News Release

FOR IMMEDIATE RELEASE

CANFOR REPORTS RESULTS FOR FOURTH QUARTER OF 2013

February 5, 2014 - Vancouver, B.C. - Canfor Corporation (TSX: CFP) today reported net income attributable to shareholders ("shareholder net income") of $28.0 million, or $0.20 per share, for the fourth quarter of 2013, compared to $28.4 million, or $0.20 per share, for the third quarter of 2013 and $21.3 million, or $0.15 per share, for the fourth quarter of 2012. For the year ended December 31, 2013, the Company's shareholder net income was $228.6 million, or $1.61 per share, compared to $26.4 million, or $0.18 per share, reported for 2012.

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

(millions of Canadian dollars, except for per share amounts)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Sales	**$ 809.5**	$ 755.9	**$ 3,194.9**	$ 700.3	$ 2,642.8
Operating income, as reported	**$ 53.8**	$ 49.3	**$ 331.3**	$ 49.0	$ 71.3
Operating income, adjusted for one-time items	**$ 74.9**	$ 49.3	**$ 352.4**	$ 34.8	$ 59.9
Net income attributable to equity shareholders of Company	**$ 28.0**	$ 28.4	**$ 228.6**	$ 21.3	$ 26.4
Net income per share attributable to equity shareholders of Company, basic and diluted	**$ 0.20**	$ 0.20	**$ 1.61**	$ 0.15	$ 0.18
Adjusted shareholder net income	**$ 48.8**	$ 26.2	**$ 233.0**	$ 20.3	$ 19.0
Adjusted shareholder net income per share, basic and diluted	**$ 0.35**	$ 0.18	**$ 1.64**	$ 0.14	$ 0.13

After adjusting for various items affecting comparability with the prior periods, the Company's adjusted shareholder net income for the fourth quarter of 2013 was $48.8 million, or $0.35 per share, compared to an adjusted shareholder net income of $26.2 million, or $0.18 per share, for the third quarter of 2013. Canfor's adjusted shareholder net income for the fourth quarter of 2012 was $20.3 million, or $0.14 per share. For 2013, the Company's adjusted shareholder net income was $233.0 million, or $1.64 per share, compared to $19.0 million, or $0.13 per share, for 2012.

The Company reported operating income of $53.8 million for the fourth quarter of 2013, compared to operating income of $49.3 million for the third quarter. The modest improvement in operating income was largely attributable to strong gains in lumber markets as well as higher pulp production and shipments, partially offset by lower lumber production and shipments and increased log costs, as well as restructuring costs of $20.0 million related to the announced closure of the Company's Quesnel Sawmill and one-time costs of $1.1 million associated with new five year collective labour agreements for the lumber business ratified in the current quarter. Adjusted for these one-time items, operating income in the fourth quarter was $74.9 million, an increase of $25.6 million compared to the third quarter.

The North American lumber market saw strong gains in prices during the fourth quarter of 2013 supported by momentum in the U.S. housing market recovery and continued solid offshore lumber demand. U.S housing starts reached their highest level in five years, averaging 1,002,000 units SAAR (seasonally adjusted annual rate), up 14% from the previous quarter. Single-family starts, which consume a larger proportion of lumber compared to multi-family starts, increased 11% in the quarter, a further indication of the strengthening U.S. housing market. Canadian housing starts were up 4% from the third quarter of 2013 to 200,000 units SAAR, primarily reflecting steady construction activity. Canfor's offshore lumber shipments remained at strong levels in the fourth quarter of 2013, driven in part by increased shipments to China.

[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.

The average North American benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr lumber price was up 13% in the fourth quarter of 2013 to US$370 per Mfbm, and solid increases were seen across most other dimensions during the quarter. North American sales realizations benefited from this upward trend in pricing, as well as lower export taxes and a favourable impact from the weakening of the Canadian dollar over the period (for the Company's Western SPF operations). Offshore sales realizations saw more modest gains in the current quarter, lagging North American gains mostly due to the nature of pricing, much of which is negotiated monthly or quarterly in advance. Sales realizations for Southern Yellow Pine ("SYP") products were relatively flat quarter-over-quarter with an increase of US$22/Mfbm, or 6%, in the benchmark SYP 2x4 #2 price to US$415 per Mfbm, offset somewhat by declines in most wider dimension products.

Lumber shipments and production were down 63 million board feet (5%) and 56 million board feet (5%), respectively, from the prior quarter, primarily reflecting downtime related to capital installations and ramp-ups, less operating hours in the current quarter (mostly due to additional statutory holidays), and, to a lesser extent, weather related factors. Unit manufacturing costs showed a modest increase compared to the previous quarter resulting from the lower production, a continued industry-wide focus on dust control safety, and increased log costs stemming from log profile challenges related in part to severe flooding in the southeast area of British Columbia earlier in the year.

Global softwood pulp markets saw a modest improvement in the fourth quarter, with an increase in demand and a corresponding increase in list prices. Global softwood pulp producer inventory levels were balanced during the quarter, at 27 days' supply in December 2013, in line with September 2013. Average Northern Bleached Softwood Kraft ("NBSK") pulp list prices increased in all regions during the fourth quarter, with the North American pulp list price up US$36 per tonne from the previous quarter to US$983 and Europe up US$35 per tonne from the previous quarter to US$902 reflecting a 4% gain in both regions. Pulp list prices to China were up US$52 per tonne to US$737, an increase of 8% in the quarter. List prices to all regions ended the 2013 year at their highest levels for two years, but price gains for the 2013 year as a whole were partly eroded by increased upward pressure on discounts, particularly in North America. Fourth quarter sales realizations also benefited slightly from the weaker Canadian dollar against the US dollar.

Higher pulp shipment levels for the fourth quarter of 2013, up over 62,000 tonnes from the prior quarter, were attributable to higher pulp production and a drawdown of inventories resulting from increased purchasing, principally from China, in part due to inventory build ahead of the Chinese Lunar New Year. The increased production levels mainly reflected a reduction in scheduled outages during the period. Pulp unit manufacturing costs in the fourth quarter of 2013 were broadly in line with the previous quarter, with the favourable impact of the higher production levels offset by higher energy costs.

The Company continued to preserve its strong financial position, ending the year with cash and cash equivalents of $90 million, and a consolidated net debt to capitalization of 8.0%. For Canfor, excluding Canfor Pulp Products Inc. ("CPPI"), net debt to capitalization at the end of the fourth quarter was 6.2%. During the fourth quarter of 2013, CPPI completed a $50 million floating interest rate term debt financing, repayable on November 5, 2018 with no penalty for early repayment, and also extended the maturity on its $110 million operating loan facility to January 31, 2018. CPPI ended the year with a net debt to capitalization of 9.7%.

During the fourth quarter of 2013, the Company entered into an agreement with West Fraser Mills Ltd. ("West Fraser") for an exchange in forest tenure rights in the Quesnel, Lakes and Morice Timber Supply Areas of the BC interior, as well as a non-replaceable license and undercut volumes. In December 2013, the Company negotiated new five year collective labour agreements with the United Steelworkers ("USW") union for most of its lumber operations in BC. This agreement provides Canfor with a stable labour environment for the next five years.

Commenting on the fourth quarter performance, Canfor's President and Chief Executive Officer, Don Kayne, said that lumber markets continued to demonstrate improvement in demand in the U.S. and solid offshore markets, and that early indications for 2014 were encouraging. Kayne added, "With our significant investment in capital upgrades over the last couple of years, most recently at our Mackenzie and Elko Sawmills, we are well placed to take full advantage of the improving market conditions". Regarding the pulp and paper segment's fourth quarter results, Kayne said, "Overall shipments were strong in the fourth quarter, supported by better-than-anticipated market conditions." He added that he was encouraged by the Company's improving operating performance as it entered 2014 and by the continued growth of its green energy business, with CPPI's turbine upgrades at its Northwood Pulp Mill projected to be commissioned by the end of the first quarter of 2014.

Looking ahead, North American lumber consumption is forecast to improve as the U.S. housing market continues to recover and more existing homeowners are forecast to undertake home improvement projects this year. Offshore markets are projected to remain solid supported by continued demand from China, Japan and other emerging markets. With significant new hardwood pulp capacity projected to come online in the coming months, there continues to be a risk that pulp prices may come under pressure in 2014.

Additional Information and Conference Call

A conference call to discuss the fourth quarter's financial and operating results will be held on Thursday, February 6, 2014 at 8:00 AM Pacific time. To participate in the call, please dial 416-340-8010 or Toll-Free 866-540-8136. For instant replay access until February 22, 2014, 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, North and South Carolina and Alabama. The Company produces primarily softwood lumber and also produces specialized wood products and bleached chemi-thermo mechanical pulp (BCTMP). Canfor also owns a 50.4% 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
Fourth 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 December 31, 2013 relative to the quarters ended September 30, 2013 and December 31, 2012, and the financial position of the Company at December 31, 2013. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended December 31, 2013 and 2012, as well as the 2012 annual MD&A and the 2012 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2012 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at February 5, 2014.

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.

