News Release

FOR IMMEDIATE RELEASE

CANFOR REPORTS RESULTS FOR SECOND QUARTER OF 2013

July 25, 2013 - Vancouver, B.C. - Canfor Corporation (TSX: CFP) today reported net income attributable to shareholders ("shareholder net income") of $110.3 million, or $0.77 per share, for the second quarter of 2013, compared to $61.9 million, or $0.43 per share, for the first quarter of 2013 and $2.6 million, or $0.02 per share, for the second quarter of 2012. For the six months ended June 30, 2013, the Company's shareholder net income was $172.2 million, or $1.21 per share, compared to a shareholder net loss of $15.4 million, or $0.11 per share, reported for the first half of 2012.

The shareholder net income for the second quarter of 2013 included various items affecting comparability with prior periods, which had an overall net positive impact on the Company's results of $22.6 million, or $0.16 per share. After adjusting for such items, the Company's adjusted shareholder net income for the second quarter of 2013 was $87.7 million, or $0.61 per share, up $17.4 million, or $0.12 per share, from an adjusted shareholder net income of $70.3 million, or $0.49 per share, for the first quarter of 2013. Adjusted shareholder net income for the second quarter of 2012 was $9.2 million, or $0.07 per share.

The Company reported operating income of $128.2 million for the second quarter of 2013, compared to operating income of $100.0 million for the first quarter. The positive variance reflected improved results in the lumber segment mostly as a result of increased shipments and, to a lesser extent, lower manufacturing costs.

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

(millions of Canadian dollars, except for per share amounts)	**Q2 2013**	Q1 2013	**YTD 2013**	Q2 2012	YTD 2012
Sales	**$ 843.2**	$ 786.3	**$ 1,629.5**	$ 685.0	$ 1,278.8
Operating income	**$ 128.2**	$ 100.0	**$ 228.2**	$ 22.6	$ 4.2
Net income (loss) attributable to equity shareholders of Company	**$ 110.3**	$ 61.9	**$ 172.2**	$ 2.6	$ (15.4)
Net income (loss) per share attributable to equity shareholders of Company, basic and diluted	**$ 0.77**	$ 0.43	**$ 1.21**	$ 0.02	$ (0.11)
Adjusted shareholder net income (loss)	**$ 87.7**	$ 70.3	**$ 158.0**	$ 9.2	$ (14.9)
Adjusted shareholder net income (loss) per share	**$ 0.61**	$ 0.49	**$ 1.11**	$ 0.07	$ (0.11)

After reaching an eight-year high in late March 2013, North American lumber prices corrected sharply through the second quarter of 2013, mostly due to supply-related factors including higher operating rates and improved railcar availability. Unseasonably wet weather in parts of the U.S. tempered residential construction activity in the second quarter and this was reflected in U.S. housing starts, down 9% from the first quarter of 2013, averaging 872,000 units SAAR (seasonally adjusted annual rate). Contributing to the decline in U.S. housing starts was also a sharp drop in the more volatile multi-family starts, down 27% in June. Underlying housing demand remains strong with many housing market indicators continuing to show positive trends. In Canada, steady lumber consumption in the quarter resulted from Canadian housing starts moving up 6% from the first quarter of 2013 to 186,000 units SAAR. Offshore demand for Canfor's lumber remained solid, consistent with the previous quarter.

The average North American benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price was US$335 per Mfbm, down US$56, or 14%. Despite this and similar declines in other narrow dimension grades, Canfor's average sales realizations were largely unchanged from the previous quarter. This reflected more stable offshore pricing, as well as a higher proportion of North American shipments earlier in the quarter before a sharp price correction through May and June. Western SPF lumber sales realizations were also positively impacted by a stronger US dollar, which moved up 1 cent from the previous quarter. Prices for narrow Southern Yellow Pine ("SYP") lumber products experienced a similar decline from the previous quarter, with the benchmark SYP 2x4 #2 average price declining US$60, or 13%, to US$392 per Mfbm, reversing most of the gain seen in the previous quarter.

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

Lumber shipments increased 12%, or 133 million board feet, from the previous quarter, reflecting higher production as well as the impact of improved railcar availability following a shortage experienced in the previous quarter. Lumber production, at just over 1.2 billion board feet, was up 5%, or 55 million board feet, from the previous quarter, reflecting recently completed capital upgrades as well as more operating days and additional overtime shifts in the current quarter. Lumber unit manufacturing costs showed a modest decrease compared to the previous quarter, reflecting higher production and seasonally lower unit conversion costs. Log costs remained relatively stable, ahead of an increase in stumpage anticipated in the third quarter of 2013.

Global softwood pulp markets were slightly improved through the second quarter of 2013, principally the result of reductions in supply due to spring maintenance downtime, while shipments were steady in the quarter. Northern Bleached Softwood Kraft ("NBSK") pulp list prices experienced moderate increases with the average list price to North America up US$40, or 4%, to US$937 per tonne. List prices to China and Europe saw slightly lower gains through the quarter, with pricing to China up US$22 per tonne and pricing to Europe up US$25 per tonne from the first quarter of 2013. Average pulp sales realizations were up moderately reflecting the improved prices and, to a lesser extent, the stronger US dollar.

The Company's pulp shipments were broadly in line with the previous quarter, with the impact of scheduled maintenance outages at the Company's Northwood and Intercontinental pulp mills offset by a drawdown of inventories. The impact on costs of the scheduled maintenance outages as well as higher fibre costs, contributed to higher unit manufacturing costs in the current quarter.

The Company continued to preserve its strong financial position, ending the quarter with cash and cash equivalents of $172 million, and a net debt to capitalization of 3.0%.

Commenting on the second quarter performance, Canfor's President and Chief Executive Officer, Don Kayne, said, "While North American prices showed a sharp correction after their highs earlier in the year, the second quarter's lumber results were encouraging and reflect our continued commitment to being a top-quartile customer-focused supplier of lumber products in global markets. Our pulp segment again delivered solid results in fairly challenging markets; the scheduled outages were completed on schedule and set us up well for the balance of the year."

Looking forward, Kayne said that the Company's Elko and Mackenzie sawmill upgrades remain on target for completion during the third quarter, and will allow the Company to continue to capitalize on the improving housing market. He added that the recent flooding in the south-east area of British Columbia would adversely impact the profile and costs of logs harvested in this region in the third quarter. The previously announced phased purchase agreement with Scotch & Gulf Lumber, LLC is projected to close in August 2013.

North American softwood lumber demand is forecast to continue to increase over the balance of 2013 as the U.S. housing recovery progresses, driving higher consumption in both the new home and the repair and remodeling sectors. Reflecting the decline in North American pricing, export taxes on U.S. shipments will be 10% in August, with potential for export taxes in September as well. Offshore shipments are projected to remain strong, reflecting solid construction activity forecast over the balance of the year. The Canadian market is anticipated to show modest gains over the same period. NBSK pulp markets are projected to soften during the seasonally slower third quarter and there exists a risk of price weakness from new hardwood pulp capacity scheduled to come online in the second half of the year.

Additional Information and Conference Call

A conference call to discuss the first quarter's financial and operating results will be held on Friday, July 26, 2013 at 8:00 AM Pacific time. To participate in the call, please dial 416-340-8018 or Toll-Free 866-223-7781. For instant replay access until August 9, 2013, please dial 800-408-3053 and enter participant pass code 5201618#. The conference call will be webcast live and will be available at www.canfor.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at http://www.canfor.com/investor-relations/webcasts.

Forward Looking Statements

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

Canfor is a leading integrated forest products company based in Vancouver, British Columbia (BC) with interests in BC, Alberta, Quebec, and North and South Carolina. The Company produces primarily softwood lumber and also produces specialized wood products and bleached chemi-thermo mechanical pulp (BCTMP). Canfor also owns a 50.3% interest in Canfor Pulp Products Inc., which is one of the largest producers of northern softwood kraft pulp in Canada and a leading producer of high performance kraft paper. Canfor shares are traded on the Toronto Stock Exchange under the symbol CFP.

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Canfor Corporation
Second Quarter 2013
Management's Discussion and Analysis

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

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 25, 2013.

Forward Looking Statements

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

SECOND QUARTER 2013 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of Canadian dollars, except per share amounts)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Operating income (loss) by segment:					
Lumber	**$ 115.5**	$ 88.4	**$ 203.9**	$ 18.6	$ (1.7)
Pulp and Paper	**$ 18.6**	$ 18.9	**$ 37.5**	$ 11.6	$ 22.9
Unallocated and Other[6]	**$ (5.9)**	$ (7.3)	**$ (13.2)**	$ (7.6)	$ (17.0)
Total operating income	**$ 128.2**	$ 100.0	**$ 228.2**	$ 22.6	$ 4.2
Add: Amortization	**$ 49.6**	$ 46.9	**$ 96.5**	$ 43.5	$ 86.1
Total operating income before amortization	**$ 177.8**	$ 146.9	**$ 324.7**	$ 66.1	$ 90.3
Add (deduct):					
Working capital movements	**$ 96.9**	$ (94.5)	**$ 2.4**	$ 72.1	$ (4.7)
Defined benefit pension plan contributions	**$ (12.6)**	$ (13.5)	**$ (26.1)**	$ (12.7)	$ (26.7)
Other operating cash flows, net[2]	**$ (1.9)**	$ 17.1	**$ 15.2**	$ (8.3)	$ 6.5
Cash from (used in) operating activities	**$ 260.2**	$ 56.0	**$ 316.2**	$ 117.2	$ 65.4
Add (deduct):					
Finance expenses paid	**$ (7.5)**	$ (2.5)	**$ (10.0)**	$ (7.4)	$ (10.5)
Distributions paid to non-controlling interests	**$ (2.1)**	$ (2.4)	**$ (4.5)**	$ (8.2)	$ (12.5)
Capital additions, net[3]	**$ (48.8)**	$ (46.4)	**$ (95.2)**	$ (44.0)	$ (154.6)
Proceeds from sale of Canfor-LP OSB[6]	**$ 76.6**	$ -	**$ 76.6**	$ -	$ -
Drawdown (repayment) of long-term debt	**$ (73.2)**	$ -	**$ (73.2)**	$ -	$ 50.1
Other, net	**$ 0.3**	$ 5.6	**$ 5.9**	$ 16.8	$ 22.7
Change in cash / operating loans	**$ 205.5**	$ 10.3	**$ 215.8**	$ 74.4	$ (39.4)
ROIC – Consolidated[4]	**8.8%**	4.8%	**13.6%**	1.3%	(0.1)%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.977**	$ 0.991	**$ 0.984**	$ 0.990	$ 0.994

