2012

FINANCIAL STATEMENTS

CANFOR CORPORATION

2012

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

February 14, 2013

"*Don B. Kayne*"

Don B. Kayne
President and Chief Executive Officer

"*Alan Nicholl*"

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canfor Corporation

We have audited the accompanying consolidated financial statements of Canfor Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, the consolidated statements of other comprehensive income (loss), the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canfor Corporation and its subsidiaries as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia
February 14, 2013

Canfor Corporation
Consolidated Balance Sheets

(millions of Canadian dollars)		**As at December 31, 2012**		As at December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**-**	$	28.9
Accounts receivable - Trade		**102.7**		105.1
- Other		**52.2**		65.7
Inventories (Note 5)		**431.3**		348.3
Prepaid expenses		**23.4**		20.4
Assets held for sale (Note 6)		**77.3**		-
Total current assets		**686.9**		568.4
Property, plant and equipment (Note 7)		**1,081.7**		1,139.2
Timber licenses (Note 8)		**554.6**		530.1
Goodwill and other intangible assets (Note 9)		**80.4**		83.0
Long-term investments and other (Note 10)		**44.6**		62.8
Deferred income taxes, net (Note 22)		**39.7**		18.1
Total assets	**$**	**2,487.9**	$	2,401.6
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**14.7**	$	-
Operating loans (Note 12)		**27.0**		-
Accounts payable and accrued liabilities (Note 11)		**255.7**		290.5
Current portion of long-term debt (Note 13)		**184.1**		50.9
Current portion of deferred reforestation obligations (Note 15)		**37.3**		31.6
Liabilities held for sale (Note 6)		**2.0**		-
Total current liabilities		**520.8**		373.0
Long-term debt (Note 13)		**100.0**		188.1
Retirement benefit obligations (Note 14)		**314.5**		298.3
Deferred reforestation obligations (Note 15)		**78.4**		65.0
Other long-term liabilities		**13.6**		13.8
Deferred income taxes, net (Note 22)		**150.8**		103.3
Total liabilities	**$**	**1,178.1**	$	1,041.5
EQUITY				
Share capital (Note 18)	**$**	**1,126.2**	$	1,125.9
Contributed surplus		**31.9**		31.9
Retained earnings (deficit)		**(36.7)**		(24.6)
Accumulated foreign exchange translation differences		**(10.5)**		(5.9)
Total equity attributable to equity holders of the Company		**1,110.9**		1,127.3
Non-controlling interests		**198.9**		232.8
Total equity	**$**	**1,309.8**	$	1,360.1
Total liabilities and equity	**$**	**2,487.9**	$	2,401.6

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

APPROVED BY THE BOARD

"R.S. Smith" *"R.L. Cliff"*

Director, R.S. Smith Director, R.L. Cliff

Canfor Corporation
Consolidated Statements of Income

(millions of Canadian dollars, except per share data)	Year ended December 31, **2012**	2011
Sales	**$ 2,714.1**	$ 2,421.4
Costs and expenses		
Manufacturing and product costs	**1,820.2**	1,627.5
Freight and other distribution costs	**503.7**	467.9
Export taxes	**45.5**	39.9
Amortization	**187.2**	169.3
Selling and administration costs	**61.3**	57.4
Asset impairments (Note 7)	**0.8**	9.2
Restructuring, mill closure and severance costs (Note 17)	**18.5**	38.3
	2,637.2	2,409.5
Operating income	**76.9**	11.9
Finance expense, net (Note 20)	**(24.7)**	(26.0)
Foreign exchange gain (loss) on long-term debt and investments, net	**4.7**	(5.0)
Gain (loss) on derivative financial instruments (Note 31)	**(0.8)**	3.5
Other income (expense), net (Note 21)	**(0.4)**	5.9
Net income (loss) before income taxes	**55.7**	(9.7)
Income tax recovery (expense) (Note 22)	**(14.3)**	20.5
Net income	**$ 41.4**	$ 10.8
Net income (loss) attributable to:		
Equity shareholders of the Company	**$ 32.1**	$ (56.6)
Non-controlling interests	**9.3**	67.4
Net income	**$ 41.4**	$ 10.8
Net income (loss) per common share: (in dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 23)	**$ 0.22**	$ (0.40)

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

Canfor Corporation
Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars)		Year ended December 31, 2012		2011
Net income	**$**	**41.4**	$	10.8
Other comprehensive income (loss)				
Foreign exchange translation differences for foreign operations		**(4.6)**		4.4
Defined benefit plan actuarial losses		**(67.4)**		(64.5)
Income tax recovery on defined benefit plan actuarial losses		**17.0**		14.2
Other comprehensive income (loss), net of tax		**(55.0)**		(45.9)
Total comprehensive income (loss)	**$**	**(13.6)**	$	(35.1)
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$**	**(16.7)**	$	(93.7)
Non-controlling interests		**3.1**		58.6
Total comprehensive income (loss)	**$**	**(13.6)**	$	(35.1)

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)		Year ended December 31, 2012		2011
Share capital				
Balance at beginning of year	**$**	**1,125.9**	$	1,125.4
Common shares issued on exercise of stock options		**0.3**		0.5
Balance at end of year (Note 18)	**$**	**1,126.2**	$	1,125.9
Contributed surplus				
Balance at beginning and end of year	**$**	**31.9**	$	31.9
Retained earnings (deficit)				
Balance at beginning of year	**$**	**(24.6)**	$	73.5
Net income (loss) attributable to equity shareholders of the Company		**32.1**		(56.6)
Defined benefit plan actuarial losses, net of tax		**(44.2)**		(41.5)
Balance at end of year	**$**	**(36.7)**	$	(24.6)
Accumulated foreign exchange translation differences				
Balance at beginning of year	**$**	**(5.9)**	$	(10.3)
Foreign exchange translation differences for foreign operations		**(4.6)**		4.4
Balance at end of year	**$**	**(10.5)**	$	(5.9)
Total equity attributable to equity holders of the Company	**$**	**1,110.9**	$	1,127.3
Non-controlling interests				
Balance at beginning of year	**$**	**232.8**	$	249.5
Net income attributable to non-controlling interests		**9.3**		67.4
Defined benefit plan actuarial losses attributable to non-controlling interests		**(6.2)**		(8.8)
Distributions to non-controlling interests		**(12.0)**		(75.3)
Share exchange (Note 33)		**(25.0)**		-
Balance at end of year	**$**	**198.9**	$	232.8
Total equity	**$**	**1,309.8**	$	1,360.1

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

Canfor Corporation
Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Year ended December 31, 2012	2011
Cash generated from (used in):		
Operating activities		
Net income	**$ 41.4**	$ 10.8
Items not affecting cash:		
Amortization	**187.2**	169.3
Income tax (recovery) expense (Note 22)	**14.3**	(20.5)
Long-term portion of deferred reforestation obligations	**2.5**	3.1
Change in fair value of long-term investment (Note 10)	**(1.3)**	(0.2)
Foreign exchange (gain) loss on long-term debt and investments, net	**(4.7)**	5.0
Changes in mark-to-market value of derivative financial instruments	**3.9**	(3.9)
Employee future benefits	**(18.5)**	(5.4)
Net finance expense (Note 20)	**24.7**	26.0
Asset impairments (Note 7)	**0.8**	9.2
Mill closure provisions (Note 17)	**-**	22.5
Other, net	**-**	(9.7)
Salary pension plan contributions	**(35.7)**	(37.3)
Income taxes paid, net	**(8.1)**	(0.3)
Net change in non-cash working capital (Note 24)	**(75.3)**	(5.6)
	131.2	163.0
Financing activities		
Change in operating bank loans (Note 12)	**27.0**	-
Proceeds from long-term debt (Note 13)	**100.0**	-
Repayment of long-term debt (Note 13)	**(49.9)**	(81.9)
Finance expenses paid	**(19.5)**	(18.9)
Cash distributions paid to non-controlling interests	**(15.9)**	(91.0)
Other, net	**0.3**	0.4
	42.0	(191.4)
Investing activities		
Additions to property, plant and equipment	**(199.8)**	(312.3)
Reimbursements from Federal Government under Green Transformation Program (Note 7)	**19.7**	75.6
Proceeds from disposal of property, plant and equipment	**6.1**	1.4
Acquisition of Tembec assets (Note 32)	**(65.6)**	-
Share exchange (Note 33)	**6.8**	-
Proceeds from redemption of asset-backed commercial paper (Note 10)	**12.9**	29.8
Other, net	**3.1**	2.5
	(216.8)	(203.0)
Decrease in cash and cash equivalents *	**(43.6)**	(231.4)
Cash and cash equivalents at beginning of year*	**28.9**	260.3
Cash and cash equivalents at end of year*	**$ (14.7)**	$ 28.9

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

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

Canfor Corporation
Notes to the Consolidated Financial Statements

1. Reporting Entity

Canfor Corporation is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 comprise the Company and its subsidiaries (together referred to as "Canfor" or "the Company") and the Company's interests in associates and jointly controlled entities.