FOURTH QUARTER 2013 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of Canadian dollars, except per share amounts)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Operating income (loss) by segment:					
Lumber	**$ 37.4**	$ 43.8	**$ 285.1**	$ 42.5	$ 75.6
Pulp and Paper	**$ 23.2**	$ 11.5	**$ 72.2**	$ 12.0	$ 27.6
Unallocated and Other	**$ (6.8)**	$ (6.0)	**$ (26.0)**	$ (5.5)	$ (31.9)
Total operating income	**$ 53.8**	$ 49.3	**$ 331.3**	$ 49.0	$ 71.3
Add: Amortization	**$ 44.9**	$ 44.8	**$ 186.2**	$ 47.8	$ 177.1
Total operating income before amortization	**$ 98.7**	$ 94.1	**$ 517.5**	$ 96.8	$ 248.4
Add (deduct):					
Working capital movements	**$ (14.5)**	$ 4.6	**$ (7.5)**	$ (49.4)	$ (71.3)
Defined benefit pension plan contributions	**$ (14.0)**	$ (12.9)	**$ (53.0)**	$ (13.4)	$ (54.9)
Other operating cash flows, net[2]	**$ 28.6**	$ (10.5)	**$ 33.3**	$ (6.4)	$ (4.8)
Cash from operating activities	**$ 98.8**	$ 75.3	**$ 490.3**	$ 27.6	$ 117.4
Add (deduct):					
Finance expenses paid	**$ (5.9)**	$ (1.5)	**$ (17.4)**	$ (7.6)	$ (19.5)
Distributions paid to non-controlling interests	**$ (2.4)**	$ (2.4)	**$ (9.3)**	$ (0.4)	$ (15.9)
Capital additions, net[3]	**$ (67.5)**	$ (74.6)	**$ (237.3)**	$ (48.8)	$ (247.5)
Investment in Scotch & Gulf Lumber, LLC	**$ (0.5)**	$ (29.0)	**$ (29.5)**	$ -	$ -
Loan to Scotch & Gulf Lumber, LLC	**$ 2.1**	$ (34.0)	**$ (31.9)**	$ -	$ -
Proceeds from sale of Canfor-LP OSB[6]	**$ -**	$ 1.3	**$ 77.9**	$ -	$ -
Drawdown (repayment) of long-term debt	**$ (66.6)**	$ -	**$ (139.8)**	$ -	$ 50.1
Other, net	**$ (33.0)**	$ (16.9)	**$ (44.0)**	$ 12.0	$ 44.7
Change in cash / operating loans	**$ (75.0)**	$ (81.8)	**$ 59.0**	$ (17.2)	$ (70.7)
ROIC – Consolidated[4]	**2.0%**	2.2%	**17.8%**	2.4%	3.7%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.953**	$ 0.963	**$ 0.971**	$ 1.009	$ 1.001

[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] Other operating cash flows in the fourth quarter of 2013 include a $20.0 million accounting provision for the closure of the Company's Quesnel Sawmill. 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 amounts received under Government funding initiatives in the pulp and paper segment.

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

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

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	**Q4 2013**	**Q3 2013**	**YTD 2013**	**Q4 2012**	**YTD 2012**
Shareholder Net Income, as reported	**$ 28.0**	$ 28.4	**$ 228.6**	$ 21.3	$ 26.4
Foreign exchange (gain) loss on long-term debt and investments, net	**$ 1.5**	$ (1.0)	**$ 4.6**	$ 1.2	$ (3.1)
(Gain) loss on derivative financial instruments	**$ 0.1**	$ (2.2)	**$ (3.3)**	$ 6.5	$ 1.2
Mill closure provisions	**$ 14.8**	$ -	**$ 14.8**	$ -	$ -
One-time costs associated with collective agreements for the lumber business	**$ 0.8**	$ -	**$ 0.8**	$ -	$ -
Canfor's 50% interest in Canfor-LP OSB's income, net of tax	**$ -**	$ -	**$ 12.1**	$ -	$ -
(Gain) loss on sale of Canfor-LP OSB[6]	**$ 3.6**	$ 1.0	**$ (28.8)**	$ -	$ -
Change in substantively enacted tax rate	**$ -**	$ **-**	**$ 4.2**	$ -	$ -
Net gain on post retirement and pension plan amendments	**$ -**	$ -	**$ -**	$ (8.7)	$ (8.7)
Restructuring charges for management changes	**$ -**	$ -	**$ -**	$ -	$ 1.5
Increase in fair value of ABCP	**$ -**	$ -	**$ -**	$ -	$ (1.1)
Costs related to Tembec acquisition	**$ -**	$ -	**$ -**	$ -	$ 2.8
Net impact of above items	**$ 20.8**	$ (2.2)	**$ 4.4**	$ (1.0)	$ (7.4)
Adjusted Shareholder Net Income	**$ 48.8**	$ 26.2	**$ 233.0**	$ 20.3	$ 19.0
Shareholder Net Income per share (EPS), as reported	**$ 0.20**	$ 0.20	**$ 1.61**	$ 0.15	$ 0.18
Net impact of above items per share	**$ 0.15**	$ (0.02)	**$ 0.03**	$ (0.01)	$ (0.05)
Adjusted Shareholder Net Income per share	**$ 0.35**	$ 0.18	**$ 1.64**	$ 0.14	$ 0.13

[6] The Company completed the sale of its 50% share of the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") in the second quarter of 2013 and recorded a gain of $33.4 million (after tax). As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. An asset was recorded based on the fair value of this additional consideration and will be adjusted to current estimated fair value each reporting period. Based on the estimated fair value at December 31, 2013, a loss of $3.6 million (after tax) was recorded in the fourth quarter of 2013.

The Company reported operating income of $53.8 million for the fourth quarter of 2013, compared to operating income of $49.3 million for the third quarter. The modest improvement in operating income was largely attributable to strong gains in lumber markets as well as higher pulp production and shipments, partially offset by lower lumber production and shipments and increased log costs as well as restructuring costs of $20.0 million related to the announced closure of the Company's Quesnel Sawmill and one-time costs of $1.1 million associated with new five year collective labour agreements for the lumber business ratified in the current quarter. Adjusted for these one-time items, operating income in the fourth quarter was $74.9 million, an increase of $25.6 million compared to the third quarter.

The North American lumber market saw strong gains in prices during the fourth quarter of 2013 supported by momentum in the U.S. housing market recovery and continued solid offshore lumber demand. U.S housing starts reached their highest level in five years, averaging 1,002,000 units SAAR (seasonally adjusted annual rate), up 14% from the previous quarter. Single-family starts, which consume a larger proportion of lumber compared to multi-family starts, increased 11% in the quarter, a further indication of the strengthening U.S. housing market. Canadian housing starts were up 4% from the third quarter of 2013 to 200,000 units SAAR, primarily reflecting steady construction activity. Canfor's offshore lumber shipments remained at strong levels in the fourth quarter of 2013, driven in part by increased shipments to China.

The average North American benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr lumber price was up 13% in the fourth quarter of 2013 to US$370 per Mfbm, and solid increases were seen across most other dimensions during the quarter. North American sales realizations benefited from this upward trend in pricing, as well as lower export taxes and a favourable impact from the weakening of the Canadian dollar over the period (for the Company's Western SPF operations). Offshore sales realizations saw more modest gains in the current quarter, lagging North

American gains mostly due to the nature of pricing, much of which is negotiated monthly or quarterly in advance. Sales realizations for Southern Yellow Pine ("SYP") products were relatively flat quarter-over-quarter with an increase of US$22/Mfbm, or 6%, in the benchmark SYP 2x4 #2 price to US$415 per Mfbm, offset somewhat by declines in most wider dimension products.

Lumber shipments and production were down 63 million board feet (5%) and 56 million board feet (5%), respectively, from the prior quarter, primarily reflecting downtime related to capital installations and ramp-ups, less operating hours in the current quarter (mostly due to additional statutory holidays), and, to a lesser extent, weather related factors. Unit manufacturing costs showed a modest increase compared to the previous quarter resulting from the lower production, a continued industry-wide focus on dust control safety, and increased log costs stemming from log profile challenges related in part to severe flooding in the southeast area of British Columbia earlier in the year.

Global softwood pulp markets saw a modest improvement in the fourth quarter, with an increase in demand and a corresponding increase in list prices. Global softwood pulp producer inventory levels were balanced during the quarter, at 27 days' supply in December 2013, in line with September 2013. Average Northern Bleached Softwood Kraft ("NBSK") pulp list prices increased in all regions during the fourth quarter, with the North American pulp list price up US$36 per tonne from the previous quarter to US$983 and Europe up US$35 per tonne from the previous quarter to US$902 reflecting a 4% gain in both regions. Pulp list prices to China were up US$52 per tonne to US$737, an increase of 8% in the quarter. List prices to all regions ended the 2013 year at their highest levels for two years, but price gains for the 2013 year as a whole were partly eroded by increased upward pressure on discounts, particularly in North America. Fourth quarter sales realizations also benefited slightly from the weaker Canadian dollar against the US dollar.

Higher pulp shipment levels for the fourth quarter of 2013, up over 62,000 tonnes from the prior quarter, were attributable to higher pulp production and a drawdown of inventories resulting from increased purchasing, principally from China, in part due to inventory build ahead of the Chinese Lunar New Year. The increased production levels mainly reflected a reduction in scheduled outages during the period. Pulp unit manufacturing costs in the fourth quarter of 2013 were broadly in line with the previous quarter, with the favourable impact of the higher production levels offset by higher energy costs.