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Shareholder Net Income (Loss)	**$ 110.3**	$ 61.9	**$ 172.2**	$ 2.6	$ (15.4)
Foreign exchange (gain) loss on long-term debt and investments, net	**$ 1.8**	$ 2.3	**$ 4.1**	$ 2.4	$ (0.3)
(Gain) loss on derivative financial instruments	**$ 1.0**	$ (2.2)	**$ (1.2)**	$ 4.2	$ (0.9)
Canfor's 50% interest in Canfor-LP OSB's income, net of tax[6]	**$ 3.8**	$ 8.3	**$ 12.1**	$ -	$ -
Gain on completion of sale of Canfor-LP OSB	**$ (33.4)**	$ -	**$ (33.4)**	$ -	$ -
Change in substantively enacted tax rate	**$ 4.2**	$ -	**$ 4.2**	$ -	$ -
Increase in fair value of ABCP	**$ -**	$ -	**$ -**	$ -	$ (1.1)
Costs related to Tembec acquisition	**$ -**	$ -	**$ -**	$ -	$ 2.8
Net impact of above items	**$ (22.6)**	$ 8.4	**$ (14.2)**	$ 6.6	$ 0.5
Adjusted Shareholder Net Income (Loss)	**$ 87.7**	$ 70.3	**$ 158.0**	$ 9.2	$ (14.9)
Shareholder Net Income (Loss) per share (EPS), as reported	**$ 0.77**	$ 0.43	**$ 1.21**	$ 0.02	$ (0.11)
Net impact of above items per share	**$ (0.16)**	$ 0.06	**$ (0.10)**	$ 0.05	$ -
Adjusted Shareholder Net Income (Loss) per share	**$ 0.61**	$ 0.49	**$ 1.11**	$ 0.07	$ (0.11)

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits* and IFRS 11, *Joint Arrangements.* Further details can be found in the Company's unaudited interim consolidated financial statements.
[2] Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.
[3] Additions to property, plant and equipment include the acquisition of assets from Tembec Industries Ltd. ("Tembec") in the first quarter of 2012, and are shown net of amount received under Government funding initiatives in the pulp and paper segment.
[4] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives, equity income/loss from joint venture and other income/expense, all net of minority interest, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.
[5] Source – Bank of Canada (average noon rate for the period).
[6] In accordance with held for sale accounting, the Company did not record its 50% share of the Canfor-LP OSB Limited Partnership's ("Canfor-LP OSB") income subsequent to classification as held for sale on December 31, 2012. The impact on operating income for the second quarter of 2013 was $5.1 million (before tax). The impact on operating income for the six months ended June 30, 2013 was $16.1 million (before tax). The Company completed the sale of Canfor-LP OSB on May 31, 2013.

The Company reported operating income of $128.2 million for the second quarter of 2013, compared to operating income of $100.0 million for the first quarter. The positive variance reflected improved results in the lumber segment mostly as a result of increased shipments and, to a lesser extent, lower manufacturing costs.

After reaching an eight-year high in late March 2013, North American lumber prices corrected sharply through the second quarter of 2013, mostly due to supply-related factors including higher operating rates and improved railcar availability. Unseasonably wet weather in parts of the U.S. tempered residential construction activity in the second quarter and this was reflected in U.S. housing starts, down 9% from the first quarter of 2013, averaging 872,000 units SAAR (seasonally adjusted annual rate). Contributing to the decline in U.S. housing starts was also a sharp drop in the more volatile multi-family starts, down 27% in June. Underlying housing demand remains strong with many housing market indicators continuing to show positive trends. In Canada, steady lumber consumption in the quarter resulted from Canadian housing starts moving up 6% from the first quarter of 2013 to 186,000 units SAAR. Offshore demand for Canfor's lumber remained solid, consistent with the previous quarter.

The average North American benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price was US$335 per Mfbm, down US$56, or 14%. Despite this and similar declines in other narrow dimension grades, Canfor's average sales realizations were largely unchanged from the previous quarter. This reflected more stable offshore pricing, as well as a higher proportion of North American shipments earlier in the quarter before a sharp price correction through May and June. Western SPF lumber sales realizations were also positively impacted by a stronger US dollar, which moved up 1 cent from the previous quarter. Prices for narrow Southern Yellow Pine ("SYP") lumber products experienced a similar decline from the previous quarter, with the benchmark SYP 2x4 #2 average price declining US$60, or 13%, to US$392 per Mfbm, reversing most of the gain seen in the previous quarter.

Lumber shipments increased 12%, or 133 million board feet, from the previous quarter, reflecting higher production as well as the impact of improved railcar availability following a shortage experienced in the previous quarter. Lumber production, at just over 1.2 billion board feet, was up 5%, or 55 million board feet, from the previous quarter, reflecting recently completed capital upgrades as well as more operating days and additional overtime shifts in the current quarter. Lumber unit manufacturing costs showed a modest decrease compared to the previous quarter, reflecting higher production and seasonally lower unit conversion costs. Log costs remained relatively stable, ahead of an increase in stumpage anticipated in the third quarter of 2013.

Global softwood pulp markets were slightly improved through the second quarter of 2013, principally the result of reductions in supply due to spring maintenance downtime, while shipments were steady in the quarter. Northern Bleached Softwood Kraft ("NBSK") pulp list prices experienced moderate increases with the average list price to North America up US$40, or 4%, to US$937 per tonne. List prices to China and Europe saw slightly lower gains through the quarter, with pricing to China up US$22 per tonne and pricing to Europe up US$25 per tonne from the first quarter of 2013. Average pulp sales realizations were up moderately reflecting the improved prices and, to a lesser extent, the stronger US dollar.

The Company's pulp shipments were broadly in line with the previous quarter, with the impact of scheduled maintenance outages at the Company's Northwood and Intercontinental pulp mills offset by a drawdown of inventories. The impact on costs of the scheduled maintenance outages as well as higher fibre costs, contributed to higher unit manufacturing costs in the current quarter.

Compared to the second quarter of 2012, operating income was up $105.6 million, with an increase of $96.9 million in the lumber segment reflecting higher market prices and increased shipments partially offset by increased unit manufacturing costs. Contributing to improved results was a positive variance for the pulp and paper segment, due to increased pulp shipments and lower unit manufacturing costs, primarily the result of less scheduled and unscheduled downtime.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber[7]

(millions of Canadian dollars unless otherwise noted)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Sales	**$ 586.8**	$ 542.3	**$ 1,129.1**	$ 443.5	$ 787.2
Operating income before amortization	**$ 145.4**	$ 115.7	**$ 261.1**	$ 45.1	$ 48.0
Operating income (loss)	**$ 115.5**	$ 88.4	**$ 203.9**	$ 18.6	$ (1.7)
Negative (positive) impact of inventory valuation adjustments[8]	**$ -**	$ -	**$ -**	$ (2.9)	$ (13.1)
Costs related to Tembec acquisition	**$ -**	$ -	**$ -**	$ -	$ 2.5
Operating income (loss) excluding impact of inventory valuation adjustments and unusual items	**$ 115.5**	$ 88.4	**$ 203.9**	$ 15.7	$ (12.3)
Average SPF 2x4 #2&Btr lumber price in US$[9]	**$ 335**	$ 391	**$ 363**	$ 295	$ 281
Average SPF price in Cdn$	**$ 343**	$ 395	**$ 369**	$ 298	$ 283
Average SYP 2x4 #2 lumber price in US$[10]	**$ 392**	$ 452	**$ 422**	$ 325	$ 312
Average SYP price in Cdn$	**$ 401**	$ 456	**$ 429**	$ 328	$ 314
U.S. housing starts (thousand units SAAR)[11]	**872**	957	**915**	741	728
Production – SPF lumber (MMfbm)	**1,119.1**	1,065.1	**2,184.2**	994.4	1,898.1
Production – SYP lumber (MMfbm)	**135.2**	134.7	**269.9**	124.4	238.7
Shipments – SPF lumber (MMfbm)[12]	**1,118.2**	1,004.2	**2,122.4**	1,008.3	1,860.6
Shipments – SYP lumber (MMfbm)[12]	**142.6**	123.3	**265.9**	135.0	252.6
Shipments – wholesale lumber (MMfbm)	**6.8**	7.1	**13.9**	14.3	38.8

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

Overview

Operating income for the lumber segment was $115.5 million for the second quarter of 2013, an increase of $27.1 million compared to operating income of $88.4 million in the previous quarter, and a $96.9 million improvement from operating income of $18.6 million reported for the second quarter of 2012.

The stronger results compared to the previous quarter were largely the result of a 12% increase in shipments reflecting both higher production and improved railcar availability. Sales realizations were broadly in line with the first quarter of 2013. Overall unit manufacturing costs were down slightly compared to the first quarter of 2013.

