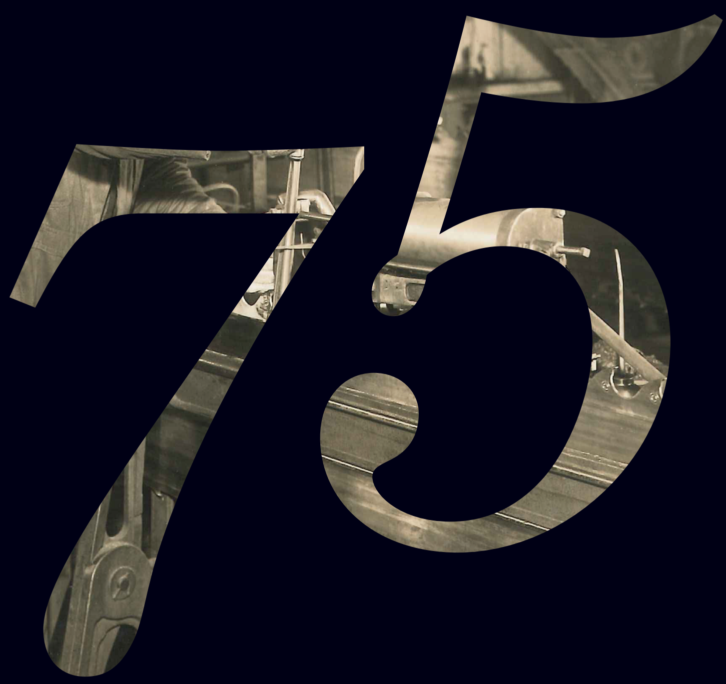
CANFOR CORPORATION

QUARTER 1 INTERIM REPORT 2013

FOR THE THREE MONTHS
ENDED MARCH 31, 2013



To Our Shareholders

Canfor Corporation reported net income attributable to shareholders ("shareholder net income") of $61.9 million, or $0.43 per share, for the first quarter of 2013, compared to $21.3[1] million, or $0.15[1] per share, for the fourth quarter of 2012 and a shareholder net loss of $18.0[1] million, or $0.13[1] per share, for the first quarter of 2012.

The shareholder net income for the first quarter of 2013 included various items affecting comparability with prior periods as well as certain required IFRS accounting adjustments related to the Company's 50% interest in Canfor-LP OSB Limited Partnership, which had an overall positive impact on the Company's results of $8.4 million, or $0.06 per share. After adjusting for such items, the Company's adjusted shareholder net income for the first quarter of 2013 was $70.3 million, up $50.0 million, or $0.35 per share, from an adjusted shareholder net income of $20.3[1] million, or $0.14[1] per share, for the fourth quarter of 2012, and an adjusted shareholder net loss of $24.1[1] million, or $0.18[1] per share, for the first quarter of 2012.

The Company reported operating income of $100.0 million (adjusted $111.0[2] million) for the first quarter of 2013, more than double the $49.0[1] million recorded for the fourth quarter of 2012. Improved results reflected a strengthening U.S. housing market and improved operating performances at the Company's lumber and pulp mills. Lumber sales realizations experienced strong gains during the quarter, with both Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") products appreciating to levels not seen in almost eight years. The previous quarter results included a one-time accounting gain related to the Company's salaried post retirement benefit plans.

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

(millions of Canadian dollars, except per share amounts)	Q1 2013	Q4 2012	Q1 2012
Sales	**$ 786.3**	$ 700.3	$ 593.8
Operating income (loss)	**$ 100.0**	$ 49.0	$ (18.4)
Net income (loss) attributable to equity shareholders of the Company	**$ 61.9**	$ 21.3	$ (18.0)
Net income (loss) per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.43**	$ 0.15	$ (0.13)
Adjusted shareholder net income (loss)	**$ 70.3**	$ 20.3	$ (24.1)
Adjusted shareholder net income (loss) per share	**$ 0.49**	$ 0.14	$ (0.18)

Lumber markets continued to strengthen through the first quarter of 2013 as a result of the recovering U.S. housing market and solid offshore lumber demand. U.S. housing activity reached the highest levels in over five years, with total U.S. housing starts averaging 969,000 units SAAR (seasonally adjusted annual rate), up 7% from the previous quarter. U.S. housing starts ended the quarter at 1,036,000 units SAAR in March, the highest monthly starts since mid-2008. Offshore demand remained strong through the quarter. In contrast, the Canadian housing market showed some weakness in the quarter, falling 26,000 units, or 13%, from the fourth quarter of 2012, to 178,000 units SAAR in the first quarter of 2013. Global softwood pulp markets remained fairly challenging, although conditions improved slightly through the quarter, resulting in modest price gains in all regions.

The average North American benchmark Western SPF 2x4 #2&Btr price rose US$56, or 17%, to US$391 per Mfbm, and ended the quarter at US$408 per Mfbm, the highest level since early 2005. Most other dimensions and grades saw solid, but slightly lower, gains during the quarter. Offshore prices also trended higher with prices on shipments to China reaching new record-highs. Prices for SYP products saw strong increases through the quarter as well, with the benchmark SYP 2x4 #2 average price moving up US$66, or 17%, to US$452 per Mfbm. Western SPF sales realizations also reflected the positive impact of no export taxes on U.S. bound shipments and a weaker average Canadian dollar, down 2 cents, or 2% from the previous quarter.

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.
[2] With the pending sale of Canfor's 50% interest in Canfor-LP OSB Limited Partnership ("Canfor-LP OSB"), equity income (comprising operating income) from the joint venture of $11.0 million for the first quarter of 2013 has not been recognized in the Company's current quarter results due to held for sale accounting requirements.

Lumber production, at just under 1.2 billion board feet, was up 8%, or 92.5 million board feet, from the previous quarter, reflecting a full quarter of production from the Company's recently restarted Radium mill and overall improved productivity, as well as the impact of the Christmas period in the previous quarter. Lumber unit manufacturing costs were in line with the previous quarter, with a reduction in unit conversion costs reflecting higher production levels, offset by a modest increase in unit log costs largely resulting from higher market-related stumpage and increased hauling costs.

Global softwood pulp pricing saw modest price increases through the current quarter with Northern Bleached Softwood Kraft ("NBSK") average list prices up US$15 to US$30 per tonne in all regions. The average list price for North America was up US$34, or 4%, to US$897 per tonne for the quarter. Overall sales realizations did not, however, match the full list price increases due to increased volume to lower-margin regions, principally China, but were favourably impacted by the 2% weaker average Canadian dollar.

The Company's pulp shipments were up 5% from the previous quarter, principally reflecting higher shipments to China. Pulp production was up slightly from the previous quarter, for the most part reflecting an improvement in operating rates during the quarter. Reduced pulp unit manufacturing costs in the current quarter were largely the result of lower maintenance costs coupled with the increased production levels, partially offset by seasonally higher energy costs and slightly higher fibre costs.

The Company continued to preserve its strong financial position, ending the quarter with net debt to capitalization of 18.8% and $400 million available under its operating loans. On April 1, 2013, the Company repaid its US$75 million 5.42% term debt using its operating loan facility. During the current quarter, the Company extended the maturity on its $350 million principal operating loan facility from October 2015 to February 2018.

Looking ahead, North American lumber consumption is forecast to improve slightly through the balance of 2013 as U.S. housing activity continues to gradually gain momentum. Canadian markets are anticipated to remain relatively slow due to tempered housing activity, while offshore markets are projected to see modest growth in demand and stable prices. NBSK pulp markets are projected to remain fairly challenging through the second quarter of 2013. Canfor Pulp announced an increase in the North American NBSK pulp list price of US$30 per tonne in April 2013.

Ronald L. Cliff
Co - Chairman

Don B. Kayne
President and Chief Executive Officer

Michael J. Korenberg
Co - Chairman

Canfor Corporation
First Quarter 2013
Management's Discussion and Analysis

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

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at May 1, 2013.

