure and severance liability for the years ended December 31, 2013 and 2012:

(millions of Canadian dollars)	2013	2012
Accrued liability at beginning of year	\$ 9.0	\$ 28.3
Costs accrued in the year	20.7	7.7
Paid during the year	(5.1)	(27.0)
Accrued liability at end of year	\$ 24.6	\$ 9.0

At December 31, 2013, \$1.4 million of the restructuring, mill closure and severance liability is non-current (2012 - \$1.6 million).

17. Share Capital

Authorized

10,000,000 preferred shares, with a par value of \$25 each

1,000,000,000 common shares without par value

Issued and Fully Paid

(millions of Canadian dollars, except number of shares)	2013		2012	
	Number of Shares	Amount	Number of Shares	Amount
Common shares at beginning of year	142,752,431	\$ 1,126.2	142,721,764	\$ 1,125.9
Shares purchased	(2,847,838)	(22.5)	-	-
Stock options exercised (Note 19)	-	-	30,667	0.3
Common shares at end of year	139,904,593	\$ 1,103.7	142,752,431	\$ 1,126.2

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

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2013 was 141,959,473 (2012 - 142,749,096), and reflected shares repurchased under the Company's Normal Course Issuer Bid (see below).

Normal Course Issuer Bid

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 is set to expire on March 4, 2014. In 2013, Canfor purchased 2,847,838 common shares for \$60.0 million, of which \$22.5 million was charged to share capital and \$37.5 million charged to retained earnings. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 50.2% at December 31, 2012 to 50.4% at December 31, 2013.

18. Non-Controlling Interests

The following table summarizes the non-controlling financial information for CPPI before inter-company eliminations:

Summarized Balance Sheet: Amounts presented below represent non-controlling % (millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
	CPPI	CPPI
Non-controlling interests percentage at year end	49.6%	49.8%
Current assets	\$ 114.1	\$ 113.0
Long-term assets	267.1	264.5
Total assets	\$ 381.2	\$ 377.5
Current liabilities	\$ 63.9	\$ 101.6
Long-term liabilities	100.0	83.4
Total liabilities	\$ 163.9	\$ 185.0
Total equity	\$ 217.3	\$ 192.5
Total liabilities and equity	\$ 381.2	\$ 377.5

Summarized Statements of Income and Other Comprehensive Income Amounts presented below represent non-controlling % ¹ (millions of Canadian dollars)	Year ended	Year ended
	December 31, 2013	December 31, 2012
	CPPI	CPPI
Sales	\$ 440.8	\$ 403.6
Net income	20.7	6.7
Other comprehensive income	13.0	(5.6)
Total comprehensive income	\$ 33.7	\$ 1.1
Dividends paid to non-controlling interest	\$ 7.1	\$ 13.5

Summarized Statements of Cash Flow: Amounts presented below represent non-controlling % ¹ (millions of Canadian dollars)	Year ended	Year ended
	December 31, 2013	December 31, 2012
	CPPI	CPPI
Cash flows from operations activities	\$ 77.8	\$ 43.8
Cash flows from financing activities	\$ (39.4)	\$ (13.6)
Cash flows from investing activities	\$ (31.2)	\$ (29.8)

¹In 2013, CPPI purchased shares from non-controlling shareholders under a normal course issuer bid increasing Canfor's ownership of CPPI from 50.2% at December 31, 2012 to 50.4% at December 31, 2013 with CPPI's non-controlling interest decreasing by a corresponding amount throughout 2013.

19. Share-Based Compensation

Canfor has two share-based compensation plans, which are described below.

Deferred share unit plans

The value of deferred share units ("DSUs"), when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity. Effective July 27, 2011, the Board determined to cease the issuance of DSUs for non-employee directors. The total expense recorded in relation to the DSUs for 2013 was \$1.1 million due to the revaluation of existing units (2012 - expense of \$0.8 million). The value of outstanding DSUs at December 31, 2013 was \$3.1 million (2012 - \$2.0 million).

Stock option performance plan

In 2012, 38,667 stock options were outstanding, of which 30,667 were exercised at a weighted average price of \$9.86 per share, and the remaining 8,000 stock options were cancelled. As of December 31, 2013 and 2012, there were no outstanding stock options.