After adjusting for the Quesnel closure provision and one-time costs associated with the new collective labour agreements for the lumber business, operating income was up $40.1 million compared to the $34.8 million in the fourth quarter of 2012 (adjusted for the accounting gain related to amendments to the Company's post retirement benefit plans). The increase was largely the result of improvements in sales realizations in both the lumber and pulp markets. Partially offsetting the favourable gains in the markets were higher lumber unit manufacturing costs driven by increased market-driven stumpage costs and to a lesser extent elevated dust control efforts, as well as the impact of lower pulp production volume and higher fibre costs in the pulp and paper segment.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber[7]

(millions of Canadian dollars unless otherwise noted)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Sales	**$ 533.7**	$ 529.4	**$ 2,192.2**	$ 469.9	$ 1,711.8
Operating income before amortization	**$ 66.1**	$ 71.4	**$ 398.6**	$ 69.1	$ 177.4
Operating income	**$ 37.4**	$ 43.8	**$ 285.1**	$ 42.5	$ 75.6
Positive impact of inventory valuation adjustments[8]	**$ -**	$ -	**$ -**	$ (0.4)	$ (13.5)
Mill closure provisions	**$ 20.0**	$ -	**$ 20.0**	$ -	$ -
One-time costs associated with collective agreements	**$ 1.1**	$ -	**$ 1.1**	$ -	$ -
Costs related to Tembec acquisition	**$ -**	$ -	**$ -**	$ -	$ 2.5
Operating income excluding impact of inventory valuation adjustments and unusual items	**$ 58.5**	$ 43.8	**$ 306.2**	$ 42.1	$ 64.6
Average SPF 2x4 #2&Btr lumber price in US$[9]	**$ 370**	$ 328	**$ 356**	$ 335	$ 299
Average SPF price in Cdn$	**$ 388**	$ 340	**$ 367**	$ 332	$ 299
Average SYP 2x4 #2 lumber price in US$[10]	**$ 415**	$ 393	**$ 413**	$ 386	$ 333
Average SYP price in Cdn$	**$ 436**	$ 408	**$ 425**	$ 383	$ 333
U.S. housing starts (thousand units SAAR)[11]	**1,002**	882	**923**	896	783
Production – SPF lumber (MMfbm)	**979.7**	1,043.5	**4,207.4**	985.5	3,857.5
Production – SYP lumber (MMfbm)	**138.7**	131.3	**539.9**	121.8	479.1
Shipments – SPF lumber (MMfbm)[12]	**999.1**	1,066.4	**4,187.9**	1,007.9	3,867.5
Shipments – SYP lumber (MMfbm)[12]	**143.2**	139.5	**548.6**	133.5	511.8
Shipments – wholesale lumber (MMfbm)	**5.7**	5.2	**24.8**	8.0	54.7

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

Overview

Operating income for the lumber segment was $37.4 million for the fourth quarter of 2013, a decrease of $6.4 million compared to operating income of $43.8 million in the previous quarter, and down $5.1 million from operating income of $42.5 million reported for the fourth quarter of 2012. Adjusting for one-time items, operating income was $306.2 million in 2013, up $241.6 million from 2012. Results in the lumber segment for the fourth quarter of 2013 were impacted by various unusual items including an expense of $20.0 million related to the announced closure of the Quesnel Sawmill and, to a lesser extent, one-time costs of $1.1 million associated with new five year collective agreements ratified in the quarter. Excluding the impact of these unusual items, operating income for the fourth quarter of 2013 was $58.5 million, compared to similarly adjusted $43.8 million in the third quarter and $42.1 million in the fourth quarter of 2012. Results in the fourth quarter of 2012 also included an accounting gain of $6.8 million related to certain amendments to the Company's salaried post retirement benefit plans.

The improvement in adjusted operating income in the current quarter, compared to the third quarter of 2013 resulted from improved sales realizations driven by an upward trend in pricing, offset in part by lower shipments as well as higher unit log costs. Unit manufacturing costs were up driven largely by log profile challenges partially resulting from the flooding experienced earlier in the year in the southeast area of British Columbia and the unfavourable impact of lower production levels on unit costs. The lower production levels reflected various factors including downtime related to capital installations and ramp-ups including the recent capital project at the Houston Sawmill, reduced operating hours compared to the previous quarter, and to a lesser extent, weather related factors and the start-up of additional shifts at the Company's southern pine operations.

The improved adjusted operating income compared to the fourth quarter of 2012 resulted principally from higher sales realizations, due to stronger market prices, lower export taxes and a weaker Canadian dollar. These gains more than offset higher unit manufacturing costs, which were largely log cost driven. Total shipments and production were in line with the fourth quarter of 2012, with an increase in productivity following various capital projects undertaken in 2013 offset by reduced overtime shifts in the current quarter. Higher unit manufacturing costs were driven by significant market-price related increases in stumpage and to a lesser extent, continued dust control efforts and additional shifts at the Company's southern pine operations.

Markets

The North American lumber market saw strong gains in prices during the fourth quarter of 2013, driven mostly by solid demand from the U.S. residential construction market. The U.S. housing market recovery continued to gain momentum with total housing starts averaging 1,002,000 units[13] SAAR, reaching the highest level since the first quarter of 2008, and up 14% from the third quarter of 2013 and 11% higher compared to the same period in 2012. Single-family starts, which consume a larger proportion of lumber compared to multi-family starts, were up 11% compared to the third quarter to 661,000 units[13] SAAR.

In Canada, lumber consumption was higher than the previous quarter, as Canadian housing starts averaged 200,000 units[14] SAAR for the quarter, up 8,000 units, or 4%, compared to the third quarter of 2013, primarily reflecting steady construction activity. Compared to the same quarter in 2012, Canadian housing starts declined 2% attributable to a more moderate pace of construction activity in most parts of the country.

Canfor's offshore lumber shipments remained solid in the fourth quarter of 2013, buoyed by strong shipments to China where the total BC softwood lumber industry set a new record high volume in the month of October[15].

Sales

Sales for the lumber segment for the fourth quarter of 2013 were $533.7 million, compared to $529.4 million in the previous quarter and $469.9 million in the fourth quarter of 2012. The increase from both comparable periods reflected overall higher sales realizations in the current quarter offset in part by lower shipments. Current quarter sales also included lower residual fibre revenue resulting mostly from lower shipments and seasonal adjustments. Compared to the fourth quarter of 2012, log sales were up, largely as a result of higher log costs.

Total shipments in the fourth quarter of 2013, at just over 1.1 billion board feet, were down 5% from the previous quarter, reflecting lower production levels and in line with the fourth quarter of 2012.

Overall North American sales realizations benefited from an upward trend in pricing, as well as from lower export taxes and a favourable impact from the weakening of the Canadian dollar over the period (for the Company's Canadian operations). For sales to North America, the average Random Lengths Western SPF 2x4 #2&Btr lumber price was up 13% to US$370 per Mfbm, and solid increases were seen across most other dimensions during the quarter. Offshore sales realizations saw more modest gains in the current quarter, lagging North American gains mostly due to the nature of pricing, much of which is negotiated monthly or quarterly in advance. Sales realizations for SYP products were relatively flat quarter-over-quarter with a US$22/Mfbm, or 6%, increase in the benchmark SYP 2x4 #2 price to US$415 per Mfbm, offset by declines in most wider dimension products. The average value of the Canadian dollar compared to the US dollar in the fourth quarter was down 1 cent, or 1%, from the previous quarter, positively impacting current quarter sales realizations.

Compared to the fourth quarter of 2012, sales realizations showed a modest improvement reflecting stronger overall prices, lower export taxes and a favourable foreign exchange impact. The benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$35 per Mfbm, or 10%, compared to the fourth quarter of 2012, while most other grades and dimensions also saw increases, but to a lesser degree. Offshore pricing also showed solid increases compared to the fourth quarter of 2012. SYP products experienced similar gains, with the benchmark SYP 2X4 #2 price up US$29 per Mfbm, or 8%. Sales realizations for Canadian operations benefited from a 6 cent, or 6%, weaker Canadian dollar. Likewise, export taxes on Canadian shipments to the U.S. were lower, averaging 2% in the current period (5% in October) compared to the fourth quarter of 2012, when the export tax averaged 8% (5% in October and 10% in November and December).

[13] U.S. Census Bureau
[14] CMHC – Canada Mortgage and Housing Corporation
[15] Council of Forestry Industries

Total residual fibre revenue was down in the current quarter compared to the third quarter of 2013, mostly resulting from lower shipments of sawmill residual chips along with seasonal factors. Compared to the fourth quarter of 2012, total residual fibre revenue was also down, with lower shipments of sawmill residual chips more than offsetting a market-driven increase in sawmill residual chip prices.

Operations

Lumber production, at just over 1.1 billion board feet, was down 5% from the previous quarter, caused by a combination of factors including downtime related to capital installations and ramp-ups, including work on the recent capital project at the Houston Sawmill, less operating hours in the current quarter (mostly due to additional statutory holidays), and to a lesser extent, weather related issues. Productivity in the fourth quarter of 2013 was also impacted by the start-up of additional shifts at the Company's southern pine operations. Compared to the fourth quarter of 2012, lumber production was broadly in line, with continued productivity improvements from various capital projects undertaken in 2013 and a full quarter of production from the Company's Radium Sawmill, which was restarted in the comparative period of 2012, offset by a reduction in overtime shifts in the fourth quarter of 2013.

Overall, the Company's lumber unit manufacturing costs saw a modest increase compared to the previous quarter, resulting from an increase in unit log costs coupled with moderate increases in unit cash conversion costs. The increase in unit manufacturing costs reflected the lower production as well as a continued industry-wide focus on dust control safety efforts. Higher unit manufacturing costs also reflected log profile challenges resulting from the severe flooding in 2013 in the southeast area of British Columbia and increased hauling and logging costs. These factors were partly offset by market-driven decreases in stumpage.