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

2. Basis of Preparation

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 14, 2013.

Basis of measurement

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

- Derivative financial instruments are measured at fair value;
- Financial instruments classified as fair value through profit and loss are measured at fair value;
- Asset retirement obligations and deferred reforestation obligations are measured at the discounted value of expected future cash flows; and
- The retirement benefit obligation recognized in the balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets.

Use of estimates and judgments

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

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

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

- Note 7 – Property, Plant and Equipment;
- Note 8 – Timber Licenses;
- Note 9 – Goodwill and Other Intangible Assets;
- Note 14 – Employee Future Benefits;
- Note 15 – Deferred Reforestation Obligations;
- Note 16 – Asset Retirement Obligations;
- Note 22 – Income Taxes; and
- Note 32 – Acquisition of Tembec Assets.

3. Significant Accounting Policies

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

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when Canfor is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Significant subsidiaries include Canadian Forest Products Ltd. and New South Companies Inc. ("New South"), which are wholly owned, and Canfor Pulp Products Inc. ("CPPI"), which is 50.2% owned. As described in note 33, during 2012, Canfor acquired 50.2% of the outstanding common shares of CPPI in exchange for 50.2% of the outstanding units of Canfor Pulp Limited Partnership ("CPLP"). There were no other changes in percentage ownership in 2012 or 2011 for the entities listed above.

Joint ventures are those entities over whose activities Canfor has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are proportionately consolidated. Canfor's joint ventures include a 50% interest in Canfor-LP OSB Limited Partnership ("Canfor-LP OSB"). As described in note 6, Canfor has entered into a Letter of Intent to sell its 50% interest in Canfor-LP OSB to Louisiana-Pacific Corporation ("Louisiana-Pacific").

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

Business combinations

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

Cash and cash equivalents

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

Financial instruments

Non-derivative financial instruments

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

Financial assets at fair value through net income - An instrument is classified at fair value through net income if it is held for trading or is designated as such upon initial recognition. Financial instruments at fair value through net income are measured at fair value, and changes therein are recognized in the statement of income, with attributable transaction costs being recognized in net income when incurred. Included within this category is asset-backed commercial paper ("ABCP") in 2011. The Company sold all remaining ABCP assets in 2012.

Available-for-sale financial assets - Canfor's investments in equity securities are classified as available-for-sale financial assets where it does not have control or significant influence over the investee. These instruments do not have a quoted market price in an active market. Any impairment loss on these investments is recorded through net income.

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

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

Derivative financial instruments

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

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

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

Buildings	5 to 50 years
Pulp and kraft paper machinery and equipment	20 years
Sawmill machinery and equipment	5 to 15 years
Oriented strand board machinery and equipment	10 to 20 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	5 to 25 years
Mobile and other equipment	5 years

Timber licenses

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

Other intangible assets

Goodwill

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

Customer agreements

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

Computer software

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

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government assistance related to non-capital projects is recorded as a reduction of the related expenses.

Asset impairment

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

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

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

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

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

Employee benefits

Defined contribution plans

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

Defined benefit plans

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

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

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

Provisions

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

Asset retirement obligations

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

Deferred reforestation obligations

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

Restructuring

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

Share-based compensation

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

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

Revenue recognition

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

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

Income taxes

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

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

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

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

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

Foreign currency translation

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

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

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

Segment reporting

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

4. Changes in Accounting Policy

Effective January 1, 2012, the Company retroactively changed its accounting policy for the presentation of interest expense and expected rate of return on assets of defined benefit post-retirement plans. The net expense has been reclassified from operating income, where it was included in manufacturing and product costs and in selling and administration costs, to net finance expense. Management considers the classification of net pension interest expense as a finance expense more accurately reflects the nature of this cost. The effect on the financial statements for the year ended December 31, 2011 is an increase in operating income, and an increase in net finance expense, of $3.5 million. There is no impact on amounts recorded in the consolidated balance sheet or opening equity as at January 1, 2012.

Accounting standards issued and not applied

Unless otherwise noted, the following new or revised standards and amendments as adopted by the IASB are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. These new and revised accounting standards have not yet been adopted by Canfor and the Company does not plan to early adopt any of the standards.

Consolidation and interests in other entities

In May 2011, as part of its consolidation project, the IASB issued the following new suite of consolidation and related standards. The suite is intended to cover all aspects of interests in other entities from determination of how to account for interests in other entities to required disclosure of the interest in those entities. Early adoption is permitted provided that the entire suite of consolidation standards is adopted at the same time.

- IFRS 10, *Consolidated Financial Statements,* requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvements with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities,* and parts of IAS 27, *Consolidated and Separate Financial Statements.* IFRS 10 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.

- IFRS 11, *Joint Arrangements,* redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. The new Standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers.*

  Under IFRS 11, Canfor's 50% interest in Canfor-LP OSB is classified as a joint venture and will be accounted for using the equity method of accounting until completion of the sale (Note 6). The Company currently proportionately consolidates Canfor-LP OSB in accordance with IAS 31.

- IFRS 12, *Disclosure of Interests in Other Entities,* carries forward existing disclosure requirements and introduces additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.
- There have been amendments to existing standards, including IAS 27 (2011), *Separate Financial Statements,* and IAS 28 (2011), *Investments in Associates and Joint Ventures.* IAS 27 (2011) addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 (2011) sets out the equity accounting for joint ventures and associates, once the assessment of the arrangement has been made under IFRS 11. Canfor's interest in Canfor-LP OSB will be accounted for in accordance with IAS 28 (2011). The amendments to IAS 27 are not expected to have a material impact on amounts recorded in the financial statements of the Company.

Employee benefits

- IAS 19, *Employee Benefits,* has been amended to make changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. Pension benefit cost will be 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 currently reflect different rates, will be replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset). The principal impact on the Company of this portion of the amended Standard is expected to be an increase in net finance cost as the Company's return on plan assets will effectively be estimated at a lower rate.

  The amended Standard also requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the Company's current accounting policy.

  In addition, under the amended Standard, the impact of plan amendments related to past service will no longer be recognized over a vesting period but instead will be recognized immediately in the period of a plan amendment.

  The amended Standard will result in an increase in operating income of approximately $1.5 million offset by an increase in finance expense of approximately $9.2 million in the 2012 comparative financial statements.

Other standards and amendments

- IFRS 9, *Financial Instruments,* addresses classification and measurement of financial assets and financial liabilities, and is effective January 1, 2015, with earlier adoption permitted. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.
- IFRS 13, *Fair Value Measurement,* clarifies that fair value is the price that would be received on sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.
- IAS 1, *Presentation of Financial Statements,* has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. IAS 1 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.

5. Inventories

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Finished products	**$ 205.8**	$ 186.3
Logs	**119.4**	55.9
Residual fibre	**11.5**	17.3
Materials and supplies	**94.6**	88.8
	$ 431.3	$ 348.3

In 2012, costs of raw materials, consumables and changes in finished products recognized as manufacturing and product costs amounted to $786.2 million (2011 - $766.0 million). The above inventory balances are stated after inventory write-downs from cost to net realizable value. No write-downs were included in inventory at December 31, 2012 (2011 - $15.5 million). At December 31, 2012, an amount of $4.3 million was reclassified from inventories to assets held for sale (Note 6).