20. Finance Expense, Net

(millions of Canadian dollars)	2013	2012
Finance expense	\$ (28.7)	\$ (34.1)
Less: Interest income	0.8	0.3
Finance expense, net	\$ (27.9)	\$ (33.8)

For the year ended December 31, 2013, finance expense, net related substantially to interest expense on term debt, net interest expense on retirement benefit obligations, and accretion expense related to the Company's asset retirement and deferred reforestation obligations. Included in finance expense, net in 2013 was \$12.0 million related to net interest expense on retirement benefit obligations (2012 - \$13.6 million) and \$10.6 million related to term debt (2012 - \$13.9 million).

21. Income Taxes

The components of income tax expense are as follows:

(millions of Canadian dollars)	2013	2012
Current	\$ (21.6)	\$ (2.9)
Deferred	(66.6)	(9.5)
Income tax expense	\$ (88.2)	\$ (12.4)

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

(millions of Canadian dollars)	2013	2012
Income tax expense at statutory rate 2013 – 25.75% (2012 – 25.0%) ¹	\$ (87.2)	\$ (12.0)
Add (deduct):		
Non-taxable income related to non-controlling interests in limited partnerships	0.3	1.7
Entities with different income tax rates and other tax adjustments	0.5	(2.3)
Permanent difference from capital gains and losses and other non-deductible items	3.6	0.2
Change in substantively enacted tax rate ¹	(5.4)	-
Income tax expense	\$ (88.2)	\$ (12.4)

¹Effective April 1, 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 \$32.2 million was recorded to other comprehensive income for the year ended December 31, 2013 (2012 - recovery of \$14.4 million) in relation to actuarial gains/losses on defined benefit employee compensation plans.

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

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Deferred income tax assets		
Accruals not currently deductible	\$ 39.6	35.0
Loss carryforwards	23.2	75.5
Retirement benefit obligations	41.1	77.7
Other	1.8	2.5
	\$ 105.7	\$ 190.7
Deferred income tax liabilities		
Depreciable capital assets	\$ (303.5)	\$ (279.4)
Other intangible assets	(2.1)	(3.0)
Unrealized foreign exchange gains on debt	-	(5.0)
Other	(11.0)	(15.1)
	\$ (316.6)	\$ (302.5)
Total deferred income taxes, net	\$ (210.9)	\$ (111.8)
Less: Entities in a net deferred tax asset position	6.2	39.3
Deferred income taxes liability, net	\$ (217.1)	\$ (151.1)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions changed in the future, the value of the deferred income tax assets could be reduced, resulting in an income tax expense.

Of the net deferred income tax liability, \$38.4 million of the deferred tax assets and \$3.0 million of the deferred tax liabilities are expected to be recovered within twelve months (2012 - \$71.3 million of the deferred tax assets and \$15.0 million of the deferred tax liabilities).

22. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	2013	2012
Accounts receivable	\$ 10.6	\$ 2.4
Inventories	(39.0)	(57.5)
Prepaid expenses and other assets	(8.1)	(1.9)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	29.0	(14.3)
Net increase in non-cash working capital	\$ (7.5)	\$ (71.3)

23. Related Party Transactions

Canfor undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on the same terms as those accorded to unrelated third parties, except where noted otherwise.

Canfor purchases chips, lumber and logs from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which Canfor has a 33.3% interest in both entities. In 2013, Canfor purchased \$4.6 million in logs (2012 - \$4.9 million) and did not purchase any chips (2012 - \$2.6 million) from Lakeland Mills Ltd. and Winton Global Lumber Ltd. No amounts were outstanding to Lakeland Mills Ltd. and Winton Global Lumber Ltd. at December 31, 2013 (2012 - \$0.2 million).

During 2013, Canfor completed the first phase of the purchase of Scotch Gulf (Note 29). As part of the transaction, Scotch Gulf borrowed \$34.0 million from Canfor in the form of a term loan, of which \$33.0 million is outstanding at December 31, 2013.

Key Management Personnel

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

(millions of Canadian dollars)	2013	2012
Short-term benefits	\$ 7.1	\$ 5.8
Post-employment benefits	0.4	0.3
Share-based payments	1.2	0.8
	\$ 8.7	\$ 6.9

Short-term benefits for members of the Board of Directors include an annual retainer as well as attendance fees.

Other Related Parties

During 2013, Canfor made contributions to certain post-employment benefit plans for the benefit of Canfor employees. Note 13 Employee Future Benefits contains further details.