Forward Looking Statements

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

FIRST QUARTER 2013 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of Canadian dollars, except per share amounts)	Q1 2013	Q4 2012	Q1 2012
Operating income (loss) by segment:			
Lumber	**$ 88.4**	$ 42.5	$ (20.3)
Pulp and Paper	**$ 18.9**	$ 12.0	$ 11.3
Unallocated and Other[6]	**$ (7.3)**	$ (5.5)	$ (9.4)
Total operating income (loss)	**$ 100.0**	$ 49.0	$ (18.4)
Add: Amortization	**$ 46.9**	$ 47.8	$ 42.6
Total operating income before amortization	**$ 146.9**	$ 96.8	$ 24.2
Add (deduct):			
Working capital movements	**$ (94.5)**	$ (49.4)	$ (76.8)
Defined benefit pension plan contributions	**$ (13.5)**	$ (13.4)	$ (14.0)
Other operating cash flows, net[2]	**$ 17.1**	$ (6.4)	$ 14.8
Cash from (used in) operating activities	**$ 56.0**	$ 27.6	$ (51.8)
Add (deduct):			
Finance expenses paid	**$ (2.5)**	$ (7.6)	$ (3.1)
Distributions paid to non-controlling interests	**$ (2.4)**	$ (0.4)	$ (4.3)
Capital additions, net[3]	**$ (46.4)**	$ (48.8)	$ (110.6)
Drawdown (repayment) of long-term debt	**$ -**	$ -	$ 50.1
Other, net	**$ 5.6**	$ 12.0	$ 5.9
Change in cash / operating loans	**$ 10.3**	$ (17.2)	$ (113.8)
ROIC – Consolidated[4]	**4.8%**	2.4%	(1.5)%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.991**	$ 1.009	$ 0.999

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

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

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

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

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

[6] Reported results for the first quarter of 2013 reflect the Company's intent to sell its 50% share in Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") and related accounting thereof. In accordance with IFRS, the Company no longer recorded its share of Canfor-LP OSB's income subsequent to classification as held for sale on December 31, 2012. The impact on operating income and net income for the first quarter of 2013 was $11.0 million and $8.3 million, respectively, or $0.06 per share.

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q1 2013	Q4 2012	Q1 2012
Shareholder Net Income (Loss)	**$ 61.9**	$ 21.3	$ (18.0)
Foreign exchange (gain) loss on long-term debt and investments, net	**$ 2.3**	$ 1.2	$ (2.7)
(Gain) loss on derivative financial instruments	**$ (2.2)**	$ 6.5	$ (5.1)
Canfor's 50% interest in Canfor-LP OSB's income, net of tax[6]	**$ 8.3**	$ -	$ -
Net gain on post retirement and pension plan amendments	**$ -**	$ (8.7)	$ -
Increase in fair value of ABCP	**$ -**	$ -	$ (1.1)
Costs related to Tembec acquisition	**$ -**	$ -	$ 2.8
Net impact of above items	**$ 8.4**	$ (1.0)	$ (6.1)
Adjusted Shareholder Net Income (Loss)	**$ 70.3**	$ 20.3	$ (24.1)
Shareholder Net Income (Loss) per share (EPS), as reported	**$ 0.43**	$ 0.15	$ (0.13)
Net impact of above items per share	**$ 0.06**	$ (0.01)	$ (0.05)
Adjusted Shareholder Net Income (Loss) per share	**$ 0.49**	$ 0.14	$ (0.18)

The Company reported operating income of $100.0 million (adjusted $111.0[6] million) for the first quarter of 2013, more than double the $49.0[1] million recorded for the fourth quarter of 2012. Improved results reflected a strengthening U.S. housing market and improved operating performances at the Company's lumber and pulp mills. Lumber sales realizations experienced strong gains during the quarter, with both Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") products appreciating to levels not seen in almost eight years. The previous quarter results included a one-time accounting gain related to the Company's salaried post retirement benefit plans.

Lumber markets continued to strengthen through the first quarter of 2013 as a result of the recovering U.S. housing market and solid offshore lumber demand. U.S. housing activity reached the highest levels in over five years, with total U.S. housing starts averaging 969,000 units SAAR (seasonally adjusted annual rate), up 7% from the previous quarter. U.S. housing starts ended the quarter at 1,036,000 units SAAR in March, the highest monthly starts since mid-2008. Offshore demand remained strong through the quarter. In contrast, the Canadian housing market showed some weakness in the quarter, falling 26,000 units, or 13%, from the fourth quarter of 2012, to 178,000 units SAAR in the first quarter of 2013. Global softwood pulp markets remained fairly challenging, although conditions improved slightly through the quarter, resulting in modest price gains in all regions.

The average North American benchmark Western SPF 2x4 #2&Btr price rose US$56, or 17%, to US$391 per Mfbm, and ended the quarter at US$408 per Mfbm, the highest level since early 2005. Most other dimensions and grades saw solid, but slightly lower, gains during the quarter. Offshore prices also trended higher with prices on shipments to China reaching new record-highs. Prices for SYP products saw strong increases through the quarter as well, with the benchmark SYP 2x4 #2 average price moving up US$66, or 17%, to US$452 per Mfbm. Western SPF sales realizations also reflected the positive impact of no export taxes on U.S. bound shipments and a weaker average Canadian dollar, down 2 cents, or 2% from the previous quarter.

Lumber production, at just under 1.2 billion board feet, was up 8%, or 92.5 million board feet, from the previous quarter, reflecting a full quarter of production from the Company's recently restarted Radium mill and overall improved productivity, as well as the impact of the Christmas period in the previous quarter. Lumber unit manufacturing costs were in line with the previous quarter, with a reduction in unit conversion costs reflecting higher production levels, offset by a modest increase in unit log costs largely resulting from higher market-related stumpage and increased hauling costs.

Global softwood pulp pricing saw modest price increases through the current quarter with Northern Bleached Softwood Kraft ("NBSK") average list prices up US$15 to US$30 per tonne in all regions. The average list price for North America was up US$34, or 4%, to US$897 per tonne for the quarter. Overall sales realizations did not, however, match the full list price increases due to increased volume to lower-margin regions, principally China, but were favourably impacted by the 2% weaker average Canadian dollar.

The Company's pulp shipments were up 5% from the previous quarter, principally reflecting higher shipments to China. Pulp production was up slightly from the previous quarter, for the most part reflecting an improvement in operating rates during the quarter. Reduced pulp unit manufacturing costs in the current quarter were largely the result of lower maintenance costs coupled with the increased production levels, partially offset by seasonally higher energy costs and slightly higher fibre costs.

Compared to the first quarter of 2012, operating income was up $118.4 million, driven by an increase of $108.7 million in the lumber segment, principally reflecting significantly improved markets, and lower export taxes partially offset by increased unit manufacturing costs. The pulp and paper segment was also well up largely the result of increased energy sales and largely unchanged unit manufacturing costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber[7]

(millions of Canadian dollars unless otherwise noted)	Q1 2013	Q4 2012	Q1 2012
Sales	**$ 542.3**	$ 469.9	$ 343.7
Operating income before amortization	**$ 115.7**	$ 69.1	$ 2.9
Operating income (loss)	**$ 88.4**	$ 42.5	$ (20.3)
Negative (positive) impact of inventory valuation adjustments[8]	**$ -**	$ (0.4)	$ (10.2)
Costs related to Tembec acquisition	**$ -**	$ -	$ 2.5
Operating income (loss) excluding impact of inventory valuation adjustments and unusual items	**$ 88.4**	$ 42.1	$ (28.0)
Average SPF 2x4 #2&Btr lumber price in US$[9]	**$ 391**	$ 335	$ 266
Average SPF price in Cdn$	**$ 395**	$ 332	$ 266
Average SYP 2x4 #2 lumber price in US$[10]	**$ 452**	$ 386	$ 298
Average SYP price in Cdn$	**$ 456**	$ 383	$ 298
U.S. housing starts (thousand units SAAR)[11]	**969**	904	715
Production – SPF lumber (MMfbm)	**1,065.1**	985.5	903.7
Production – SYP lumber (MMfbm)	**134.7**	121.8	114.3
Shipments – SPF lumber (MMfbm)[12]	**1,004.2**	1,007.9	852.3
Shipments – SYP lumber (MMfbm)[12]	**123.3**	133.5	117.6
Shipments – wholesale lumber (MMfbm)	**7.1**	8.0	24.5

[7] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.
[8] In accordance with IFRS, Canfor records its log and finished product inventories at the lower of cost and net realizable value ("NRV"). Changes in inventory volumes, market prices, foreign exchange rates and costs over the respective reporting periods can all affect inventory valuation adjustments, if any, required at each period end.
[9] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[10] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[11] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").
[12] Canfor-produced lumber, including lumber purchased for remanufacture.

Overview

Operating income for the lumber segment was $88.4 million for the first quarter of 2013, an increase of $45.9 million compared to operating income of $42.5 million in the immediately preceding quarter, and a $108.7 million improvement from the operating loss of $20.3 million reported for the first quarter of 2012. The fourth quarter of 2012 results included a gain resulting from amendments to the Company's salaried post retirement plans while the comparable period in the prior year included a $10.2 million recovery of previously recorded inventory write-downs and $2.5 million in costs related to the acquisition of the Kootenay area sawmills.