Compared to the fourth quarter of 2012, higher unit manufacturing costs were largely attributable to market-related stumpage increases and higher logging and hauling costs and to a lesser degree, the aforementioned continuing dust control efforts and additional shifts at the Company's southern pine operations.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[16, 17]

(millions of Canadian dollars unless otherwise noted)	**Q4 2013**	Q3 2013	**YTD 2013**	Q4 2012	YTD 2012
Sales	**$ 275.8**	$ 224.6	**$ 999.4**	$ 228.4	$ 923.5
Operating income before amortization	**$ 39.2**	$ 28.5	**$ 144.0**	$ 32.5	$ 96.6
Operating income	**$ 23.2**	$ 11.5	**$ 72.2**	$ 12.0	$ 27.6
Average pulp price delivered to U.S. – US$[18]	**$ 983**	$ 947	**$ 941**	$ 863	$ 872
Average price in Cdn$	**$ 1,032**	$ 983	**$ 969**	$ 855	$ 871
Production – pulp (000 mt)	**299.5**	274.8	**1,192.9**	314.1	1,169.9
Production – paper (000 mt)	**30.8**	33.8	**134.7**	35.4	130.2
Shipments – pulp (000 mt)	**329.5**	267.5	**1,213.0**	297.8	1,176.6
Shipments – paper (000 mt)	**31.1**	35.5	**138.8**	32.1	129.1

16 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.
17 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").
18 Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

Operating income for the pulp and paper segment was $23.2 million for the fourth quarter of 2013, up $11.7 million from the previous quarter, and up $11.2 million from the fourth quarter of 2012. For the 2013 year, operating income was $72.2 million, up $44.6 million from $27.6 million in 2012.

Compared to the previous quarter of 2013, results for the pulp segment reflected significantly higher shipment volumes coupled with moderate increases in sales realizations resulting from increased NBSK prices and a further weakening of the Canadian dollar. The increased production primarily resulted from a reduction in scheduled outages. The unit impact of higher production and slightly lower fibre costs were offset by higher energy costs, resulting in unit manufacturing costs being broadly in line with the third quarter.

Improved results for the pulp segment compared to the fourth quarter of 2012 principally reflected higher sales realizations, resulting from a 14% increase in pulp list prices, a 6% weaker Canadian dollar and higher shipments in the current quarter, the latter driven by higher shipments to China, partially offset by reduced volume into the U.S.

This shift in the regional sales mix as well as upward pressure on discounts in North American markets partially offset the improved NBSK list prices and favourable exchange rates. Unit manufacturing costs increased moderately quarter-over-quarter, as a result of higher sawmill residual chip fibre costs (linked to NBSK market pulp sales realizations), and lower production levels, offset in part by reduced chemical and maintenance spend. The fourth quarter of 2012 results included an accounting gain of $4.5 million related to post retirement plan adjustments.

Markets

Global softwood pulp markets strengthened in the fourth quarter of 2013, with increased demand and solid increases in list prices through the quarter. Global softwood pulp producer inventory levels were balanced during the quarter, at 27 days' supply in December 2013, in line with September 2013[19]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp increased 2% in 2013 compared to 2012[20]. The increase in softwood pulp shipments in the year was primarily due to increased shipments to North America and Europe, while shipments to China were relatively flat. Global shipments to China were up 2% in the fourth quarter of 2013 compared to the third quarter of 2013 and up 11% compared to the same period in 2012[20].

Sales

The Company's pulp shipments in the fourth quarter of 2013 were 330,000 tonnes, an increase of 62,000 tonnes, or 23%, from the previous quarter, reflecting both higher production volumes and increased demand, principally from China, driven in part by a build in inventories ahead of the Chinese Lunar New Year. Compared to the fourth quarter of 2012, shipments were higher by 32,000 tonnes, or 11%, due largely to increased shipments to China, partially offset by reduced volumes to the U.S.

The North American pulp list price increased US$36 per tonne to US$983 and the list price to Europe increased US$35 to US$902 reflecting a 4% gain in both regions. The NBSK pulp list price to China increased US$52 per tonne, averaging US$737 in the quarter. List prices to all regions ended the year at their highest levels over the last two years. The favourable impact of higher NBSK prices during the quarter was slightly offset by increased volume to China, with lower average sales realizations. Current quarter sales realizations also benefited slightly from the 1% weakening of the Canadian dollar against the US dollar. Bleached chemi-thermo mechanical pulp ("BCTMP") average sales realizations showed a moderate increase compared to the previous quarter reflecting an upward trend in prices through the current quarter.

Compared to the fourth quarter of 2012, higher pulp sales realizations resulted from significant improvements in average pulp prices in all regions and the 6% weakening of the Canadian dollar. The North American NBSK list pulp price increased US$120 per tonne, or 14%. List prices to Europe and China experienced similar increases, up 12% and 11%, respectively, compared to the fourth quarter of 2012. The improved NBSK list prices more than offset the impact of increased volume to lower-margin regions, principally China, and the impact of increased discounts in North American markets in 2013. BCTMP sales realizations experienced moderate increases compared to the fourth quarter of 2012, reflecting higher market pricing and the weaker Canadian dollar.

Operations

Pulp production in the current quarter was 300,000 tonnes, an increase of 25,000 tonnes, or 9%, from the previous quarter, and a decrease of 15,000 tonnes, or 5%, compared to the fourth quarter of 2012.

Increased production in the current quarter was primarily the result of a reduction in scheduled outages compared to the previous quarter. The current quarter included a scheduled maintenance outage at the Prince George Pulp Mill which resulted in reduced market pulp production of 4,000 tonnes. In comparison, the third quarter of 2013 included a scheduled major maintenance outage at the Northwood Pulp Mill, which impacted production by 32,000 tonnes. Both the current and previous quarters' production levels reflected similar impacts from operational challenges but productivity improved towards the end of the current quarter. Compared to the fourth quarter of 2012, production levels reflected lower overall operating rates.

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

Pulp unit manufacturing costs were broadly in line with the previous quarter, largely due to the favourable impact of higher production and slightly lower fibre costs, offset by higher energy costs. Fibre costs were down slightly compared to the previous quarter, attributable to lower-cost whole log chips and seasonal pricing adjustments. The increase in energy costs in the current quarter was primarily related to reduced power production as upgrades were completed to the Northwood turbine generators and planned maintenance was completed on the Prince George Pulp Mill's turbine generator.

Compared to the fourth quarter of 2012, unit manufacturing costs increased moderately, primarily driven by higher fibre costs, lower production levels and higher energy costs, offset in part by reduced chemical costs and reduced maintenance spending. The higher fibre costs in the current quarter resulted from market-related increases in prices for sawmill residual chips coupled with increased prices for higher-cost whole log chips, in part related to pressure on stumpage rates.

Unallocated and Other Items

Selected Financial Information[21]

(millions of Canadian dollars)	**Q4 2013**	Q3 2013	**YTD 2013**	Q4 2012	YTD 2012
Operating income (loss) of Panels operations[22]	**$ (0.5)**	$ 0.1	**$ (1.7)**	$ (0.7)	$ (5.0)
Corporate costs	**$ (6.3)**	$ (6.1)	**$ (24.3)**	$ (4.8)	$ (26.9)
Finance expense, net	**$ (6.4)**	$ (6.4)	**$ (27.9)**	$ (8.7)	$ (33.8)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ (3.4)**	$ 2.3	**$ (8.9)**	$ (2.0)	$ 4.7
Gain (loss) on derivative financial instruments	**$ (0.2)**	$ 4.0	**$ 4.4**	$ (8.7)	$ (0.8)
Gain on sale of Canfor–LP OSB joint venture	**$ -**	$ -	**$ 38.3**	$ -	$ -
Other income (expense), net	**$ (3.1)**	$ (3.9)	**$ 1.5**	$ 3.2	$ 6.6

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

Corporate costs were $6.3 million for the fourth quarter of 2013, in line with the previous quarter and were up $1.5 million compared to the fourth quarter of 2012. The fourth quarter of 2012 corporate costs included a portion of the aforementioned gain due to amendments to the Company's salaried post retirement benefit plans.

Net finance expense for the fourth quarter of 2013 was $6.4 million, in line with the previous quarter. Compared to the fourth quarter of 2012, finance expense was down $2.3 million, principally resulting from lower debt and higher cash balances through the current quarter. Net finance expense for the 2012 periods has been restated for adoption of amended IAS 19, *Employee Benefits*, as further discussed in the "Changes in Accounting Policies" section later in this document.

The Company recorded a foreign exchange translation loss on its US dollar denominated debt of $3.4 million for the fourth quarter of 2013, as a result of a weakening of the Canadian dollar against the US dollar through the fourth quarter. In the third quarter of 2013, a strengthening of the Canadian dollar at the quarter end close dates resulted in a translation gain of $2.3 million, while the fourth quarter of 2012 showed a loss of $2.0 million due to a weakening of the Canadian dollar against the US dollar at the respective quarter ends.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices, pulp prices and interest rates. In the fourth quarter of 2013, the Company recorded a net loss $0.2 million related to its derivative instruments due to realized and unrealized losses on its interest rate swaps as a result of lower interest rates, largely offset by realized and unrealized gains on US dollar forward contracts and collars.