The Jim Pattison Group is Canfor's largest shareholder. During 2013, Jim Pattison Lease provided lease services to Canfor totalling \$1.5 million (2012 - \$0.7 million) and no amounts were outstanding at December 31, 2013 (2012 - nil).

24. Segment Information

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

- *Lumber* - Includes logging operations, and manufacture and sale of various grades, widths and lengths of lumber products.
- *Pulp and paper* - Includes purchase of residual fibre, and production and sale of pulp and paper products, including Northern Bleached Softwood Kraft ("NBSK") and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP"). This segment includes 100% of CPPI and the Taylor pulp mill.

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 30). 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.

Information regarding the operations of each reportable segment is included in the table below. The accounting policies of the reportable segments are the same as described in Note 3.

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

(millions of Canadian dollars)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
Year ended December 31, 2013					
Sales to external customers	\$ 2,192.2	999.4	3.3	-	\$ 3,194.9
Sales to other segments	\$ 131.9	-	-	(131.9)	\$ -
Operating income (loss)	\$ 285.1	72.2	(26.0)	-	\$ 331.3
Amortization	\$ 113.5	71.8	0.9	-	\$ 186.2
Capital expenditures¹	\$ 164.7	62.6	10.0	-	\$ 237.3
Identifiable assets	\$ 1,715.8	770.3	207.2	-	\$ 2,693.3
Year ended December 31, 2012					
Sales to external customers	\$ 1,711.8	923.5	7.5	-	\$ 2,642.8
Sales to other segments	\$ 111.9	-	-	(111.9)	\$ -
Operating income (loss)	\$ 75.6	27.6	(31.9)	-	\$ 71.3
Amortization	\$ 101.8	69.0	6.3	-	\$ 177.1
Capital expenditures ¹	\$ 110.9	88.7	2.0	-	\$ 201.6
Identifiable assets	\$ 1,553.3	774.6	162.7	-	\$ 2,490.6

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

Geographic information

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

(millions of Canadian dollars)	2013	2012
Sales by location of customer		
Canada	\$ 457.1	\$ 414.3
Asia	1,167.4	950.0
United States	1,397.0	1,119.6
Europe	134.4	119.1
Other	39.0	39.8
	\$ 3,194.9	\$ 2,642.8

(millions of Canadian dollars)	2013	2012
Capital assets and goodwill by location		
Canada	\$ 1,612.2	\$ 1,571.9
United States	148.6	134.0
Asia and Other	0.1	0.1
	\$ 1,760.9	\$ 1,706.0

25. Commitments

At the end of the year, Canfor had contractual commitments for the acquisition of property, plant and equipment for \$21.5 million (2012 - \$55.8 million). The majority of these commitments are expected to be settled over the following year. At December 31, 2013, Canfor has a commitment to purchase the remaining 75% of Scotch Gulf for US\$60.0 million, excluding working capital (Note 29).

Canfor has committed to operating leases for property, plant and equipment. As at December 31, 2013 and 2012, the future minimum lease payments under these operating leases were as follows:

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Within one year	\$ 8.8	\$ 9.1
Between one and five years	16.2	11.2
After five years	9.1	0.6
Total	\$ 34.1	\$ 20.9

During the year ended December 31, 2013, \$14.2 million (2012 - \$15.1 million) was recognized as an expense for operating leases.

In addition to the above commitments, the Company has several operational agreements with minimum usage requirements. No issues were identified with meeting these obligations.

26. Financial Risk and Capital Management

Financial Risk Management

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

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

Credit risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable, and long-term investments. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date of three months or less. The cash and cash equivalents balance at December 31, 2013 is \$89.5 million (2012 - nil).

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade receivables. As at December 31, 2013, approximately 67% (2012 - 50%) of the outstanding trade receivables are covered by credit insurance. Canfor's trade receivable balance at December 31, 2013 is \$115.3 million before an allowance for doubtful accounts of \$2.7 million (2012 - \$105.3 million and \$2.6 million, respectively). At December 31, 2013, approximately 98% (2012 - 97%) of the trade accounts receivable balance was within Canfor's established credit terms.

Liquidity risk:

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

At December 31, 2013, Canfor had \$74.6 million drawn on its operating loans (2012 - \$27.0 million), accounts payable and accrued liabilities of \$321.8 million (2012 - \$258.4 million) and no current debt obligations (2012 - \$184.1 million) all of which are due within twelve months of the balance sheet date.

Market risk:

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

(i) Interest rate risk:

Canfor is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates.