The improvement in operating income compared to the second quarter of 2012 reflected higher market prices, no export tax and increased shipments. These gains were partially offset by a significant increase in unit log costs resulting from market-driven stumpage and, to a lesser degree, increased unit cash conversion costs reflecting the Company's re-started Radium mill coupled with ongoing dust control initiatives in the current quarter.

Markets

During the second quarter of 2013, lumber prices receded after reaching an eight-year high in late March 2013. The decline in prices principally reflected an increase in North American production output, coupled with increased supply resulting from railcar availability following a shortage in the first quarter of 2013, while demand was constrained by the adverse spring weather which delayed residential construction activities in the U.S. Housing data reflected the delays, with U.S. housing starts averaging 872,000 units[13] SAAR, down 9% from the first quarter, but well up (18%) from the same period last year. Contributing to the decline in U.S. housing starts was also a sharp drop in the more volatile multi-family starts, down 27% in June. Single-family starts, which consume a larger proportion of lumber, were 593,000 units[13] SAAR in the second quarter of 2013, a 6% decrease from the previous quarter. Underlining housing demand remains strong, with improving new home sales and rising housing prices, indicating home buyers' renewed interest and confidence in the housing market.

In Canada, steady lumber consumption throughout the quarter resulted from a 6% increase in Canadian housing starts from the first quarter of 2013, to 186,000 units[14] SAAR in the second quarter of 2013. Compared to the same quarter in 2012, housing starts were lower by 19% reflecting a slowdown in construction activity in several regions of the country.

The Company's offshore lumber shipments were relatively unchanged from the previous quarter and similar to the second quarter of 2012, but prices were up in both China and Japan markets.

Sales

Sales for the lumber segment for the second quarter of 2013 were $586.8 million, compared to $542.3 million in the previous quarter and $443.5 million in the second quarter of 2012. The increase from the previous period reflected increased production as well as the impact of improved railcar availability following a shortage in the first quarter of 2013. Current sales also reflected seasonally lower log sales compared to the previous quarter.

Total shipments in the second quarter of 2013 were over 1.2 billion board feet, up 12% from the previous quarter, and up 10% from the second quarter of 2012. The increase reflects higher production from various capital upgrades and other efficiency improvements, as well as the effect of the restart of the Radium mill at the end of 2012.

Sales realizations were largely unchanged from the previous quarter, with reduced pricing in North America being offset by the impact of more stable offshore pricing as well as less marked quarter-over-quarter decreases in other grades such as machine stress rated ("MSR") and stud grades. For sales to North America, the average Random Lengths Western SPF 2x4 #2&Btr lumber price moved down US$56 per Mfbm (or 14%) to US$335 per Mfbm. Also contributing to sales realizations was a higher proportion of shipments earlier in the quarter before a sharp price correction through May and June. Prices for narrow SYP products experienced a similar drop from the first quarter of 2013, with the benchmark SYP 2x4 #2 average price down US$60, or 13%, to US$392 per Mfbm, reversing most of the gain seen in the previous quarter.

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

Compared to the second quarter of 2012, the benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$40 per Mfbm, or 14%, with solid pricing gains also seen in most other products. Current quarter sales realizations also benefitted from a higher-value sales mix. More notable increases were seen for offshore sales realizations, reflecting solid demand. SYP products realized stronger gains, with the benchmark SYP 2X4 #2 price up US$67 per Mfbm, or 21%. Sales realizations also benefited significantly from zero export tax in the current quarter compared to 13% in the comparative period.

The average value of the Canadian dollar compared to the US dollar in the second quarter was down 1 cent, or 1%, from both comparative periods, benefitting current quarter sales realizations.

Total residual fibre revenue was up from the first quarter of 2013, primarily reflecting higher shipments of sawmill residual chips coupled with a moderate increase in sawmill residual chip prices tied to higher NBSK pulp sales realizations and other seasonal factors. Compared to the second quarter of 2012, total residual fibre revenue was also up, with higher shipments of sawmill residual chips, partially offset by reduced residual chip prices due to chip price reductions in certain regions.

Operations

Lumber production, at over 1.2 billion board feet, was up 5% from the previous quarter, reflecting capital project ramp-ups in the previous periods as well as more operating days and additional overtime shifts in the current quarter. Lumber production was also up 12% from the second quarter of 2012. The increase compared to the same period in 2012 largely reflected the restart of the Radium mill in late 2012 as well as continued productivity improvements from various capital projects undertaken in 2012.

Overall, the Company's unit lumber manufacturing costs were down slightly compared to the previous quarter, with reductions in unit cash conversions costs more than offsetting a small increase in unit log costs. The improvement in cash conversion costs largely reflected the higher production levels in the current quarter and seasonally lower energy costs. Log costs remained relatively stable in the current quarter, reflecting seasonally lower logging activity, ahead of an increase in stumpage for the third quarter of 2013.

Compared to the second quarter of 2012, unit manufacturing costs were well up, principally the result of significant increases in unit log costs largely impacted by market-price related stumpage increases, and to a lesser degree, a small increase in unit cash conversion costs attributable to the re-start of the Radium mill and ongoing dust control initiatives in the current quarter.

Pulp and Paper

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

(millions of Canadian dollars unless otherwise noted)	**Q2 2013**	Q1 2013	**YTD 2013**	Q2 2012	YTD 2012
Sales	**$ 255.5**	$ 243.5	**$ 499.0**	$ 239.4	$ 488.8
Operating income before amortization	**$ 38.0**	$ 38.3	**$ 76.3**	$ 26.7	$ 55.7
Operating income	**$ 18.6**	$ 18.9	**$ 37.5**	$ 11.6	$ 22.9
Average pulp price delivered to U.S. – US$[17]	**$ 937**	$ 897	**$ 917**	$ 900	$ 885
Average price in Cdn$	**$ 959**	$ 905	**$ 932**	$ 909	$ 890
Production – pulp (000 mt)	**301.6**	317.0	**618.6**	263.1	579.0
Production – paper (000 mt)	**35.3**	34.8	**70.1**	30.0	62.9
Shipments –pulp (000 mt)	**307.8**	308.2	**616.0**	282.1	609.9
Shipments – paper (000 mt)	**37.2**	35.0	**72.2**	36.8	66.4

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

Overview

Operating income for the pulp and paper segment was $18.6 million for the second quarter of 2013, in line with the previous quarter, and $7.0 million up from the second quarter of 2012.

Improved pulp and paper segment results compared to the previous quarter reflected improved sales realizations, offset in part by higher unit manufacturing costs. NBSK pulp sales realizations increased moderately from the first quarter of 2013 reflecting the previously mentioned price increases and the benefit of a further weakening of the Canadian dollar against the US dollar, which was down 1%. Contributing to improved sales realizations was also decreased volumes into lower-margin regions, principally China. Results in the current quarter were impacted by the scheduled maintenance outages at the Northwood and Intercontinental Pulp Mills, which resulted in lower production levels and higher unit manufacturing costs compared to the previous quarter. Included in the previous quarters' results was a $1.5 million non-cash benefit from scientific research and development tax credits.

Compared to the second quarter of 2012, higher operating earnings in the current period reflected increased shipments coupled with lower unit manufacturing costs. NBSK pulp sales realizations were broadly in line with the same period in 2012, with increased volume to lower-margin regions, principally China, offset in part by an increase in NBSK pulp list prices to all regions and a weaker average Canadian dollar. Production levels in the current quarter were up 15% compared to the same period in 2012 largely due to an unscheduled shutdown at the Northwood Pulp Mill in the comparative period. Lower unit manufacturing costs for the most part reflected the absence of unscheduled outages in the current quarter and to a lesser extent improved productivity. Partially offsetting the reduced manufacturing costs were higher fibre costs, reflecting the increase in sawmill residual chips market prices (linked to NBSK market pulp prices). Other contributing factors included an accrual of $3.7 million recorded in the second quarter of 2012 for an anticipated business interruption insurance recovery related to the Northwood Pulp Mill shutdown.

<u>Markets</u>

Global softwood pulp markets improved slightly through the second quarter of 2013, principally the result of industry reductions in supply due to annual spring maintenance downtime, while shipments were steady in the quarter. Global softwood pulp producer inventory levels were balanced during the current quarter decreasing to 28 days supply in June 2013, from 29 days in March 2013[18]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

PPPC[19] statistics reported an increase in bleached softwood sulphate pulp shipments of 2.1% for the first half of 2013 compared to the same period in 2012. Improved shipments to North America and Europe were partially offset by moderated demand from China. Looking ahead, global softwood pulp markets are projected to soften heading into the seasonally slow summer months as producers ramp-up production after the spring maintenance period.

<u>Sales</u>

The Company's pulp shipments in the second quarter of 2013 were 308,000 tonnes, in line with the previous quarter, mostly due to the scheduled maintenance outages which were offset by reductions in inventory levels. Compared to the second quarter of 2012, shipments were up 26,000 tonnes, or 9%, mostly reflecting the unscheduled shutdown at the Northwood Pulp Mill in the comparative period. In the second quarter of 2013, a scheduled maintenance outage was completed at the Intercontinental Pulp Mill, and an extended maintenance outage was commenced at the Northwood Pulp Mill.

