Q2 2009

For the three months ended June 30, 2009

CANFOR CORPORATION
2009 SECOND QUARTER INTERIM REPORT

To Our Shareholders

Canfor Corporation reported its results for the second quarter of 2009, noting that the ongoing U.S. and global recession, including the lowest level of U.S. housing starts in decades, continued to weigh heavily on its operating performance. Its full effect, however, was masked by several non-cash items, as the Company reported net income of $10.5 million ($0.07 per share) for the second quarter of 2009, compared to a net loss of $58.8 million ($0.41 per share) for the first quarter of 2009 and net income of $64.2 million ($0.45 per share) for the second quarter of 2008. For the six months ended June 30, 2009, the Company's net loss was $48.3 million ($0.34 per share), more than double its net loss of $21.2 million ($0.15 per share) for the comparable period in 2008.

One-time items in the quarter affecting comparability of net income with prior quarters had an overall positive impact on net income of $27.5 million ($0.19 per share). The more significant items were as follows:

- Gains recorded on derivative financial instruments totaling $17.3 million ($0.12 per share), principally reflecting an increase in the value of the Canadian dollar relative to the US dollar in the second quarter. On a year-to-date basis there is a gain of $4.9 million ($0.03 per share).
- A foreign exchange translation gain on the Company's US dollar denominated debt, net of investments, of $19.7 million ($0.14 per share), as a result of the stronger Canadian dollar. Year-to-date, the gain is $ 10.6 million ($0.07 per share).
- Restructuring, mill closure and severance costs of $7.5 million ($0.05 per share) resulting principally from the indefinite closures of three sawmill operations in the second quarter.

After taking account of all one-time items affecting comparability, the Company's adjusted net loss for the second quarter of 2009 was $17.0 million ($0.12 per share), compared to a similarly adjusted net loss of $78.2 million ($0.55 per share) for the first quarter of 2009 and adjusted net income of $27.0 million ($0.19 per share) for the second quarter of 2008. For the first half of 2009, the adjusted net loss was $95.2 million ($0.67 per share), compared to a similarly adjusted net loss of $62.5 million ($0.44 per share) for the first half of 2008.

U.S. housing starts and global demand for printing and writing papers remained depressed in the second quarter. After a sluggish start to the quarter, Western SPF lumber prices edged upwards in June largely in response to additional curtailment and concerns over supply disruption. Southern Yellow Pine ("SYP") lumber prices were flat through the period. Pulp prices bottomed out in the second quarter and a combination of sharply lower global inventory levels and increased purchasing activity from China resulted in some modest upward NBSK price momentum in May and June.

The Company's results in the second quarter of 2009 are skewed by the impact of inventory accounting adjustments (as required under Canadian generally accepted accounting principles). These relate to the drawdown of log inventories after the Company's seasonal build in the first quarter, as well as the reversal of write-downs recognized in the previous quarter due principally to lower second quarter costs and higher finished product prices. In total, the positive impact of these inventory accounting adjustments on the second quarter results was $52 million in contrast to a charge of $30 million recorded in the first quarter. Excluding these adjustments, EBITDA for the second quarter showed only a slight improvement compared to the first quarter, with a 7% decline in lumber unit manufacturing costs and improved Western SPF lumber prices later in the quarter being mostly offset by lower pulp prices, the stronger Canadian dollar and indefinite closure costs.

The Company's second quarter's results are significantly impacted by one-time items and accounting adjustments, but the year-to-date results clearly highlight the challenges presented by this recession.

Reflecting the continued challenging market conditions, the Company indefinitely idled its Radium, Rustad and Vavenby sawmills in June and July, thereby further reducing its lumber operating rate to approximately 50% of capacity. The Company is also curtailing another 95 million board feet, in the form of summer shuts, at its continuing Western SPF and SYP operations in the third quarter.

Cash conservation efforts continue to be a primary focus for Canfor. The Company has cut back its capital spending sharply, and is proceeding with further significant reductions in working capital, and operating and overhead cash costs. The Company ended the quarter with cash on hand of $152.8 million, $433.3 million of undrawn operating lines of credit, and a net debt to capitalization ratio of 16%.

Conditions remain difficult, and the modest lumber price gains seen towards the end of the second quarter were eroded shortly after quarter end as markets faltered. With little improvement in market demand projected for the balance of 2009 and first part of 2010, the Company's top priorities for the foreseeable future remain cash conservation and sustainable operating performance improvements.