Canfor utilizes interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2013, Canfor had \$205.0 million (2012 - \$205.0 million) in fixed interest rate swaps with interest rates ranging from 1.55% to 1.75% with maturities between 2014 and 2017.

(ii) Currency risk:

Canfor is exposed to foreign exchange risk primarily related to the US dollar, as Canfor's products are sold principally in US dollars. In addition, Canfor holds financial assets and liabilities primarily related to New South, based in South Carolina, in US dollars.

An increase (decrease) in the value of the Canadian dollar by US\$0.01 would result in a pre-tax: (i) loss (gain) of approximately \$1.0 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable).

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses and the US dollar denominated debt. A portion of the remaining exposure is covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars.

Canfor had the following foreign exchange derivatives at December 31, 2013 and 2012:

	As at December 31, 2013		As at December 31, 2012	
	Notional Amount	Exchange Rates	Notional Amount	Exchange Rates
US Dollar Collars	(millions of US dollars)	(protection/topside, per dollar)	(millions of US dollars)	(protection/topside, per dollar)
<i>0-12 months</i>	\$210.0	\$1.04/\$1.12	\$12.0	\$1.00/\$1.10
US Dollar Forward Contracts	(millions of US dollars)	(range of rates, per dollar)	(millions of US dollars)	(range of rates, per dollar)
<i>0-12 months</i>	\$3.5	\$1.07	\$40.8	\$0.99-\$1.00

(iii) Commodity price risk:

Canfor is exposed to commodity price risk principally related to sale of lumber, pulp and paper. From time to time, Canfor enters into futures contracts on the Chicago Mercantile Exchange for lumber and forward contracts direct with customers or on commodity exchanges for pulp. Under the Price Risk Management Controls Policy, up to 15% of lumber sales and 5% of pulp sales may be sold in this way.

Canfor had the following lumber futures contracts at December 31, 2013 and 2012:

	As at December 31, 2013		As at December 31, 2012	
	Notional Amount	Average Rate	Notional Amount	Average Rate
Lumber	(MMfbm)	(US dollars per Mfbm)	(MMfbm)	(US dollars per Mfbm)
Future Sales Contracts				
<i>0-12 months</i>	23.5	\$376.14	115.9	\$338.45

An increase (decrease) in the futures market price of lumber of US\$10 per Mfbm would result in a pre-tax gain (loss) of approximately \$0.2 million in relation to the lumber futures held at year end.

CPPI had the following pulp futures contracts at December 31, 2013 and 2012:

	As at December 31, 2013		As at December 31, 2012	
	Notional Amount	Average Rate	Notional Amount	Average Rate
Pulp	(tonnes)	(US dollars per tonne)	(tonnes)	(US dollars per tonne)
Future Sales Contracts				
<i>0-12 months</i>	12,000	\$945.00	-	-

A decrease (increase) in the futures market price of pulp of US\$10 per tonne would result in a pre-tax gain (loss) of approximately \$0.1 million in relation to the pulp futures held at year end.

(iv) Energy price risk:

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

The exposure is hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. In the case of diesel, Canfor uses Brent oil and Western Texas Intermediate oil ("WTI") contracts to hedge its exposure.

As at December 31, 2013, the Company had 105 thousand barrels of WTI oil collars, which will be settled in 2014, with weighted average protection of \$84.14 per barrel and topside of \$100.86 per barrel.

As at December 31, 2012, the Company had 210 thousand barrels of Brent and WTI oil collars, with weighted average protection of \$90.36 per barrel and topside of \$111.78 per barrel.

Capital management

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

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

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Total debt (including operating loans)	\$ 227.7	\$ 311.1
Cheques issued in excess of cash on hand	-	17.1
Less: Cash and cash equivalents	89.5	-
Net debt	\$ 138.2	\$ 328.2
Total equity	1,597.4	1,311.9
	\$ 1,735.6	\$ 1,640.1

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

Canfor's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. Canfor was in compliance with all its debt covenants for the years ended December 31, 2013 and 2012.

There were no changes in the Company's approach to capital management in the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Financial Instruments

Classification and measurement of 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 measurement. The fair value of long-term debt is disclosed in Note 12.

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.