Average NBSK pulp list prices increased in all regions moving up US$20 to US$40 per tonne reflecting reduced supply due to spring maintenance and to a lesser extent, improving demand. The NBSK pulp list price to North America averaged US$937 per tonne for the quarter, up US$40, or 4%, from the previous quarter. The North American market continued to experience increased pressure on discounts during the second quarter of 2013. List prices to China and Europe saw more modest price increases in the quarter, with list prices to China up US$22 per tonne and to Europe up US$25 per tonne. Current quarter NBSK sales realizations increased moderately as a result of the previously mentioned price increases and a weakening of the Canadian dollar against the US dollar, which was down 1% compared to the previous quarter. Contributing to improved sales realizations was also decreased volumes into lower-margin regions, principally China. Bleached chemi-thermo mechanical pulp ("BCTMP") average sales realizations showed a marginal increase compared to the previous quarter, but prices came under pressure as the quarter progressed.

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

Compared to the second quarter of 2012, pulp sales realizations were relatively unchanged, with a 4% gain in the average NBSK pulp list price to North America offset by increased volume to lower-margin regions, principally China. The North America average NBSK pulp list price increased US$37 per tonne from the previous quarter, while NBSK pulp list price movements to China and Europe were more modest, increasing US$10 and $US20 per tonne, respectively. Realizations were favourably impacted by the 1% weaker average Canadian dollar compared to the second quarter of 2012. Sales realizations in the second quarter of 2012 also included the accrual of $3.7 million for anticipated business interruption insurance recovery related to the Northwood Pulp Mill shutdown. BCTMP sales realizations experienced modest decreases compared to the second quarter of 2012, principally reflecting lower market pricing, offset in part by the weaker Canadian dollar.

Operations

Pulp production in the current quarter was 301,600 tonnes, down 15,400 tonnes, or 5%, from the previous quarter, and up 38,500 tonnes, or 15%, compared to the second quarter of 2012.

Production in the current quarter reflected scheduled maintenance outages at the Northwood and Intercontinental Pulp Mills and overall improved operating rates compared to both prior periods. The maintenance outage at the Intercontinental Pulp Mill reduced market pulp production by 6,000 tonnes, while the maintenance outage at the Northwood Pulp Mill reduced market pulp production by 11,500 tonnes in the second quarter. The outage at the Northwood Pulp Mill was completed early in the third quarter and included upgrades to the Mill's largest recovery boiler. The Company's BCTMP Taylor Pulp Mill also took a six day scheduled maintenance shutdown in the current quarter. In the second quarter of 2012, production levels included the scheduled maintenance outages at the Intercontinental Pulp Mill and the Prince George Pulp Mill, which reduced market pulp production by 18,000 tonnes and the unscheduled shutdown at the Northwood Pulp Mill which reduced market pulp production by 31,000 tonnes. Excluding the impact of scheduled and unscheduled outages, production was up 3,000 tonnes reflecting improved productivity.

Pulp unit manufacturing costs increased moderately from the previous quarter, reflecting the lower production levels in the quarter, as well as higher costs relating to the scheduled maintenance outages. Fibre costs showed a moderate increase compared to the previous quarter, as a result of higher-cost sawmill residual chips, where prices are linked to NBSK pulp sales realizations and other seasonal factors. Partially offsetting these increased costs were lower energy costs due to seasonally lower usage in the current quarter.

Compared to the second quarter of 2012, unit manufacturing costs decreased moderately, primarily reflecting the impact of higher production levels in the current quarter and reduced chemical costs, partially offset by an increase in energy costs. Fibre costs saw a moderate increase, largely as a result of an increase in usage and prices of higher-cost whole log chips and to a lesser extent, increased prices for sawmill residual chips (linked to NBSK market pulp prices).

Unallocated and Other Items

Selected Financial Information[20]

(millions of Canadian dollars)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Operating income (loss) of Panels operations[21]	**$ (0.6)**	$ (0.7)	**$ (1.3)**	$ (0.9)	$ (2.4)
Corporate costs	**$ (5.3)**	$ (6.6)	**$ (11.9)**	$ (6.7)	$ (14.6)
Finance expense, net	**$ (6.3)**	$ (8.8)	**$ (15.1)**	$ (8.4)	$ (17.0)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ (4.0)**	$ (3.8)	**$ (7.8)**	$ (3.8)	$ 0.2
Gain (loss) on derivative financial instruments	**$ (2.7)**	$ 3.3	**$ 0.6**	$ (6.3)	$ 1.1
Gain on sale of Canfor–LP OSB joint venture	**$ 38.3**	$ -	**$ 38.3**	$ -	$ -
Other income (expense), net	**$ 6.8**	$ 1.7	**$ 8.5**	$ 5.5	$ 2.0

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

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

Corporate costs were $5.3 million for the second quarter of 2013, down $1.3 million from the previous quarter and down $1.4 million from the second quarter of 2012, in part reflecting lower share-based and incentive compensation expense. The reduction compared to the same quarter of 2012 also reflected continued synergies from the integration of certain operating functions with those of Canfor Pulp.

Net finance expense for the second quarter of 2013 was $6.3 million, down $2.5 million from the previous quarter, reflecting lower borrowing levels in the current quarter. The previous quarter finance expenses also included refinancing costs incurred to extend the maturity of the Company's principal operating loan facility. Compared to the second quarter of 2012, finance expense was down $2.1 million, reflecting the lower debt level through the quarter and lower accretion expense on the asset retirement obligations due to increased interest rates. Net finance expense for the 2012 periods has been restated for adoption of amended IAS 19, *Employee Benefits*, as further discussed in the "Changes in Accounting Policies" section later in this document.

The Company recorded a foreign exchange translation loss on its US dollar denominated debt of $4.0 million for the second quarter of 2013, as a result of the weakening of the Canadian dollar against the US dollar, with the closing quarter end exchange rate falling 4% from the rate at the end of the first quarter. In the first quarter of 2013 and the second quarter of 2012, the Company recorded a translation loss of $3.8 million, also reflecting the weakening of the Canadian dollar over those periods.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices and interest rates. For the second quarter of 2013, the Company recorded a net loss of $2.7 million related to derivative financial instruments, largely reflecting unrealized losses on the US dollar collars related to the weakening of the Canadian dollar, offset in part by gains on lumber futures and interest rate swaps.

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

(millions of Canadian dollars)	**Q2 2013**	Q1 2013	**YTD 2013**	Q2 2012	YTD 2012
Foreign exchange collars and forward contracts	**$ (5.4)**	$ 1.4	**$ (4.0)**	$ (2.5)	$ 0.4
Energy derivatives	**$ (0.3)**	$ 0.1	**$ (0.2)**	$ (1.8)	$ (0.6)
Lumber futures	**$ 1.4**	$ 2.2	**$ 3.6**	$ (0.4)	$ 2.6
Interest rate swaps	**$ 1.6**	$ (0.4)	**$ 1.2**	$ (1.6)	$ (1.3)
	$ (2.7)	$ 3.3	**$ 0.6**	$ (6.3)	$ 1.1

Other income, net for the second quarter of 2013 included a $1.2 million positive fair value adjustment related to a royalty agreement associated with the 2010 sale of the operating assets of Howe Sound Pulp and Paper Limited Partnership compared to smaller fair value adjustments in the comparative periods. Contributing to other income in the second quarter of 2013 were favourable exchange movements on US dollar denominated cash, receivables and payables of Canadian operations of $3.2 million, compared to $1.4 million in the previous quarter and $1.7 million in the second quarter of 2012.

Effective January 1, 2013, the Company adopted IFRS 11, *Joint Arrangements*, which impacted the accounting for the Company's 50% interest in Canfor-LP OSB Limited Partnership ("Canfor-LP OSB"). Canfor-LP OSB was previously accounted for using the proportionate consolidation method and under the new Standard was accounted for using the equity method. The comparative periods have been restated to reflect the change. For the 2012 periods, Canfor-LP OSB's results are included below operating income as Other Income, with equity income of $3.1 million for the second quarter of 2012. Due to held for sale IFRS accounting requirements, equity income (comprising operating income) from the joint venture of $5.1 million and $16.1 million for the three months and six months ended June 30, 2013, respectively, has not been recognized in the Company's operating income. The sale was completed during the quarter and is further discussed in the "Sale of Peace Valley OSB Joint Venture" section later in this document.

Other Comprehensive Income (Loss)

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

(millions of Canadian dollars)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Foreign exchange translation differences for foreign operations	**$ 9.1**	$ 3.5	**$ 12.6**	$ 4.1	$ 0.5
Defined benefit actuarial gains (losses), net of tax	**$ 28.4**	$ 5.8	**$ 34.2**	$ (20.7)	$ (24.0)
Other comprehensive income (loss), net of tax	**$ 37.5**	$ 9.3	**$ 46.8**	$ (16.6)	$ (23.5)

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

In the second quarter of 2013, the Company recorded an after-tax credit to the statements of other comprehensive income (loss) of $28.4 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The gain principally reflects a higher discount rate used to value the net defined benefit obligation offset slightly by a lower year-to-date return on plan assets than the prior quarter. In the previous quarter, a credit of $5.8 million (after-tax) was recorded, while an after-tax charge of $20.7 million was recorded in the second quarter of 2012.

