QUARTER 1

FOR THE THREE MONTHS ENDED MARCH 31, 2012

CANFOR CORPORATION
2012 FIRST QUARTER
INTERIM REPORT

2012

To Our Shareholders

Canfor Corporation reported a net loss attributable to shareholders ("shareholder net loss") of $16.2 million, or $0.11 per share, for the first quarter of 2012, compared to a shareholder net loss of $44.1 million, or $0.31 per share, for the fourth quarter of 2011 and shareholder net income of $7.0 million, or $0.05 per share, for the first quarter of 2011.

The shareholder net loss for the first quarter of 2012 included various items affecting comparability with prior periods, which had an overall net positive impact of $6.1 million, or $0.05 per share. After adjusting for such items, the Company's adjusted shareholder net loss for the first quarter of 2012 was $22.3 million, or $0.16 per share, compared to an adjusted shareholder net loss of $32.1 million, or $0.22 per share, for the fourth quarter of 2011, and effectively breakeven on an adjusted basis for the first quarter of 2011.

The Company reported an operating loss of $21.5 million for the first quarter of 2012, compared to an operating loss of $63.1 million in the fourth quarter of 2011. Excluding inventory valuation adjustments and one-time restructuring costs, as well as impairment costs in the previous quarter, Canfor's operating loss was $26.2 million in the current quarter compared to $20.5 million in the prior quarter. The adverse variance of $5.7 million primarily reflected weaker results in the pulp and paper segment.

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

(millions of dollars, except for per share amounts)	Q1 2012	Q4 2011	Q1 2011
Sales	**$ 607.6**	$ 576.2	$ 624.0
EBITDA	**$ 23.6**	$ (15.5)	$ 73.8
Operating income (loss)	**$ (21.5)**	$ (63.1)	$ 32.3
Net income (loss) attributable to equity shareholders of Company	**$ (16.2)**	$ (44.1)	$ 7.0
Net income (loss) per share attributable to equity shareholders of Company, basic and diluted	**$ (0.11)**	$ (0.31)	$ 0.05
Adjusted shareholder net income (loss)	**$ (22.3)**	$ (32.1)	$ 0.1
Adjusted shareholder net income (loss) per share	**$ (0.16)**	$ (0.22)	$ 0.00

Lumber markets were mixed in the first quarter of 2012, as a modest improvement in North American market conditions contrasted with a weaker market for lower grade products in China, where the effects of a significant inventory build ahead of the Lunar New Year and slower demand weighed heavily on prices through much of the quarter. U.S. housing activity saw a small increase, in part due to unseasonably mild weather, with housing starts for the quarter averaging 687,000 units (seasonally adjusted annual rate), up 3% from the previous quarter. Canadian housing starts also saw a modest increase from the previous quarter.

Despite an increase in North American prices, overall lumber sales realizations were largely unchanged from the previous quarter due to lower offshore realizations, particularly for low grade products. The average North American benchmark Western SPF 2x4 #2&Btr price increased US$28, or 12%, to US$266 per Mfbm, although increases for most other widths and dimensions were less marked. Prices for most SYP products saw solid increases. For Northern Bleached Softwood Kraft ("NBSK") pulp, weak global demand saw prices fall from the previous quarter, with U.S. prices down US$50 per tonne. Compounding challenges for Canadian producers, sales realizations were negatively impacted by a stronger average Canadian dollar which was up over 2 cents, or 2%, from the previous quarter.

Lumber shipments were in line with the previous quarter at just under one billion board feet, while production was up 17%, reflecting continued improvements in productivity in the current quarter as well as downtime taken over the Christmas period in the previous quarter. Lumber unit manufacturing costs saw a decrease compared to the previous quarter, reflecting reductions in unit cash conversion costs, largely resulting from the increased production levels, and a reduction in unit log costs. However, results in the lumber segment were negatively impacted by lower prices for residual fibre products, reflecting lower prices for sawmill residual chips (related to lower NBSK pulp sales realizations).

Pulp shipment and production levels were well up from the previous quarter, mostly reflecting downtime taken in the prior quarter at Canfor Pulp's Northwood pulp mill for capital upgrades. Improved pulp unit manufacturing costs in the current quarter reflected the higher production levels as well as lower residual chip costs.

The Company completed further capital projects in the quarter as part of its $300 million, three-year strategic capital investment program at its lumber operations, including a planer upgrade at its Grande Prairie sawmill. This project was completed on time and on budget and is exceeding pro forma targets.

Looking ahead, the North American lumber market is projected to continue its modest recovery, while low grade prices to China are projected to see a marked improvement in the second quarter. The global softwood pulp market is anticipated to improve modestly through the second quarter.

The Company completed the acquisition of Tembec Industries Ltd.'s southern British Columbia Interior wood products assets late in the first quarter.

Ronald L. Cliff
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
First Quarter 2012
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended March 31, 2012 relative to the quarters ended December 31, 2011 and March 31, 2011, and the financial position of the Company at March 31, 2012. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2012 and 2011, as well as the 2011 annual MD&A and the 2011 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2011 (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 EBITDA (calculated as 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). EBITDA, 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 EBITDA, 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 EBITDA 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 April 25, 2012.

Forward Looking Statements

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

FIRST QUARTER 2012 EARNINGS OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)		**Q1 2012**		Q4 2011		Q1 2011
Sales	**$**	**607.6**	$	576.2	$	624.0
EBITDA	**$**	**23.6**	$	(15.5)	$	73.8
Operating income (loss)	**$**	**(21.5)**	$	(63.1)	$	32.3
Foreign exchange gain (loss) on long-term debt and investments, net	**$**	**4.0**	$	4.9	$	4.7
Gain (loss) on derivative financial instruments[2]	**$**	**7.4**	$	9.6	$	4.7
Net income (loss)	**$**	**(10.9)**	$	(38.1)	$	32.3
Net income (loss) attributable to equity shareholders of Company	**$**	**(16.2)**	$	(44.1)	$	7.0
Net income (loss) per share attributable to equity shareholders of Company, basic and diluted	**$**	**(0.11)**	$	(0.31)	$	0.05
Average exchange rate (US$ per C$1.00)[3]	**$**	**0.999**	$	0.977	$	1.014

[1] Certain prior period amounts have been restated due to a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. Further details can be found in the "Changes in Accounting Policy" section later in this document.
[2] Includes gains (losses) from foreign exchange, energy, interest rate and lumber future derivative financial instruments (see "Unallocated and Other" section for more details).
[3] Source – Bank of Canada (average noon rate for the period).

The Company's shareholder net income (loss) and adjusted shareholder net income (loss), together with the related adjustments, are detailed in the table below:

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

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)		**Q1 2012**		Q4 2011		Q1 2011
Shareholder Net Income (Loss)	**$**	**(16.2)**	$	(44.1)	$	7.0
Foreign exchange (gain) loss on long-term debt and investments, net	**$**	**(2.7)**	$	(3.3)	$	(3.0)
(Gain) loss on derivative financial instruments	**$**	**(5.1)**	$	(6.7)	$	(2.9)
Decrease (increase) in fair value of asset-backed commercial paper	**$**	**(1.1)**	$	(0.5)	$	(1.0)
Costs related to Tembec acquisition	**$**	**2.8**	$	-	$	-
Mill closure provisions	**$**	**-**	$	17.0	$	-
Asset impairment charges	**$**	**-**	$	5.5	$	-
Net impact of above items	**$**	**(6.1)**	$	12.0	$	(6.9)
Adjusted Shareholder Net Income (Loss)	**$**	**(22.3)**	$	(32.1)	$	0.1
Shareholder Net Income (Loss) per share (EPS), as reported	**$**	**(0.11)**	$	(0.31)	$	0.05
Net impact of above items per share	**$**	**(0.05)**	$	0.09	$	(0.05)
Adjusted Shareholder Net Income (Loss) per share	**$**	**(0.16)**	$	(0.22)	$	0.00

EBITDA

The following table reconciles the Company's net income (loss), as reported in accordance with IFRS, to EBITDA:

(millions of dollars)		Q1 2012		Q4 2011		Q1 2011
Net income (loss), as reported	**$**	**(10.9)**	$	(38.1)	$	32.3
Add (subtract):						
Amortization	**$**	**45.1**	$	47.6	$	41.5
Finance expense, net	**$**	**6.2**	$	5.2	$	7.2
Foreign exchange (gain) loss on long-term debt and investments, net	**$**	**(4.0)**	$	(4.9)	$	(4.7)
(Gain) loss on derivative financial instruments	**$**	**(7.4)**	$	(9.6)	$	(4.7)
Other (income) expense	**$**	**0.2**	$	(1.3)	$	1.7
Income tax (recovery) expense	**$**	**(5.6)**	$	(14.4)	$	0.5
EBITDA, as reported	**$**	**23.6**	$	(15.5)	$	73.8
Included in above:						
Negative (positive) impact of inventory valuation adjustments[4]	**$**	**(8.5)**	$	10.9	$	2.9
Costs related to Tembec acquisition	**$**	**3.8**	$	-	$	-
Mill closure provisions	**$**	**-**	$	22.5	$	-
Asset impairment charges	**$**	**-**	$	9.2	$	-
EBITDA excluding inventory valuation adjustments and unusual items	**$**	**18.9**	$	27.1	$	76.7

[4] 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 write-downs required at each period end.

Reported EBITDA for the first quarter of 2012 was $23.6 million, an improvement of $39.1 million from the fourth quarter of 2011. Current quarter results were impacted by positive inventory valuation adjustments and costs related to the acquisition of assets from Tembec, while prior quarter results included an inventory valuation expense, as well as mill closure costs of $22.5 million and asset impairment charges of $9.2 million. Excluding these items, current quarter EBITDA was $18.9 million compared to $27.1 million in the prior quarter, an adverse variance of $8.2 million, primarily reflecting weaker results in the pulp and paper segment.

Lumber markets were mixed in the first quarter of 2012, as a modest improvement in North American market conditions contrasted with a weaker market for lower grade products in China, where the effects of a significant inventory build ahead of the Lunar New Year and slower demand weighed heavily on prices through much of the quarter. U.S. housing activity saw a small increase, in part due to unseasonably mild weather, with housing starts for the quarter averaging 687,000 units SAAR (seasonally adjusted annual rate), up 3% from the previous quarter. Canadian housing starts also saw a modest increase from the previous quarter.

Despite an increase in North American prices, lumber sales realizations were largely unchanged from the previous quarter due to lower offshore realizations, particularly for low grade products. The average North American benchmark Western SPF 2x4 #2&Btr price increased US$28, or 12%, to US$266 per thousand board feet ("Mfbm"), although increases for most other widths and dimensions were less marked. Prices for most SYP products saw solid increases. For Northern Bleached Softwood Kraft ("NBSK") pulp, weak global demand saw prices fall from the previous quarter, with U.S. prices down US$50 per tonne. Compounding challenges for Canadian producers, sales realizations were negatively impacted by a stronger average Canadian dollar which was up over 2 cents, or 2%, from the previous quarter.

Lumber shipments were in line with the previous quarter at just under one billion board feet, while production was up 17%, reflecting continued improvements in productivity in the current quarter as well as downtime taken over the Christmas period in the previous quarter. Lumber unit manufacturing costs saw a decrease compared to the previous quarter, reflecting reductions in unit cash conversion costs, largely resulting from the increased production levels, and a reduction in unit log costs. However, results in the lumber segment were negatively impacted by lower prices for residual fibre products, reflecting lower prices for sawmill residual chips (related to lower NBSK pulp sales realizations).

Pulp shipment and production levels were well up from the previous quarter, mostly reflecting downtime taken in the prior quarter at Canfor Pulp's Northwood pulp mill for capital upgrades. Improved pulp unit manufacturing costs in the current quarter reflected the higher production levels as well as lower residual chip costs.

Compared to the first quarter of 2011, EBITDA excluding inventory valuation adjustments and Tembec acquisition costs was down $57.8 million. Of this, $22.5 million was in the lumber segment where lower prices and higher log costs accounted for most of the variance. EBITDA in the pulp and paper segment was down $35.8 million, reflecting lower prices for NBSK pulp products, partially offset by lower conversion and fibre costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of dollars unless otherwise noted)		**Q1 2012**		Q4 2011		Q1 2011
Sales	**$**	**343.7**	$	325.9	$	328.6
Operating income (loss)	**$**	**(20.1)**	$	(55.8)	$	(2.5)
EBITDA, as reported	**$**	**3.1**	$	(34.3)	$	17.8
Negative (positive) impact of inventory valuation adjustments	**$**	**(10.2)**	$	9.7	$	0.1
Costs related to Tembec acquisition	**$**	**2.5**	$	-	$	-
Mill closure provisions	**$**	**-**	$	11.9	$	-
Asset impairment charges	**$**	**-**	$	7.2	$	-
EBITDA excluding impact of inventory valuation adjustments and unusual items	**$**	**(4.6)**	$	(5.5)	$	17.9
Average SPF 2x4 #2&Btr lumber price in US$[5]	**$**	**266**	$	238	$	296
Average SPF price in Cdn$	**$**	**266**	$	244	$	292
Average SYP 2x4 #2 lumber price in US$[6]	**$**	**298**	$	260	$	302
Average SYP price in Cdn$	**$**	**298**	$	266	$	298
U.S. housing starts (thousand units SAAR)[7]		**687**		670		582
Production – SPF lumber (MMfbm)		**903.7**		760.8		772.3
Production – SYP lumber (MMfbm)		**114.3**		106.4		94.8
Shipments – SPF lumber (MMfbm)[8]		**852.3**		833.9		715.3
Shipments – SYP lumber (MMfbm)[8]		**117.6**		112.7		90.9
Shipments – wholesale lumber (MMfbm)		**24.5**		27.4		51.2

[5] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[6] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[7] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR")
[8] Canfor-produced lumber, including lumber purchased for remanufacture.

Overview

The operating loss for the lumber segment was $20.1 million for the first quarter of 2012, a $35.7 million lower loss than the previous quarter, and a $17.6 million higher loss than the first quarter of 2011.

Reported EBITDA for the lumber segment was $3.1 million, compared to negative $34.3 million in the previous quarter and positive $17.8 million in the first quarter of 2011. However, results in each of the quarters were impacted by inventory valuation adjustments, principally reflecting changes in market prices for lumber products, and restructuring costs, while results for the prior quarter were also impacted by impairment expenses. Excluding these items, EBITDA was negative $4.6 million for the first quarter of 2012, compared to negative $5.5 million in the previous quarter and positive $17.9 million in the first quarter of 2011.

Sales realizations for Western SPF products were largely unchanged compared to the previous quarter, with improved North American pricing being offset by lower realizations from offshore markets, principally China. For sales to North America, the Western SPF 2x4 #2&Btr price was up 12% to US$266 per Mfbm, though increases for most other grades and dimensions were more modest. Sales realizations for SYP products benefitted from solid price gains, with most dimensions seeing increases between 12% and 15%. The reduction in offshore pricing mostly related to sales of lower grade lumber to China, where much of the pricing is negotiated quarterly in advance. Canadian dollar sales realizations were negatively impacted by a 2% stronger average Canadian dollar compared to the fourth quarter of 2011.

Compared to the previous quarter, operating results in the first quarter of 2012 were also negatively impacted by lower residual fibre prices, with a decline in NBSK pulp prices leading to lower prices for sawmill residual chips. Partially offsetting these impacts was a reduction in unit manufacturing costs, reflecting both lower cash conversion and log costs in the current quarter. The first quarter of 2012 also included restructuring costs related to the Tembec acquisition, while the previous quarter included a deferred reforestation obligation fair value charge.

Compared to the first quarter of 2011, EBITDA for the lumber segment, excluding inventory valuation adjustments and Tembec acquisition costs, was down $22.5 million. A significant contributing factor to the decrease was lower market prices, with the benchmark Western SPF 2x4 #2&Btr price down US$30 per Mfbm, and low grade prices also significantly weaker. In addition, unit manufacturing costs were up compared to the first quarter of 2011, with lower unit conversion costs, reflecting improved productivity performance, mitigating higher logging and hauling costs.