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

(millions of Canadian dollars)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Foreign exchange collars and forward contracts	**$ 0.3**	$ 3.9	**$ 0.2**	$ (1.0)	$ 3.2
Energy derivatives	**$ 0.1**	$ 0.3	**$ 0.2**	$ (0.3)	$ 0.6
Lumber futures	**$ 0.2**	$ 0.4	**$ 4.2**	$ (7.5)	$ (3.6)
Pulp futures	**$ (0.1)**	$ -	**$ (0.1)**	$ -	$ -
Interest rate swaps	**$ (0.7)**	$ (0.6)	**$ (0.1)**	$ 0.1	$ (1.0)
	$ (0.2)	$ 4.0	**$ 4.4**	$ (8.7)	$ (0.8)

Other expense, net for the fourth quarter of 2013 included a $4.8 million negative fair value adjustment to the Canfor-LP OSB contingent consideration asset, largely reflecting weaker forecast OSB prices over the contingent consideration period. On completion of the Canfor-LP OSB sale in the second quarter of 2013, the initial fair value estimate for the contingent consideration arrangement was included in the gain on sale of the Canfor-LP OSB joint venture (see further discussion in the "Sale of Peace Valley OSB Joint Venture" section later in this document). The Company also recognized a net accounting loss of $4.2 million related to the timber exchange with West Fraser (see further discussion in the "Timber Exchange" section later in this document). Partially offsetting these factors in the fourth quarter of 2013 were foreign exchange gains on US dollar denominated working capital of $4.0 million resulting from the weakening of the Canadian dollar relative to the US dollar over the course of the quarter. In the third quarter of 2013 and fourth quarter of 2012, the Company recorded a $2.7 million loss and a $0.7 million gain on US dollar denominated working capital, respectively.

Other Comprehensive Income (Loss)

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

(millions of Canadian dollars)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Foreign exchange translation differences for foreign operations	**$ 8.0**	$ (5.6)	**$ 15.0**	$ 1.9	$ (4.6)
Defined benefit actuarial gains (losses), net of tax	**$ 40.4**	$ 17.1	**$ 91.7**	$ (3.6)	$ (42.4)
Other comprehensive income (loss), net of tax	**$ 48.4**	$ 11.5	**$ 106.7**	$ (1.7)	$ (47.0)

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

In the fourth quarter of 2013, the Company recorded an after-tax credit to the statements of other comprehensive income (loss) of $40.4 million in relation to changes in the valuation of its defined benefit post-employment compensation plans and other non-pension post-employment benefit plans. The gain associated with the defined benefit post-employment compensation plans is principally due to a higher return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation, offset in part by adjustments to mortality rate assumptions. The gain related to the other non-pension post-employment benefits principally reflected a higher discount rate used to value the post-employment obligation and favourable experience adjustments, offset in part by adjustments to mortality rate assumptions. In the previous quarter, the Company recorded a credit of $17.1 million (after-tax), while an after-tax charge of $3.6 million was recorded in the fourth quarter of 2012.

In addition, the Company recorded $8.0 million of other comprehensive gain in the quarter for foreign exchange differences for foreign operations, reflecting favourable foreign exchange movements during the quarter. This compared to other comprehensive loss of $5.6 million in the previous quarter and a gain of $1.9 million in the fourth quarter of 2012.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Increase (decrease) in cash and cash equivalents	**$ (0.4)**	$ (81.8)	**$ 106.6**	$ (7.2)	$ (43.7)
Operating activities	**$ 98.8**	$ 75.3	**$ 490.3**	$ 27.6	$ 117.4
Financing activities	**$ (33.8)**	$ (21.6)	**$ (181.4)**	$ 2.0	$ 42.0
Investing activities	**$ (65.4)**	$ (135.5)	**$ (202.3)**	$ (36.8)	$ (203.1)
Ratio of current assets to current liabilities			**1.7 : 1**		1.3: 1
Net debt to capitalization			**8.0%**		20.0%
ROIC – Consolidated	**2.0%**	2.2%	**17.8%**	2.4%	3.7%
ROCE - Canfor solid wood business[25]	**2.4%**	2.5%	**17.0%**	1.8%	2.9%

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

[25] Return on Capital Employed ("ROCE") for the Canfor solid wood business represents consolidated ROCE adjusted to remove the Company's interest in Canfor-LP OSB and pulp and paper operations, including CPPI 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 $98.8 million in the fourth quarter of 2013, compared to cash generated of $75.3 million in the previous quarter and $27.6 million in the same quarter of 2012. The increase in cash generated from operating activities compared to the previous quarter was attributable to higher cash earnings, partly offset by an increase in non-cash working capital. The latter principally resulted from a seasonal increase in log inventory and a decrease in accounts payable and accrued liabilities largely related to the timing of contractor and stumpage payments, partially offset by seasonally lower trade accounts receivable balances. Compared to the fourth quarter of 2012, the increase in cash generated from operating activities resulted largely from higher cash earnings coupled with a drawdown in finished goods inventories in the current period.

Cash used in financing activities was $33.8 million in the current quarter, compared to cash used of $21.6 million in the previous quarter and cash generated of $2.0 million in the same quarter of 2012. The current quarter cash flows included repayment of CPPI's US$110 million 6.41% interest rate debt. In the fourth quarter of 2013, CPPI completed a $50.0 million floating rate term debt financing (see further discussion of the debt issued in the fourth quarter in the following "Liquidity and Financial Requirements" section). The Company had $74.6 million drawn on its operating loan facility at the end of the quarter. During the current quarter, the Company paid $6.0 million in finance costs principally reflecting the final interest payment on CPPI's US$110 million term debt. Cash distributions to non-controlling interests were $2.4 million, in line with the third quarter of 2013 and up $2.0 million from same quarter in the previous year. In the current quarter, Canfor purchased 1,474,600 common shares under the Normal Course Issuer Bid for $33.4 million compared to $17.7 million in the prior quarter (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section).

Cash used for investing activities was $65.4 million in the current quarter, compared to $135.5 million in the prior quarter and $36.8 million in same quarter of 2012. Cash used for capital additions was $67.5 million, down $7.1 million from third quarter and up $18.0 million from the fourth quarter of 2012. Cash paid for capital in the current quarter included the Company's Mackenzie Sawmill rebuild and capital projects at its Houston Sawmill. In the pulp and paper segment, current quarter capital expenditures of $20.1 million primarily related to the Northwood Pulp Mill and Intercontinental turbine upgrades, work performed on a power boiler precipitator upgrade at the Prince George Pulp Mill and scheduled capitalized major maintenance of business. Construction of the Northwood Pulp Mill turbines was substantially completed by the end of the year and the project is targeted for commissioning by the end of the first quarter of 2014.

Liquidity and Financial Requirements

At December 31, 2013, the Company on a consolidated basis had cash of $89.5 million, $74.6 million drawn on its operating loans, and an additional $27.0 million reserved for several standby letters of credit. Total available undrawn operating loans were $378.4 million.

In the fourth quarter of 2013, CPPI extended the maturity on its $110.0 million principal operating loan facility from November 13, 2016 to January 31, 2018. All other terms on the operating loan facility remain unchanged.

In the fourth quarter of 2013, CPPI also completed a 5-year $50.0 million in floating interest rate term debt financing, repayable in November 2018 with no penalty for early repayment, and also repaid its US$110 million 6.41% term debt. Canfor's $100.0 million term debt is scheduled for repayment on February 13, 2017.

The Company and CPPI 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.

The Company's consolidated net debt to total capitalization at the end of the fourth quarter of 2013 was 8.0%. For Canfor, excluding CPPI, net debt to capitalization at the end of the fourth quarter was 6.2%.

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 7,137,621 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid is set to expire on March 4, 2014. In the fourth quarter of 2013, Canfor purchased 1,474,600 common shares for $33.4 million. For the year ended December 31, 2013, Canfor purchased 2,847,838 common shares for $60.0 million.

Phased Purchase of Scotch & Gulf Lumber, LLC

On August 9, 2013, the Company completed the first phase of the previously announced purchase of Scotch & Gulf Lumber, LLC ("Scotch Gulf") for $29.5 million, representing an initial 25% interest in Scotch Gulf, plus transaction closing costs and a proportionate share of working capital. Canfor's initial 25% interest will increase over a 3 year period to 33% after twelve months, 50% after eighteen months and 100% at the end of the term. Scotch Gulf has an option under the purchase agreement to accelerate the final closing of the phased purchase to a date earlier than August 2016 under certain conditions. The aggregate purchase price for Scotch Gulf is US$80 million, plus working capital.

As part of the transaction, Scotch Gulf borrowed $34.0 million from Canfor in the form of a term loan that will be repaid from the distribution of cash earnings over the course of the phased purchase agreement with any net outstanding amount at August 2016 applied against the final phase purchase price payment. The term loan has an interest rate equal to the floating rate on Canfor's principal operating loans plus 1.0% and is secured by Scotch Gulf's operating assets. At December 31, 2013, $33.0 million was outstanding on the term loan receivable and is included in Long-term Investments and Other on the balance sheet.

Sale of Canfor-LP OSB Joint Venture

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

As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, contingent on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. The fair value of the contingent consideration as at the close of the current quarter was $12.8 million, with the current portion presented in Other Accounts Receivable and the long-term portion presented in Long-Term Investments and Other. During the fourth quarter of 2013, Canfor recognized a $4.8 million negative fair value adjustment on the contingent consideration.