In addition, the Company recorded $9.1 million of other comprehensive income in the quarter for foreign exchange differences for foreign operations, reflecting the weakening of the Canadian dollar by 4% over the quarter. The Canadian dollar also weakened over the comparative periods, resulting in other comprehensive income of $3.5 million and $4.1 million, related to foreign exchange differences for foreign operations in the first quarter of 2013 and second quarter of 2012, respectively.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Increase (decrease) in cash and cash equivalents	**$ 165.5**	$ 23.3	**$ 188.8**	$ (2.6)	$ (22.4)
Operating activities	**$ 260.2**	$ 56.0	**$ 316.2**	$ 117.2	$ 65.4
Financing activities	**$ (122.8)**	$ 8.1	**$ (114.7)**	$ (92.6)	$ 44.4
Investing activities	**$ 28.1**	$ (40.8)	**$ (12.7)**	$ (27.2)	$ (132.2)
Ratio of current assets to current liabilities			**1.8:1**		1.4:1
Net debt to capitalization			**3.0%**		18.9%
ROIC – Consolidated	**8.8%**	4.8%	**13.6 %**	1.4%	(0.1)%
ROCE - Canfor solid wood business[24]	**7.0%**	5.6%	**12.6 %**	0.2%	(1.4)%

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

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

Changes in Financial Position

Cash generated from operating activities was $260.2 million in the second quarter of 2013, compared to cash generated of $56.0 million in the previous quarter and $117.2 million in the same quarter of 2012. The significant drawdown of logs during the Canadian spring break-up period had a significant positive cash flow impact in the second quarter, in contrast to the cash used in the previous quarter in the related inventory build-up, while higher cash earnings in the current quarter also had a positive impact. Partially offsetting these gains was an increase in prepaids in part due to property tax payments made at the end of the second quarter and seasonally higher reforestation-related payments. Compared to the second quarter of 2012, the increase in cash generated from operating activities reflects higher cash earnings and improved working capital movements.

Financing activities used cash of $122.8 million in the current quarter, compared to cash generated of $8.1 million in the previous quarter and cash used of $92.6 million in the second quarter of 2012. During the quarter, the Company repaid its US$75 million 5.42% term debt and repaid its $40.0 million outstanding operating loans, while the first quarter included a draw of $13.0 million on the Company's operating loan. Included in the current quarter financing activities was net proceeds of $3.1 million from new long-term debt (see further discussion in the "Liquidity and Financial Requirements" section later in this document). Finance expenses paid in the current quarter were $7.5 million, up $5.0 million from the previous quarter and down slightly from the second quarter of 2012, principally reflecting the timing of scheduled interest payments on long-term debt. Cash distributions to non-controlling interests were $2.1 million, in line with the previous quarter and down $6.1 million from the second quarter of 2012.

Investing activities generated cash of $28.1 million in the second quarter of 2013, compared to cash used of $40.8 million in the previous quarter and $27.2 million in the same quarter in 2012. The largest contributor to cash generated from investing activities in the quarter was $76.6 million in proceeds from the sale of the Company's 50% share in Canfor-LP OSB joint venture (see further discussion in the "Sale of Peace Valley OSB Joint Venture" section later in this document). Cash used for capital additions was $48.8 million, up $2.4 million from the previous quarter, and up $4.4 million from the second quarter of 2012. Capital additions for lumber operations in the current quarter included upgrades at the Company's Elko, Mackenzie and Conway sawmills. In the pulp segment, current quarter capital expenditures of $8.7 million largely related to the turbine upgrades at the Company's Northwood Pulp Mill planned for later in 2013, upgrades to the recovery boiler at the Northwood Pulp Mill and the turbo-generator at the Intercontinental Pulp Mill, as well as maintenance capital related to the outages.

Investing cash flows in the current quarter included $9.5 million in distributions received from the Canfor-LP OSB joint venture, compared to $7.0 million received in the previous quarter and $2.0 million received in the same quarter of the previous year. Cash used for investing activities in the current quarter also included share repurchases of $11.3 million (see further discussion of the shares repurchased under the Normal Course Issuer Bid in the "Liquidity and Financial Requirements" section later in this document). The second quarter of 2012 cash flows included $12.9 million in net proceeds realized on the sale of the Company's asset-backed commercial paper.

Liquidity and Financial Requirements

At June 30, 2013, the Company on a consolidated basis had cash of $171.7 million and operating loan facilities of $467.5 million which were unused, except for $27.1 million reserved for several standby letters of credit.

During the second quarter of 2013, the Company obtained $3.1 million in net financing with interest rates between 1.0% and 2.0% related to specific capital projects at its U.S. sawmills.

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

Canfor Pulp has US$110.0 million of term debt that is scheduled for repayment on November 30, 2013. Canfor's $100.0 million term debt is scheduled for repayment on February 13, 2017.

The Company's consolidated net debt to total capitalization at the end of the second quarter of 2013 was 3.0%. For Canfor, excluding Canfor Pulp, net debt to capitalization at the end of the second quarter was (1.8)%, reflecting the net positive cash position.

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 7,137,621 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid may continue until March 4, 2014. During the second quarter of 2013, Canfor purchased 763,538 common shares for $14.4 million, of which $10.3 million was paid in cash in the period. Also during the quarter, CPPI repurchased shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 50.2% to 50.3%.

Sale of Canfor-LP OSB Joint Venture

On May 31, 2013, the Company completed the sale of its 50% share in Canfor-LP OSB, which owns the Peace Valley OSB mill, to Louisiana-Pacific Corporation ("LP") for cash proceeds of $77.9 million including working capital, of which $1.3 million was received subsequent to June 30, 2013. On completion of the sale, LP became the sole owner of the Peace Valley OSB mill. As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. An asset in the amount of $19.0 million has been recorded based on the fair value of the estimated additional annual consideration, based on the forecast future adjusted earnings before interest, tax, depreciation and amortization of the Peace Valley OSB mill. The asset will be adjusted each reporting period with gains and losses recorded to Other Income.

In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, upon classification of the investment as held for sale at December 31, 2012, the Company ceased the equity method of accounting. As such, Canfor's $5.1 million and $16.1 million share of Canfor-LP OSB's operating income for the three and six months ended June 30, 2013, respectively, was not recognized in operating income in those periods.

A pre-tax gain on sale of $38.3 million was recorded in the current quarter which includes recognition of Canfor's share of the operating income for the first half of 2013. The Company recorded a tax expense of $4.8 million related to the sale.

Agreement with Scotch & Gulf Lumber, LLC

In May 2013, the Company entered into a phased purchase agreement with Scotch & Gulf Lumber, LLC ("Scotch Gulf"). The transaction will involve the phased purchase by Canfor of Scotch Gulf over a 3 year period, at an aggregate purchase price, excluding working capital, of $80 million. Canfor's initial 25% interest will increase over the 3 year period to 50% after eighteen months and 100% at the end of the term. The transaction is subject to standard closing conditions and is currently scheduled to close in the third quarter of 2013.

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

Canfor's collective labour agreement with the USW expired on June 30, 2013. The Company is currently in discussions with the USW.

OUTLOOK

Lumber

North American softwood lumber demand is forecast to continue to increase over the balance of 2013 as the U.S. housing recovery progresses, driving higher consumption in both the new home and the repair and remodeling sectors. Reflecting the decline in North American pricing, export taxes on U.S. shipments will be 10% in August, with potential for export taxes in September as well. Offshore shipments are projected to remain strong, reflecting solid construction activity forecast over the balance of the year. The Canadian market is anticipated to show modest gains over the same period.

Pulp and Paper

NBSK pulp markets are projected to soften during the seasonally slower third quarter of 2013 and there exists a risk of price weakness from new hardwood pulp capacity scheduled to come online in the second half of the year. Producer inventories are forecast to rise modestly given minimal scheduled maintenance downtime historically taken by producers during the summer months.

OUTSTANDING SHARES

At July 25, 2013, there were 141,988,893 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

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

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

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

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

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY FINANCIAL INFORMATION[25]

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Sales and income								
(millions of Canadian dollars)								
Sales	**$ 843.2**	$ 786.3	$ 700.3	$ 663.7	$ 685.0	$ 593.8	$ 576.2	$ 602.1
Operating income (loss)	**$ 128.2**	$ 100.0	$ 49.0	$ 18.1	$ 22.6	$ (18.4)	$ (63.1)	$ 15.4
Net income (loss)	**$ 114.3**	$ 67.5	$ 24.7	$ 18.8	$ 5.0	$ (12.9)	$ (38.1)	$ (9.6)
Shareholder net income (loss)	**$ 110.3**	$ 61.9	$ 21.3	$ 20.5	$ 2.6	$ (18.0)	$ (44.1)	$ (21.6)
Per common share (dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.77**	$ 0.43	$ 0.15	$ 0.14	$ 0.02	$ (0.13)	$ (0.31)	$ (0.15)
Statistics								
Lumber shipments (MMfbm)	**1,268**	1,135	1,149	1,133	1,158	994	974	969
Pulp shipments (000 mt)	**308**	308	298	269	282	328	275	291
Average exchange rate – US$/Cdn$	**$ 0.977**	$ 0.991	$ 1.009	$ 1.005	$ 0.990	$ 0.999	$ 0.977	$ 1.020
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 335**	$ 391	$ 335	$ 300	$ 295	$ 266	$ 238	$ 246
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 392**	$ 452	$ 386	$ 322	$ 325	$ 298	$ 260	$ 259
Average OSB price – North Central (US$)	**$ 345**	$ 418	$ 332	$ 312	$ 235	$ 202	$ 190	$ 184
Average NBSK pulp list price delivered to U.S. (US$)	**$ 937**	$ 897	$ 863	$ 853	$ 900	$ 870	$ 920	$ 993