Markets

During the first quarter of 2012, North American lumber demand was positively impacted by unseasonably mild weather, which provided more favourable building conditions in many regions. Total U.S. housing starts averaged 687,000 units[9] SAAR, an increase of 3% from the previous quarter and up 18% from the first quarter of 2011. Other positive market indicators included a reduction in months of supply of new and existing home inventory to levels not seen since 2006. Increased demand in the repair and remodeling sector has also contributed to the general rise in lumber demand.

In Canada, lumber consumption was encouraging, following stronger than expected housing activity. Canadian housing starts averaged 205,000 units[10] SAAR for the quarter, up 5,000 units, or 2%, compared to the fourth quarter of 2011, and up 17% from the comparable quarter in 2011 when starts were at 175,000 units SAAR.

Canfor's offshore lumber shipments remained flat compared to the previous quarter, and were 22% higher than the first quarter of 2011. Shipments to China leveled off in the current quarter as the market adjusted inventory to balance slower demand during Lunar New Year season. Sales volumes to Japan and Korea were also in line with the previous quarter.

Sales

Sales for the lumber segment for the first quarter of 2012 were $343.7 million, compared to $325.9 million in the previous quarter and $328.6 million in the first quarter of 2011. Total shipments in the first quarter of 2012 were almost one billion board feet, up 2% from the previous quarter and up 16% from the first quarter of 2011.

Sales realizations were largely unchanged from the previous quarter, with improved pricing in North America being more than offset by lower offshore realizations. The average North American Random Lengths Western SPF 2x4 #2&Btr lumber price was US$266 per Mfbm for the quarter, up US$28, or 12%, from the previous quarter. However, price increases for many other grades and dimensions were less significant. Sales realizations from offshore markets, where prices are negotiated monthly or quarterly in advance, were well down from the previous quarter, mostly attributable to surplus inventory of low grade product in China. Prices for SYP products were up compared to the previous quarter, with the benchmark SYP 2x4 price of US$298 per Mfbm up 15% from the previous quarter, and wider dimension products seeing similar increases.

Compared to the first quarter of 2011, the benchmark North America Random Lengths Western SPF 2x4 #2&Btr price was down US$30 per Mfbm, or 10%, although smaller reductions were seen for most wider products and other grades. However, 2x4 #3 prices in particular saw a sharp decline from the comparable period, which was a major factor in lower sales realizations, primarily to China. SYP price movements were more mixed, with narrow dimensions seeing modest price reductions, but wider products benefitting from increased prices.

The average value of the Canadian dollar compared to the US dollar in the first quarter was up just over 2 cents, or 2%, from the previous quarter, partly offsetting the improved pricing. Compared to the first quarter of 2011, realizations benefitted from a 1.5 cent, or 1.5%, weaker Canadian dollar.

[9] U.S. Census Bureau
[10] CMHC – Canada Mortgage and Housing Corporation

The Random Lengths Framing Lumber Composite price averaged US$288 per Mfbm for the first quarter of 2012, up US$27, or 10%, compared to the previous quarter, but still below the trigger price of US$315 per Mfbm that is required to reduce the export tax rate on all U.S. bound shipments below the current rate of 15%.

Total residual fibre revenue was up slightly compared to the previous quarter with higher production volumes largely offset by lower sawmill chip prices tied to weaker NBSK pulp sales realizations. Compared to the first quarter of 2011, residual fibre revenue was up, primarily reflecting the higher production volumes, offset in part by a reduction in sawmill residual chip prices.

Operations

Lumber production, at just over one billion board feet, was up 17% from the previous quarter, with the increase reflecting both Christmas shutdowns taken at the Company's operations in the previous quarter and improved productivity. Lumber production was also up 17% from the first quarter of 2011, for the most part reflecting increased productivity following various capital improvement projects in 2011 and the restart of the Vavenby sawmill.

Overall, the Company's unit lumber manufacturing costs were down from the previous quarter, reflecting a reduction in both unit conversion and log costs. The decrease in cash conversion costs largely reflected the higher production levels in the current quarter. The higher log costs in the previous quarter were partly the result of the adverse impact from milder than expected weather conditions on log harvesting levels in that quarter.

Compared to the first quarter of 2011, unit manufacturing costs showed a small increase, with an increase in unit log costs at Western SPF operations being mitigated by a reduction in unit conversion costs. The lower unit conversion costs reflected the impact of productivity improvements in the current quarter, as well as lower natural gas costs, while higher unit log costs reflected higher logging and hauling costs, in part driven by a sharp rise in diesel costs.

Total restructuring, mill closure and severance costs for the lumber segment were $3.5 million for the current quarter, primarily reflecting severance costs related to the Tembec acquisition. Restructuring costs in the previous quarter were $10.9 million, largely due to the announced closure of manufacturing operations at the Rustad sawmill. Restructuring costs in the first quarter of 2011 were $1.5 million, reflecting ongoing idled mill costs at the Radium, Rustad and Vavenby sawmills.

In the first quarter of 2012 the Company recorded a $10.2 million recovery of previously recorded inventory write-downs, resulting from the improved market prices. This compared to an expense of $9.7 million in the previous quarter. Inventory valuation adjustments were minimal in the first quarter of 2011.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[11]

(millions of dollars unless otherwise noted)	**Q1 2012**	Q4 2011	Q1 2011
Sales	**$ 249.4**	$ 237.0	$ 283.0
Operating income	**$ 11.3**	$ 18.2	$ 47.9
EBITDA	**$ 29.0**	$ 39.9	$ 64.7
Average pulp price delivered to U.S. – US$[12]	**$ 870**	$ 920	$ 970
Average price in Cdn$	**$ 871**	$ 942	$ 957
Production – pulp (000 mt)	**315.9**	294.5	316.9
Production – paper (000 mt)	**32.9**	33.5	34.5
Shipments –pulp (000 mt)	**327.8**	275.4	318.4
Shipments – paper (000 mt)	**29.6**	30.2	32.6

[11] 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 northern bleached softwood kraft ("NBSK") and bleached chemi-thermo mechanical pulp ("BCTMP").
[12] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

Operating income for the pulp and paper segment was $11.3 million for the first quarter of 2012, down $6.9 million from the previous quarter and down $36.6 million from the first quarter of 2011. EBITDA for the pulp and paper segment for the first quarter was $29.0 million, compared to $39.9 million in the fourth quarter of 2011 and $64.7 million in the first quarter of 2011.

US dollar NBSK pulp prices were well down from the previous quarter, with prices for U.S. delivery down US$50 per tonne. Sales realizations were also adversely impacted by the stronger average Canadian dollar compared to the prior quarter. Pulp production was up 7% from the fourth quarter of 2011, mostly due to downtime taken in the prior period for the Northwood upgrade, with the increased production contributing to a reduction in unit cash manufacturing costs. Fibre costs also saw significant reductions in the current period. In addition, results in the prior quarter were adversely impacted by accelerated amortization related to assets replaced during Canfor Pulp's Northwood upgrade.

Lower operating earnings compared to the first quarter of 2011 reflected significant reductions in NBSK pulp prices. Unit manufacturing costs saw a small reduction compared to the first quarter of 2011 as an increase in unit conversion costs was more than offset by lower fibre costs, reflecting a drop in the costs of sawmill residual chips (linked to the NBSK market pulp price).

Markets

Global softwood pulp markets appear to be recovering with signs of strength heading into the spring maintenance period. Producer inventory levels decreased through the quarter resulting in price increases for March and April 2012 in some regions.

PPPC[13] statistics reported an increase in shipments of bleached softwood sulphate pulp of 6% for the first two months of 2012 as compared to the same period in 2011, with continued strong shipments to China offset by reductions in Europe and North America. PPPC reported global demand for printing and writing papers remained flat for the first two months of 2012 as compared to 2011.

At the end of February 2012, World 20[14] producers of bleached softwood pulp inventories were at 31 days of supply. By comparison, December 2011 inventories were at 36 days of supply. Markets conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Sales

Shipments of pulp in the first quarter of 2012 were 328,000 tonnes, up 52,000 tonnes, or 19%, from the previous quarter, reflecting increased production levels at Canfor Pulp, and were up 9,000 tonnes, or 3% from the first quarter of 2011.