6. Assets and Liabilities 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 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 assets and liabilities to be sold have been reclassified as held for sale and the non-current assets have been measured at the lower of the carrying amount and the fair value less cost to sell. No impairment was recorded on reclassification as the fair value less cost to sell exceeded the carrying amount. The transaction is currently scheduled to close in the first half of 2013.

At December 31, 2012, the following assets and liabilities are classified as held for sale:

(millions of Canadian dollars)	**As at December 31, 2012**
Accounts receivable	**$ 3.9**
Inventories	**4.3**
Prepaid expenses	**0.3**
Property, plant and equipment	**68.8**
Assets held for sale	**$ 77.3**
Accounts payable and accrued liabilities	**$ 2.0**
Liabilities held for sale	**$ 2.0**

There are no cumulative income or expenses included in other comprehensive income (loss) relating to the assets and liabilities held for sale.

7. Property, Plant and Equipment

(millions of Canadian dollars)	Land	Pulp and kraft paper mills	Sawmills, plywood and OSB plants	Logging assets and other equipment	Total
Cost					
Balance at January 1, 2011	$ 44.7	$ 1,399.1	$ 1,336.4	$ 189.3	$ 2,969.5
Additions[1]	2.0	85.8	155.5	6.7	250.0
Disposals	-	(42.6)	(31.5)	(1.6)	(75.7)
Effect of movements in exchange rates	0.4	-	2.6	-	3.0
Balance at December 31, 2011	$ 47.1	$ 1,442.3	$ 1,463.0	$ 194.4	$ 3,146.8
Additions[1]	0.3	65.7	102.1	8.2	176.3
Additions due to acquisition (Note 32)	3.0	-	6.5	-	9.5
Disposals	(2.7)	(25.0)	(83.2)	(1.5)	(112.4)
Reclassified to held for sale (Note 6)	(1.6)	-	(132.4)	(0.4)	(134.4)
Effect of movements in exchange rates	(0.4)	-	(2.9)	-	(3.3)
Balance at December 31, 2012	$ 45.7	$ 1,483.0	$ 1,353.1	$ 200.7	$ 3,082.5
Amortization and impairment losses					
Balance at January 1, 2011	$ (7.0)	$ (885.7)	$ (857.6)	$ (170.1)	$ (1,920.4)
Amortization for the year	-	(67.3)	(77.6)	(4.3)	(149.2)
Impairment losses	-	-	(7.9)	(0.8)	(8.7)
Disposals	-	41.6	29.5	1.3	72.4
Effect of movements in exchange rates	-	-	(1.7)	-	(1.7)
Balance at December 31, 2011	$ (7.0)	$ (911.4)	$ (915.3)	$ (173.9)	$ (2,007.6)
Amortization for the year	-	(68.3)	(94.3)	(4.4)	(167.0)
Impairment losses	-	-	(0.8)	-	(0.8)
Disposals	-	24.6	81.6	1.2	107.4
Reclassified to held for sale (Note 6)	-	-	65.2	0.4	65.6
Effect of movements in exchange rates	-	-	1.6	-	1.6
Balance at December 31, 2012	$ (7.0)	$ (955.1)	$ (862.0)	$ (176.7)	$ (2,000.8)
Carrying amounts					
At January 1, 2011	$ 37.7	$ 513.4	$ 478.8	$ 19.2	$ 1,049.1
At December 31, 2011	$ 40.1	$ 530.9	$ 547.7	$ 20.5	$ 1,139.2
At December 31, 2012	**$ 38.7**	**$ 527.9**	**$ 491.1**	**$ 24.0**	**$ 1,081.7**

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

Included in the above are assets under construction in the amount of $28.9 million (2011 - $33.3 million), which as at December 31, 2012 have not been amortized.

In October 2009, the Canadian federal government announced the introduction of a Pulp and Paper Green Transformation Program (the "Program") designed to reimburse funds spent by Canadian kraft pulp producers on qualifying energy and environmental capital projects. CPPI was allocated $122.2 million from this Program, most of which related to the installation of a recovery boiler and precipitator upgrade at the Northwood pulp mill. As of December 31, 2012, CPPI has spent its full allocation under the Program. During 2012, CPPI received reimbursements totaling $19.7 million (2011 - $75.6 million), and no amounts (2011 - $19.7 million) were receivable at year end. These projects are expected to provide economic and environmental benefits to CPPI's operations.

Impairment loss

The Company reviews the carrying values of its long-lived assets, including property, plant and equipment and timber licenses, on a regular basis as events or changes in circumstances may warrant. A review of the carrying values of the Company's sawmill and panel operations and various other assets was undertaken in 2011 and 2012. Recoverable amounts were determined at all CGU's with indicators of impairment in 2012.

The recoverable amounts of property, plant and equipment, and timber licenses for impairment assessment purposes were determined using a discounted cash flow calculation to estimate their value in use, using cash flows forecast for periods consistent with the CGU's useful life. Key assumptions used in these cash flow forecasts included forecast prices and foreign exchange rates which the Company's management determined with reference to external publications including Resource Information Systems, Inc. ("RISI") and Forest Economic Advisors ("FEA") publications. A pre-tax discount rate of 11.0% and inflation rate of 2.0% were used for the purposes of the calculations in 2012 and 2011.

Impairment charges of $0.8 million were recorded in 2012 on certain damaged panel assets. In 2011, the Company recorded impairment charges totaling $9.2 million, with $7.2 million relating to lumber assets and $2.0 million relating to panel assets. Of the total, $8.7 million of this impairment was recorded against property, plant and equipment, with the remaining $0.5 million recorded against other inventory.

8. Timber Licenses

(millions of Canadian dollars)		
Cost		
Balance at January 1, 2011 and December 31, 2011	$	840.2
Additions due to acquisition (Note 32)		43.5
Disposals		(2.0)
Balance at December 31, 2012		881.7
Amortization and impairment losses		
Balance at January 1, 2011	$	(293.5)
Amortization for the year		(16.6)
Balance at December 31, 2011	$	(310.1)
Amortization for the year		(17.1)
Disposal		0.1
Balance at December 31, 2012	$	(327.1)
Carrying amounts		
At January 1, 2011	$	546.7
At December 31, 2011	$	530.1
At December 31, 2012	**$**	**554.6**

As described in note 32, additions to timber licenses during 2012 related to the acquisition of Tembec Industries Ltd.'s ("Tembec") Southern British Columbia Interior wood product assets, which included approximately 1.1 million cubic meters of combined crown, private land and contract annual allowable cut. In late 2012, the Company disposed of certain timberlands in the United States.

9. Goodwill and Other Intangible Assets

(millions of Canadian dollars)	Goodwill	Customer Agreements	Other	Total
Cost				
Balance at January 1, 2011	$ 69.6	$ 26.0	$ 23.4	$ 119.0
Additions	-	-	0.2	0.2
Effect of movement in exchange rates	1.6	0.5	-	2.1
Balance at December 31, 2011	$ 71.2	$ 26.5	$ 23.6	$ 121.3
Additions	-	-	2.2	2.2
Effect of movement in exchange rates	(1.5)	(0.6)	-	(2.1)
Balance at December 31, 2012	$ 69.7	$ 25.9	$ 25.8	$ 121.4
Amortization				
Balance at January 1, 2011	$ -	$ (12.6)	$ (21.9)	$ (34.5)
Amortization for the year	-	(2.6)	(0.9)	(3.5)
Effect of movement in exchange rates	-	(0.3)	-	(0.3)
Balance at December 31, 2011	$ -	$ (15.5)	$ (22.8)	$ (38.3)
Amortization for the year	-	(2.6)	(0.5)	(3.1)
Effect of movement in exchange rates	-	0.4	-	0.4
Balance at December 31, 2012	$ -	$ (17.7)	$ (23.3)	$ (41.0)
Carrying amounts				
At January 1, 2011	$ 69.6	$ 13.4	$ 1.5	$ 84.5
At December 31, 2011	$ 71.2	$ 11.0	$ 0.8	$ 83.0
At December 31, 2012	**$ 69.7**	**$ 8.2**	**$ 2.5**	**$ 80.4**

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

As part of this process, assumptions are made in relation to forecast prices and exchange rates. Key assumptions used in the cash flow model included forecast prices and foreign exchange rates which the Company's management determined with reference to external publications including RISI and FEA publications. A pre-tax discount rate of 11.0% and inflation rate of 2.0% were used for the purposes of the calculations in 2012 and 2011. The net present value of the future expected cash flows is compared to the carrying value of the Company's investment in these assets, including goodwill, at year end.