Derivative financial instruments

The following table summarizes Canfor's financial instruments measured at fair value at December 31, 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 December 31, 2013	As at December 31, 2012
Financial assets measured at fair value			
Derivative financial instruments – held for trading	Level 2	\$ 0.6	\$ 0.7
Royalty receivable – available for sale	Level 3	5.3	6.5
Contingent consideration – available for sale (Note 30)	Level 3	12.8	-
		\$ 18.7	\$ 7.2
Financial liabilities measured at fair value			
Derivative financial instruments – held for trading	Level 2	\$ 0.3	\$ 4.8
		\$ 0.3	\$ 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 operation (Note 30).

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, pulp prices, energy costs, electricity sales and floating interest rates on long-term debt. At December 31, 2013, the fair value of derivative financial instruments was a net asset of \$0.3 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 years ended December 31, 2013 and 2012:

(millions of Canadian dollars)	2013	2012
Foreign exchange collars and forward contracts	\$ 0.2	\$ 3.2
Energy derivatives	0.2	0.6
Lumber futures	4.2	(3.6)
Pulp futures	(0.1)	-
Interest rate swaps	(0.1)	(1.0)
	\$ 4.4	\$ (0.8)

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

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Foreign exchange collars and forward contracts	\$ 0.3	\$ 0.3
Energy derivatives	0.1	0.3
Lumber futures	0.2	(4.1)
Pulp futures	(0.1)	-
Interest rate swaps	(0.2)	(0.6)
Total asset (liability), net	0.3	(4.1)
Less: current portion asset (liability), net	0.4	(3.5)
Long-term portion asset (liability), net	\$ (0.1)	\$ (0.6)

There were no transfers between fair value hierarchy levels during 2013 or 2012.

28. Timber Exchange

On October 24, 2013, Canfor entered into an agreement with West Fraser to exchange forest tenure rights. Canfor exchanged a replaceable forest license in the Quesnel Timber Supply Area with an allowable annual cut of 382,194 cubic meters and a replaceable forest license in the Lakes Timber Supply Area with an allowable annual cut of 53,627 cubic meters with West Fraser for a replaceable license in the Morice Timber Supply Area with an allowable annual cut of 324,500 cubic meters as well as a non-replaceable license and undercut volumes. The timber exchange was treated as a non-monetary transaction and resulted in a loss of \$4.2 million (before tax) in 2013. The estimated fair value of the timber tenures exchanged between Canfor and West Fraser was \$20.0 million.

29. Phased Purchase of Scotch & Gulf Lumber, LLC

On August 9, 2013, the Company completed the first phase of the purchase of Scotch Gulf for \$29.5 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. Scotch Gulf has an option 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. Canfor's commitment to purchase Scotch Gulf at a fixed price represents an equity financial instrument.

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 1.0% and is secured by Scotch Gulf's operating assets. At December 31, 2013, \$33.0 million was outstanding on the term loan receivable which is included in Long-term Investments and Other on the balance sheet (Note 9).

30. 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 December 31, 2013, the fair value of the contingent consideration is \$12.8 million, with the current portion presented in Other Accounts Receivable and the long-term portion presented in Long-Term Investments and Other (Note 9). During 2013, Canfor recognized a pre-tax \$6.2 million negative fair value adjustment on the contingent consideration in Other Expense. Prior to completion of the sale, Canfor received \$16.5 million in distributions from the joint venture in 2013 (2012 – \$13.5 million).

At December 31, 2012, Canfor's investment in the Canfor-LP OSB joint venture was reclassified as held for sale. There is no cumulative income or expense included in Other Comprehensive Income (Loss) in 2012 relating to the investment held for sale.

31. Acquisition of Tembec Assets

On March 23, 2012, the Company completed the acquisition of Tembec's southern British Columbia Interior wood products assets for cash consideration of \$65.6 million, including a payment on account of net working capital, excluding certain liabilities retained by Tembec. The acquisition has been accounted for in accordance with IFRS 3, *Business Combinations*.

The acquisition included Tembec's Elko and Canal Flats sawmills and approximately 1.1 million cubic metres of combined Crown, private land and contract annual allowable cut. The transaction also included a long-term agreement to provide residual fibre supply for Tembec's Skookumchuck pulp mill. The assets acquired increase the Company's fibre availability and production capacity.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

(millions of Canadian dollars)	
Land	\$ 3.0
Buildings, equipment and mobile	6.5
Timber licenses	43.5
Deferred reforestation obligations	(16.5)
Non-cash working capital, net	29.1
Total net identifiable assets	\$ 65.6

If the acquisition had occurred on January 1, 2012, consolidated sales in 2012 would have increased by approximately \$37.0 million, with no material change to consolidated income. In determining these amounts, the fair value adjustments that arose on the acquisition date have been assumed to be the same as if the acquisition had occurred on January 1, 2012.