Prices to the U.S. were at US$870 per tonne for the quarter for NBSK pulp products, down US$50 from the previous quarter. The average list price to Europe was down US$31 at US$837 per tonne, while Canfor Pulp's list price to China fell US$33 to US$697 per tonne. Sales realizations were also adversely impacted by the stronger Canadian dollar. BCTMP sales realizations were also down from the previous quarter, reflecting lower market pricing and the stronger Canadian dollar, although prices showed some improvement towards the end of the period.

NBSK pulp prices were well down from the first quarter of 2011, with prices to the U.S. dropping US$100 per tonne and prices to Europe down US$123 per tonne. Canfor Pulp's China list price was also down significantly, dropping over US$170 per tonne from the comparative period. The slightly weaker Canadian dollar partly offset these price reductions. BCTMP sales realizations were up compared to the first quarter of 2011, largely reflecting the impact of the weaker Canadian dollar.

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

Operations

Pulp production in the first quarter of 2012 was 316,000 tonnes, up 21,000 tonnes, or 7%, from the previous quarter which included downtime for the capital upgrades at Canfor Pulp's Northwood pulp mill. Pulp production was in line with the first quarter of 2011.

Pulp unit manufacturing costs were well down from the previous quarter, reflecting decreases in both unit conversion costs and fibre costs. The reduction in unit cash conversion costs principally reflected the higher production levels in the quarter and lower spending on maintenance, while the lower fibre costs resulted principally from the reduction in sawmill residual chip prices. As mentioned above, prior quarter results were also negatively impacted by accelerated amortization related to assets replaced during the Northwood upgrade.

Compared to the first quarter of 2011, unit manufacturing costs were down slightly, with an increase in conversion costs, reflecting higher chemical costs and higher spending on fixed costs, more than offset by a decrease in fibre costs resulting principally from lower-cost sawmill residual chips.

Unallocated and Other Items

(millions of dollars)		**Q1 2012**		Q4 2011		Q1 2011
Operating loss of Panels operations[15]	**$**	**(4.8)**	$	(18.9)	$	(5.7)
Corporate costs	**$**	**(7.9)**	$	(6.6)	$	(7.4)
Finance expense, net	**$**	**(6.2)**	$	(5.2)	$	(7.2)
Foreign exchange gain (loss) on long-term debt and investments, net	**$**	**4.0**	$	4.9	$	4.7
Gain (loss) on derivative financial instruments	**$**	**7.4**	$	9.6	$	4.7
Other income (expense), net	**$**	**(0.2)**	$	1.3	$	(1.7)

[15] The Panels operations include the Peace Valley OSB (Oriented Strand Board) joint venture, the only facility currently operating, and the Company's Tackama plywood plant, which was closed in January 2012, and its PolarBoard OSB plant, which is currently indefinitely idled.

The panels operations reported an operating loss of $4.8 million for the first quarter of 2012, compared to a loss of $18.9 million for the previous quarter. Excluding the impact of inventory valuation adjustments, and prior quarter restructuring and impairment charges, the operating loss of panels operations was $3.1 million in the first quarter of 2012, compared to $5.1 million in the previous quarter. This improvement in operating results from the previous quarter principally reflects improved OSB markets, as evidenced by a US$12 per thousand square feet ("msf") increase in the benchmark OSB price to US$202 per msf[16]. Excluding inventory valuation adjustments, current quarter results in the panels segment were in line with the first quarter of 2011.

Corporate costs were $7.9 million for the first quarter of 2012, up $1.3 million from the previous quarter, largely reflecting costs recorded in the current quarter related to the acquisition of assets from Tembec. Costs in the first quarter of 2011 included a higher share-based compensation expense.

Net finance expense for the first quarter of 2012 was $6.2 million, up $1.0 million from the previous quarter, reflecting higher borrowing levels in the current quarter and costs associated with the issuance of new term debt (more details in Liquidity and Financial Requirements section below). Compared to the first quarter of 2011, finance expense was down $1.0 million, reflecting a lower average debt level through the quarter and a lower accretion expense on the deferred reforestation obligation.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt, net of investments, of $4.0 million for the first quarter of 2012, as a result of the strengthening of the Canadian dollar against the US dollar, which rose almost 2% between the respective quarter ends. In the fourth quarter of 2011, the Company recorded a translation gain of $4.9 million, while the first quarter of 2011 showed a gain of $4.7 million.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices and interest rates. For the first quarter of 2012, the Company recorded a net gain of $7.4 million related to its derivative financial instruments, reflecting gains on US dollar forward contracts and collars related to the strengthening of the Canadian dollar, and gains on lumber futures and diesel derivatives.

[16] Oriented Strand Board, North Central price, 7/16" (Source – Random Lengths Publications, Inc.)

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

(millions of dollars)	Q1 2012	Q4 2011	Q1 2011
Foreign exchange collars and forward contracts	**$ 2.9**	$ 9.3	$ 1.9
Energy derivatives	**$ 1.2**	$ 0.9	$ 0.9
Lumber futures	**$ 3.0**	$ (0.6)	$ 1.9
Interest rate swaps	**$ 0.3**	$ -	$ -
	$ 7.4	$ 9.6	$ 4.7

Other expense, net of $0.2 million includes a $1.3 million gain relating to the change in fair value of the Company's investment in asset-backed commercial paper ("ABCP"). This compares to an ABCP-related gain of $0.5 million in the previous quarter and a $1.1 million gain in the first quarter of 2011. The current quarter gain was offset by unfavourable foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations of $1.2 million, compared to a loss in the previous quarter of $2.1 million and a loss of $2.5 million in the first quarter of 2011.

Other income in the previous quarter also included a $2.2 million positive fair value adjustment related to a royalty agreement associated with the sale of the operating assets of Howe Sound Pulp and Paper Limited Partnership in late 2010.

Other Comprehensive Income (Loss)

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

(millions of dollars)	Q1 2012	Q4 2011	Q1 2011
Foreign exchange translation differences for foreign operations	**$ (3.6)**	$ (4.3)	$ (6.2)
Defined benefit actuarial gain (loss), net of tax	**$ (5.3)**	$ 10.7	$ 2.2
Other comprehensive income (loss), net of tax	**$ (8.9)**	$ 6.4	$ (4.0)

In the first quarter of 2012, the Company recorded an after-tax charge to other comprehensive income of $5.3 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The charge reflects a reduction in the discount rate used to value the plans, offset in part by a gain on plan assets that was higher than the expected gain for the quarter. In the previous quarter a credit of $10.7 million was recorded, reflecting gains on plan assets, offset in part by losses on non-pension retirement benefit plan liabilities due to a reduction in the discount rate and changes to other assumptions. An after-tax gain of $2.2 million was recorded in the first quarter of 2011.

In addition, the Company recorded a charge of $3.6 million to other comprehensive income in the first quarter for foreign exchange differences for foreign operations, reflecting the strengthening of the Canadian dollar by almost 2% over the quarter. This compared to charges of $4.3 million in the previous quarter and $6.2 million in the first quarter of 2011, with the Canadian dollar also strengthening in those periods.

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:

(millions of dollars)	Q1 2012	Q4 2011	Q1 2011
Increase (decrease) in cash and cash equivalents	**$ (20.2)**	$ (72.4)	$ (87.8)
Operating activities	**$ (55.2)**	$ 38.0	$ (6.0)
Financing activities	**$ 137.0**	$ (17.6)	$ (75.0)
Investing activities	**$ (102.0)**	$ (92.8)	$ (6.8)
Ratio of current assets to current liabilities	**1.6 : 1**	1.5 : 1	2.0 : 1
Net debt to capitalization	**22.0%**	13.4%	6.6%
ROIC - Consolidated[17]	**(1.4)%**	(4.1)%	0.4%
ROCE - Canfor solid wood business[18]	**(1.2)%**	(5.5)%	(0.3)%

[17] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives 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.