Based upon management's analysis, no impairment of goodwill was required in 2012 or 2011.

10. Long-Term Investments and Other

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Asset-backed commercial paper ("ABCP")	**$ -**	$ 11.8
Other investments	**23.7**	24.3
Investment tax credits	**8.6**	8.6
Defined benefit plan assets (Note 14)	**1.4**	3.0
Other deposits, loans and advances	**10.9**	15.1
	$ 44.6	$ 62.8

In 2012, the Company recorded a gain of $1.3 million (2011 - $0.2 million) arising from a change in the fair value of its US dollar denominated investment in ABCP. In addition, net proceeds of $12.9 million were received from the redemption of the Company's remaining investment in ABCP in 2012 (2011 - $29.8 million).

Other investments include the Company's 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. The Company does not exercise significant influence with respect to this investment. At December 31, 2012, indicators of impairment exist at Lakeland Mills Ltd. as a result of a fire which destroyed the Company's sawmill earlier in 2012. The fair value less cost to sell of Canfor's 33.3% interest was estimated and no impairment charges were required as a result of Management's review.

11. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Trade payables and accrued liabilities	**$ 145.6**	$ 159.7
Accrued payroll and related liabilities	**77.7**	73.2
Derivative financial instruments	**4.2**	1.8
Restructuring, mill closure and severance costs	**7.4**	27.1
Interest and distributions payable	**1.8**	6.9
Other	**19.0**	21.8
	$ 255.7	$ 290.5

At December 31, 2012, an amount of $2.0 million was reclassified from trade payables and accrued liabilities to liabilities held for sale.

12. Operating Loans

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Canfor (excluding CPLP)		
Principal operating loans	**$ 350.0**	$ 350.0
Facility A	**-**	12.9
Total operating loans - Canfor (excluding CPLP)	**350.0**	362.9
Drawn	**(27.0)**	-
Letters of credit (principally unregistered pension plans)	**(18.0)**	(17.2)
Total available operating loans - Canfor (excluding CPLP)	**$ 305.0**	$ 345.7
CPLP		
Operating loan facility	**$ 110.0**	$ 40.0
Bridge loan credit facility (maximum $30.0 million)	**-**	19.7
Facility for BC Hydro letter of credit	**7.5**	10.4
Total operating loans - CPLP	**117.5**	70.1
Drawn	**-**	-
Letters of credit (for general business purposes)	**(1.7)**	(0.5)
BC Hydro letter of credit	**(7.5)**	(10.4)
Total available operating loans - CPLP	**$ 108.3**	$ 59.2
Consolidated:		
Total operating loans	**$ 467.5**	$ 433.0
Total available operating loans	**$ 413.3**	$ 404.9

Canfor's, excluding CPLP, principal operating loans mature on October 31, 2015. Interest is 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.

Facility A, which was for US$12.7 million at December 31, 2011, expired in January 2012, and was non-recourse to the Company under normal circumstances, except for an amount of US$6.7 million. The ABCP assets of the Company had been pledged as security to support this credit facility which had similar terms to the other operating loans, except that the interest rate was plus or minus a margin.

The terms of CPLP's principal bank loan facility include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, 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. In the fourth quarter of 2012, CPLP entered into a new $110.0 million operating loan facility replacing its previous $40.0 million operating loan facility. The new 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 new facility is November 13, 2016.

During 2012, CPLP terminated its $30.0 million bridge loan credit facility in conjunction with the completion of the Canadian Federal Government Green Transformation Program ("Program"). The facility was used to fund timing differences between expenditures and reimbursements for projects funded by the Program. The Company 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 December 31, 2012, the Company and CPLP were in compliance with all covenants relating to their operating loans.

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

13. Long-Term Debt

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

Summary of long-term debt

(millions of Canadian dollars)		**As at December 31, 2012**		As at December 31, 2011
Privately placed senior notes				
Canfor Corporation				
US$50 million, interest at 6.33%, repaid February 2, 2012	**$**	**-**	$	50.9
US$75 million, interest at 5.42%, repayable April 1, 2013		**74.7**		76.2
CAD$100 million, floating interest, repayable February 13, 2017		**100.0**		-
Canfor Pulp Limited Partnership				
US$110 million, interest at 6.41%, repayable November 30, 2013		**109.4**		111.9
	$	**284.1**	$	239.0
Less: current portion		**(184.1)**		(50.9)
Long-term portion	**$**	**100.0**	$	188.1

In 2012, the Company repaid $49.9 million (US$50.0 million) of 6.33% interest rate privately placed senior notes. The Company also issued new term debt totaling $100.0 million which was used to fund the above debt repayment and the acquisition of assets from Tembec (Note 32). The new debt is in the form of an unsecured non-revolving term loan, with a maturity date of February 13, 2017. Interest rates are floating based on the lenders' Canadian prime rate or bankers acceptances.

Fair value of total long-term debt

The fair value of total long-term debt at December 31, 2012 was $288.8 million (2011 - $246.6 million). The fair value was determined using prevailing market rates for long-term debt with similar characteristics and risk profiles.

Scheduled long-term debt repayments and interest payments

Long-term debt repayments and interest payments on the Company's fixed rate debt for the next five years are as follows:

(millions of Canadian dollars)		Debt Repayments		Interest Payments
2013	$	184.1	$	9.1
2014		-		-
2015		-		-
2016		-		-
2017		100.0		-
	$	284.1	$	9.1

The interest payments associated with the floating rate debt will depend on the lenders' Canadian prime rate or bankers acceptance rate during the year of payment.

14. Employee Future Benefits

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

Total cash payments for employee future benefits for 2012 were $76.9 million (2011 – $74.4 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans, and cash contributed to forest industry union defined benefit plans.

Defined benefit plans

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

In 2012, Canfor had five registered defined benefit plans for which actuarial valuations are performed every three years. The most recent actuarial valuation for funding purposes of Canfor's single largest pension plan was as of December 31, 2010, and the next required plan valuation is currently scheduled for December 31, 2013.

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

Defined Benefit Plan Assets

	2012		2011	
(millions of Canadian dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets				
Beginning of year	**$ 529.9**	**$ -**	$ 513.5	$ -
Actual return on plan assets	**59.4**	**-**	10.2	-
Canfor contributions	**47.4**	**5.7**	48.3	5.5
Employee contributions	**0.7**	**-**	0.8	-
Settlements	**(7.1)**	**-**	-	-
Benefit payments	**(38.5)**	**(5.7)**	(42.9)	(5.5)
End of year	**$ 591.8**	**$ -**	$ 529.9	$ -

Plan assets consist of the following:	**As at December 31, 2012**	As at December 31, 2011
	Percentage of Plan Assets	
Asset category		
Equity securities	**66%**	61%
Debt securities	**33%**	39%
Other	**1%**	-
	100%	100%

Defined Benefit Plan Obligations

(millions of Canadian dollars)	2012 Pension Benefit Plans	2012 Other Benefit Plans	2011 Pension Benefit Plans	2011 Other Benefit Plans
Accrued benefit obligation				
Beginning of year	**$ 631.6**	**$ 174.5**	$ 608.0	$ 150.8
Current service cost	**9.5**	**2.4**	10.2	1.8
Interest cost	**31.0**	**8.9**	32.7	8.3
Employee contributions	**0.7**	**-**	0.8	-
Benefit payments	**(38.5)**	**(5.7)**	(42.9)	(5.5)
Plan amendments / settlements	**(5.6)**	**(15.7)**	-	-
Actuarial loss (gain)	**64.8**	**24.2**	21.5	19.2
Other	**-**	**(0.4)**	1.3	(0.1)
End of year	**$ 693.5**	**$ 188.2**	$ 631.6	$ 174.5

Of the defined benefit plan obligation of $693.5 million (2011 - $631.6 million), $11.3 million (2011 - $12.2 million) relates to plans that are wholly unfunded and $682.2 million (2011 - $619.4 million) relates to plans that are wholly or partly funded. At December 31, 2012, certain liabilities for unregistered plans were secured by a letter of credit in the amount of $12.2 million (2011 - $12.2 million).