The stronger results compared to the fourth quarter of 2012 reflected continued strong lumber markets and improved lumber sales realizations. Both North American and offshore markets experienced solid increases in sales realizations compared to the previous quarter. Canadian dollar sales realizations were positively impacted by a 2% weaker average Canadian dollar compared to the fourth quarter of 2012.

Unit manufacturing costs were in line with the prior quarter reflecting reductions in unit conversion costs offset by increased unit log costs. The reduction in conversion costs was driven by increased production levels, reflecting both a full quarter of production from the recently restarted Radium sawmill and productivity gains, as well as the Christmas period in the previous quarter. Log cost increases were predominantly the result of market-related stumpage and hauling costs, driven in part by higher fuel costs.

Significantly improved market prices and sales realizations coupled with a 14% increase in lumber shipments, mainly attributable to additional production from the Kootenay areas mills, contributed to the increase in operating income compared to the first quarter of 2012. Partially offsetting these gains were increased unit manufacturing costs largely reflecting market-related stumpage and higher hauling costs.

Markets

During the first quarter of 2013, the lumber market continued its momentum from late 2012, with the continuing recovery of the U.S. housing market and strong offshore lumber demand from all major consuming regions. U.S. housing activity continued to reach levels not seen in over five years. Total U.S. housing starts averaged 969,000 units[13] SAAR, up 7% from the previous quarter, and ended the quarter at 1,036,000 units[13] SAAR in March, the highest monthly and quarterly starts since mid-2008. Single-family starts, which consume a larger proportion of lumber, were 628,000 units[13] SAAR in the first quarter of 2013, a 6% increase from the fourth quarter of 2012. The repair and remodeling sector also gained from the overall increase in housing activity during the quarter.

After several years of strong growth, Canadian housing starts were down 26,000 units, or 13%, from the fourth quarter of 2012 to 178,000 units[14] SAAR in the first quarter of 2013.

Canfor's offshore lumber shipments were relatively flat compared to the last quarter of 2012, but were up 8% compared to the first quarter of 2012.

Sales

Sales for the lumber segment for the first quarter of 2013 were $542.3 million, compared to $469.9 million in the previous quarter and $343.7 million in the first quarter of 2012. Increases from both comparative periods reflected the impact of improved pricing. The improvement from the first quarter of 2012 also reflected a 140 million board feet, or 14%, increase in shipments largely related to incremental production from the Kootenay region and improved productivity. Current quarter sales realizations were also favourably impacted by a weaker Canadian dollar compared to the US dollar.

During the quarter, overall sales realizations saw strong gains led by the average North American Random Lengths Western SPF 2x4 #2&Btr lumber price moving up US$56, or 17%, to US$391 per Mfbm. Most other dimensions and grades saw solid but slightly lower gains during the quarter. Offshore prices also showed solid gains with prices to China reaching new record-highs. Sales realizations for SYP products saw similar increases to SPF products, up US$66, or 17%, from the previous quarter, with the benchmark SYP 2X4 #2 price averaging US$452 per Mfbm and wider dimensions benefitting from more marked increases.

Sales realizations also reflected the positive impact of lower export taxes, with no export taxes on U.S. bound shipments in the current quarter. The Random Lengths Framing Lumber Composite price averaged US$413 per Mfbm for the first quarter of 2013, above the trigger price of US$355, resulting in no export tax on U.S. bound shipments. This compared to an 8% average export tax rate in the previous quarter and 15% for the first quarter of 2012.

Compared to the first quarter of 2012, the benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$125 per Mfbm, or 47%, with strong gains seen in most other widths and dimensions. Slightly stronger gains were seen for SYP products, with the benchmark SYP 2X4 #2 price up US$154 per Mfbm, or 52%. Compared to the first quarter of 2012, sales realizations also benefited significantly from a 15% savings in export tax on U.S. bound shipments and a higher proportion of high-value prime product, in part reflecting the addition of the Kootenay area operations at the end of the first quarter of 2012.

Total shipments in the first quarter of 2013, at just over 1.1 billion board feet, were consistent with the previous quarter but lagged production due to adverse weather impacting railcar supply, and were up 140.2 million board feet, over 14%, from the first quarter of 2012, principally reflecting production from the Kootenay area operations.

The average value of the Canadian dollar compared to the US dollar in the first quarter was down 2 cents, or 2%, from the previous quarter, further benefitting current quarter sales realizations. Compared to the first quarter of 2012, realizations benefitted from a 1 cent, or 1%, weaker Canadian dollar.

Total residual fibre revenue was up from the fourth quarter of 2012, primarily reflecting higher shipments of sawmill residual chips coupled with a modest increase in sawmill residual chip prices tied to higher NBSK pulp sales realizations and other seasonal factors. The current quarter's revenue also included seasonally higher log sales. Compared to the first quarter of 2012, total residual fibre revenue was well up, with higher shipments of sawmill residual chips and more whole log chipping offsetting lower residual prices.

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

Operations

Lumber production, at just under 1.2 billion board feet, was up 8% from the previous quarter, reflecting a full quarter of production from the Company's recently re-started Radium mill and improved productivity, as well as the Christmas period in the previous quarter. Lumber production was also up 18% from the first quarter of 2012. The increase compared to the same period in 2012 largely reflected the Kootenay area mills acquisition, the restart of the Radium mill in late 2012 as well as improvements in productivity.

Overall, the Company's unit lumber manufacturing costs were in line with the previous quarter, reflecting a reduction in unit conversion costs offset by increased log costs. The decrease in cash conversion costs largely reflected the higher production levels in the current quarter, while increased log costs primarily reflected higher market-price related stumpage and increased hauling costs, in part driven by higher diesel costs.

Compared to the first quarter of 2012, unit manufacturing costs were up, reflecting higher unit log costs impacted by market-price related stumpage increases and higher hauling costs, coupled with slightly higher unit cash conversion costs attributable in part to the integration of the Kootenay area mills and the re-start of the Radium mill.

Pulp and Paper

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

(millions of Canadian dollars unless otherwise noted)		Q1 2013		Q4 2012		Q1 2012
Sales	$	**243.5**	$	228.4	$	249.4
Operating income before amortization	$	**38.3**	$	32.5	$	29.0
Operating income	$	**18.9**	$	12.0	$	11.3
Average pulp price delivered to U.S. – US$[17]	$	**897**	$	863	$	870
Average price in Cdn$	$	**905**	$	855	$	871
Production – pulp (000 mt)		**317.0**		314.1		315.9
Production – paper (000 mt)		**34.8**		35.4		32.9
Shipments –pulp (000 mt)		**308.2**		297.8		327.8
Shipments – paper (000 mt)		**35.0**		32.1		29.6

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

Overview

Operating income for the pulp and paper segment was $18.9 million for the first quarter of 2013, an improvement of $6.9 million from the previous quarter, and $7.6 million up from the first quarter of 2012.

Improved pulp and paper segment results compared to the previous quarter reflected a modest increase in NBSK pulp sales realizations coupled with an increase in pulp shipments, with increased volumes into China. Further contributing to the positive results was a small reduction in unit manufacturing costs largely reflecting reduced maintenance spending and to a lesser extent an increase in production volumes, offset in part by slightly higher fibre costs. Included in both quarters' results were certain one-time items: the current quarter results included a $1.5 million non-cash benefit from scientific research and development tax credits, while the fourth quarter of 2012 included a $5.3 million gain related to post retirement plan adjustments.

Higher operating earnings compared to the first quarter of 2012 reflected largely unchanged unit manufacturing costs as well as increased energy sales under the Energy Purchase Agreement ("EPA") at Canfor Pulp's Prince George Pulp Mill.

NBSK pulp sales realizations were broadly in line with the first quarter of 2012 as a 3% increase in the average North American NBSK pulp list price was offset by an increased volume of shipments to lower-margin regions, principally China. A reduction in fibre costs offset increased energy and maintenance spending (timing-related) compared to the first quarter of 2012. Other contributing factors included the aforementioned benefit from the scientific research and development tax credits.

Markets

Global softwood pulp markets showed a small improvement through the first quarter of 2013. Global softwood pulp shipments and printing and writing demand were relatively flat[18], with global softwood pulp producer inventory levels in March 2013 at 29 days supply, in line with December 2012, and up 1 day compared to March 2012 inventories[19].

Sales

The Company's pulp shipments in the first quarter of 2013 were 308,000 tonnes, an increase of approximately 10,000 tonnes, or 4%, from the previous quarter, principally reflecting higher shipment volumes to China. Compared to the first quarter of 2012, shipments were down approximately 20,000 tonnes, or 6%, with the increased volumes to China more than offset by lower volumes to all other regions.