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

Changes in Financial Position

Operating activities used cash of $55.2 million in the first quarter of 2012, compared to cash generated of $38.0 million in the previous quarter. The variance resulted principally from working capital movements, most significantly the Company's seasonal build of log inventory ahead of spring break-up and to a lesser extent a reduction in accounts receivable in the prior quarter. Compared to the first quarter of 2011, cash earnings were lower, while overall working capital movements were similar.

Financing activities generated cash of $137.0 million in the current quarter, compared to $17.6 million used in the previous quarter and $75.0 million used in the first quarter of 2011. The current quarter's cash flows included $100.0 million of new term debt and $94.0 million drawn on the Company's operating lines of credit. Partially offsetting these inflows was a $49.9 million (US$50.0 million) repayment of term debt made in the quarter. A term debt repayment was also made in the first quarter of 2011, in the amount of $33.8 million. Cash distributions to non-controlling interests were $4.3 million in the first quarter of 2012 (Q4 2011: $11.4 million; Q1 2011: $38.0 million). Finance expenses paid in the current quarter were $3.1 million, down from $6.2 million in the previous quarter, reflecting timing of payments, and in line with the first quarter of 2011.

Investing activities used cash of $102.0 million in the first quarter of 2012, compared to $92.8 million in the fourth quarter of 2011 and $6.8 million in the first quarter of 2011, which included $29.7 million of proceeds received from the redemption of ABCP. Cash used for capital additions in the current quarter was $53.6 million, down significantly from the previous quarter but slightly higher than the first quarter of 2011. In the lumber segment, capital additions for the current quarter were $26.9 million, including a planer upgrade at the Company's Grande Prairie sawmill. Capital expenditures for the pulp and paper segment for the first quarter of 2012 were $26.7 million, with $7.9 million received under the Green Transformation Program.

Investing activities in the current quarter also included the acquisition of Tembec Industries Ltd.'s southern British Columbia Interior wood products assets, for a purchase price including working capital of approximately $65 million, subject to final adjustments. The purchase included Tembec's Elko and Canal Flats sawmills, approximately 1.1 million cubic metres of combined Crown, private land and contract allowable cut, and a long term agreement to provide residual fibre supply for Tembec's Skookumchuck pulp mill.

Liquidity and Financial Requirements

At March 31, 2012, the Company on a consolidated basis had cash of $8.7 million and $94.0 million drawn on its operating lines of credit, with an additional $29.0 million reserved for several standby letters of credit. Total remaining available operating lines of credit were $307.4 million. The Company and Canfor Pulp remained in compliance with the covenants relating to their operating lines of credit and long-term debt during the quarter, and expect to remain so for the foreseeable future.

The new term debt of $100.0 million was used to fund the US$50.0 million term debt repayment on February 1, 2012 and the acquisition of assets from Tembec. The new debt is in the form of an unsecured non-revolving term loan, with a maturity date of February 13, 2017. Interest rates are floating based on the lenders' Canadian prime rate or bankers acceptances. During the first quarter of 2012 the Company also put in place $75.0 million of floating to fixed interest rate swaps, with an additional $25.0 million put in place in early April 2012.

Canfor has US$75.0 million of term debt that is scheduled for repayment on April 1, 2013, and Canfor Pulp has US$110.0 million of term debt that is scheduled for repayment on November 30, 2013.

The Company's consolidated net debt to total capitalization at the end of the first quarter of 2012 was 22.0%. For Canfor, excluding Canfor Pulp, net debt to capitalization at the end of the first quarter was 20.2%.

Softwood Lumber Agreement ("SLA") Update

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

As the arbitration is a state-to-state international dispute under the SLA, Canada prepared a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. In August 2011, the U.S. filed a detailed statement of claim with the arbitration panel, which Canada responded to in November 2011. The U.S. subsequently filed a reply, to which Canada filed a response in early February 2012. During the quarter, a hearing was held before the arbitration panel, which is not expected to render its decision until the second half of 2012. It is not possible at this time to predict the outcome or the value of any final claim, and accordingly no provision has been recorded by the Company.

CPPI Share Exchange

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

Prior to the share exchange, CFP and CPPI entered into a dividend waiver agreement, waiving CFP's right to the first $7.8 million of future dividends declared by CPPI.

OUTLOOK

Lumber

For the second quarter of 2012, North American lumber demand is projected to continue its modest recovery, driven by a seasonal increase in activity. The repair and remodeling sector is currently forecast to continue its recovery through the rest of the year. New and existing home inventories are anticipated to continue to trend downwards with low mortgage rates attracting prospective homebuyers. With inventories in China returning to more normal levels, low grade lumber prices to China are projected to see a marked improvement in the second quarter.

Pulp and Paper

The global softwood pulp market is projected to improve modestly through the second quarter of 2012. Producer inventories have steadily declined through the first quarter and, with a majority of mills heading into the annual spring maintenance period, prices are projected to rise in the short term. Canfor Pulp announced NBSK pulp list price increases for April of US$30 in North America, to US$900 per tonne, and US$20 in Europe to US$870 per tonne. Canfor Pulp's price for China was announced at US$740 per tonne for April, a US$30 increase from March.

OUTSTANDING SHARES

At April 25, 2012, there were 142,705,764 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGES IN ACCOUNTING POLICY

Effective January 1, 2012, the Company retroactively changed its accounting policy for the presentation of interest expense and expected rate of return on assets of defined benefit post-retirement plans. The net expense has been reclassified from operating income, included in manufacturing and product costs and in selling and administration costs, to net finance expense. Management considers the classification of net pension interest expense as a finance expense more accurately reflects the nature of this cost. The effect on the three months ended March 31, 2011 is an increase in operating income and an increase in net finance expense of $0.9 million. There is no impact on amounts recorded in the consolidated balance sheet or opening equity as at January 1, 2012.

NEW ACCOUNTING PRONOUNCEMENTS

In the first half of 2011, the International Accounting Standards Board ("IASB") issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These new and revised accounting standards have not yet been adopted by Canfor and the Company does not plan to early adopt any of the standards.

The following new or revised standards are not expected to have a material impact on the amounts recorded in the financial statements of Canfor:

- IFRS 10, *Consolidated Financial Statements*;
- IFRS 12, *Disclosure of Interests in Other Entities*;
- IAS 27, *Separate Financial Statements*; and
- IFRS 13, *Fair Value Measurement*.

The Company is still in the process of assessing the full impact, if any, of the following new or revised standards:

- IFRS 11, *Joint Arrangements*;
- Amended IAS 19, *Employee Benefits;* and
- Amended IAS 28, *Investments in Associates and Joint Ventures*.

In the first half of 2011, the IASB also issued amended IAS 1, *Presentation of Financial Statements*, which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IAS 1 and IFRS 9 are not expected to have a material impact on amounts recorded in the financial statements of Canfor.

Further details of the new or revised accounting standards and potential impact on Canfor can be found in Canfor's Annual Report for the year ended December 31, 2011.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2012, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

Canfor Pulp's collective agreements with the CEP (Communications, Energy and Paperworkers Union) and PPWC (Pulp, Paper and Woodworkers of Canada) have terms expiring on April 30, 2012.

A comprehensive discussion of risks and uncertainties is included in the Company's 2011 annual statutory reports which are available on www.canfor.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION[19]

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Sales and income (millions of dollars)								
Sales	**$ 607.6**	$ 576.2	$ 602.1	$ 619.1	$ 624.0	$ 629.1	$ 588.7	$ 634.7
Operating income (loss)	**$ (21.5)**	$ (63.1)	$ 15.4	$ 27.4	$ 32.3	$ 43.9	$ 34.2	$ 71.3
Net income (loss)	**$ (10.9)**	$ (38.1)	$ (9.6)	$ 26.2	$ 32.3	$ 55.4	$ 37.2	$ 43.7
Shareholder net income (loss)	**$ (16.2)**	$ (44.1)	$ (21.6)	$ 2.1	$ 7.0	$ 31.4	$ 9.1	$ 21.1
Per common share (dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.11)**	$ (0.31)	$ (0.15)	$ 0.01	$ 0.05	$ 0.22	$ 0.06	$ 0.15
Statistics								
Lumber shipments (MMfbm)	**994**	974	969	973	857	885	865	865
OSB shipments (MMsf 3/8")	**65**	75	62	69	63	57	58	72
Pulp shipments (000 mt)	**328**	275	291	303	318	331	277	301
Average exchange rate – US$/Cdn$	**$ 0.999**	$ 0.977	$ 1.020	$ 1.033	$ 1.014	$ 0.987	$ 0.962	$ 0.973
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 266**	$ 238	$ 246	$ 240	$ 296	$ 269	$ 223	$ 266
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 298**	$ 260	$ 259	$ 251	$ 302	$ 256	$ 243	$ 379
Average OSB price – North Central (US$)	**$ 202**	$ 190	$ 184	$ 172	$ 199	$ 191	$ 178	$ 295
Average NBSK pulp list price delivered to U.S. (US$)	**$ 870**	$ 920	$ 993	$ 1,025	$ 970	$ 967	$ 1,000	$ 993

[19] Certain prior period amounts have been restated due to a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. Further details can be found in the "Changes in Accounting Policy" section earlier in this document.