The total obligation for the other benefit plans of $188.2 million (2011 - $174.5 million) is unfunded.

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

(millions of Canadian dollars)	December 31, 2012 Pension Benefit Plans	December 31, 2012 Other Benefit Plans	December 31, 2011 Pension Benefit Plans	December 31, 2011 Other Benefit Plans
Fair market value of plans assets	**$ 591.8**	**$ -**	$ 529.9	$ -
Accrued benefit obligation	**(693.5)**	**(188.2)**	(631.6)	(174.5)
Funded status of plans – surplus (deficit)	**$ (101.7)**	**$ (188.2)**	$ (101.7)	$ (174.5)
Unamortized past service costs	**-**	**(2.8)**	-	0.1
Accrued benefit liability	**$ (101.7)**	**$ (191.0)**	$ (101.7)	$ (174.4)
Pension bridge benefits	**(17.6)**	**-**	(16.8)	-
Other pension plans	**(2.8)**	**-**	(2.4)	-
Total accrued benefit liability, net	**$ (122.1)**	**$ (191.0)**	$ (120.9)	$ (174.4)

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

(millions of Canadian dollars)	December 31, 2012 Pension Benefit Plans	December 31, 2012 Other Benefit Plans	December 31, 2011 Pension Benefit Plans	December 31, 2011 Other Benefit Plans
Long-term investments and other	**$ 1.4**	**$ -**	$ 3.0	$ -
Retirement benefit obligations	**(123.5)**	**(191.0)**	(123.9)	(174.4)
Total accrued benefit liability, net	**$ (122.1)**	**$ (191.0)**	$ (120.9)	$ (174.4)

The following table shows the experience adjustments arising on plan liabilities and assets as a result of the differences between actuarial assumptions made at the beginning of the year and the actual experience during the year:

	2012		2011	
(millions of Canadian dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Experience gain (loss) arising on plan liabilities	**$ 1.9**	**$ (0.1)**	$ 3.7	$ 0.3
Experience gain (loss) arising on plan assets	**$ 23.2**	**$ -**	$ (28.1)	$ -

Components of pension cost

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

	2012		2011	
(millions of Canadian dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Recognized in net income				
Current service cost	**$ 9.5**	**$ 2.4**	$ 10.2	$ 1.8
Interest cost	**31.0**	**8.9**	32.7	8.3
Expected return on plan assets	**(36.1)**	**-**	(38.1)	-
Plan amendment / settlement loss (gain)	**1.5**	**(12.9)**	-	-
Other	**-**	**(0.4)**	1.1	(0.1)
Total, included in staff costs	**$ 5.9**	**$ (2.0)**	$ 5.9	$ 10.0
Recognized in other comprehensive income				
Actuarial loss (gain) immediately recognized	**$ 41.6**	**$ 24.2**	$ 49.5	$ 19.2
Effect of limit on recognition of asset	**-**	**-**	(4.1)	-
Total pension cost recognized in other comprehensive income	**$ 41.6**	**$ 24.2**	$ 45.4	$ 19.2

In addition to the amounts shown above, the expense recorded in net income for the bridge benefits in 2012 was $1.2 million (2011 - $1.3 million), and $1.1 million was charged to other comprehensive income (2011 – credit of $1.4 million). Excluded from the above table are the amounts relating to the defined benefit pension plans of New South.

The expected return on plan assets is determined by taking into account the expected returns on the assets based on the Company's current investment policy.

Significant assumptions

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

	December 31, 2012		December 31, 2011	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligations at reporting date:				
Discount rate	**4.20%**	**4.40%**	5.00%	5.30%
Rate of compensation increases	**3.00%**	**n/a**	3.00%	n/a
Benefit costs for year ended December 31:				
Discount rate	**5.00%**	**5.30%**	5.50%	5.75%
Expected return on plan assets	**7.00%**	**n/a**	7.00%	n/a
Future salary increases	**3.00%**	**n/a**	3.00%	n/a

Assumed health care cost trend rates

(weighted average assumptions)	**December 31, 2012**	December 31, 2011
Initial health care cost trend rate	**6.28%**	6.33%
Ultimate health care cost trend rate	**4.50%**	4.50%
Year ultimate rate is reached	**2029**	2029

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one percentage point change in assumed health care cost trend rates would have the following effects for 2012:

(millions of Canadian dollars)	1% Increase	1% Decrease
Effect on accrued benefit obligation	$ 28.6	$ 22.9
Effect on the aggregate service and interest cost	$ 2.4	$ 1.9

For the Company's single largest pension plan, a one percentage point increase in the rate of return on plan assets over the year would reduce the funded deficit by an estimated $4.1 million. 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. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and approval for a change in annual funding contributions was obtained from the regulator.

As at December 31, 2012, Canfor estimated that it will make contribution payments of $49.3 million to its defined benefit plans in 2013.

Historical information

The historical information below includes both funded and unfunded pension benefit plans in aggregate.

(millions of Canadian dollars)	**2012**	2011	2010
Fair value of the plan assets	**$ 591.8**	$ 529.9	$ 513.5
Present value of the defined benefit obligation	**(881.7)**	(806.1)	(758.8)
Pension bridge benefits	**(17.6)**	(16.8)	(18.4)
Other pension plans	**(2.8)**	(2.4)	(1.0)
Unamortized past service costs	**(2.8)**	0.1	-
Effect of limit on recognition of asset	-	-	(4.1)
Funded status of the plans – deficit	**$ (313.1)**	$ (295.3)	$ (268.8)
Experience gain (loss) arising on plan liabilities	**$ 1.8**	$ 4.0	$ 19.9
Experience gain (loss) arising on plan assets	**$ 23.2**	$ (28.1)	$ 11.8

Defined contribution and other plans

The total cost recognized in 2012 for Canfor's defined contribution plans was $5.0 million (2011 - $4.0 million).

Canfor contributes to various forest industry union defined benefit pension plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the cost recognized for defined contribution plans above, amounted to $17.4 million in 2012 (2011 - $15.1 million).

Employee future benefit plan amendments / settlements

During the fourth quarter of 2012, the Company amended the salaried post retirement benefit plans for certain employees and retirees. The amendments reduced the Company's retirement benefit obligation by $15.7 million (before tax). As a result of the plan amendments, Canfor recognized an accounting gain of $12.9 million (before tax) for vested past-service costs and deferred a gain of $2.8 million (before tax) for unvested past-service costs. The deferred gain will be recognized on a straight line basis over the vesting period. In addition, certain other pension plan settlements in 2012 resulted in a loss of $1.5 million (before tax).

Other

Canfor's total employee benefits expense includes expense for salaries and wages, benefits and employee future benefits. The total employee benefits expense in 2012 was $487.8 million (2011 - $436.7 million).

15. Deferred Reforestation Obligations

The following table provides a reconciliation of the deferred reforestation obligations as at December 31, 2012 and 2011:

(millions of Canadian dollars)		**2012**		2011
Reforestation obligations at beginning of year	**$**	**96.6**	$	92.2
Expense for year		**38.4**		29.1
Accretion expense		**0.7**		1.2
Additions due to acquisition (Note 32)		**16.5**		-
Changes in estimates		**(1.7)**		(1.1)
Paid during the year		**(34.8)**		(24.8)
Reforestation obligations at end of year	**$**	**115.7**	$	96.6
Less: current portion		**(37.3)**		(31.6)
Long-term portion	**$**	**78.4**	$	65.0

The total undiscounted amount of the estimated cash flows required to settle the obligations at December 31, 2012 was $120.0 million (2011 - $100.7 million) with payments spread over 15 years. Due to the general long-term nature of the liability, the most significant area of uncertainty in estimating the provision is the future costs that will be incurred. The estimated cash flows have been adjusted for inflation and discounted using risk-free rates ranging from 1.1% to 2.3% at December 31, 2012.

16. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2012 and 2011:

(millions of Canadian dollars)		**2012**		2011
Asset retirement obligations at beginning of year	**$**	**6.6**	$	6.3
Accretion expense		**0.2**		0.6
Paid during the year		**(0.1)**		(0.1)
Change in estimate		**-**		(0.2)
Additions due to acquisition (Note 32)		**0.3**		-
Asset retirement obligations at end of year	**$**	**7.0**	$	6.6

Canfor's asset retirement obligations include $3.3 million in relation to landfill closure costs at CPPI. These obligations represent estimated undiscounted future payments of $7.2 million to remediate the landfills at the end of their useful lives. The payments are expected to occur at periods ranging from 6 to 39 years and have been discounted at risk-free rates ranging from 1.6% to 2.4%.

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

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations.

The asset retirement obligations balance is included in other long-term liabilities on the balance sheet.

17. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with the indefinite or permanent closures of facilities and staff reductions. The expense for the year ended December 31, 2012 amounted to $18.5 million (2011 - $38.3 million) and principally related to ongoing costs of the Company's indefinitely idled PolarBoard panels plant and the costs of the Company's Radium sawmill prior to its restart in the fourth quarter of 2012. Costs associated with the permanently closed Rustad sawmill and permanently closed Tackama panel operations and certain restructuring costs made up the balance.

Of the 2011 expense, $11.9 million related to severance and other costs associated with the closure of the Rustad sawmill, and $10.6 million related to severance and other costs for the closure of the Tackama mill, both of which were announced in the fourth quarter of 2011 and took effect in January 2012. The significant majority of the remaining 2011 expense related to the ongoing costs of the Company's indefinitely idled PolarBoard panel and the costs of the Company's Vavenby sawmill prior to its restart in the third quarter of 2011.

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

(millions of Canadian dollars)		**2012**		2011
Lumber	**$**	**11.0**	$	21.2
Pulp & paper		**1.7**		-
Unallocated and other		**5.8**		17.1
	$	**18.5**	$	38.3

The following table provides a reconciliation of the restructuring, mill closure and severance liability for the years ended December 31, 2012 and 2011:

(millions of Canadian dollars)		**2012**		2011
Accrued liability at beginning of year	**$**	**28.3**	$	18.4
Costs accrued in the year		**7.7**		21.8
Paid during the year		**(27.0)**		(11.9)
Accrued liability at end of year	**$**	**9.0**	$	28.3

18. Share Capital

Authorized

10,000,000 preferred shares, with a par value of $25 each
1,000,000,000 common shares without par value

Issued and Fully Paid

(millions of Canadian dollars, except number of shares)	**2012**			2011		
	Number of Shares		**Amount**	Number of Shares		Amount
Common shares, beginning of year	**142,721,764**	**$**	**1,125.9**	142,669,347	$	1,125.4
Stock options exercised (Note 19)	**30,667**		**0.3**	52,417		0.5
Common shares, end of year	**142,752,431**	**$**	**1,126.2**	142,721,764	$	1,125.9

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

19. Share-Based Compensation

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

Deferred share unit plans

On January 1, 2002, the Company implemented a Deferred Share Unit Plan for non-employee directors of the Company. A Deferred Share Unit ("DSU") is a right granted to a non-employee director to receive one common share of the Company, purchased on the open market, or the cash equivalent at their option, on a deferred payment basis. The maximum number of DSUs outstanding under the plan is 1,000,000. Effective July 27, 2011, the Board determined to cease the issuance of DSUs for non-employee directors.

The value of the DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity. The total expense recorded in relation to the DSUs for 2012 was $0.8 million due to the revaluation of existing units (2011 - credit of $0.1 million). The value of outstanding DSUs at December 31, 2012 was $2.0 million (2011 - $1.2 million).

In addition, in May 2007, the Company implemented a Deferred Share Unit Plan for the Company's former CEO (the "CEO Plan"). Pursuant to the terms of the plan, the former CEO received his annual salary in DSUs. The value of the DSUs when redeemed equalled the market value of the shares on the redemption date. The DSUs under the CEO Plan were redeemed during 2011 when the former CEO ceased employment with the Company. The CEO Plan ceased to be in use at that date. The total credit recorded in relation to the CEO Plan for 2011 was $0.3 million.

Stock option performance plan

The Company has a stock option performance plan pursuant to which stock options were granted to selected senior officers. No new stock options were granted in 2011 or 2012. The stock option performance plan provided for the issuance of up to a maximum of 5.8 million common shares at an exercise price equal to the market price of the Company's common shares on the date of grant. However, there are various criteria that limit the amount of options exercisable during each option year within the option period. The options are for a term of 10 years and vest equally over three years. All options have fully vested. A summary of the status of the plan as of December 31, 2012 and 2011, and changes during the years ending on those dates, is presented below:

	2012			2011		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding at beginning of year	**38,667**	**$**	**9.85**	97,418	$	9.73
Exercised	**(30,667)**	**$**	**9.86**	(52,417)	$	9.72
Cancelled	**(8,000)**	**$**	**9.80**	(6,334)	$	9.09
Outstanding at end of year	**-**	**$**	**-**	38,667	$	9.85

20. Finance Expense, Net

(millions of Canadian dollars)		**2012**		2011
Finance expense	**$**	**(25.0)**	$	(27.9)
Less: Interest income		**0.3**		1.9
Finance expense, net	**$**	**(24.7)**	$	(26.0)

Finance expense, net is comprised of:

(millions of Canadian dollars)		**2012**		2011
Short-term finance expense, net	**$**	**(5.2)**	$	(5.1)
Long-term finance expense, net		**(19.5)**		(20.9)
Finance expense, net	**$**	**(24.7)**	$	(26.0)

For the year ended December 31, 2012, short-term finance expense, net was comprised of stand-by fees for operating loans and letter of credit charges of $5.5 million (2011 - $6.9 million), offset by interest income on cash and cash equivalents of $0.3 million (2011 - $1.8 million). Long-term finance expense, net related substantially to interest expense on long-term debt, employee future benefit expense and accretion expense related to the Company's asset retirement and deferred reforestation obligations.

21. Other Income (Expense), Net

(millions of Canadian dollars)	**2012**	2011
Foreign exchange gain (loss) on translation of working capital	**$ (1.5)**	$ 2.0
Increase in fair value of asset-backed commercial paper (Note 10)	**1.3**	0.2
Royalty fair value adjustment	**0.5**	2.2
Other, net	**(0.7)**	1.5
Total other income (expense), net	**$ (0.4)**	$ 5.9

During 2012, the Company recognized a $0.5 million positive fair value adjustment (2011 - $2.2 million) related to a royalty agreement associated with the 2010 sale of the Howe Sound Pulp and Paper Limited Partnership (now called 6382 Pulp and Paper Limited Partnership), a kraft pulp and newsprint mill operation jointly owned by Canfor and Oji Paper Co. Ltd.