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

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

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

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Shareholder net income (loss), as reported	**$ 110.3**	$ 61.9	$ 21.3	$ 20.5	$ 2.6	$ (18.0)	$ (44.1)	$ (21.6)
Foreign exchange (gain) loss on long-term debt and investments, net	**$ 1.8**	$ 2.3	$ 1.2	$ (4.0)	$ 2.4	$ (2.7)	$ (3.3)	$ 11.0
(Gain) loss on derivative financial instruments	**$ 1.0**	$ (2.2)	$ 6.5	$ (4.4)	$ 4.2	$ (5.1)	$ (6.7)	$ 7.0
Canfor's 50% interest in Canfor-LP OSB's income, net of tax	**$ 3.8**	$ 8.3	$ -	$ -	$ -	$ -	$ -	$ -
Gain on completion of sale of Canfor-LP OSB	**$ (33.4)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Change in substantively enacted tax rate	**$ 4.2**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net gain on post retirement and pension plan amendments	**$ -**	$ -	$ (8.7)	$ -	$ -	$ -	$ -	$ -
Restructuring costs related to changes in management group	**$ -**	$ -	$ -	$ 1.5	$ -	$ -	$ -	$ -
Decrease (increase) in fair value of asset-backed commercial paper	**$ -**	$ -	$ -	$ -	$ -	$ (1.1)	$ (0.5)	$ 1.8
Costs recorded in relation to Tembec acquisition	**$ -**	$ -	$ -	$ -	$ -	$ 2.8	$ -	$ -
Mill closure provisions	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 17.0	$ -
Asset impairment charges	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 5.5	$ -
Net impact of above items	**$ (22.6)**	$ 8.4	$ (1.0)	$ (6.9)	$ 6.6	$ (6.1)	$ 12.0	$ 19.8
Adjusted shareholder net income (loss)	**$ 87.7**	$ 70.3	$ 20.3	$ 13.6	$ 9.2	$ (24.1)	$ (32.1)	$ (1.8)
Shareholder net income (loss) per share (EPS), as reported	**$ 0.77**	$ 0.43	$ 0.15	$ 0.14	$ 0.02	$ (0.13)	$ (0.31)	$ (0.15)
Net impact of above items per share	**$ (0.16)**	$ 0.06	$ (0.01)	$ (0.05)	$ 0.05	$ (0.05)	$ 0.09	$ 0.14
Adjusted net income (loss) per share	**$ 0.61**	$ 0.49	$ 0.14	$ 0.09	$ 0.07	$ (0.18)	$ (0.22)	$ (0.01)

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

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2013**		As at December 31, 2012 (Note 13)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**171.7**	$	-
Accounts receivable - Trade		**152.3**		102.7
- Other		**56.6**		57.5
Inventories (Note 2)		**407.7**		431.3
Prepaid expenses and other assets		**42.3**		23.4
Investment in joint venture held for sale (Note 3)		**-**		75.1
Total current assets		**830.6**		690.0
Property, plant and equipment		**1,108.4**		1,081.7
Timber licenses		**546.3**		554.6
Goodwill and other intangible assets		**88.1**		80.4
Long-term investments and other (Note 4)		**51.0**		44.6
Deferred income taxes, net		**6.6**		39.3
Total assets	**$**	**2,631.0**	$	2,490.6
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**-**	$	17.1
Operating loans (Note 5(a))		**-**		27.0
Accounts payable and accrued liabilities		**321.6**		258.4
Current portion of long-term debt (Note 5(b))		**115.6**		184.1
Current portion of deferred reforestation obligations		**37.3**		37.3
Total current liabilities		**474.5**		523.9
Long-term debt (Note 5(b))		**103.1**		100.0
Retirement benefit obligations		**252.4**		311.7
Deferred reforestation obligations		**80.1**		78.4
Other long-term liabilities		**12.7**		13.6
Deferred income taxes, net		**187.8**		151.1
Total liabilities	**$**	**1,110.6**	$	1,178.7
EQUITY				
Share capital	**$**	**1,120.2**	$	1,126.2
Contributed surplus		**31.9**		31.9
Retained earnings (deficit)		**159.5**		(35.1)
Accumulated foreign exchange translation differences		**2.1**		(10.5)
Total equity attributable to equity holders of the Company		**1,313.7**		1,112.5
Non-controlling interests		**206.7**		199.4
Total equity	**$**	**1,520.4**	$	1,311.9
Total liabilities and equity	**$**	**2,631.0**	$	2,490.6

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

APPROVED BY THE BOARD

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

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2013**	3 months ended June 30, 2012 (Note 13)	6 months ended June 30, **2013**	6 months ended June 30, 2012 (Note 13)
Sales	**$ 843.2**	$ 685.0	**$ 1,629.5**	$ 1,278.8
Costs and expenses				
Manufacturing and product costs	**508.2**	458.3	**1,000.4**	876.3
Freight and other distribution costs	**141.5**	129.9	**270.9**	249.5
Export taxes	**-**	13.9	**-**	25.1
Amortization	**49.6**	43.5	**96.5**	86.1
Selling and administration costs	**14.8**	14.9	**31.1**	30.9
Restructuring, mill closure and severance costs	**0.9**	1.9	**2.4**	6.7
	715.0	662.4	**1,401.3**	1,274.6
Operating income	**128.2**	22.6	**228.2**	4.2
Finance expense, net	**(6.3)**	(8.4)	**(15.1)**	(17.0)
Foreign exchange gain (loss) on long-term debt and investments, net	**(4.0)**	(3.8)	**(7.8)**	0.2
Gain (loss) on derivative financial instruments (Note 7)	**(2.7)**	(6.3)	**0.6**	1.1
Gain on sale of Canfor-LP OSB joint venture (Note 3)	**38.3**	-	**38.3**	-
Other income, net	**6.8**	5.5	**8.5**	2.0
Net income (loss) before income taxes	**160.3**	9.6	**252.7**	(9.5)
Income tax recovery (expense) (Note 8)	**(46.0)**	(4.6)	**(70.9)**	1.6
Net income (loss)	**$ 114.3**	$ 5.0	**$ 181.8**	$ (7.9)
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ 110.3**	$ 2.6	**$ 172.2**	$ (15.4)
Non-controlling interests	**4.0**	2.4	**9.6**	7.5
Net income (loss)	**$ 114.3**	$ 5.0	**$ 181.8**	$ (7.9)
Net income (loss) per common share: (in dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 9)	**$ 0.77**	$ 0.02	**$ 1.21**	$ (0.11)

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2013**	3 months ended June 30, 2012	6 months ended June 30, **2013**	6 months ended June 30, 2012
		(Note 13)		(Note 13)
Net income (loss)	**$ 114.3**	$ 5.0	**$ 181.8**	$ (7.9)
Other comprehensive income (loss)				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (losses) (Note 6)	**38.5**	(27.9)	**46.2**	(32.2)
Income tax recovery (expense) on defined benefit actuarial gains (losses) (Note 8)	**(10.1)**	7.2	**(12.0)**	8.2
	28.4	(20.7)	**34.2**	(24.0)
Items that may be recycled through net income (loss):				
Foreign exchange translation differences for foreign operations	**9.1**	4.1	**12.6**	0.5
Other comprehensive income (loss), net of tax	**37.5**	(16.6)	**46.8**	(23.5)
Total comprehensive income (loss)	**$ 151.8**	$ (11.6)	**$ 228.6**	$ (31.4)
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 144.5**	$ (12.3)	**$ 215.6**	$ (36.2)
Non-controlling interests	**7.3**	0.7	**13.0**	4.8
Total comprehensive income (loss)	**$ 151.8**	$ (11.6)	**$ 228.6**	$ (31.4)

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2013**	3 months ended June 30, 2012 (Note 13)	6 months ended June 30, **2013**	6 months ended June 30, 2012 (Note 13)
Share capital				
Balance at beginning of period	**$ 1,126.2**	$ 1,126.2	**$ 1,126.2**	$ 1,125.9
Common shares issued on exercise of stock options	**-**	-	**-**	0.3
Share repurchases (Note 9)	**(6.0)**	-	**(6.0)**	-
Balance at end of period	**$ 1,120.2**	$ 1,126.2	**$ 1,120.2**	$ 1,126.2
Contributed surplus				
Balance at beginning and end of period	**$ 31.9**	$ 31.9	**$ 31.9**	$ 31.9
Retained earnings (deficit)				
Balance at beginning of period	**$ 32.5**	$ (45.0)	**$ (35.1)**	$ (24.7)
Net income (loss) attributable to equity shareholders of the Company	**110.3**	2.6	**172.2**	(15.4)
Defined benefit plan actuarial gains (losses), net of tax	**25.1**	(19.0)	**30.8**	(21.3)
Share repurchases (Note 9)	**(8.4)**	-	**(8.4)**	-
Balance at end of period	**$ 159.5**	$ (61.4)	**$ 159.5**	$ (61.4)
Accumulated foreign exchange translation differences				
Balance at beginning of period	**$ (7.0)**	$ (9.5)	**$ (10.5)**	$ (5.9)
Foreign exchange translation differences for foreign operations	**9.1**	4.1	**12.6**	0.5
Balance at end of period	**$ 2.1**	$ (5.4)	**$ 2.1**	$ (5.4)
Total equity attributable to equity holders of the Company	**$ 1,313.7**	$ 1,091.3	**$ 1,313.7**	$ 1,091.3
Non-controlling interests				
Balance at beginning of period	**$ 202.7**	$ 211.5	**$ 199.4**	$ 232.8
Net income attributable to non-controlling interests	**4.0**	2.4	**9.6**	7.5
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	**3.3**	(1.7)	**3.4**	(2.7)
Distributions to non-controlling interests	**(2.1)**	(8.2)	**(4.5)**	(8.6)
Acquisition of non-controlling interests (Note 9)	**(1.2)**	-	**(1.2)**	-
Share exchange	**-**	-	**-**	(25.0)
Balance at end of period	**$ 206.7**	$ 204.0	**$ 206.7**	$ 204.0
Total equity	**$ 1,520.4**	$ 1,295.3	**$ 1,520.4**	$ 1,295.3