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

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

After-tax impact, net of non-controlling interests[20] (millions of dollars, except for per share amounts)	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**Q3 2010**	**Q2 2010**
Shareholder net income (loss), as reported	**$ (16.2)**	$ (44.1)	$ (21.6)	$ 2.1	$ 7.0	$ 32.9	$ 9.1	$ 21.1
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (2.7)**	$ (3.3)	$ 11.0	$ (1.4)	$ (3.0)	$ (6.9)	$ (6.3)	$ 9.0
(Gain) loss on derivative financial instruments	**$ (5.1)**	$ (6.7)	$ 7.0	$ (0.7)	$ (2.9)	$ (0.5)	$ (1.1)	$ 1.1
Decrease (increase) in fair value of asset-backed commercial paper	**$ (1.1)**	$ (0.5)	$ 1.8	$ (0.5)	$ (1.0)	$ (5.5)	$ -	$ -
Costs recorded in relation to Tembec acquisition	**$ 2.8**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mill closure provisions	**$ -**	$ 17.0	$ -	$ -	$ -	$ -	$ 13.0	$ -
Asset impairment charges	**$ -**	$ 5.5	$ -	$ -	$ -	$ -	$ -	$ -
Restructuring costs related to changes in management group	**$ -**	$ -	$ -	$ 2.6	$ -	$ -	$ -	$ -
Gain on sale of operating assets of Howe Sound Pulp and Paper Limited Partnership	**$ -**	$ -	$ -	$ -	$ -	$ (4.9)	$ -	$ -
Net impact of above items	**$ (6.1)**	$ 12.0	$ 19.8	$ -	$ (6.9)	$ (17.8)	$ 5.6	$ 10.1
Adjusted shareholder net income (loss)	**$ (22.3)**	$ (32.1)	$ (1.8)	$ 2.1	$ 0.1	$ 15.1	$ 14.7	$ 31.2
Shareholder net income (loss) per share (EPS), as reported	**$ (0.11)**	$ (0.31)	$ (0.15)	$ 0.01	$ 0.05	$ 0.23	$ 0.06	$ 0.15
Net impact of above items per share	**$ (0.05)**	$ 0.09	$ 0.14	$ 0.00	$ (0.05)	$ (0.12)	$ 0.04	$ 0.07
Adjusted net income (loss) per share	**$ (0.16)**	$ (0.22)	$ (0.01)	$ 0.01	$ 0.00	$ 0.11	$ 0.10	$ 0.22

[20] Certain prior period amounts have been restated due to a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. Further details can be found in the "Changes in Accounting Policy" section earlier in this document.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at March 31, 2012**		As at December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**8.7**	$	28.9
Accounts receivable - Trade		**130.7**		105.1
- Other		**53.7**		65.7
Inventories (Note 2)		**463.9**		348.3
Prepaid expenses		**19.4**		20.4
Total current assets		**676.4**		568.4
Property, plant and equipment		**1,142.3**		1,139.2
Timber licenses		**564.6**		530.1
Goodwill and other intangible assets		**80.8**		83.0
Long-term investments and other (Note 3)		**62.9**		62.8
Deferred income taxes, net		**47.2**		18.1
Total assets	**$**	**2,574.2**	$	2,401.6
LIABILITIES				
Current liabilities				
Operating loans (Note 4(a))	**$**	**94.0**	$	-
Accounts payable and accrued liabilities		**286.8**		290.5
Current portion of long-term debt (Note 4(b))		**-**		50.9
Current portion of deferred reforestation obligations		**37.8**		31.6
Total current liabilities		**418.6**		373.0
Long-term debt (Note 4(b))		**284.8**		188.1
Retirement benefit obligations		**295.4**		298.3
Deferred reforestation obligations		**88.6**		65.0
Other long-term liabilities		**17.6**		13.8
Deferred income taxes, net		**154.0**		103.3
Total liabilities	**$**	**1,259.0**	$	1,041.5
EQUITY				
Share capital	**$**	**1,126.2**	$	1,125.9
Contributed surplus		**31.9**		31.9
Retained earnings		**(44.9)**		(24.6)
Accumulated foreign exchange translation differences		**(9.5)**		(5.9)
Total equity attributable to equity holders of the Company		**1,103.7**		1,127.3
Non-controlling interests		**211.5**		232.8
Total equity	**$**	**1,315.2**	$	1,360.1
Total liabilities and equity	**$**	**2,574.2**	$	2,401.6

Contingency (Note 11)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, R.L. Cliff

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2012**	2011
Sales	**$ 607.6**	$ 624.0
Costs and expenses		
Manufacturing and product costs	**429.6**	408.5
Freight and other distribution costs	**122.4**	112.6
Export taxes	**11.2**	10.8
Amortization	**45.1**	41.5
Selling and administration costs	**16.0**	15.5
Restructuring, mill closure and severance costs	**4.8**	2.8
	629.1	591.7
Operating income (loss)	**(21.5)**	32.3
Finance expense, net	**(6.2)**	(7.2)
Foreign exchange gain (loss) on long-term debt and investments, net	**4.0**	4.7
Gain (loss) on derivative financial instruments (Note 6)	**7.4**	4.7
Other income (expense), net	**(0.2)**	(1.7)
Net income (loss) before income taxes	**(16.5)**	32.8
Income tax recovery (expense) (Note 7)	**5.6**	(0.5)
Net income (loss)	**$ (10.9)**	$ 32.3
Net income (loss) attributable to:		
Equity shareholders of the Company	**$ (16.2)**	$ 7.0
Non-controlling interests	**5.3**	25.3
Net income (loss)	**$ (10.9)**	$ 32.3
Net income (loss) per common share: (in dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 8)	**$ (0.11)**	$ 0.05

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

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

(millions of Canadian dollars, unaudited)		3 months ended March 31, 2012		2011
Net income (loss)	**$**	**(10.9)**	$	32.3
Other comprehensive income (loss)				
Foreign exchange translation differences for foreign operations		**(3.6)**		(6.2)
Defined benefit plan actuarial gains (losses) (Note 5)		**(6.9)**		3.0
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 7)		**1.6**		(0.8)
Other comprehensive income (loss), net of tax		**(8.9)**		(4.0)
Total comprehensive income (loss)	**$**	**(19.8)**	$	28.3
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$**	**(23.9)**	$	3.1
Non-controlling interests		**4.1**		25.2
Total comprehensive income (loss)	**$**	**(19.8)**	$	28.3