The Company incurred acquisition-related costs of \$1.3 million, principally relating to external legal fees and due diligence costs, which have been included in selling and administration costs, and severance costs of \$2.5 million related to restructuring of the acquired assets. These amounts are recorded in the Company's consolidated statement of income (loss) for the year ended December 31, 2012.

32. Share Exchange and Partnership Wind-Up

On March 2, 2012, Canadian Forest Products Ltd. ("CFP"), a wholly owned subsidiary of Canfor, acquired 35,776,483 common shares of CPPI in exchange for its 35,776,483 Class B Exchangeable Limited Partnership Units of the Canfor Pulp Limited Partnership ("CPLP" or "the Partnership") and 35,776,483 common shares of Canfor Pulp Holding Inc. ("Canfor Holding"), pursuant to the terms of an Exchange Agreement made as of January 1, 2011 among CFP, CPPI, Canfor Holding and CPLP.

As of the date of exchange, the Company consolidated the balances of CPPI and Canfor Holding, including an additional deferred income tax liability of \$31.4 million and cash of \$6.8 million. The non-controlling interest in consolidated equity increased by \$25.0 million on the date of exchange, representing the additional non-controlling interest balances in CPPI and Canfor Holding.

Prior to the share exchange, CFP and CPPI entered into a one-time dividend waiver agreement, waiving CFP's right to the first \$7.8 million of future dividends declared by CPPI. As such, \$7.8 million was included in non-controlling interests to account for future distributions which the Company had waived its entitlement to. The full \$7.8 million dividend was paid by CPPI during the second quarter of 2012.

On December 27, 2013, the Partnership was wound-up and all of the net assets were transferred to Canfor Pulp Holding Inc. Subsequent to the transfer, Canfor Pulp Holding Inc. was renamed Canfor Pulp Ltd.

33. Transition to New Accounting Standards

Effective January 1, 2013, the Company adopted IFRS 11, *Joint Arrangements*, and as a result has 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 of accounting and as of the effective transition date was accounted for using the equity method of accounting. As described in Note 30, on May 31, 2013, the Company completed the sale of its 50% share in Canfor-LP OSB. The comparative period financial statements have been restated for adoption of IFRS 11 with impacts to the financial statements outlined in the tables below.

Also effective January 1, 2013, the Company adopted amended IAS 19, *Employee Benefits*, which amends certain requirements for defined benefit plans and termination benefits. Under the revised Standard, expected returns on plan assets are no longer included in post-employment benefits expense. Instead, post-employment benefits expense includes net interest on the defined benefit liability calculated using a discount rate. Remeasurements consisting of actuarial gains and losses and the actual return on plan assets (excluding the net interest component) are recognized in other comprehensive income. Further, the deferral of past service costs is no longer permitted and these are recognized in net income when incurred. Any deferred past service cost at January 1, 2013 is recognized through retained earnings on the opening balance sheet. The comparative period financial statements have been restated for adoption of revised IAS 19 with impacts to the financial statements outlined in the tables below.

Summarized impact on the opening consolidated balance sheets:

(millions of Canadian dollars)	Before Accounting Changes	As at January 1, 2012 Adjustments for Accounting Policy Changes		Restated Results
		IFRS 11	IAS 19	
Current assets	\$ 568.4	\$ (0.7)	\$ -	\$ 567.7
Long-term assets ¹	1,833.2	2.2	-	1,835.4
Total assets	\$ 2,401.6	\$ 1.5	\$ -	\$ 2,403.1
Current liabilities	\$ 373.0	\$ 1.5	\$ -	\$ 374.5
Long-term liabilities	668.5	-	(0.1)	668.4
Total liabilities	\$ 1,041.5	\$ 1.5	\$ (0.1)	\$ 1,042.9
Equity attributable to equity holders of the Company	\$ 1,127.3	\$ -	\$ 0.1	\$ 1,127.4
Non-controlling interests	232.8	-	-	232.8
Total equity	\$ 1,360.1	\$ -	\$ 0.1	\$ 1,360.2
Total liabilities and equity	\$ 2,401.6	\$ 1.5	\$ -	\$ 2,403.1

¹At January 1, 2012, \$79.5 million was reclassified from property, plant and equipment to investment in joint venture as a result of the adoption of IFRS 11. The reclassification was within long-term assets and had no impact on the line items disclosed above.