Timber Exchange

In the fourth quarter of 2013, Canfor entered into an agreement with West Fraser Mills Ltd. ("West Fraser") to exchange forest tenure rights. Canfor exchanged 382,194 cubic metres of replaceable forest license allowable annual cut in the Quesnel Timber Supply Area and 53,627 cubic metres of replaceable forest license allowable annual cut in the Lakes Timber Supply Area with West Fraser for 324,500 cubic metres of replaceable forest license allowable annual cut in the Morice Timber Supply Area as well as a non-replaceable license and undercut volumes. The timber exchange was treated as a non-monetary transaction in the Company's fourth quarter of 2013's financial statements and resulted in a pre-tax loss of $4.2 million in the current period. The estimated fair value of the timber tenures exchanged between Canfor and West Fraser was $20.0 million.

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

The Company ratified new five year collective agreements with the USW during the fourth quarter of 2013, with terms expiring on June 30, 2018.

OUTLOOK

Lumber

For 2014, North American lumber consumption is forecast to improve as the U.S. housing market continues to recover and more existing homeowners are forecast to undertake home improvement projects this year. Offshore markets are projected to remain solid supported by continued demand from China, Japan and other emerging markets.

Pulp and Paper

For the month of January 2014, CPPI announced an increase in the NBSK pulp list price of US$20 per tonne in North America with list prices to China and Europe remaining unchanged. There are no maintenance outages planned for the first quarter of 2014. NBSK pulp markets are projected to remain stable through the first quarter of 2014 and producer inventories are balanced with steady demand from North America and Europe. Demand from China is projected to soften before the end of the first quarter of 2014 following strong buying in the fourth quarter of 2013 and the traditional Chinese Lunar New Year's holiday in January 2014.

With significant new hardwood pulp capacity projected to come online in the coming months, there continues to be a risk that pulp prices may come under pressure in 2014.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at December 31, 2013**		As at December 31, 2012 (Note 14)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**89.5**	$	-
Accounts receivable - Trade		**112.6**		102.7
- Other		**39.3**		57.5
Inventories (Note 2)		**471.9**		431.3
Prepaid expenses and other assets		**39.1**		23.4
Investment in joint venture held for sale (Note 13)		**-**		75.1
Total current assets		**752.4**		690.0
Property, plant and equipment		**1,151.9**		1,081.7
Timber licenses		**534.6**		554.6
Goodwill and other intangible assets		**93.5**		80.4
Retirement benefit surplus (Note 5)		**42.2**		1.4
Long-term investments and other (Note 3)		**112.5**		43.2
Deferred income taxes, net		**6.2**		39.3
Total assets	**$**	**2,693.3**	$	2,490.6
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**-**	$	17.1
Operating loans (Note 4(a))		**74.6**		27.0
Accounts payable and accrued liabilities		**321.8**		258.4
Current portion of long-term debt (Note 4(b))		**-**		184.1
Current portion of deferred reforestation obligations		**44.1**		37.3
Total current liabilities		**440.5**		523.9
Long-term debt (Note 4(b))		**153.1**		100.0
Retirement benefit obligations (Note 5)		**200.5**		311.7
Deferred reforestation obligations		**69.8**		78.4
Other long-term liabilities		**14.9**		13.6
Deferred income taxes, net		**217.1**		151.1
Total liabilities	**$**	**1,095.9**	$	1,178.7
EQUITY				
Share capital	**$**	**1,103.7**	$	1,126.2
Contributed surplus		**31.9**		31.9
Retained earnings (deficit)		**234.2**		(35.1)
Accumulated foreign exchange translation differences		**4.5**		(10.5)
Total equity attributable to equity holders of the Company		**1,374.3**		1,112.5
Non-controlling interests		**223.1**		199.4
Total equity	**$**	**1,597.4**	$	1,311.9
Total liabilities and equity	**$**	**2,693.3**	$	2,490.6

The accompanying notes are an integral part of these 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

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31, **2013**	3 months ended December 31, 2012 (Note 14)	12 months ended December 31, **2013**	12 months ended December 31, 2012 (Note 14)
Sales	**$ 809.5**	$ 700.3	**$ 3,194.9**	$ 2,642.8
Costs and expenses				
Manufacturing and product costs	**528.8**	452.0	**2,036.8**	1,777.6
Freight and other distribution costs	**137.3**	122.0	**540.4**	491.8
Export taxes	**2.7**	9.8	**9.2**	45.5
Amortization	**44.9**	47.8	**186.2**	177.1
Selling and administration costs	**21.8**	14.9	**67.9**	61.0
Restructuring, mill closure and severance costs	**20.2**	4.8	**23.1**	18.5
	755.7	651.3	**2,863.6**	2,571.5
Operating income	**53.8**	49.0	**331.3**	71.3
Finance expense, net	**(6.4)**	(8.7)	**(27.9)**	(33.8)
Foreign exchange gain (loss) on long-term debt and investments, net	**(3.4)**	(2.0)	**(8.9)**	4.7
Gain (loss) on derivative financial instruments (Note 6)	**(0.2)**	(8.7)	**4.4**	(0.8)
Gain on sale of Canfor-LP OSB joint venture (Note 13)	**-**	-	**38.3**	-
Other income (expense), net	**(3.1)**	3.2	**1.5**	6.6
Net income before income taxes	**40.7**	32.8	**338.7**	48.0
Income tax expense (Note 7)	**(5.6)**	(8.1)	**(88.2)**	(12.4)
Net income	**$ 35.1**	$ 24.7	**$ 250.5**	$ 35.6
Net income attributable to:				
Equity shareholders of the Company	**$ 28.0**	$ 21.3	**$ 228.6**	$ 26.4
Non-controlling interests	**7.1**	3.4	**21.9**	9.2
Net income	**$ 35.1**	$ 24.7	**$ 250.5**	$ 35.6
Net income per common share: (in dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	**$ 0.20**	$ 0.15	**$ 1.61**	$ 0.18

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 December 31, 2013	3 months ended December 31, 2012	12 months ended December 31, 2013	12 months ended December 31, 2012
		(Note 14)		(Note 14)
Net income	**$ 35.1**	$ 24.7	**$ 250.5**	$ 35.6
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 5)	**54.6**	(4.8)	**123.9**	(56.8)
Income tax recovery (expense) on defined benefit actuarial gains (losses) (Note 7)	**(14.2)**	1.2	**(32.2)**	14.4
	40.4	(3.6)	**91.7**	(42.4)
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations	**8.0**	1.9	**15.0**	(4.6)
Other comprehensive income (loss), net of tax	**48.4**	(1.7)	**106.7**	(47.0)
Total comprehensive income (loss)	**$ 83.5**	$ 23.0	**$ 357.2**	$ (11.4)
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 68.4**	$ 20.4	**$ 322.3**	$ (15.0)
Non-controlling interests	**15.1**	2.6	**34.9**	3.6
Total comprehensive income (loss)	**$ 83.5**	$ 23.0	**$ 357.2**	$ (11.4)

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 December 31, **2013**	3 months ended December 31, 2012	12 months ended December 31, **2013**	12 months ended December 31, 2012
		(Note 14)		(Note 14)
Share capital				
Balance at beginning of period	**$ 1,115.4**	$ 1,126.2	**$ 1,126.2**	$ 1,125.9
Common shares issued on exercise of stock options	**-**	-	**-**	0.3
Share purchases (Note 8)	**(11.7)**	-	**(22.5)**	-
Balance at end of period	**$ 1,103.7**	$ 1,126.2	**$ 1,103.7**	$ 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	**$ 195.5**	$ (53.6)	**$ (35.1)**	$ (24.7)
Net income attributable to equity shareholders of the Company	**28.0**	21.3	**228.6**	26.4
Defined benefit plan actuarial gains (losses), net of tax	**32.4**	(2.8)	**78.7**	(36.8)
Share purchases (Note 8)	**(21.7)**	-	**(37.5)**	-
Acquisition of non-controlling interests (Note 8)	**-**	-	**(0.5)**	-
Balance at end of period	**$ 234.2**	$ (35.1)	**$ 234.2**	$ (35.1)
Accumulated foreign exchange translation differences				
Balance at beginning of period	**$ (3.5)**	$ (12.4)	**$ (10.5)**	$ (5.9)
Foreign exchange translation differences for foreign operations	**8.0**	1.9	**15.0**	(4.6)
Balance at end of period	**$ 4.5**	$ (10.5)	**$ 4.5**	$ (10.5)
Total equity attributable to equity holders of the Company	**$ 1,374.3**	$ 1,112.5	**$ 1,374.3**	$ 1,112.5
Non-controlling interests				
Balance at beginning of period	**$ 210.4**	$ 197.2	**$ 199.4**	$ 232.8
Net income attributable to non-controlling interests	**7.1**	3.4	**21.9**	9.2
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	**8.0**	(0.8)	**13.0**	(5.6)
Distributions to non-controlling interests	**(2.4)**	(0.4)	**(9.3)**	(12.0)
Acquisition of non-controlling interests (Note 8)	**-**	-	**(1.9)**	-
Share exchange	**-**	-	**-**	(25.0)
Balance at end of period	**$ 223.1**	$ 199.4	**$ 223.1**	$ 199.4
Total equity	**$ 1,597.4**	$ 1,311.9	**$ 1,597.4**	$ 1,311.9