Global softwood pulp markets saw modest price increases through the current quarter with average NBSK pulp list prices to all regions moving up US$15 to US$30 per tonne. The NBSK pulp list price to North America averaged US$897 per tonne for the quarter, up US$34, or 4%, from the previous quarter. Sales to China and Europe were also up through the quarter, with Canfor Pulp's list price to China up US$16 per tonne and pricing to Europe up US$29 per tonne. Current quarter NBSK pulp sales realizations did not match the full list price increases due to increased volumes into lower-margin regions, principally China. Bleached chemi-thermo mechanical pulp ("BCTMP") average sales realizations showed a modest decline compared to the previous quarter, reflecting a decrease in prices in the last month of the current quarter. Pulp sales realizations benefitted from a weakening of the Canadian dollar against the US dollar, which was down 2% compared to the previous quarter.

Compared to the first quarter of 2012, NBSK pulp sales realizations were largely unchanged, with a 3% gain in the average NBSK pulp list price to North America offset by increased volume to lower-margin regions. The North America average NBSK pulp list price increased US$27 per tonne from the previous quarter, while NBSK pulp list prices to China and Europe were in line with the same period in 2012. Higher energy sales under the EPA at Canfor Pulp's Prince George Pulp Mill reflected improved operational performance in the current quarter. Pulp sales realizations were also favourably impacted by the 1% weaker average Canadian dollar compared to the first quarter of 2012.

Operations

Pulp production in the current quarter was 317,000 tonnes, up marginally from the previous quarter, and in line with production in the first quarter of 2012. Production levels reflected steady improvements in operating rates through the quarter.

Pulp unit manufacturing costs decreased slightly from the previous quarter, driven largely by the timing of maintenance spending, coupled with the marginal increase in production levels, partially offset by seasonally higher energy costs. Fibre costs were up slightly compared to the previous quarter, reflecting a modest increase in sawmill residual chips, where prices are linked to NBSK pulp sales realizations, as well as a greater proportion of higher-cost whole log chips. The current quarter results also included a one-time non-cash $1.5 million benefit from scientific research and development tax credits.

Compared to the first quarter of 2012, unit manufacturing costs were largely unchanged as lower fibre costs and the favourable impact of higher production volumes were offset by higher (timing-based) maintenance spending and higher energy costs.

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

Unallocated and Other Items[20]

(millions of Canadian dollars)	Q1 2013	Q4 2012	Q1 2012
Operating income (loss) of Panels operations[21]	**$ (0.7)**	$ (0.7)	$ (1.5)
Corporate costs	**$ (6.6)**	$ (4.8)	$ (7.9)
Finance expense, net	**$ (8.8)**	$ (8.7)	$ (8.6)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ (3.8)**	$ (2.0)	$ 4.0
Gain (loss) on derivative financial instruments	**$ 3.3**	$ (8.7)	$ 7.4
Equity income (loss) from joint venture[22]	**$ -**	$ 3.5	$ (3.5)
Other income (expense), net	**$ 1.7**	$ (0.3)	$ -

[20] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.
[21] The Panels operations include the Company's Tackama plywood plant, which was closed in January 2012, and its PolarBoard OSB plant, which is currently indefinitely idled.
[22] In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, upon classification of the Company's 50% investment in the Canfor-LP OSB Limited Partnership as held for sale at December 31, 2012, the Company ceased to equity account for the investment. Further details can be found in the Company's unaudited interim consolidated financial statements.

Effective January 1, 2013, the Company adopted IFRS 11, *Joint Arrangements*, which impacted the accounting for the Company's 50% interest in Canfor-LP OSB Limited Partnership ("Canfor-LP OSB"). Canfor-LP OSB was previously accounted for using the proportionate consolidation method and is now accounted for using the equity method. The comparative periods have been restated to reflect the change. For the 2012 periods, Canfor-LP OSB's results are included below operating income as equity income (loss) from joint venture. Moreover, with the pending sale of Canfor's interest in Canfor-LP OSB, equity income (comprising operating income) from the joint venture of $11.0 million for the first quarter of 2013, has not been recognized in the Company's current quarter results due to IFRS held for sale accounting requirements. The sale is further discussed in the "Investment in Joint Venture Held for Sale" section later in this document.

Corporate costs were $6.6 million for the first quarter of 2013, up $1.8 million from the previous quarter, principally the result of the gain due to amendments to the Company's salaried post retirement benefit plans recorded in the fourth quarter of 2012. Corporate costs were lower by $1.3 million compared to the first quarter of 2012 due to costs related to the acquisition of the Kootenay sawmills and tenure.

Net finance expense for the first quarter of 2013 was $8.8 million, in line with both comparable periods. Net finance expense for the 2012 periods has been restated for adoption of amended IAS 19, *Employee Benefits*, as further discussed in the "Changes in Accounting Policies" section later in this document. Current quarter finance expenses included refinancing costs incurred to extend the maturity of the Company's principal operating loan facility (see further details on the maturity extension in the "Liquidity and Financial Requirements" section below), while the previous quarter included costs associated with a new four-year revolving operating loan facility entered into by Canfor Pulp. Compared to the first quarter of 2012, the slight increase in finance expense reflected higher average long-term debt levels partially offset by lower interest rates.

The Company recorded a foreign exchange translation loss on its US dollar denominated debt of $3.8 million for the first quarter of 2013, as a result of the weakening of the Canadian dollar against the US dollar, which fell by just over 2% between the respective quarter ends. In the fourth quarter of 2012, the Company recorded a translation loss of $2.0 million, while the first quarter of 2012 showed a gain of $4.0 million.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices and interest rates. For the first quarter of 2013, the Company recorded a net gain of $3.3 million related to derivative financial instruments, largely reflecting the settlement of lumber future contracts held at December 31, 2012 and unrealized gains on foreign exchange collars put in place during the quarter.

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

(millions of Canadian dollars)	Q1 2013	Q4 2012	Q1 2012
Foreign exchange collars and forward contracts	**$ 1.4**	$ (1.0)	$ 2.9
Energy derivatives	**$ 0.1**	$ (0.3)	$ 1.2
Lumber futures	**$ 2.2**	$ (7.5)	$ 3.0
Interest rate swaps	**$ (0.4)**	$ 0.1	$ 0.3
	$ 3.3	$ (8.7)	$ 7.4

Other income, net for the first quarter of 2013 of $1.7 million included a $0.5 million positive fair value adjustment related to a royalty agreement associated with the 2010 sale of the operating assets of Howe Sound Pulp and Paper Limited Partnership compared to a small adverse fair value adjustment in the fourth quarter of 2012. Contributing to other income in the first quarter of 2013 were favourable exchange movements on US dollar denominated cash, receivables and payables of Canadian operations of $1.4 million, compared to $0.7 million in the previous quarter, while the strengthening of the Canadian dollar in the first quarter of 2012 resulted in a loss of $1.2 million. Other expense in the comparable periods also included a $0.6 million loss recorded on the sale of land and timber in the fourth quarter of 2012 and a $1.3 million gain relating to the change in fair value of the Company's investment in asset-backed commercial paper in the first quarter of 2012.

Other Comprehensive Income (Loss)

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods[23]:

(millions of Canadian dollars)	Q1 2013	Q4 2012	Q1 2012
Foreign exchange translation differences for foreign operations	**$ 3.5**	$ 1.9	$ (3.6)
Defined benefit actuarial gains (losses), net of tax	**$ 5.8**	$ (3.6)	$ (3.3)
Other comprehensive income (loss), net of tax	**$ 9.3**	$ (1.7)	$ (6.9)

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

In the first quarter of 2013, the Company recorded an after-tax credit to the statements of other comprehensive income (loss) of $5.8 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The gain reflects the return on plan assets partly offset by a slightly lower discount rate used to value the net defined benefit obligation. Defined benefit actuarial losses, net of taxes, were recorded in both the comparable periods, with an after-tax charge of $3.6 million in the fourth quarter of 2012 and an after-tax loss of $3.3 million in the first quarter of 2012.