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)		3 months ended March 31, 2012		2011
Share capital				
Balance at beginning of period	**$**	**1,125.9**	$	1,125.4
Common shares issued on exercise of stock options		**0.3**		0.3
Balance at end of period	**$**	**1,126.2**	$	1,125.7
Contributed surplus				
Balance at beginning and end of period	**$**	**31.9**	$	31.9
Retained earnings				
Balance at beginning of period	**$**	**(24.6)**	$	73.5
Net income (loss) attributable to equity shareholders of the Company		**(16.2)**		7.0
Defined benefit plan actuarial gains (losses), net of tax		**(4.1)**		2.3
Balance at end of period	**$**	**(44.9)**	$	82.8
Accumulated foreign exchange translation differences				
Balance at beginning of period	**$**	**(5.9)**	$	(10.3)
Foreign exchange translation differences for foreign operations		**(3.6)**		(6.2)
Balance at end of period	**$**	**(9.5)**	$	(16.5)
Total equity attributable to equity holders of the Company	**$**	**1,103.7**	$	1,223.9
Non-controlling interests				
Balance at beginning of period	**$**	**232.8**	$	249.5
Net income attributable to non-controlling interests		**5.3**		25.3
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests		**(1.2)**		(0.1)
Distributions to non-controlling interests		**(0.4)**		(27.7)
Share exchange (Note 13)		**(25.0)**		-
Balance at end of period	**$**	**211.5**	$	247.0
Total equity	**$**	**1,315.2**	$	1,470.9

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 March 31, 2012	2011
Cash generated from (used in):		
Operating activities		
Net income (loss)	**$ (10.9)**	$ 32.3
Items not affecting cash:		
Amortization	**45.1**	41.5
Income tax (recovery) expense	**(5.6)**	0.5
Long-term portion of deferred reforestation obligations	**13.4**	12.1
Change in fair value of long-term investment	**(1.3)**	(1.2)
Foreign exchange (gain) loss on long-term debt and investments, net	**(4.0)**	(4.7)
Changes in mark-to-market value of derivative financial instruments	**(6.0)**	(3.7)
Employee future benefits	**(1.9)**	(0.5)
Net finance expense	**6.2**	7.2
Other, net	**(0.7)**	0.1
Salary pension plan contributions	**(9.0)**	(9.7)
Income taxes recovered (paid), net	**(1.3)**	(0.7)
Net change in non-cash working capital (Note 9)	**(79.2)**	(79.2)
	(55.2)	(6.0)
Financing activities		
Change in operating bank loans (Note 4(a))	**94.0**	-
Proceeds from long-term debt (Note 4(b))	**100.0**	-
Repayment of long-term debt (Note 4(b))	**(49.9)**	(33.8)
Finance expenses paid	**(3.1)**	(3.5)
Cash distributions paid to non-controlling interests	**(4.3)**	(38.0)
Other, net	**0.3**	0.3
	137.0	(75.0)
Investing activities		
Additions to property, plant and equipment	**(53.6)**	(48.9)
Reimbursements from Government under Green Transformation Program	**7.9**	9.6
Acquisition of Tembec assets (Note 12)	**(64.9)**	-
Share exchange (Note 13)	**6.8**	-
Proceeds from redemption of asset-backed commercial paper	**-**	29.7
Other, net	**1.8**	2.8
	(102.0)	(6.8)
Decrease in cash and cash equivalents	**(20.2)**	(87.8)
Cash and cash equivalents at beginning of period	**28.9**	260.3
Cash and cash equivalents at end of period	**$ 8.7**	$ 172.5

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

Canfor Corporation
Notes to the Condensed Consolidated Financial Statements
(unaudited, millions of Canadian dollars unless otherwise noted)

1. Basis of Preparation

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

These interim financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these interim financial statements, including the accounting policies applied, can be found in Canfor's Annual Report for the year ended December 31, 2011, 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.

Change in accounting policy

Effective January 1, 2012, the Company retroactively changed its accounting policy for the presentation of interest expense and expected rate of return on assets of defined benefit post-retirement plans. The net expense has been reclassified from operating income, included in manufacturing and product costs and in selling and administration costs, to net finance expense. Management considers the classification of net pension interest expense as a finance expense more accurately reflects the nature of this cost. The effect on the three months ended March 31, 2011 is an increase in operating income and an increase in net finance expense of $0.9 million. There is no impact on amounts recorded in the consolidated balance sheet or opening equity as at January 1, 2012.

Accounting standards issued and not applied

In the first half of 2011, the International Accounting Standards Board ("IASB") issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These new and revised accounting standards have not yet been adopted by Canfor and the Company does not plan to early adopt any of the standards.

The following new or revised standards are not expected to have a material impact on the amounts recorded in the financial statements of Canfor:

- IFRS 10, *Consolidated Financial Statements;*
- IFRS 12, *Disclosure of Interests in Other Entities;*
- IAS 27, *Separate Financial Statements;* and
- IFRS 13, *Fair Value Measurement*.

The Company is still in the process of assessing the full impact, if any, of the following new or revised standards:

- IFRS 11, *Joint Arrangements;*
- Amended IAS 19, *Employee Benefits;* and
- Amended IAS 28, *Investments in Associates and Joint Ventures*.

In the first half of 2011, the IASB also issued amended IAS 1, *Presentation of Financial Statements*, which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IAS 1 and IFRS 9 are not expected to have a material impact on amounts recorded in the financial statements of Canfor.

Further details of the new or revised accounting standards and potential impact on Canfor can be found in Canfor's Annual Report for the year ended December 31, 2011.

2. Inventories

(millions of Canadian dollars)		**As at March 31, 2012**		As at December 31, 2011
Logs	**$**	**146.3**	$	55.9
Finished products		**210.3**		186.3
Residual fibre		**15.1**		17.3
Processing materials and supplies		**92.2**		88.8
	$	**463.9**	$	348.3

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at March 31, 2012 totaled $7.0 million (December 31, 2011 - $15.5 million).

3. Long-term Investments and Other

(millions of Canadian dollars)		**As at March 31, 2012**		As at December 31, 2011
Asset-backed commercial paper ("ABCP")	**$**	**12.9**	$	11.8
Other investments		**23.7**		24.3
Investment tax credits		**8.6**		8.6
Defined benefit plan assets		**3.0**		3.0
Other deposits, loans and advances		**14.7**		15.1
	$	**62.9**	$	62.8

During the first quarter of 2012, a pre-tax gain of $1.3 million was recorded to "Other income, net" due to an increase in the fair value of the ABCP assets. The remaining movement in this balance over the period relates to foreign exchange and proceeds from redemption/sale of certain ABCP assets.

On April 2, 2012, the Company sold the ABCP assets for net proceeds of $12.9 million.

4. Operating Lines and Long-Term Debt

(a) Available Operating Lines

(millions of Canadian dollars)		**As at March 31, 2012**		As at December 31, 2011
Canfor (excluding CPLP)				
Principal operating lines	**$**	**350.0**	$	350.0
Facility A		**-**		12.9
Total operating lines - Canfor (excluding CPLP)		**350.0**		362.9
Drawn		**(94.0)**		-
Letters of credit (principally unregistered pension plans)		**(17.8)**		(17.2)
Total available operating lines - Canfor (excluding CPLP)	**$**	**238.2**	$	345.7
CPLP				
Main bank loan facility	**$**	**40.0**	$	40.0
Bridge loan credit facility		**30.0**		30.0
Facility for BC Hydro letter of credit		**10.4**		10.4
Total operating lines - CPLP		**80.4**		80.4
Letters of credit (for general business purposes)		**(0.8)**		(0.5)
BC Hydro letter of credit		**(10.4)**		(10.4)
Total available operating lines - CPLP	**$**	**69.2**	$	69.5
Consolidated:				
Total operating lines	**$**	**430.4**	$	443.3
Total available operating lines	**$**	**307.4**	$	415.2

For Canfor, excluding CPLP, the principal operating lines mature on October 31, 2015. Interest is payable at floating rates based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio. Facility A, which was for US$12.7 million at December 31, 2011, expired in January 2012.

The terms of CPLP's principal bank loan facility include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The maturity date of this facility is November 30, 2013.

CPLP also has a $30.0 million bridge loan credit facility with a maturity date of December 31, 2012 to fund timing differences between expenditures and reimbursements for projects funded under the Canadian Federal Government Green Transformation Program. The bridge facility terms are similar to CPLP's main facility, with interest and other costs at prevailing market rates. CPLP also has a separate facility with a maturity date of November 30, 2013 to cover a $10.4 million standby letter of credit issued to BC Hydro.

As at March 31, 2012, the Company and CPLP were in compliance with all covenants relating to their operating lines of credit.