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 December 31, 2013	3 months ended December 31, 2012	12 months ended December 31, 2013	12 months ended December 31, 2012
		(Note 14)		(Note 14)
Cash generated from (used in):				
Operating activities				
Net income	**$ 35.1**	$ 24.7	**$ 250.5**	$ 35.6
Items not affecting cash:				
Amortization	**44.9**	47.8	**186.2**	177.1
Income tax expense	**5.6**	8.1	**88.2**	12.4
Long-term portion of deferred reforestation obligations	**(0.3)**	8.9	**(9.6)**	2.5
Foreign exchange (gain) loss on long-term debt and investments, net	**3.4**	2.0	**8.9**	(4.7)
Changes in mark-to-market value of derivative financial instruments	**0.2**	5.8	**(4.4)**	3.9
Employee future benefits	**2.7**	(11.2)	**13.0**	(0.7)
Net finance expense	**6.4**	8.7	**27.9**	33.8
Mill closure provisions	**20.0**	-	**20.0**	-
Gain on sale of joint venture (Note 13)	**-**	-	**(38.3)**	-
Other, net	**9.6**	(1.7)	**8.7**	(8.2)
Defined benefit pension plan contributions	**(14.0)**	(13.4)	**(53.0)**	(54.9)
Income taxes paid, net	**(0.3)**	(2.7)	**(0.3)**	(8.1)
	113.3	77.0	**497.8**	188.7
Net change in non-cash working capital (Note 9)	**(14.5)**	(49.4)	**(7.5)**	(71.3)
	98.8	27.6	**490.3**	117.4
Financing activities				
Change in operating bank loans	**74.6**	10.0	**47.6**	27.0
Proceeds from long-term debt	**50.0**	-	**53.1**	100.0
Repayment of long-term debt	**(116.6)**	-	**(192.9)**	(49.9)
Finance expenses paid	**(5.9)**	(7.6)	**(17.4)**	(19.5)
Share purchases (Note 8)	**(33.4)**	-	**(60.0)**	-
Acquisition of non-controlling interests (Note 8)	**-**	-	**(2.4)**	-
Cash distributions paid to non-controlling interests	**(2.4)**	(0.4)	**(9.3)**	(15.9)
Other, net	**(0.1)**	-	**(0.1)**	0.3
	(33.8)	2.0	**(181.4)**	42.0
Investing activities				
Additions to property, plant and equipment and intangible assets	**(67.5)**	(49.5)	**(237.3)**	(201.6)
Investment in Scotch & Gulf Lumber, LLC (Note 12)	**(0.5)**	-	**(29.5)**	-
(Loan to) repayment from Scotch & Gulf Lumber, LLC (Note 12)	**2.1**	-	**(31.9)**	-
Proceeds on sale of Canfor-LP OSB joint venture (Note 13)	**-**	-	**77.9**	-
Distributions from (advances to) joint venture (Note 13)	**-**	6.0	**16.5**	13.5
Acquisition of Tembec assets	**-**	-	**-**	(65.6)
Reimbursements from Government under Green Transformation Program	**-**	0.7	**-**	19.7
Proceeds from redemption of asset-backed commercial paper	**-**	-	**-**	12.9
Share exchange	**-**	-	**-**	6.8
Other, net	**0.5**	6.0	**2.0**	11.2
	(65.4)	(36.8)	**(202.3)**	(203.1)
Increase (decrease) in cash and cash equivalents*	**(0.4)**	(7.2)	**106.6**	(43.7)
Cash and cash equivalents at beginning of period*	**89.9**	(9.9)	**(17.1)**	26.6
Cash and cash equivalents at end of period*	**$ 89.5**	$ (17.1)	**$ 89.5**	$ (17.1)

*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 Policy

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

- The Company adopted IFRS 11, *Joint Arrangements*, which redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. Under the new Standard, joint ventures are accounted for using the equity method 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 14). Canfor sold its 50% interest in the Canfor-LP OSB joint venture to the Louisiana Pacific Corporation ("LP") on May 31, 2013 (Note 13).
- The Company adopted the amended IAS 19, *Employee Benefits,* which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset). The Company has restated its comparative period results for adoption of amended IAS 19 (Note 14).
- The Company also adopted IFRS 10, *Consolidated Financial Statements,* IFRS 13, *Fair Value Measurement,* and IAS 1, *Presentation of Financial Statements,* effective January 1, 2013. These Standards did not result in material impacts on the amounts recorded in the financial statements of Canfor.

Accounting Standards Issued and Not Applied

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 has been deferred and is not expected until January 1, 2017, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of Canfor.

2. Inventories

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

3. Long-Term Investments and Other

(millions of Canadian dollars)		As at December 31, 2013		As at December 31, 2012
Investments	**$**	**53.8**	**$**	23.7
Term loan to Scotch & Gulf Lumber, LLC (Note 12)		**33.0**		-
Contingent consideration (Note 13)		**11.4**		-
Other deposits, loans and advances		**14.3**		19.5
	$	**112.5**	$	43.2

On August 9, 2013, Canfor completed the first phase of the purchase of Scotch & Gulf Lumber, LLC ("Scotch Gulf"). Included in Long-term Investments and Other is Canfor's initial 25% interest in Scotch Gulf and a term loan receivable from Scotch Gulf (Note 12). Investments also include the Company's 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. The Company does not exercise significant influence over Lakeland Mills Ltd. or Winton Global Lumber Ltd.

4. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars)		As at December 31, 2013		As at December 31, 2012
Canfor (excluding CPPI)				
Available Operating Loans:				
Total operating loans - Canfor (excluding CPPI)	**$**	**350.0**	$	350.0
Drawn		**(64.0)**		(27.0)
Letters of credit (principally unregistered pension plans)		**(14.8)**		(18.0)
Total available operating loans - Canfor (excluding CPPI)	**$**	**271.2**	$	305.0
CPPI				
Available Operating Loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit related to energy agreements		**20.0**		7.5
Total operating loans - CPPI		**130.0**		117.5
Drawn		**(10.6)**		-
Energy letters of credit		**(12.2)**		(9.2)
Total available operating loans - CPPI	**$**	**107.2**	$	108.3
Consolidated:				
Total operating loans	**$**	**480.0**	$	467.5
Total available operating loans	**$**	**378.4**	$	413.3

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

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of net debt to total capitalization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. In the fourth quarter of 2013, CPPI extended the maturity date of the operating loan facility from November 13, 2016 to January 31, 2018.

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

As at December 31, 2013, the Company and CPPI were in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI (operating loans and long-term debt) are non-recourse to other entities within the Company.

(b) Long-Term Debt

On November 5, 2013, CPPI completed a $50.0 million unsecured non-revolving term debt financing, which is repayable on November 5, 2018 with no penalty for early repayment. The interest rate on the new term debt is based on the lender's Canadian prime rate, or bankers acceptance rate in the year of payment. On November 29, 2013, CPPI repaid its $116.6 million (US$110.0 million) 6.41% term debt.

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

5. Employee Future Benefits

For the three months ended December 31, 2013, an amount of $54.6 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 offset in part by adjustments to mortality rate assumptions. For the twelve months ended December 31, 2013, the gain was $123.9 million (before tax). For the three months ended December 31, 2012, an amount of $4.8 million (before tax) was charged to other comprehensive income and for the twelve months ended December 31, 2012, the charge was $56.8 million (before tax).

At December 31, 2013, certain post-employment defined benefit pension plans are in a surplus position of $42.2 million (2012 - $1.4 million) reflecting the credit to other comprehensive income and employer contributions to the pension plans during 2013.

For the Company's defined benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $78.1 million.

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

Pension Benefit Plans	
Discount rate	
December 31, 2013	**4.80%**
September 30, 2013	4.70%
December 31, 2012	4.20%
September 30, 2012	4.30%
December 31, 2011	5.00%
Rate of return on plan assets	
12 months ended December 31, 2013	**13.70%**
9 months ended September 30, 2013	6.60%
12 months ended December 31, 2012	9.40%
9 months ended September 30, 2012	6.60%
Other Benefit Plans	
Discount rate	
December 31, 2013	**4.90%**
September 30, 2013	4.80%
December 31, 2012	4.40%
September 30, 2012	4.50%
December 31, 2011	5.30%

6. Financial Instruments

Canfor's cash and cash equivalents, accounts receivable, other deposits, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial measurement. The fair value of long-term debt is disclosed in Note 4(b).

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars)	Fair Value Hierarchy Level	**As at December 31, 2013**	As at December 31, 2012
Financial assets measured at fair value			
Derivative financial instruments – held for trading	Level 2	**$ 0.6**	$ 0.7
Royalty receivable – available for sale	Level 3	**5.3**	6.5
Contingent consideration – available for sale (Note 13)	Level 3	**12.8**	-
		$ 18.7	$ 7.2
Financial liabilities measured at fair value			
Derivative financial instruments – held for trading	Level 2	**$ 0.3**	$ 4.8
		$ 0.3	$ 4.8

The royalty receivable and contingent consideration are measured at fair value at each reporting period and are presented in Other Accounts Receivable and Long-term Investments and Other on the consolidated balance sheet. The fair value of the royalty receivable is determined by discounting future expected cash flows based on energy price assumptions and future sales volume assumptions until the termination of the royalty agreement in September 2015. The fair value of the contingent consideration is determined by discounting future expected cash flows based on forecast OSB prices, sales volumes and margins for the Peace Valley OSB operation (Note 13).