In addition, the Company recorded $3.5 million of other comprehensive income in the quarter for foreign exchange differences for foreign operations and $1.9 million in the previous quarter, reflecting the weakening of the Canadian dollar by 2% over the quarter. The first quarter of 2012 included other comprehensive loss of $3.6 million, when the Canadian dollar strengthened over the period.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow and selected ratios for and as at the end of the following periods[24]:

(millions of Canadian dollars, except for ratios)	Q1 2013	Q4 2012	Q1 2012
Increase (decrease) in cash and cash equivalents	**$ 23.3**	$ (7.2)	$ (19.8)
Operating activities	**$ 56.0**	$ 27.6	$ (51.8)
Financing activities	**$ 8.1**	$ 2.0	$ 137.0
Investing activities	**$ (40.8)**	$ (36.8)	$ (105.0)
Ratio of current assets to current liabilities	**1.5:1**	1.3:1	1.6:1
Net debt to capitalization	**18.8%**	20.0%	22.0%
ROIC – Consolidated	**4.8%**	2.4%	(1.5)%
ROCE - Canfor solid wood business[25]	**5.6%**	1.9%	(1.6)%

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

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

Changes in Financial Position

Cash generated from operating activities was $56.0 million in the first quarter of 2013, compared to cash generated of $27.6 million in the previous quarter and cash used of $51.8 million in the same quarter of 2012. Higher cash operating earnings in the current quarter were partly offset by an increase in working capital largely reflecting a seasonal build in log inventories ahead of spring break-up and higher trade accounts receivable in the lumber segment due to higher lumber prices.

Financing activities generated cash of $8.1 million in the current quarter, compared to $2.0 million in the previous quarter and $137.0 in the first quarter of 2012. The current quarter's financing cash flows included an additional draw of $13.0 million on the Company's operating loans, $81.0 million less than the draw in the same quarter of 2012 due to stronger operating cash flows in the current period. Finance expenses paid in the current quarter were $2.5 million, down $5.1 million from the previous quarter and down $0.6 million from first quarter of 2012, principally reflecting the timing of scheduled interest payments on long-term debt. Cash distributions to non-controlling interests were $2.4 million, up $2.0 million from the fourth quarter of 2012 largely reflecting the reinstatement of CPPI's quarterly dividend in February 2013, but down $1.9 million from the same period of 2012. The first quarter of 2012 financing cash flows also included $100.0 million of new term debt as well as a $49.9 million (US$50.0 million) repayment on term debt made that quarter.

Investing activities used cash of $40.8 million in the first quarter of 2013, compared to $36.8 million in the previous quarter and $105.0 million in the same quarter in 2012. Cash used for capital additions was $46.4 million, down $3.1 million from the fourth quarter of 2012, and down $7.2 million from the first quarter of 2012. Capital additions for lumber operations in the current quarter included the upgrades at the Company's Elko, Mackenzie and Conway sawmills. In the pulp segment, current quarter capital expenditures of $6.9 million largely related to equipment being built for the turbine upgrades at the Company's Northwood Pulp Mill planned for later in 2013. Investing cash flows in the current quarter also included $7.0 million in distributions received from the Canfor-LP OSB limited partnership, compared to $6.0 million received in the previous quarter and $3.0 million in contributions paid in the same quarter of the previous year. The first quarter of 2012 cash flows also included payment of $64.9 million for the acquisition of the Kootenay area mills and tenure.

Liquidity and Financial Requirements

At March 31, 2013, the Company on a consolidated basis had cash of $6.2 million and $40.0 million drawn on its operating loans, with an additional $27.7 million reserved for several standby letters of credit. Total remaining available operating loans were $399.8 million. In the first quarter of 2013, the Company extended the maturity on its $350.0 million principal operating loan facility from October 31, 2015 to February 28, 2018. All other terms on the operating loan facility remain unchanged.

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

On April 1, 2013, the Company repaid its US$75 million 5.42% term debt. Canfor Pulp has US$110.0 million of term debt that is scheduled for repayment on November 30, 2013.

The Company's consolidated net debt to total capitalization at the end of the first quarter of 2013 was 18.8%. For Canfor, excluding Canfor Pulp, net debt to capitalization at the end of the first quarter was 16.0%.

Investment in Joint Venture Held for Sale

In November 2012, the Company entered into a Letter of Intent with Louisiana-Pacific to sell its 50% share in Canfor-LP OSB, which owns the Peace Valley OSB mill, for a price of $70.0 million plus working capital. As part of the sale, Canfor may receive additional annual consideration over a 3 year period based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. On completion of the sale, Louisiana-Pacific will become the sole owner of the Peace Valley OSB mill. At December 31, 2012, the $75.1 million equity investment in Canfor-LP OSB was reclassified as held for sale and was measured at the lower of the carrying amount and the fair value less cost to sell.

In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, upon classification of the investment as held for sale, the Company ceased the equity method of accounting. As such, Canfor's $11.0 million share of Canfor-LP OSB's operating income was not recognized in the first quarter of 2013. The carrying value of Canfor's investment in Canfor-LP OSB was reduced by distributions received of $7.0 million during the first quarter of 2013. The transaction is currently scheduled to close in the second quarter of 2013.

OUTLOOK

Lumber

For the balance of 2013, North American lumber consumption is forecast to improve slightly as U.S. housing activity continues to gradually gain momentum. Increased U.S. housing activity is projected to favourably influence repair and remodeling sector as well through the second quarter of 2013. Canadian markets are anticipated to remain relatively slow due to tempered housing activity while offshore markets are projected to see modest growth in demand and stable prices with key markets such as Japan and China supporting current demand levels.

Pulp and Paper

NBSK pulp markets are projected to remain fairly challenging through the second quarter of 2013, but annual spring maintenance downtime should allow for modest price increases. The outlook for the second half of the year is more uncertain given the new hardwood and softwood pulp capacity projected to come online. For the month of April, the Company announced an increase in the North American NBSK pulp list price of US$30 per tonne to US$930.

OUTSTANDING SHARES

At May 1, 2013, there were 142,752,431 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

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

- The Company has assessed its consolidation conclusion on January 1, 2013 and determined that the adoption of IFRS 10, *Consolidated Financial Statements,* did not result in any changes in the consolidation status of any of its subsidiaries and investees.

- The Company has adopted IFRS 13, *Fair Value Measurement,* on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- The Company has adopted the amendments to IAS 1, *Presentation of Financial Statements,* effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that may be recycled through net income and those that will not be recycled through net income. These changes did not result in any adjustments to other comprehensive income.

- The Company adopted IFRS 11, *Joint Arrangements*, which redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. Under the new Standard, joint ventures are accounted for using the equity method accounting as set out in IAS 28, *Investments in Associates and Joint Ventures*, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operations. Canfor's 50% interest in the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") is classified as a joint venture. Canfor-LP OSB was previously accounted for using the proportionate consolidation method and is now accounted for using the equity method. The Company has restated its comparative period results for adoption of IFRS 11. Further details can be found in Note 14 to the Company's unaudited interim consolidated financial statements.

- The Company adopted the amended IAS 19, *Employee Benefits* which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset). The Company has restated its comparative period results for adoption of amended IAS 19. Further details can be found in Note 14 to the Company's unaudited interim consolidated financial statements.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2013, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY FINANCIAL INFORMATION[26]

	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Sales and income								
(millions of Canadian dollars)								
Sales	**$ 786.3**	$ 700.3	$ 663.7	$ 685.0	$ 593.8	$ 576.2	$ 602.1	$ 619.1
Operating income (loss)	**$ 100.0**	$ 49.0	$ 18.1	$ 22.6	$ (18.4)	$ (63.1)	$ 15.4	$ 27.4
Net income (loss)	**$ 67.5**	$ 24.7	$ 18.8	$ 5.0	$ (12.9)	$ (38.1)	$ (9.6)	$ 26.2
Shareholder net income (loss)	**$ 61.9**	$ 21.3	$ 20.5	$ 2.6	$ (18.0)	$ (44.1)	$ (21.6)	$ 2.1
Per common share (dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.43**	$ 0.15	$ 0.14	$ 0.02	$ (0.13)	$ (0.31)	$ (0.15)	$ 0.01
Statistics								
Lumber shipments (MMfbm)	**1,135**	1,149	1,133	1,158	994	974	969	973
Pulp shipments (000 mt)	**308**	298	269	282	328	275	291	303
Average exchange rate – US$/Cdn$	**$ 0.991**	$ 1.009	$ 1.005	$ 0.990	$ 0.999	$ 0.977	$ 1.020	$ 1.033
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 391**	$ 335	$ 300	$ 295	$ 266	$ 238	$ 246	$ 240
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 452**	$ 386	$ 322	$ 325	$ 298	$ 260	$ 259	$ 251
Average OSB price – North Central (US$)	**$ 418**	$ 332	$ 312	$ 235	$ 202	$ 190	$ 184	$ 172
Average NBSK pulp list price delivered to U.S. (US$)	**$ 897**	$ 863	$ 853	$ 900	$ 870	$ 920	$ 993	$ 1,025

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

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

Other material factors that impact the comparability of the quarters are noted below[27]:

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Shareholder net income (loss), as reported	**$ 61.9**	$ 21.3	$ 20.5	$ 2.6	$ (18.0)	$ (44.1)	$ (21.6)	$ 2.1
Foreign exchange (gain) loss on long-term debt and investments, net	**$ 2.3**	$ 1.2	$ (4.0)	$ 2.4	$ (2.7)	$ (3.3)	$ 11.0	$ (1.4)
(Gain) loss on derivative financial instruments	**$ (2.2)**	$ 6.5	$ (4.4)	$ 4.2	$ (5.1)	$ (6.7)	$ 7.0	$ (0.7)
Canfor's 50% interest in Canfor-LP OSB's income, net of tax	**$ 8.3**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net gain on post retirement and pension plan amendments	**$ -**	$ (8.7)	$ -	$ -	$ -	$ -	$ -	$ -
Restructuring costs related to changes in management group	**$ -**	$ -	$ 1.5	$ -	$ -	$ -	$ -	$ 2.6
Decrease (increase) in fair value of asset-backed commercial paper	**$ -**	$ -	$ -	$ -	$ (1.1)	$ (0.5)	$ 1.8	$ (0.5)
Costs recorded in relation to Tembec acquisition	**$ -**	$ -	$ -	$ -	$ 2.8	$ -	$ -	$ -
Mill closure provisions	**$ -**	$ -	$ -	$ -	$ -	$ 17.0	$ -	$ -
Asset impairment charges	**$ -**	$ -	$ -	$ -	$ -	$ 5.5	$ -	$ -
Net impact of above items	**$ 8.4**	$ (1.0)	$ (6.9)	$ 6.6	$ (6.1)	$ 12.0	$ 19.8	$ -
Adjusted shareholder net income (loss)	**$ 70.3**	$ 20.3	$ 13.6	$ 9.2	$ (24.1)	$ (32.1)	$ (1.8)	$ 2.1
Shareholder net income (loss) per share (EPS), as reported	**$ 0.43**	$ 0.15	$ 0.14	$ 0.02	$ (0.13)	$ (0.31)	$ (0.15)	$ 0.01
Net impact of above items per share	**$ 0.06**	$ (0.01)	$ (0.05)	$ 0.05	$ (0.05)	$ 0.09	$ 0.14	$ 0.00
Adjusted net income (loss) per share	**$ 0.49**	$ 0.14	$ 0.09	$ 0.07	$ (0.18)	$ (0.22)	$ (0.01)	$ 0.01

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

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at March 31, 2013**		As at December 31, 2012 (Note 14)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**6.2**	$	-
Accounts receivable - Trade		**150.1**		102.7
- Other		**55.8**		57.5
Inventories (Note 2)		**531.2**		431.3
Prepaid expenses and other assets		**30.7**		23.4
Investment in joint venture held for sale (Note 3)		**68.1**		75.1
Total current assets		**842.1**		690.0
Property, plant and equipment		**1,083.2**		1,081.7
Timber licenses		**550.5**		554.6
Goodwill and other intangible assets		**83.6**		80.4
Long-term investments and other (Note 4)		**39.6**		44.6
Deferred income taxes, net		**15.6**		39.3
Total assets	**$**	**2,614.6**	$	2,490.6
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**-**	$	17.1
Operating loans (Note 5(a))		**40.0**		27.0
Accounts payable and accrued liabilities		**309.8**		258.4
Current portion of long-term debt (Note 5(b))		**187.9**		184.1
Current portion of deferred reforestation obligations		**37.3**		37.3
Total current liabilities		**575.0**		523.9
Long-term debt (Note 5(b))		**100.0**		100.0
Retirement benefit obligations		**297.0**		311.7
Deferred reforestation obligations		**92.8**		78.4
Other long-term liabilities		**14.5**		13.6
Deferred income taxes, net		**149.0**		151.1
Total liabilities	**$**	**1,228.3**	$	1,178.7
EQUITY				
Share capital	**$**	**1,126.2**	$	1,126.2
Contributed surplus		**31.9**		31.9
Retained earnings (deficit)		**32.5**		(35.1)
Accumulated foreign exchange translation differences		**(7.0)**		(10.5)
Total equity attributable to equity holders of the Company		**1,183.6**		1,112.5
Non-controlling interests		**202.7**		199.4
Total equity	**$**	**1,386.3**	$	1,311.9
Total liabilities and equity	**$**	**2,614.6**	$	2,490.6

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, R.L. Cliff

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2013	2012 (Note 14)
Sales	**$ 786.3**	$ 593.8
Costs and expenses		
Manufacturing and product costs	**492.2**	418.0
Freight and other distribution costs	**129.4**	119.6
Export taxes	**-**	11.2
Amortization	**46.9**	42.6
Selling and administration costs	**16.3**	16.0
Restructuring, mill closure and severance costs	**1.5**	4.8
	686.3	612.2
Operating income (loss)	**100.0**	(18.4)
Finance expense, net	**(8.8)**	(8.6)
Foreign exchange gain (loss) on long-term debt and investments, net	**(3.8)**	4.0
Gain on derivative financial instruments (Note 7)	**3.3**	7.4
Equity income (loss) from joint venture (Note 3)	**-**	(3.5)
Other income, net	**1.7**	-
Net income (loss) before income taxes	**92.4**	(19.1)
Income tax recovery (expense) (Note 8)	**(24.9)**	6.2
Net income (loss)	**$ 67.5**	$ (12.9)
Net income (loss) attributable to:		
Equity shareholders of the Company	**$ 61.9**	$ (18.0)
Non-controlling interests	**5.6**	5.1
Net income (loss)	**$ 67.5**	$ (12.9)
Net income (loss) per common share: (in dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 9)	**$ 0.43**	$ (0.13)

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

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2013	2012 (Note 14)
Net income (loss)	**$ 67.5**	$ (12.9)
Other comprehensive income (loss)		
Items that will not be recycled through net income (loss):		
Defined benefit plan actuarial gains (losses) (Note 6)	**7.7**	(4.3)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 8)	**(1.9)**	1.0
	5.8	(3.3)
Items that may be recycled through net income (loss):		
Foreign exchange translation differences for foreign operations	**3.5**	(3.6)
Other comprehensive income (loss), net of tax	**9.3**	(6.9)
Total comprehensive income (loss)	**$ 76.8**	$ (19.8)
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	**$ 71.1**	$ (23.9)
Non-controlling interests	**5.7**	4.1
Total comprehensive income (loss)	**$ 76.8**	$ (19.8)

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2013	2012 (Note 14)
Share capital		
Balance at beginning of period	**$ 1,126.2**	$ 1,125.9
Common shares issued on exercise of stock options	**-**	0.3
Balance at end of period	**$ 1,126.2**	$ 1,126.2
Contributed surplus		
Balance at beginning and end of period	**$ 31.9**	$ 31.9
Retained earnings (deficit)		
Balance at beginning of period	**$ (35.1)**	$ (24.7)
Net income (loss) attributable to equity shareholders of the Company	**61.9**	(18.0)
Defined benefit plan actuarial gains (losses), net of tax	**5.7**	(2.3)
Balance at end of period	**$ 32.5**	$ (45.0)
Accumulated foreign exchange translation differences		
Balance at beginning of period	**$ (10.5)**	$ (5.9)
Foreign exchange translation differences for foreign operations	**3.5**	(3.6)
Balance at end of period	**$ (7.0)**	$ (9.5)
Total equity attributable to equity holders of the Company	**$ 1,183.6**	$ 1,103.6
Non-controlling interests		
Balance at beginning of period	**$ 199.4**	$ 232.8
Net income attributable to non-controlling interests	**5.6**	5.1
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**0.1**	(1.0)
Distributions to non-controlling interests	**(2.4)**	(0.4)
Share exchange (Note 13)	**-**	(25.0)
Balance at end of period	**$ 202.7**	$ 211.5
Total equity	**$ 1,386.3**	$ 1,315.1