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

(b) Long-Term Debt

On February 2, 2012, the Company repaid $49.9 million (US$50.0 million) of 6.33% interest rate privately placed senior notes.

During the first quarter of 2012, the Company issued new term debt totaling $100.0 million which was used to fund the above debt repayment and the acquisition of assets from Tembec (Note 12). The new debt is in the form of an unsecured non-revolving term loan, with a maturity date of February 13, 2017. Interest rates are floating based on the lenders' Canadian prime rate or bankers acceptances. In addition, during the first quarter of 2012, the Company put in place $75.0 million of floating to fixed interest rate swaps, with an additional $25.0 million put in place in early April 2012.

At March 31, 2012, the fair value of the Company's long-term debt, which was measured at its amortized cost of $284.8 million, was $293.8 million. The fair value of long-term debt was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

5. Employee Future Benefits

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

For the three months ended March 31, 2012, $6.9 million (before tax) was charged to other comprehensive income. The charge reflects losses on retirement benefit plan liabilities due to a reduction in the discount rate, offset in part by a gain on plan assets that was higher than the expected gain. For the three months ended March 31, 2011, a pre-tax amount of $3.0 million was credited to other comprehensive income, primarily reflecting the merging of two of the Company's smaller defined benefit pension plans.

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

Pension Benefit Plans	
Discount rate	
March 31, 2012	**4.80%**
December 31, 2011	5.00%
March 31, 2011	5.50%
December 31, 2010	5.50%
Rate of return on plan assets	
3 months ended March 31, 2012	**4.30%**
3 months ended March 31, 2011	1.65%
Other Benefit Plans	
Discount rate	
March 31, 2012	**5.00%**
December 31, 2011	5.30%
March 31, 2011	5.75%
December 31, 2010	5.75%

6. Derivative Financial Instruments

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, energy costs, electricity sales and floating interest rates on certain long-term debt. At March 31, 2012, the fair value of derivative financial instruments was a net asset of $5.8 million (December 31, 2011 – net liability of $0.2 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three month periods ended March 31, 2012 and 2011:

	3 months ended March 31,	
(millions of Canadian dollars)	**2012**	2011
Foreign exchange collars and forward contracts	**$ 2.9**	$ 1.9
Energy derivatives	**1.2**	0.9
Lumber futures	**3.0**	1.9
Interest rate swaps	**0.3**	-
	$ 7.4	$ 4.7

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

(millions of Canadian dollars)	**As at March 31, 2012**	As at December 31, 2011
Foreign exchange collars and forward contracts	**$ 1.4**	$ (0.4)
Energy derivatives	**1.1**	(0.2)
Lumber futures	**3.0**	0.4
Interest rate swaps	**0.3**	-
Total asset (liability)	**5.8**	(0.2)
Less: current portion	**(5.3)**	(0.2)
Long-term portion	**$ 0.5**	$ -

7. Income Taxes

(millions of Canadian dollars)		3 months ended March 31, 2012		2011
Current	**$**	**(2.8)**	$	(0.2)
Deferred		**8.4**		(0.3)
Income tax recovery (expense)	**$**	**5.6**	$	(0.5)

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

(millions of Canadian dollars)		3 months ended March 31, 2012		2011
Income tax recovery (expense) at statutory rate 2012 – 25.0% (2011 – 26.5%)	**$**	**4.1**	$	(8.7)
Add (deduct):				
Non-taxable income related to non-controlling interests in limited partnerships		**1.2**		6.7
Entities with different income tax rates and other tax adjustments		**(0.1)**		0.1
Tax recovery (expense) at rates other than statutory rate		**-**		0.2
Permanent difference from capital gains and losses and other non-deductible items		**0.4**		1.2
Income tax recovery (expense)	**$**	**5.6**	$	(0.5)

In addition to the amounts recorded to net income, a tax recovery of $1.6 million was recorded to other comprehensive income for the three month period ended March 31, 2012 (three months ended March 31, 2011 – expense of $0.8 million) in relation to the actuarial gains on defined benefit employee compensation plans.

8. Earnings Per Share

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares during the period using the treasury stock method. Under this method, proceeds from the potential exercise of stock options are assumed to be used to purchase the Company's common shares. When there is a net loss, the exercise of stock options would result in a calculated diluted net loss per share that is anti-dilutive.

	3 months ended March 31, 2012	2011
Weighted average number of common shares	**142,740,006**	142,676,805
Incremental shares from potential exercise of options [a]	**381**	12,457
Diluted number of common shares [a]	**142,740,006**	142,689,262

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

9. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)		3 months ended March 31, 2012		2011
Accounts receivable	**$**	**(8.2)**	$	(14.4)
Inventories		**(88.5)**		(77.4)
Prepaid expenses		**2.5**		2.3
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations		**15.0**		10.3
Net increase in non-cash working capital	**$**	**(79.2)**	$	(79.2)

10. Segment Information

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

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

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below. Sales for panels operations for the three months ended March 31, 2012 were $14.5 million (three months ended March 31, 2011 - $12.4 million).

(millions of Canadian dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended March 31, 2012							
Sales to external customers	**$**	**343.7**	**249.4**	**14.5**	**-**	**$**	**607.6**
Sales to other segments	**$**	**29.2**	**-**	**-**	**(29.2)**	**$**	**-**
Operating income (loss)	**$**	**(20.1)**	**11.3**	**(12.7)**	**-**	**$**	**(21.5)**
Amortization	**$**	**23.2**	**17.7**	**4.2**	**-**	**$**	**45.1**
Capital expenditures[1]	**$**	**26.9**	**26.7**	**-**	**-**	**$**	**53.6**
Identifiable assets	**$**	**1,595.6**	**801.5**	**177.1**	**-**	**$**	**2,574.2**
3 months ended March 31, 2011							
Sales to external customers	$	328.6	283.0	12.4	-	$	624.0
Sales to other segments	$	29.5	-	-	(29.5)	$	-
Operating income (loss)	$	(2.5)	47.9	(13.1)	-	$	32.3
Amortization	$	20.3	16.8	4.4	-	$	41.5
Capital expenditures[1]	$	25.6	23.3	-	-	$	48.9
Identifiable assets	$	1,415.0	848.7	282.8	-	$	2,546.5

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

11. Contingency

Softwood Lumber Agreement ("SLA")

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

As the arbitration is a state-to-state international dispute under the SLA, Canada prepared a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. In August 2011, the U.S. filed a detailed statement of claim with the arbitration panel, which Canada responded to in November 2011. The U.S. subsequently filed a reply, to which Canada filed a response in early February 2012. During the quarter, a hearing was held before the arbitration panel, which is not expected to render its decision until the second half of 2012. It is not possible at this time to predict the outcome or the value of any final claim, and accordingly no provision has been recorded by the Company.

12. Acquisition of Tembec Assets

On March 23, 2012, the Company completed the acquisition of Tembec Industries Ltd.'s ("Tembec") southern British Columbia Interior wood products assets for cash consideration of approximately $65 million, including a payment on account of preliminary net working capital, which excluded certain liabilities retained by Tembec. The working capital is subject to final closing adjustments. The acquisition has been accounted for in accordance with IFRS 3 *Business Combinations.*

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

Of the consideration paid, approximately $40 million represented the preliminary fair value of the timber licenses acquired, with the balance split between the fair value of the property, plant and equipment and net non-cash working capital balances. In accordance with the Asset Purchase Agreement, the final net working capital payment will be determined no later than 45 days after the closing date, and any additional payment by the Company or Tembec will be made.

Between the acquisition date and the Company's quarter end, the amount of sales and profit contributed by the acquired assets was not significant. If the acquisition had occurred on January 1, 2012, consolidated sales would have increased by approximately $37.0 million, with no material change to consolidated net loss. In determining these amounts, the fair value adjustments, determined provisionally, that arose on the acquisition date have been assumed to be the same as if the acquisition had occurred on January 1, 2012.

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

13. Share Exchange

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

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

Prior to the share exchange, CFP and CPPI entered into a dividend waiver agreement, waiving CFP's right to the first $7.8 million of future dividends declared by CPPI. As such, $7.8 million has been included in non-controlling interests to account for future distributions which the Company has waived its entitlement to.