Summarized impact on the comparative period consolidated balance sheets:

(millions of Canadian dollars)	Before Accounting Changes	As at December 31, 2012 Adjustments for Accounting Policy Changes		Restated Results
		IFRS 11	IAS 19	
Current assets	\$ 686.9	\$ 3.1	\$ -	\$ 690.0
Long-term assets	1,801.0	-	(0.4)	1,800.6
Total assets	\$ 2,487.9	\$ 3.1	\$ (0.4)	\$ 2,490.6
Current liabilities	\$ 520.8	\$ 3.1	\$ -	\$ 523.9
Long-term liabilities	657.3	-	(2.5)	654.8
Total liabilities	\$ 1,178.1	\$ 3.1	\$ (2.5)	\$ 1,178.7
Equity attributable to equity holders of the Company	\$ 1,110.9	\$ -	\$ 1.6	\$ 1,112.5
Non-controlling interests	198.9	-	0.5	199.4
Total equity	\$ 1,309.8	\$ -	\$ 2.1	\$ 1,311.9
Total liabilities and equity	\$ 2,487.9	\$ 3.1	\$ (0.4)	\$ 2,490.6

Summarized impact on the comparative period consolidated statements of income:

(millions of Canadian dollars)	Year ended December 31, 2012				Restated Results
	Before Accounting Changes	Adjustments for Accounting Policy Changes			
		IFRS 11	IAS 19		
Sales	\$ 2,714.1	\$ (71.3)	\$ -	\$ 2,642.8	
Operating costs and expenses	2,637.2	(64.3)	(1.4)	2,571.5	
Operating income	\$ 76.9	\$ (7.0)	\$ 1.4	\$ 71.3	
Non-operating gains (losses)	(21.2)	7.0	(9.1)	(23.3)	
Net income before income taxes	\$ 55.7	\$ -	\$ (7.7)	\$ 48.0	
Income tax expense	(14.3)	-	1.9	(12.4)	
Net income	\$ 41.4	\$ -	\$ (5.8)	\$ 35.6	
Net income attributable to:					
Equity shareholders of the Company	\$ 32.1	\$ -	\$ (5.7)	\$ 26.4	
Non-controlling interests	9.3	-	(0.1)	9.2	
Net income	\$ 41.4	\$ -	\$ (5.8)	\$ 35.6	
Net income per common share: (in dollars)					
Attributable to equity shareholders of the Company					
- Basic and diluted	\$ 0.22	\$ -	\$ (0.04)	\$ 0.18	

Summarized impact on the comparative period consolidated statements of other comprehensive income (loss):

(millions of Canadian dollars)	Year ended December 31, 2012				Restated Results
	Before Accounting Changes	Adjustments for Accounting Policy Changes			
		IFRS 11	IAS 19		
Net income	\$ 41.4	\$ -	\$ (5.8)	\$ 35.6	
Other comprehensive income (loss)	(55.0)	-	8.0	(47.0)	
Total comprehensive income (loss)	\$ (13.6)	\$ -	\$ 2.2	\$ (11.4)	
Total comprehensive income (loss) attributable to:					
Equity shareholders of the Company	\$ (16.7)	\$ -	\$ 1.7	\$ (15.0)	
Non-controlling interests	3.1	-	0.5	3.6	
Total comprehensive income (loss)	\$ (13.6)	\$ -	\$ 2.2	\$ (11.4)	

Summarized impact on the comparative period consolidated statements of cash flows:

(millions of Canadian dollars)	Year ended December 31, 2012				Restated Results
	Before Accounting Changes	Adjustments for Accounting Policy Changes			
		IFRS 11	IAS 19		
Cash generated from (used in):					
Operating activities	\$ 131.2	\$ (13.8)	\$ -	\$ 117.4	
Financing activities	42.0	-	-	42.0	
Investing activities	(216.8)	13.7	-	(203.1)	
Increase (decrease) in cash and cash equivalents*	\$ (43.6)	\$ (0.1)	\$ -	\$ (43.7)	
Cash and cash equivalents at beginning of year*	28.9	(2.3)	-	26.6	
Cash and cash equivalents at end of year*	\$ (14.7)	\$ (2.4)	\$ -	\$ (17.1)	

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

The impacts to the current period consolidated statements of income (loss) and the current period consolidated statements 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).