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2013	3 months ended March 31, 2012 (Note 14)
Cash generated from (used in):		
Operating activities		
Net income (loss)	**$ 67.5**	$ (12.9)
Items not affecting cash:		
Amortization	**46.9**	42.6
Income tax (recovery) expense	**24.9**	(6.2)
Long-term portion of deferred reforestation obligations	**14.1**	13.4
Foreign exchange (gain) loss on long-term debt and investments, net	**3.8**	(4.0)
Changes in mark-to-market value of derivative financial instruments	**(5.3)**	(6.0)
Employee future benefits	**3.5**	3.3
Net finance expense	**8.8**	8.6
Equity (income) loss from joint venture (Note 3)	**-**	3.5
Change in fair value of long-term investment	**-**	(1.3)
Other, net	**(0.7)**	(0.7)
Defined benefit pension plan contributions	**(13.5)**	(14.0)
Income taxes recovered (paid), net	**0.5**	(1.3)
Net change in non-cash working capital (Note 10)	**(94.5)**	(76.8)
	56.0	(51.8)
Financing activities		
Change in operating bank loans (Note 5(a))	**13.0**	94.0
Proceeds from long-term debt	**-**	100.0
Repayment of long-term debt	**-**	(49.9)
Finance expenses paid	**(2.5)**	(3.1)
Cash distributions paid to non-controlling interests	**(2.4)**	(4.3)
Other, net	**-**	0.3
	8.1	137.0
Investing activities		
Additions to property, plant and equipment and intangible assets	**(46.4)**	(53.6)
Reimbursements from Federal Government under Green Transformation Program	**-**	7.9
Distributions (advances) from (to) joint venture (Note 3)	**7.0**	(3.0)
Acquisition of Tembec assets (Note 12)	**-**	(64.9)
Share exchange (Note 13)	**-**	6.8
Other, net	**(1.4)**	1.8
	(40.8)	(105.0)
Increase (decrease) in cash and cash equivalents*	**23.3**	(19.8)
Cash and cash equivalents at beginning of period*	**(17.1)**	26.6
Cash and cash equivalents at end of period*	**$ 6.2**	$ 6.8

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

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

1. Basis of Preparation

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

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

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

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

Changes in Accounting Policies

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

- The Company has assessed its consolidation conclusion on January 1, 2013 and determined that the adoption of IFRS 10, *Consolidated Financial Statements,* did not result in any changes in the consolidation status of any of its subsidiaries and investees.

- The Company has adopted IFRS 13, *Fair Value Measurement,* on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- The Company has adopted the amendments to IAS 1, *Presentation of Financial Statements*. These amendments required the Company to group other comprehensive income items by those that may be recycled through net income and those that will not be recycled through net income. These changes did not result in any adjustments to other comprehensive income.

- The Company adopted IFRS 11, *Joint Arrangements*, which redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. Under the new Standard, joint ventures are accounted for using the equity method accounting as set out in IAS 28, *Investments in Associates and Joint Ventures*, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operations. Canfor's 50% interest in the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") is classified as a joint venture. Canfor-LP OSB was previously accounted for using the proportionate consolidation method and is now accounted for using the equity method. The Company has restated its comparative period results for adoption of IFRS 11 (Note 14).

- 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 14).

Accounting Standards Issued and Not Applied

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

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

2. Inventories

(millions of Canadian dollars)		**As at March 31, 2013**		As at December 31, 2012
Logs	**$**	**197.9**	$	119.4
Finished products		**228.6**		205.8
Residual fibre		**9.0**		11.5
Processing materials and supplies		**95.7**		94.6
	$	**531.2**	$	431.3

3. Investment in Joint Venture Held for Sale

On November 28, 2012, the Company entered into a Letter of Intent with Louisiana-Pacific to sell its 50% share in Canfor-LP OSB, which owns the Peace Valley OSB mill, for a price of $70.0 million plus working capital. As part of the sale, Canfor may receive additional annual consideration over a 3 year period based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. On completion of the sale, Louisiana-Pacific will become the sole owner of the Peace Valley OSB mill. At December 31, 2012, the $75.1 million equity investment in Canfor-LP OSB was reclassified as held for sale and was measured at the lower of the carrying amount and the fair value less cost to sell.

In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, upon classification of the investment as held for sale at December 31, 2012, the Company ceased the equity method of accounting. As such, Canfor's $11.0 million share of Canfor-LP OSB's operating income was not recognized in the first quarter of 2013. The carrying value of Canfor's investment in Canfor-LP OSB was reduced by distributions received of $7.0 million during the first quarter of 2013. The transaction is currently scheduled to close in the second quarter of 2013.

4. Long-term Investments and Other

(millions of Canadian dollars)		**As at March 31, 2013**		As at December 31, 2012
Other investments	**$**	**23.8**	$	23.7
Investment tax credits		**1.6**		8.6
Defined benefit plan assets		**1.4**		1.4
Other deposits, loans and advances		**12.8**		10.9
	$	**39.6**	$	44.6

In the first quarter of 2013, $9.3 million in investment tax credits were reclassified to prepaid expenses and other assets.

5. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars)		**As at March 31, 2013**		As at December 31, 2012
Canfor (excluding CPLP)				
Total operating loans - Canfor (excluding CPLP)	**$**	**350.0**	$	350.0
Drawn		**(40.0)**		(27.0)
Letters of credit (principally unregistered pension plans)		**(18.0)**		(18.0)
Total available operating loans - Canfor (excluding CPLP)	**$**	**292.0**	$	305.0
CPLP				
Operating loan facility	**$**	**110.0**	$	110.0
Facility for BC Hydro letter of credit		**7.5**		7.5
Total operating loans - CPLP		**117.5**		117.5
Drawn		**-**		-
Letters of credit (for general business purposes)		**(2.2)**		(1.7)
BC Hydro letter of credit		**(7.5)**		(7.5)
Total available operating loans - CPLP	**$**	**107.8**	$	108.3
Consolidated:				
Total operating loans	**$**	**467.5**	$	467.5
Total available operating loans	**$**	**399.8**	$	413.3

In the first quarter of 2013, the maturity on Canfor's, excluding Canfor Pulp Limited Partnership ("CPLP"), principal operating loans was extended from October 31, 2015 to February 28, 2018. All other terms remain the same with interest payable at floating rates based on 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 CPLP's operating loan facility include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. The maturity date of the facility is November 13, 2016.

CPLP has a separate facility with a maturity date of November 30, 2013 to cover a $7.5 million standby letter of credit issued to BC Hydro.

As at March 31, 2013, the Company and CPLP were in compliance with all covenants relating to their operating loans.

Substantially all borrowings of CPLP (operating lines and long-term debt) are non-recourse to other entities within the Company.

(b) Long-Term Debt

At March 31, 2013, the fair value of the long-term debt, measured at its amortized cost of $287.9 million, was $292.7 million. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

On April 1 2013, the Company repaid its US$75.0 million 5.42% term debt.

6. Employee Future Benefits

Canfor measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. At the end of each interim reporting period, the Company estimates movements in its accrued benefit liabilities based upon movements in discount rates and the rates of return on plan assets, as well as any significant changes to the plans. Adjustments are also made for payments made and current service and interest costs.

For the three months ended March 31, 2013, an amount of $7.7 million (before tax) was credited to other comprehensive income. The gain reflects the return on plan assets partly offset by a slightly lower discount rate used to value the net defined benefit obligation. For the three months ended March 31, 2012, an amount of $4.3 million (before tax) was charged to other comprehensive income.

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

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

Pension Benefit Plans	
Discount rate	
March 31, 2013	**4.10%**
December 31, 2012	4.20%
March 31, 2012	4.80%
December 31, 2011	5.00%
Rate of return on plan assets	
3 months ended March 31, 2013	**4.00%**
3 months ended March 31, 2012	4.30%
Other Benefit Plans	
Discount rate	
March 31, 2013	**4.30%**
December 31, 2012	4.40%
March 31, 2012	5.00%
December 31, 2011	5.30%

7. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars)	Fair Value Hierarchy Level		**As at March 31, 2013**		As at December 31, 2012
Financial assets					
Held for trading					
Derivative financial instruments	Level 2	**$**	**2.5**	$	0.7
Loans and receivables					
Cash and cash equivalents	n/a		**6.2**		-
Accounts receivable (excluding derivatives)	n/a		**201.5**		157.4
Other deposits, loans and advances	n/a		**8.3**		4.2
Royalty receivable	Level 3		**6.4**		6.5
Available for sale					
Investments in other entities	n/a		**23.8**		23.7
		$	**248.7**	$	192.5
Financial liabilities					
Held for trading					
Derivative financial instruments	Level 2	**$**	**1.3**	$	4.8
Other liabilities					
Cheques issued in excess of cash on hand	n/a		**-**		17.1
Operating loans	n/a		**40.0**		27.0
Accounts payable and accrued liabilities (excluding derivatives)	n/a		**309.4**		254.2
Long-term debt (including current portion)	n/a		**287.9**		284.1
		$	**638.6**	$	587.2

The royalty receivable is measured at fair value at each reporting period and is presented in other accounts receivable and long-term investments on the consolidated balance sheet. The fair value 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 2015. There were no movements between financial instrument levels in the first quarter of 2013.