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2013	3 months ended June 30, 2012	6 months ended June 30, 2013	6 months ended June 30, 2012
		(Note 13)		(Note 13)
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ 114.3**	$ 5.0	**$ 181.8**	$ (7.9)
Items not affecting cash:				
Amortization	**49.6**	43.5	**96.5**	86.1
Income tax (recovery) expense	**46.0**	4.6	**70.9**	(1.6)
Long-term portion of deferred reforestation obligations	**(12.9)**	(11.3)	**1.2**	2.1
Foreign exchange (gain) loss on long-term debt and investments, net	**4.0**	3.8	**7.8**	(0.2)
Changes in mark-to-market value of derivative financial instruments	**3.9**	7.7	**(1.4)**	1.7
Employee future benefits	**3.2**	3.8	**6.7**	7.1
Net finance expense	**6.3**	8.4	**15.1**	17.0
Gain on sale of joint venture (Note 3)	**(38.3)**	-	**(38.3)**	-
Other, net	**(0.2)**	(4.4)	**(0.9)**	(2.9)
Defined benefit pension plan contributions	**(12.6)**	(12.7)	**(26.1)**	(26.7)
Income taxes recovered (paid), net	**-**	(3.3)	**0.5**	(4.6)
Net change in non-cash working capital (Note 10)	**96.9**	72.1	**2.4**	(4.7)
	260.2	117.2	**316.2**	65.4
Financing activities				
Change in operating bank loans (Note 5(a))	**(40.0)**	(77.0)	**(27.0)**	17.0
Proceeds from long-term debt (Note 5(b))	**3.1**	-	**3.1**	100.0
Repayment of long-term debt (Note 5(b))	**(76.3)**	-	**(76.3)**	(49.9)
Finance expenses paid	**(7.5)**	(7.4)	**(10.0)**	(10.5)
Cash distributions paid to non-controlling interests	**(2.1)**	(8.2)	**(4.5)**	(12.5)
Other, net	**-**	-	**-**	0.3
	(122.8)	(92.6)	**(114.7)**	44.4
Investing activities				
Proceeds on sale of Canfor-LP OSB joint venture (Note 3)	**76.6**	-	**76.6**	-
Distributions from (advances to) joint venture (Note 3)	**9.5**	2.0	**16.5**	(1.0)
Additions to property, plant and equipment	**(48.8)**	(44.4)	**(95.2)**	(98.0)
Reimbursements from Government under Green Transformation Program	**-**	1.1	**-**	9.0
Share repurchases (Note 9)	**(10.3)**	-	**(10.3)**	-
Acquisition of non-controlling interests (Note 9)	**(1.0)**	-	**(1.0)**	-
Acquisition of Tembec assets	**-**	(0.7)	**-**	(65.6)
Share exchange	**-**	-	**-**	6.8
Proceeds from redemption of asset-backed commercial paper	**-**	12.9	**-**	12.9
Other, net	**2.1**	1.9	**0.7**	3.7
	28.1	(27.2)	**(12.7)**	(132.2)
Increase (decrease) in cash and cash equivalents*	**165.5**	(2.6)	**188.8**	(22.4)
Cash and cash equivalents at beginning of period*	**6.2**	6.8	**(17.1)**	26.6
Cash and cash equivalents at end of period*	**$ 171.7**	$ 4.2	**$ 171.7**	$ 4.2

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

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

1. Basis of Preparation

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

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

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

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

Changes in Accounting Policies

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

- The Company adopted IFRS 11, *Joint Arrangements*, which redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. Under the new Standard, joint ventures are accounted for using the equity method accounting as set out in IAS 28, *Investments in Associates and Joint Ventures*, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operations. Canfor's 50% interest in the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") was classified as a joint venture and accounted for using the equity method. The Company has restated its comparative period results for adoption of IFRS 11 (Note 13). Canfor sold its 50% interest in the Canfor-LP OSB to Louisiana Pacific Corporation ("LP") on May 31, 2013 (Note 3).
- The Company adopted the amended IAS 19, *Employee Benefits,* which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset). The Company has restated its comparative period results for adoption of amended IAS 19 (Note 13).
- The Company also adopted IFRS 10, *Consolidated Financial Statements,* IFRS 13, *Fair Value Measurement,* and IAS 1, *Presentation of Financial Statements,* effective January 1, 2013. These Standards did not result in material impacts on the amounts recorded in the financial statements of Canfor.

Accounting Standards Issued and Not Applied

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

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

2. Inventories

(millions of Canadian dollars)		**As at June 30, 2013**		As at December 31, 2012
Logs	**$**	**66.1**	$	119.4
Finished products		**231.2**		205.8
Residual fibre		**13.3**		11.5
Processing materials and supplies		**97.1**		94.6
	$	**407.7**	$	431.3

3. Sale of Canfor-LP OSB Joint Venture

On May 31, 2013, the Company completed the sale of its 50% share in Canfor-LP OSB, which owns the Peace Valley OSB mill, to LP for cash proceeds of $77.9 million including working capital, of which $1.3 million was received subsequent to June 30, 2013. On completion of the sale, LP became the sole owner of the Peace Valley OSB mill. As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. An asset in the amount of $19.0 million has been recorded based on the fair value of the estimated additional annual consideration, based on the forecast future adjusted earnings before interest, tax, depreciation and amortization of the Peace Valley OSB mill. The asset will be adjusted each reporting period with gains and losses recorded to Other Income.

In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, upon classification of the investment as held for sale at December 31, 2012, the Company ceased the equity method of accounting. As such, Canfor's $5.1 million and $16.1 million share of Canfor-LP OSB's operating income for the three and six months ended June 30, 2013, respectively, was not recognized in operating income in those periods.

A pre-tax gain on sale of $38.3 million was recorded in the current quarter which includes recognition of Canfor's share of the operating income for the first half of 2013. The Company recorded a tax expense of $4.9 million related to the sale.

4. Long-term Investments and Other

(millions of Canadian dollars)		**As at June 30, 2013**		As at December 31, 2012
Other investments	**$**	**23.6**	$	23.7
Investment tax credits		**1.6**		8.6
Defined benefit plan assets		**1.6**		1.4
Contingent consideration (Note 3)		**10.2**		-
Other deposits, loans and advances		**14.0**		10.9
	$	**51.0**	$	44.6

In the first quarter of 2013, $9.3 million in investment tax credits were reclassified to prepaid expenses and other assets. As discussed in Note 3, the total fair value of the contingent consideration relating to the sale of Canfor-LP OSB at June 30, 2013 is $19.0 million. The current portion of the contingent consideration ($8.8 million) is recorded in Other Accounts Receivable.

5. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars)		**As at June 30, 2013**		As at December 31, 2012
Canfor (excluding CPPI)				
Total operating loans - Canfor (excluding CPPI)	**$**	**350.0**	$	350.0
Drawn		**-**		(27.0)
Letters of credit (principally unregistered pension plans)		**(16.0)**		(18.0)
Total available operating loans - Canfor (excluding CPPI)	**$**	**334.0**	$	305.0
CPPI				
Operating loan facility	**$**	**110.0**	$	110.0
Facility for BC Hydro letter of credit		**7.5**		7.5
Total operating loans - CPPI		**117.5**		117.5
Drawn		**-**		-
Letters of credit (for general business purposes)		**(3.6)**		(1.7)
BC Hydro letter of credit		**(7.5)**		(7.5)
Total available operating loans - CPPI	**$**	**106.4**	$	108.3
Consolidated:				
Total operating loans	**$**	**467.5**	$	467.5
Total available operating loans	**$**	**440.4**	$	413.3

In the first quarter of 2013, the maturity on Canfor's principal operating loans, excluding Canfor Pulp Products Inc. ("CPPI"), was extended from October 31, 2015 to February 28, 2018. All other terms remain the same with interest payable at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio.

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

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

As at June 30, 2013, the Company and CPPI were in compliance with all covenants relating to their operating loans.

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

(b) Long-Term Debt

On April 1, 2013, the Company repaid $76.3 million (US$75.0 million) of 5.42% term debt. During the second quarter of 2013, the Company obtained $3.1 million in net financing with interest rates between 1.0% and 2.0% related to specific capital projects at its U.S. sawmills.

At June 30, 2013, the fair value of the long-term debt, measured at its amortized cost of $218.7 million, was $220.5 million. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

6. Employee Future Benefits

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

For the six months ended June 30, 2013, an amount of $46.2 million (before tax) was credited to other comprehensive income. The gain reflects the return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation at June 30, 2013. For the three months ended June 30, 2013, the gain was $38.5 million (before tax). For the six months ended June 30, 2012, an amount of $32.2 million (before tax) was charged to other comprehensive income. For the three months ended June 30, 2012, the charge was $27.9 million (before tax).