22. Income Taxes

The components of income tax recovery (expense) are as follows:

(millions of Canadian dollars)	**2012**	2011
Current	**$ (2.9)**	$ (1.7)
Deferred	**(11.4)**	22.2
Income tax recovery (expense)	**$ (14.3)**	$ 20.5

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

(millions of Canadian dollars)	**2012**	2011
Income tax recovery (expense) at statutory rate 2012 – 25.0% (2011 – 26.5%)	**$ (13.9)**	$ 2.6
Non-taxable income related to non-controlling interests in limited partnerships	**1.7**	17.9
Entities with different income tax rates and other tax adjustments	**(2.4)**	1.0
Tax recovery (expense) at rates other than statutory rate	**0.1**	(0.9)
Permanent difference from capital gains and losses and other non-deductible items	**0.2**	(0.1)
Income tax recovery (expense)	**$ (14.3)**	$ 20.5

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

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Deferred income tax assets		
Accruals not currently deductible		
Current	**$ 12.1**	$ 16.2
Non-current	**22.9**	18.9
Derivative financial instruments		
Current	**0.9**	0.1
Non-current	**0.2**	-
Loss carryforwards	**75.5**	66.4
Retirement benefit obligations	**78.4**	62.6
Other	**1.4**	1.5
	$ 191.4	$ 165.7
Deferred income tax liabilities		
Depreciable capital assets	**$ (289.2)**	$ (235.5)
Other intangible assets	**(3.0)**	(4.4)
Unrealized foreign exchange gains on debt		
Current	**(5.0)**	(2.0)
Non-current	-	(3.6)
Other	**(5.3)**	(5.4)
	$ (302.5)	$ (250.9)
Total deferred income taxes, net	**$ (111.1)**	$ (85.2)
Less: Entities in a net deferred tax asset position	**39.7**	18.1
Deferred income taxes liability, net	**$ (150.8)**	$ (103.3)

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

In addition to the amounts recorded to net income, a tax recovery of $17.0 million was recorded to other comprehensive income for the year ended December 31, 2012 (2011 - recovery of $14.2 million) in relation to actuarial losses on defined benefit employee compensation plans.

23. 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 December 31, 2012, there were no outstanding stock options.

	2012	2011
Weighted average number of common shares	**142,749,096**	142,698,624
Incremental shares from potential exercise of options[1]	**-**	4,023
Diluted number of common shares [1]	**142,749,096**	142,698,624

[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.

24. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	**2012**	2011
Accounts receivable	**$ 0.4**	$ 36.6
Inventories	**(60.8)**	(22.6)
Prepaid expenses	**(1.4)**	6.1
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**(13.5)**	(25.7)
Net decrease (increase) in non-cash working capital	**$ (75.3)**	$ (5.6)

25. Related Party Transactions

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

Associates

Lakeland Mills Ltd. and Winton Global Lumber Ltd.

Canfor purchases chips, lumber and logs from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which Canfor has a 33.3% interest in both entities. In 2012, Canfor purchased $2.6 million in chips (2011 - $11.5 million) and $4.9 million in logs (2011 - nil). The balance owed to Lakeland Mills Ltd. and Winton Global Lumber Ltd. at December 31, 2012 was $0.2 million (2011 - $0.9 million).

Key Management Personnel

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

(millions of Canadian dollars)	**2012**	2011
Short-term benefits	**$ 5.8**	$ 4.0
Post-employment benefits	**0.3**	0.3
Restructuring costs	**-**	1.0
Other long-term benefits	**-**	0.3
Share-based payments	**0.8**	(0.4)
	$ 6.9	$ 5.2

Short-term benefits for most members of the Board of Directors include an annual retainer as well as attendance fees. As described in note 19, members of the Board and the former CEO received deferred share units until July 27, 2011, and the related expense, including share price revaluations, is in share-based payments above.

Other Related Parties

During the year, Canfor made contributions to certain post-employment benefit plans for the benefit of Canfor employees. Note 14 Employee Future Benefits contains further details.

During 2012, Jim Pattison Lease provided lease management services to Canfor totalling $0.7 million and no amounts were outstanding at December 31, 2012.

26. Joint Venture

Canfor and Louisiana-Pacific jointly own Canfor-LP OSB which owns and operates an oriented strand board plant in Fort St. John, BC. Canfor has agreed to supply 330,000 cubic metres of timber annually to the joint venture from its existing timber tenure in the area where the mill is located. During 2012, Canfor received net distributions of $13.5 million from Canfor-LP OSB (2011 - net contributions of $6.0 million).

The following balances, which represent Canfor's 50% ownership interest in Canfor-LP OSB, have been proportionately consolidated in Canfor's consolidated financial statements:

(millions of Canadian dollars)		**As at December 31, 2012**		As at December 31, 2011
Balance sheets				
Current assets	**$**	**10.9**	$	5.7
Non-current assets		**68.8**		79.4
Current liabilities		**(4.7)**		(3.5)
Net assets	**$**	**75.0**	$	81.6

(millions of Canadian dollars)		**2012**		2011
Statements of income (loss)				
Sales	**$**	**71.2**	$	44.8
Costs and expenses		**(64.3)**		(61.1)
Net income (loss)	**$**	**6.9**	$	(16.3)

In the fourth quarter of 2012, Canfor entered into a Letter of Intent with Louisiana Pacific to sell its 50% interest in Canfor-LP OSB (Note 6).

27. Segment Information

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

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

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

The Company's panels business does not meet the criteria to be reported fully as a separate segment. Sales for panels operations for the year ended December 31, 2012 were $78.8 million (2011 - $46.8 million).

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

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

(millions of Canadian dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
Year ended December 31, 2012							
Sales to external customers	**$**	**1,711.8**	**923.5**	**78.8**	**-**	**$**	**2,714.1**
Sales to other segments	**$**	**111.9**	**-**	**-**	**(111.9)**	**$**	**-**
Operating income (loss)	**$**	**75.4**	**26.6**	**(25.1)**	**-**	**$**	**76.9**
Amortization	**$**	**101.8**	**69.0**	**16.4**	**-**	**$**	**187.2**
Capital expenditures[1]	**$**	**110.9**	**88.7**	**0.2**	**-**	**$**	**199.8**
Identifiable assets	**$**	**1,553.7**	**774.6**	**159.6**	**-**	**$**	**2,487.9**
Year ended December 31, 2011							
Sales to external customers	$	1,317.1	1,057.5	46.8	-	$	2,421.4
Sales to other segments	$	127.1	-	-	(127.1)	$	-
Operating income (loss)	$	(81.5)	152.9	(59.5)	-	$	11.9
Amortization	$	83.9	68.0	17.4	-	$	169.3
Capital expenditures[1]	$	155.3	156.2	0.8	-	$	312.3
Identifiable assets	$	1,413.8	812.3	175.5	-	$	2,401.6

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

Geographic information

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

(millions of Canadian dollars)		**2012**		2011
Sales by location of customer				
Canada	**$**	**429.9**	$	291.4
Asia		**950.0**		965.5
United States		**1,175.2**		956.4
Europe		**119.1**		166.1
Other		**39.9**		42.0
	$	**2,714.1**	$	2,421.4

(millions of Canadian dollars)		**2012**		2011
Capital assets and goodwill by location				
Canada	**$**	**1,571.9**	$	1,590.9
United States		**134.0**		149.4
Asia and Other		**0.1**		0.2
	$	**1,706.0**	$	1,740.5

At December 31, 2012, an amount of $68.8 million pertaining to assets in Canada, was reclassified from property, plant and equipment to assets held for sale (Note 6).

28. Contingencies

On January 18, 2011, the U.S. triggered the arbitration provision of the 2006 Softwood Lumber Agreement ("SLA") by delivering a Request for Arbitration. The U.S. claimed that the province of British Columbia ("BC") had not properly applied the timber pricing system grandparented in the SLA. The U.S. also claimed that subsequent to 2006, BC made additional changes to the timber pricing system which had the effect of reducing timber prices. The claim focused on substantial increases in Grade 4 (non sawlog or low grade) volumes commencing in 2007. It was alleged that timber was scaled and graded as Grade 4 that did not meet the criteria for that grade, and was accordingly priced too low.

As the arbitration is a state-to-state international dispute under the SLA, Canada prepared a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. After numerous representations from both sides, a hearing was held before the arbitration panel in the first quarter of 2012. On July 18, 2012, the arbitration panel ruled in favour of Canada and dismissed the claims of the U.S. in their entirety.

Canfor has other contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from such contingent liabilities.

29. Commitments

At the end of the year, Canfor had contractual commitments for the acquisition of property, plant and equipment for $55.8 million (2011 - $21.7 million). The majority of these commitments are expected to be settled over the following year.