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, energy costs, electricity sales and floating interest rates on certain long-term debt. At March 31, 2013, the fair value of derivative financial instruments was a net asset of $1.2 million (December 31, 2012 – net liability of $4.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three month periods ended March 31, 2013 and 2012:

	3 months ended March 31,			
(millions of Canadian dollars)		**2013**		2012
Foreign exchange collars and forward contracts	**$**	**1.4**	$	2.9
Energy derivatives		**0.1**		1.2
Lumber futures		**2.2**		3.0
Interest rate swaps		**(0.4)**		0.3
	$	**3.3**	$	7.4

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

(millions of Canadian dollars)		**As at March 31, 2013**		As at December 31, 2012
Foreign exchange collars and forward contracts	**$**	**1.6**	$	0.3
Energy derivatives		**0.3**		0.3
Lumber futures		**0.2**		(4.1)
Interest rate swaps		**(0.9)**		(0.6)
Total asset (liability), net		**1.2**		(4.1)
Less: current portion asset (liability), net		**2.1**		(3.5)
Long-term portion (liability), net	**$**	**(0.9)**	$	(0.6)

8. Income Taxes

(millions of Canadian dollars)		3 months ended March 31, **2013**		2012
Current	**$**	**(5.2)**	$	(2.8)
Deferred		**(19.7)**		9.0
Income tax recovery (expense)	**$**	**(24.9)**	$	6.2

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

(millions of Canadian dollars)		3 months ended March 31, **2013**		2012
Income tax recovery (expense) at statutory rate 2013 – 25.0% (2012 – 25.0%)	**$**	**(23.1)**	$	4.8
Add (deduct):				
Non-taxable income related to non-controlling interests in limited partnerships		**-**		1.1
Entities with different income tax rates and other tax adjustments		**(1.3)**		(0.1)
Permanent difference from capital gains and losses and other non-deductible items		**(0.5)**		0.4
Income tax recovery (expense)	**$**	**(24.9)**	$	6.2

In addition to the amounts recorded to net income, a tax expense of $1.9 million was recorded to other comprehensive income for the three month period ended March 31, 2013 (three months ended March 31, 2012 – tax recovery of $1.0 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans.

9. Earnings Per Share

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares during the period using the treasury stock method. Under this method, proceeds from the potential exercise of stock options are assumed to be used to purchase the Company's common shares. When there is a net loss, the exercise of stock options would result in a calculated diluted net loss per share that is anti-dilutive. As at March 31, 2013, there were no outstanding stock options.

	3 months ended March 31, **2013**	2012
Weighted average number of common shares	**142,752,431**	142,740,006
Incremental shares from potential exercise of options[1]	**-**	381
Diluted number of common shares[1]	**142,752,431**	142,740,006

[1]Where the addition of share options to the total shares outstanding has an anti-dilutive impact on the diluted net income (loss) per share calculation, those share options have not been included in the total common shares outstanding for purposes of the calculation of diluted net income (loss) per share.

10. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)		3 months ended March 31, **2013**		2012
Accounts receivable	**$**	**(48.1)**	$	(8.6)
Inventories		**(99.5)**		(85.8)
Prepaid expenses		**1.5**		2.4
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations		**51.6**		15.2
Net decrease (increase) in non-cash working capital	**$**	**(94.5)**	$	(76.8)

11. Segment Information

Canfor has two reportable segments which offer different products and are managed separately because they require different production processes and marketing strategies.

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

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below. For the three months ended March 31, 2013, the Company's share of Canfor-LP OSB's sales and operating income were $30.4 million and $11.0 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 or consolidated results of the Company. For the three months ended March 31, 2012, the results of Canfor-LP OSB were presented in equity income (loss).

(millions of Canadian dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended March 31, 2013							
Sales to external customers	**$**	**542.3**	**243.5**	**0.5**	**-**	**$**	**786.3**
Sales to other segments	**$**	**31.2**	**-**	**-**	**(31.2)**	**$**	**-**
Operating income (loss)	**$**	**88.4**	**18.9**	**(7.3)**	**-**	**$**	**100.0**
Amortization	**$**	**27.3**	**19.4**	**0.2**	**-**	**$**	**46.9**
Capital expenditures	**$**	**38.0**	**7.0**	**1.4**	**-**	**$**	**46.4**
Identifiable assets	**$**	**1,692.6**	**777.3**	**144.7**	**-**	**$**	**2,614.6**
3 months ended March 31, 2012							
Sales to external customers	$	343.7	249.4	0.7	-	$	593.8
Sales to other segments	$	29.2	-	-	(29.2)	$	-
Operating income (loss)	$	(20.3)	11.3	(9.4)	-	$	(18.4)
Amortization	$	23.2	17.7	1.7	-	$	42.6
Capital expenditures[1]	$	26.9	26.7	-	-	$	53.6
Identifiable assets	$	1,593.1	780.2	202.6	-	$	2,575.9

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

12. 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 was 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 increased 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 2012 sales 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 were 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 three months ended March 31, 2012.

13. Share Exchange

On March 2, 2012, Canadian Forest Products Ltd. ("CFP"), a wholly owned subsidiary of Canfor, acquired 35,776,483 common shares of Canfor Pulp Products Inc. ("CPPI") in exchange for its 35,776,483 Class B Exchangeable LP Units of CPLP 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.

14. 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 were previously accounted for using the proportionate consolidation method accounting and now are being accounted for using the equity method of accounting. The comparative period financial statements have been restated for adoption of IFRS 11 with impacts to the financial statements 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 condensed consolidated balance sheets:

(millions of Canadian dollars, unaudited)	Before Accounting Changes	As at January 1, 2012 Adjustments for Accounting Policy Changes IFRS 11	IAS 19	Restated Results
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

[1]At 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 condensed consolidated balance sheets:

(millions of Canadian dollars, unaudited)	Before Accounting Changes	As at December 31, 2012 Adjustments for Accounting Policy Changes IFRS 11	IAS 19	Restated Results
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 condensed consolidated statement of income (loss):

(millions of Canadian dollars, unaudited)	Before Accounting Changes	Adjustments for Accounting Policy Changes – IFRS 11	Adjustments for Accounting Policy Changes – IAS 19	Restated Results
	3 months ended March 31, 2012			
Sales	$ 607.6	$ (13.8)	$ -	$ 593.8
Operating costs and expenses	629.1	(17.1)	0.2	612.2
Operating income (loss)	$ (21.5)	$ 3.3	$ (0.2)	$ (18.4)
Non-operating gains (losses)	5.0	(3.3)	$ (2.4)	$ (0.7)
Net income (loss) before income taxes	$ (16.5)	$ -	$ (2.6)	$ (19.1)
Income tax recovery (expense)	5.6	-	0.6	6.2
Net income (loss)	$ (10.9)	$ -	$ (2.0)	$ (12.9)
Net income (loss) attributable to:				
Equity shareholders of the Company	$ (16.2)	$ -	$ (1.8)	$ (18.0)
Non-controlling interests	5.3	-	(0.2)	5.1
Net income (loss)	$ (10.9)	$ -	$ (2.0)	$ (12.9)
Net income (loss) per common share: (in dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted	$ (0.11)	$ -	$ (0.02)	$ (0.13)

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

(millions of Canadian dollars, unaudited)	Before Accounting Changes	Adjustments for Accounting Policy Changes – IFRS 11	Adjustments for Accounting Policy Changes – IAS 19	Restated Results
	3 months ended March 31, 2012			
Net income (loss)	$ (10.9)	$ -	$ (2.0)	$ (12.9)
Other comprehensive income (loss)	(8.9)	-	2.0	(6.9)
Total comprehensive income (loss)	$ (19.8)	$ -	$ -	$ (19.8)
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	$ (23.9)	$ -	$ -	$ (23.9)
Non-controlling interests	4.1	-	-	4.1
Total comprehensive income (loss)	$ (19.8)	$ -	$ -	$ (19.8)

Summarized impact on the comparative period condensed consolidated statement of cash flows:

(millions of Canadian dollars, unaudited)	Before Accounting Changes	Adjustments for Accounting Policy Changes – IFRS 11	Adjustments for Accounting Policy Changes – IAS 19	Restated Results
	3 months ended March 31, 2012			
Cash generated from (used in):				
Operating activities	$ (55.2)	$ 3.4	$ -	$ (51.8)
Financing activities	137.0	-	-	137.0
Investing activities	(102.0)	(3.0)	-	(105.0)
Increase (decrease) in cash and cash equivalents	$ (20.2)	$ 0.4	$ -	$ (19.8)
Cash and cash equivalents at beginning of period	28.9	(2.3)	-	26.6
Cash and cash equivalents at end of period	$ 8.7	$ (1.9)	$ -	$ 6.8

The impacts to the current period condensed consolidated statement of income (loss) and the current period condensed consolidated statement of other comprehensive income (loss) as a result of amended IAS 19, *Employee Benefits*, are comparable to the impacts in the 2012 period (disclosed above).