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

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

Pension Benefit Plans	
Discount rate	
June 30, 2013	**4.60%**
March 31, 2013	4.10%
December 31, 2012	4.20%
June 30, 2012	4.65%
March 31, 2012	4.80%
December 31, 2011	5.00%
Rate of return on plan assets	
6 months ended June 30, 2013	**3.20%**
3 months ended March 31, 2013	4.00%
6 months ended June, 2012	2.60%
3 months ended March 31, 2012	4.30%
Other Benefit Plans	
Discount rate	
June 30, 2013	**4.70%**
March 31, 2013	4.30%
December 31, 2012	4.40%
June 30, 2012	4.90%
March 31, 2012	5.00%
December 31, 2011	5.30%

7. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars)	Fair Value Hierarchy Level		**As at June 30, 2013**		As at December 31, 2012
Financial assets					
Held for trading					
Derivative financial instruments	Level 2	**$**	**1.3**	$	0.7
Loans and receivables					
Cash and cash equivalents	n/a		**171.7**		-
Accounts receivable	n/a		**197.0**		157.4
Other deposits, loans and advances	n/a		**10.0**		4.2
Royalty receivable	Level 3		**6.6**		6.5
Contingent consideration	Level 3		**19.0**		-
Available for sale					
Investments in other entities	n/a		**23.6**		23.7
		$	**429.2**	$	192.5
Financial liabilities					
Held for trading					
Derivative financial instruments	Level 2	**$**	**4.1**	$	4.8
Other liabilities					
Cheques issued in excess of cash on hand	n/a		**-**		17.1
Operating loans	n/a		**-**		27.0
Accounts payable and accrued liabilities (excluding derivatives)	n/a		**317.5**		254.2
Long-term debt (including current portion)	n/a		**218.7**		284.1
		$	**540.3**	$	587.2

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

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, energy costs, electricity sales and floating interest rates on certain long-term debt. At June 30, 2013, the fair value of derivative financial instruments was a net liability of $2.8 million (December 31, 2012 – net liability of $4.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

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

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars)		**2013**		2012		**2013**		2012
Foreign exchange collars and forward contracts	**$**	**(5.4)**	$	(2.5)	**$**	**(4.0)**	$	0.4
Energy derivatives		**(0.3)**		(1.8)		**(0.2)**		(0.6)
Lumber futures		**1.4**		(0.4)		**3.6**		2.6
Interest rate swaps		**1.6**		(1.6)		**1.2**		(1.3)
	$	**(2.7)**	$	(6.3)	**$**	**0.6**	$	1.1

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

(millions of Canadian dollars)		**As at June 30, 2013**		As at December 31, 2012
Foreign exchange collars and forward contracts	**$**	**(4.0)**	$	0.3
Energy derivatives		**-**		0.3
Lumber futures		**0.3**		(4.1)
Interest rate swaps		**0.9**		(0.6)
Total asset (liability), net		**(2.8)**		(4.1)
Less: current portion asset (liability), net		**(3.6)**		(3.5)
Long-term portion (liability), net	**$**	**0.8**	$	(0.6)

8. Income Taxes

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars)		**2013**		2012		**2013**		2012
Current	**$**	**(8.3)**	$	0.6	**$**	**(13.5)**	$	(2.2)
Deferred		**(37.7)**		(5.2)		**(57.4)**		3.8
Income tax (expense) recovery	**$**	**(46.0)**	$	(4.6)	**$**	**(70.9)**	$	1.6

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

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars)		**2013**		2012		**2013**		2012
Income tax expense at statutory rate 2013 – 25.75% (2012 – 25.0%)[1]	**$**	**(41.9)**	$	(2.4)	**$**	**(65.0)**	$	2.4
Add (deduct):								
Non-taxable income related to non-controlling interests in limited partnerships		**0.1**		0.2		**0.1**		1.3
Entities with different income tax rates and other tax adjustments		**(3.2)**		(2.1)		**(4.5)**		(2.2)
Permanent difference from capital gains and losses and other non-deductible items		**4.4**		(0.5)		**3.9**		(0.1)
Change in substantively enacted tax rate[1]		**(5.4)**		-		**(5.4)**		-
Tax recovery at rates other than statutory rate		**-**		0.2		**-**		0.2
Income tax (expense) recovery	**$**	**(46.0)**	$	(4.6)	**$**	**(70.9)**	$	1.6

[1]In the second quarter of 2013, the British Columbia Provincial Government increased the corporate tax rate from 10% to 11%. A $0.6 million increase in tax expense was recorded in the second quarter for earnings recognized in the first quarter.

In addition to the amounts recorded to net income, a tax expense of $10.1 million was recorded to other comprehensive income for the three month period ended June 30, 2013 (three months ended June 30, 2012 – tax recovery of $7.2 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the six months ended June 30, 2013, the tax expense was $12.0 million (six months ended June 30, 2012 – tax recovery of $8.2 million).

9. Earnings Per Share

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

	3 months ended June 30,		6 months ended June 30,	
	2013	2012	**2013**	2012
Weighted average number of common shares	**142,675,539**	142,751,442	**142,713,773**	142,745,724

Normal Course Issuer Bid

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 7,137,621 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid may continue until March 4, 2014. During the second quarter of 2013, Canfor purchased 763,538 common shares for $14.4 million, of which $10.3 million was paid in cash in the period. Also during the quarter, CPPI repurchased shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 50.2% to 50.3%.

10. Net Change in Non-Cash Working Capital

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Accounts receivable	**$ 7.4**	$ (18.3)	**$ (40.7)**	$ (26.9)
Inventories	**124.5**	104.2	**25.0**	18.4
Prepaid expenses	**(12.9)**	(15.8)	**(11.4)**	(13.4)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**(22.1)**	2.0	**29.5**	17.2
Net decrease (increase) in non-cash working capital	**$ 96.9**	$ 72.1	**$ 2.4**	$ (4.7)

11. Segment Information

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

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

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below. For the three and six months ended June 30, 2013, the Company's share of Canfor-LP OSB's sales was $16.9 million and $43.5 million, respectively, and operating income was $5.1 million and $16.1 million, respectively. As a result of the classification of Canfor's investment in Canfor-LP OSB as held for sale, these amounts were not included in the segment or consolidated results of the Company. For the three and six months ended June 30, 2012, the results of Canfor-LP OSB were presented in equity income (loss). On May 31, 2013, Canfor sold its 50% share of Canfor-LP OSB (Note 3).

(millions of Canadian dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended June 30, 2013							
Sales to external customers	**$**	**586.8**	**255.5**	**0.9**	**-**	**$**	**843.2**
Sales to other segments	**$**	**35.4**	**-**	**-**	**(35.4)**	**$**	**-**
Operating income (loss)	**$**	**115.5**	**18.6**	**(5.9)**	**-**	**$**	**128.2**
Amortization	**$**	**29.9**	**19.4**	**0.3**	**-**	**$**	**49.6**
Capital expenditures[1]	**$**	**37.7**	**8.7**	**2.4**	**-**	**$**	**48.8**
3 months ended June 30, 2012							
Sales to external customers	$	443.5	239.4	2.1	-	$	685.0
Sales to other segments	$	29.2	-	-	(29.2)	$	-
Operating income (loss)	$	18.6	11.6	(7.6)	-	$	22.6
Amortization	$	26.5	15.1	1.9	-	$	43.5
Capital expenditures[1]	$	25.1	19.3	-	-	$	44.4
6 months ended June 30, 2013							
Sales to external customers	**$**	**1,129.1**	**499.0**	**1.4**	**-**	**$**	**1,629.5**
Sales to other segments	**$**	**66.6**	**-**	**-**	**(66.6)**	**$**	**-**
Operating income (loss)	**$**	**203.9**	**37.5**	**(13.2)**	**-**	**$**	**228.2**
Amortization	**$**	**57.2**	**38.8**	**0.5**	**-**	**$**	**96.5**
Capital expenditures[1]	**$**	**75.7**	**15.7**	**3.8**	**-**	**$**	**95.2**
Identifiable assets	**$**	**1,602.3**	**782.2**	**246.5**	**-**	**$**	**2,631.0**
6 months ended June 30, 2012							
Sales to external customers	$	787.2	488.8	2.8	-	$	1,278.8
Sales to other segments	$	58.4	-	-	(58.4)	$	-
Operating income (loss)	$	(1.7)	22.9	(17.0)	-	$	4.2
Amortization	$	49.7	32.8	3.6	-	$	86.1
Capital expenditures[1]	$	52.0	46.0	-	-	$	98.0
Identifiable assets	$	1,505.2	811.3	182.6	-	$	2,499.1

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

12. Commitments

Agreement with Scotch & Gulf Lumber, LLC

In May 2013, the Company entered into a phased purchase agreement with Scotch & Gulf Lumber, LLC ("Scotch Gulf"). The transaction will involve the phased purchase by Canfor of Scotch Gulf over a 3 year period, at an aggregate purchase price, excluding working capital, of $80 million. Canfor's initial 25% interest will increase over the 3 year period to 50% after eighteen months and 100% at the end of the term. The transaction is subject to standard closing conditions and is currently scheduled to close in the third quarter of 2013.

13. Transition to New Accounting Standards

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

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

Summarized impact on the opening condensed consolidated balance sheets:

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

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

Summarized impact on the comparative period condensed consolidated balance sheets:

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

The adoption of IFRS 11 resulted in a decrease in sales of $29.7 million and an increase in operating income of $0.4 million for the six months ended June 30, 2012 (for the three months ended June 30, 2012, a decrease of $15.9 million and a decrease of $2.9 million, respectively). IFRS 11 had no impact on net income or other comprehensive income in the comparative periods. Further, adoption of IFRS 11 resulted in an increase in cash flow from operating activities of $1.5 million and decrease in cash flow from investing activities of $1.0 million for the six months ended June 30, 2012 (for the three months ended June 30, 2012, a decrease in operating activities of $1.9 million and an increase in cash flow from investing activities of $2.0 million).

The adoption of amended IAS 19 resulted in a decrease in operating income of $0.7 million, an increase of finance expense of $4.6 million and increase in income tax recovery of $1.3 million for the six months ended June 30, 2012 (for the three months ended June 30, 2012, a decrease of $0.5 million, an increase of $2.2 million and an increase of $0.7 million, respectively). Amended IAS 19 increased the net loss and increased other comprehensive income by $4.0 million (after-tax) for the six months ended June 30, 2013 (for the three months ended June 30, 2012, a decrease to net income of $2.0 million and an increase to other comprehensive income of $2.0 million (after-tax)). The impact on earnings per share for the six months ended June 30, 2012 was a decrease of $0.03 per share (three months ended June 30, 2012 – decrease of $0.01 per share).

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