Canfor has committed to operating leases for property, plant and equipment. As at December 31, 2012 and 2011, the future minimum lease payments under these operating leases were as follows:

(millions of Canadian dollars)		**As at December 31, 2012**		As at December 31, 2011
Within one year	**$**	**9.1**	$	9.4
Between one and five years		**11.2**		12.5
After five years		**0.6**		0.2
Total	**$**	**20.9**	$	22.1

During the year ended December 31, 2012, $15.1 million (2011 - $16.9 million) was recognized as an expense in the income statement in respect of operating leases.

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

30. Financial Risk and Capital Management

Financial Risk Management

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

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

Credit risk:

Credit risk is the risk of financial loss to Canfor if a customer, bank or third party to a derivative instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable, and long-term investments and other. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date of three months or less. The cash and cash equivalents balance at December 31, 2012 is nil (2011 - $28.9 million).

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade receivables. As at December 31, 2012, approximately 50% of the outstanding trade receivables are covered by credit insurance (2011 – 60%). Canfor's trade receivable balance at December 31, 2012 is $106.6 million, net of an allowance for doubtful accounts of $2.6 million (2011 - $105.1 million and $2.8 million, respectively). Of the total trade receivable balance, $3.9 million was reclassified from accounts receivable to assets held for sale. At December 31, 2012, approximately 97% of the trade accounts receivable balance was within Canfor's established credit terms (2011 - 99%).

Liquidity risk:

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

At December 31, 2012, Canfor had $27.0 million drawn on its operating loans (2011 - nil), accounts payable and accrued liabilities of $257.7 million (2011 - $290.5 million) and current debt obligations of $184.1 million (2011 - $50.9 million), all of which fall due for payment within one year of the balance sheet date. Of the total accounts payable and accrued liabilities, an amount of $2.0 million was reclassified from accounts payable and accrued liabilities to liabilities held for sale.

In the fourth quarter of 2012, CPPI obtained a new $110 million operating loan facility replacing its previous $40 million operating loan facility. The maturity date of the new facility is November 30, 2016.

Market risk:

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

(i) Interest rate risk:

Canfor is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Canfor's cash and cash equivalents include term deposits with original maturity dates of three months or less.

Changes in the market interest rates do not have a significant impact on Canfor's results of operations due to the short-term nature of the respective financial assets and obligations. Canfor utilizes interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2012, Canfor had $205.0 million in fixed interest rate swaps with interest rates ranging from 1.55% to 2.59% with maturities between 2014 and 2017. The Company had no interest rate swaps at December 31, 2011.

(ii) Currency risk:

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $0.7 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable); and a (iii) gain (loss) of approximately $1.8 million in relation to long-term debt denominated in US dollars at year end.

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

Canfor had the following foreign exchange derivatives at December 31, 2012 and 2011:

	As at December 31, 2012		As at December 31,2011	
	Notional Amount	**Exchange Rates**	Notional Amount	Exchange Rates
US Dollar Collars	(millions of US dollars)	(protection/topside, per dollar)	(millions of US dollars)	(protection/topside, per dollar)
0-12 months	**$ 12.0**	**$1.0000/$1.1000**	$ 256.8	$0.9500/$1.1461
US Dollar Forward Contracts	(millions of US dollars)	(range of rates, per dollar)	(millions of US dollars)	(range of rates, per dollar)
0-12 months	**$ 40.8**	**$0.9926 - $1.0043**	$ 70.9	$0.9984 - $1.0470

(iii) Energy price risk:

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

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

As at December 31, 2012, the Company had 210 thousand barrels of Brent and WTI oil collars, which will be settled in 2013, with weighted average protection of $90.36 per barrel and topside of $111.78 per barrel. The Company had no heating oil collars outstanding at December 31, 2012.

As at December 31, 2011, the Company had 5.3 million gallons of heating oil collars with weighted average protection of $2.55 per gallon and topside of $2.95 per gallon, and 65.2 thousand barrels of Brent collars, with weighted average protection of $84.00 per barrel and topside of $109.00 per barrel.

(iv) Commodity price risk:

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

Canfor had the following lumber futures contracts at December 31, 2012 and 2011:

	As at December 31, 2012		As at December 31, 2011	
	Notional Amount	**Average Rate**	Notional Amount	Average Rate
Lumber	(MMfbm)	(US dollars per Mfbm)	(MMfbm)	(US dollars per Mfbm)
Future Sales Contracts				
0-12 months	**115.9**	**$ 338.45**	59.7	$ 286.10

An increase (decrease) in the futures market price of lumber of US$10 per Mfbm would result in a pre-tax gain (loss) of approximately $1.2 million in relation to the lumber futures held at year end.

Capital management

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

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

(millions of Canadian dollars)		**As at December 31, 2012**		As at December 31, 2011
Total debt (including operating loans)	**$**	**311.1**	$	239.0
Cheques issued in excess of cash on hand		**14.7**		-
Less: Cash and cash equivalents		**-**		(28.9)
Net debt	**$**	**325.8**	$	210.1
Total equity		**1,309.8**		1,360.1
	$	**1,635.6**	$	1,570.2

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

Separately, CPPI has leverage and interest coverage ratios calculated by reference to operating earnings before interest, taxes and amortization.

Canfor's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. Management reviews results and forecasts to monitor Canfor's compliance with its debt covenants. Canfor was in compliance with all its debt covenants for the years ended December 31, 2012 and 2011.

There were no changes in the Company's approach to capital management in the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31. Financial Instruments

Classification and measurement of financial instruments

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

ABCP and derivative instruments are measured at fair value. IFRS 7, *Financial Instruments: Disclosures,* requires classification of these items 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 December 31, 2012 and 2011, 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 December 31, 2012**	As at December 31, 2011
Financial assets			
Held for trading			
ABCP	Level 2	**$ -**	$ 11.8
Derivative financial instruments	Level 2	**0.7**	1.6
Loans and receivables			
Cash and cash equivalents	n/a	**-**	28.9
Accounts receivable (excluding derivatives)	n/a	**156.1**	169.2
Other deposits, loans and advances	n/a	**6.5**	7.1
Royalty receivable	Level 3	**6.4**	8.0
Available for sale			
Investments in other entities	n/a	**23.7**	24.3
		$ 193.4	$ 250.9
Financial liabilities			
Held for trading			
Derivative financial instruments	Level 2	**$ 4.8**	$ 1.8
Other liabilities			
Cheques issued in excess of cash on hand	n/a	**14.7**	-
Operating loans	n/a	**27.0**	-
Accounts payable and accrued liabilities (excluding derivatives)	n/a	**252.9**	288.7
Long-term debt (including current portion)	n/a	**284.1**	239.0
		$ 583.5	$ 529.5

Included above are $3.9 million in accounts receivable and $2.0 million in accounts payable and accrued liabilities that have been reclassified to assets and liabilities held for sale (Note 6). The royalty receivable balance is recorded in other accounts receivable and long-term investments and other.

Derivative financial instruments

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, interest rates, lumber prices and energy costs. At December 31, 2012, the fair value of derivative financial instruments was a net liability of $4.1 million (2011 - net liability of $0.2 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2012 and 2011:

(millions of Canadian dollars)	**2012**	2011
Foreign exchange collars and forward contracts	**$ 3.2**	$ (2.7)
Energy derivatives	**0.6**	0.6
Lumber futures	**(3.6)**	5.6
Interest rate swaps	**(1.0)**	-
Gain (loss) on derivative financial instruments	**$ (0.8)**	$ 3.5

The following table summarizes the fair market value of the derivative financial instruments included in the balance sheets at December 31, 2012 and 2011:

(millions of Canadian dollars)		**As at December 31, 2012**		As at December 31, 2011
Foreign exchange collars and forward contracts	**$**	**0.3**	$	(0.4)
Energy derivatives		**0.3**		(0.2)
Interest rate swaps		**(0.6)**		-
Lumber futures		**(4.1)**		0.4
Total asset (liability), net		**(4.1)**		(0.2)
Less: current portion asset (liability), net		**(3.5)**		(0.2)
Long-term portion asset (liability), net	**$**	**(0.6)**	$	-

32. Acquisition of Tembec Assets

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

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

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

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

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

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

33. Share Exchange

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