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 long-term debt. At December 31, 2013, the fair value of derivative financial instruments was a net asset of $0.3 million (December 31, 2012 - net liability of $4.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

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

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Foreign exchange collars and forward contracts	**$ 0.3**	$ (1.0)	**$ 0.2**	$ 3.2
Energy derivatives	**0.1**	(0.3)	**0.2**	0.6
Lumber futures	**0.2**	(7.5)	**4.2**	(3.6)
Pulp futures	**(0.1)**	-	**(0.1)**	-
Interest rate swaps	**(0.7)**	0.1	**(0.1)**	(1.0)
	$ (0.2)	$ (8.7)	**$ 4.4**	$ (0.8)

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

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

7. Income Taxes

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Current	**$ (10.0)**	$ (2.2)	**$ (21.6)**	$ (2.9)
Deferred	**4.4**	(5.9)	**(66.6)**	(9.5)
Income tax expense	**$ (5.6)**	$ (8.1)	**$ (88.2)**	$ (12.4)

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

(millions of Canadian dollars)	3 months ended December 31, 2013	2012	12 months ended December 31, 2013	2012
Income tax expense at statutory rate 2013 – 25.75% (2012 – 25.0%)[1]	**$ (10.5)**	$ (8.2)	**$ (87.2)**	$ (12.0)
Add (deduct):				
Non-taxable income related to non-controlling interests in limited partnerships	**-**	0.2	**0.3**	1.7
Entities with different income tax rates and other tax adjustments	**5.4**	0.3	**0.5**	(2.3)
Permanent difference from capital gains and losses and other non-deductible items	**(0.5)**	(0.4)	**3.6**	0.2
Change in substantively enacted tax rate[1]	**-**	-	**(5.4)**	-
Income tax expense	**$ (5.6)**	$ (8.1)	**$ (88.2)**	$ (12.4)

[1]Effective April 1, 2013, the British Columbia Provincial Government increased the corporate tax rate from 10% to 11%.

In addition to the amounts recorded to net income, a tax expense of $14.2 million was recorded to other comprehensive income for the three month period ended December 31, 2013 (three months ended December 31, 2012 – tax recovery of $1.2 million) in relation to the actuarial gains/losses on defined benefit employee compensation plans. For the twelve months ended December 31, 2013, the tax expense was $32.2 million (twelve months ended December 31, 2012 – recovery of $14.4 million).

8. Earnings Per Share and Normal Course Issuer Bid

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. As at December 31, 2013 and 2012, there were no outstanding stock options.

	3 months ended December 31, 2013	2012	12 months ended December 31, 2013	2012
Weighted average number of common shares	**140,691,040**	142,752,431	**141,959,473**	142,749,096

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 7,137,621 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid is set to expire on March 4, 2014. During the fourth quarter of 2013, Canfor purchased 1,474,600 common shares for $33.4 million. For the twelve months ended December 31, 2013, Canfor purchased 2,847,838 common shares for $60.0 million. Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 50.2% at December 31, 2012 to 50.4% at December 31, 2013. There were no shares purchased by CPPI during the fourth quarter of 2013.

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	3 months ended December 31, 2013	2012	12 months ended December 31, 2013	2012
Accounts receivable	**$ 21.0**	$ 12.7	**$ 10.6**	$ 2.4
Inventories	**(22.9)**	(40.0)	**(39.0)**	(57.5)
Prepaid expenses and other assets	**6.4**	9.5	**(8.1)**	(1.9)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**(19.0)**	(31.6)	**29.0**	(14.3)
Net increase in non-cash working capital	**$ (14.5)**	$ (49.4)	**$ (7.5)**	$ (71.3)

10. Segment Information

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

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

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below. On May 31, 2013, Canfor sold its 50% share of Canfor-LP OSB (Note 13). Prior to completion of the sale, the Company's share of Canfor-LP OSB's 2013 sales and operating income was $43.5 million and $16.1 million, respectively. As a result of the classification of Canfor's investment in Canfor-LP OSB as held for sale, these amounts were not included in the segment results of the Company.

(millions of Canadian dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended December 31, 2013							
Sales to external customers	**$**	**533.7**	**275.8**	**-**	**-**	**$**	**809.5**
Sales to other segments	**$**	**32.6**	**-**	**-**	**(32.6)**	**$**	**-**
Operating income (loss)	**$**	**37.4**	**23.2**	**(6.8)**	**-**	**$**	**53.8**
Amortization	**$**	**28.7**	**16.0**	**0.2**	**-**	**$**	**44.9**
Capital expenditures[1]	**$**	**43.5**	**20.1**	**3.9**	**-**	**$**	**67.5**
3 months ended December 31, 2012							
Sales to external customers	$	469.9	228.4	2.0	-	$	700.3
Sales to other segments	$	26.1	-	-	(26.1)	$	-
Operating income (loss)	$	42.5	12.0	(5.5)	-	$	49.0
Amortization	$	26.6	20.5	0.7	-	$	47.8
Capital expenditures[1]	$	34.7	12.8	2.0	-	$	49.5
12 months ended December 31, 2013							
Sales to external customers	**$**	**2,192.2**	**999.4**	**3.3**	**-**	**$**	**3,194.9**
Sales to other segments	**$**	**131.9**	**-**	**-**	**(131.9)**	**$**	**-**
Operating income (loss)	**$**	**285.1**	**72.2**	**(26.0)**	**-**	**$**	**331.3**
Amortization	**$**	**113.5**	**71.8**	**0.9**	**-**	**$**	**186.2**
Capital expenditures[1]	**$**	**164.7**	**62.6**	**10.0**	**-**	**$**	**237.3**
Identifiable assets	**$**	**1,715.8**	**770.3**	**207.2**	**-**	**$**	**2,693.3**
12 months ended December 31, 2012							
Sales to external customers	$	1,711.8	923.5	7.5	-	$	2,642.8
Sales to other segments	$	111.9	-	-	(111.9)	$	-
Operating income (loss)	$	75.6	27.6	(31.9)	-	$	71.3
Amortization	$	101.8	69.0	6.3	-	$	177.1
Capital expenditures[1]	$	110.9	88.7	2.0	-	$	201.6
Identifiable assets	$	1,553.3	774.6	162.7	-	$	2,490.6

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

11. Timber Exchange

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

12. Phased Purchase of Scotch & Gulf Lumber, LLC

On August 9, 2013, the Company completed the first phase of the purchase of Scotch Gulf for $29.5 million, representing an initial 25% interest in Scotch Gulf, plus transaction closing costs and a proportionate share of working capital. Canfor's initial 25% interest will increase over a 3 year period to 33% after twelve months, 50% after eighteen months and 100% at the end of the term. Scotch Gulf has an option under the purchase agreement to accelerate the final closing of the phased purchase to a date earlier than August 2016 under certain conditions. The aggregate purchase price for Scotch Gulf is US$80.0 million, plus working capital. Canfor's commitment to purchase Scotch Gulf at a fixed price represents an equity financial instrument.

As part of the transaction, Scotch Gulf borrowed $34.0 million from Canfor in the form of a term loan that will be repaid from the distribution of cash earnings over the course of the phased purchase agreement with any net outstanding amount at August 2016 applied against the final phase purchase price payment. The term loan has an interest rate equal to the floating rate on Canfor's principal operating loans plus 1.0% and is secured by Scotch Gulf's operating assets. At December 31, 2013, $33.0 million was outstanding on the term loan receivable which is included in Long-term Investments and Other on the balance sheet (Note 3).

13. Sale of Canfor-LP OSB Joint Venture

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

As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, contingent on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. At December 31, 2013, the fair value of the contingent consideration is $12.8 million, with the current portion presented in Other Accounts Receivable and the long-term portion presented in Long-Term Investments and Other (Note 3). During the fourth quarter of 2013, Canfor recognized a $4.8 million negative fair value adjustment on the contingent consideration in other expense.

14. 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 of accounting and upon adoption of the new Standard was accounted for using the equity method of accounting. The comparative period financial statements have been restated for adoption of IFRS 11 with impacts to the financial statements discussed below.

The adoption of IFRS 11 resulted in a decrease in sales of $71.3 million and a decrease in operating income of $7.0 million for the twelve months ended December 31, 2012 (for the three months ended December 31, 2012, a decrease of $21.5 million and a decrease of $3.4 million, respectively). IFRS 11 had no impact on net income or other comprehensive income in the comparative periods. Further, adoption of IFRS 11 resulted in a decrease in cash flow from operating activities of $13.8 million and an increase in cash flow from investing activities of $13.7 million for the twelve months ended December 31, 2012 (for the three months ended December 31, 2012, a decrease in cash flows from operating activities of $5.8 million and an increase in cash flow from investing activities of $6.2 million).

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

The adoption of amended IAS 19 resulted in an increase in operating income of $1.4 million, an increase of finance expense of $9.1 million and a decrease in income tax expense of $1.9 million for the twelve months ended December 31, 2012 (for the three months ended December 31, 2012, an increase of $2.3 million, and an increase of $2.2 million, respectively). Amended IAS 19 decreased net income by $5.8 million and increased other comprehensive income by $8.0 million (after-tax) for the twelve months ended December 31, 2012 (for the three months ended December 31, 2012, $0.1 million increase to net income and an increase to other comprehensive income of $2.1 million (after-tax), respectively). The impact on earnings per share for the twelve months ended December 31, 2012 was a decrease of $0.04 per share (three months ended December 31, 2012 – no change in earnings 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 are comparable to the impacts in 2012 (disclosed above). Refer to the Company's first quarter 2013 interim financial statements for impacts to the condensed consolidated opening balance sheet at January 1, 2012 and the comparative balance sheet at December 31, 2012.