Ronald L. Cliff	**James F. Shepard**
Chairman	**President and Chief Executive Officer**

Canfor Corporation
Second Quarter 2009
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor's financial performance for the quarter ended June 30, 2009 relative to the quarters ended March 31, 2009 and June 30, 2008, and the financial position of the Company. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 2009 and 2008, as well as the 2008 annual MD&A and the 2008 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2008 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Throughout this discussion, reference is also made to EBITDA (calculated as operating income before amortization) and Adjusted EBITDA (calculated as EBITDA less restructuring, mill closure and severance costs), which Canfor considers to be important indicators 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 Net Loss (calculated as Net Loss less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Analysis of Specific Items Affecting Comparability of Net Loss") and Adjusted Net Loss per Share (calculated as Adjusted Net Loss divided by the weighted average number of shares outstanding during the period). EBITDA, Adjusted EBITDA, Adjusted Net Loss and Adjusted Net 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 Canadian GAAP. As there is no standardized method of calculating these measures, Canfor's EBITDA, Adjusted EBITDA, Adjusted Net Loss and Adjusted Net Loss per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA, Adjusted EBITDA and Adjusted Net Loss to net income reported in accordance with GAAP 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; foreign exchange rates; interest rates; changes in law and public policy; the outcome of trade disputes; and opportunities available to or pursued by Canfor.

Certain prior period comparative information throughout this report has been restated for consistency with the presentation in the current period. All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 29, 2009.

Forward Looking Statements

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

SECOND QUARTER 2009 EARNINGS OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)		Q2 2009		Q1 2009		YTD 2009		Q2 2008		YTD 2008
Sales	$	541.7	$	488.2	$	1,029.9	$	706.4	$	1,354.9
EBITDA	$	7.3	$	(84.6)	$	(77.3)	$	62.3	$	(11.7)
Operating (loss) income	$	(31.2)	$	(124.2)	$	(155.4)	$	20.8	$	(96.7)
Foreign exchange gain (loss) on long-term debt and investments, net	$	29.1	$	(12.9)	$	16.2	$	(0.1)	$	(12.1)
Gain (loss) on derivative financial instruments[2]	$	25.7	$	(21.3)	$	4.4	$	26.0	$	32.0
Gain on sale of mill property	$	-	$	44.6	$	44.6	$	-	$	-
North Central Plywoods mill fire, net	$	(3.0)	$	-	$	(3.0)	$	57.9	$	57.9
Prince George Pulp & Paper mill fire, net	$	-	$	-	$	-	$	-	$	8.5
Net income (loss)	$	10.5	$	(58.8)	$	(48.3)	$	64.2	$	(21.2)
Net income (loss) per share, basic and diluted	$	0.07	$	(0.41)	$	(0.34)	$	0.45	$	(0.15)
Average exchange rate (US$/CDN$) [3]	$	0.858	$	0.803	$	0.829	$	0.990	$	0.993
U.S. housing starts (million units SAAR) [4]		0.541		0.528		0.534		1.017		1.038

[1] Certain amounts in prior periods have been reclassified to conform to the presentation in the current period.
[2] Includes gains (losses) from natural gas, diesel, foreign exchange 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).
[4] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").

Overview

The Company's net loss and adjusted net loss, together with the related adjustments, for the second quarter of 2009, the first quarter of 2009 and the second quarter of 2008 are detailed in the table below:

Analysis of Specific Items Affecting Comparability of Net Loss

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)		Q2 2009		Q1 2009		YTD 2009		Q2 2008		YTD 2008
Net income (loss), as reported	$	10.5	$	(58.8)	$	(48.3)	$	64.2	$	(21.2)
Restructuring, mill closure and severance costs	$	7.5	$	4.2	$	11.7	$	22.3	$	24.9
Foreign exchange (gain) loss on long-term debt and investments, net	$	(19.7)	$	9.1	$	(10.6)	$	-	$	8.7
(Gain) loss on derivative financial instruments	$	(17.3)	$	12.4	$	(4.9)	$	(14.5)	$	(17.2)
Gain on sale of mill property	$	-	$	(37.8)	$	(37.8)	$	-	$	-
North Central Plywoods mill fire, net	$	2.0	$	-	$	2.0	$	(45.0)	$	(45.0)
Prince George Pulp & Paper mill fire, net	$	-	$	-	$	-	$	-	$	(3.6)
Corporate income tax rate reductions	$	-	$	(7.3)	$	(7.3)	$	-	$	(9.1)
Net impact of above items	$	(27.5)	$	(19.4)	$	(46.9)	$	(37.2)	$	(41.3)
Adjusted net income (loss)	$	(17.0)	$	(78.2)	$	(95.2)	$	27.0	$	(62.5)
Net income (loss) per share (EPS), as reported	$	0.07	$	(0.41)	$	(0.34)	$	0.45	$	(0.15)
Net impact of above items per share	$	(0.19)	$	(0.14)	$	(0.33)	$	(0.26)	$	(0.29)
Adjusted net income (loss) per share	$	(0.12)	$	(0.55)	$	(0.67)	$	0.19	$	(0.44)

EBITDA

The following table reconciles the Company's net loss, as reported in accordance with GAAP, to EBITDA:

(millions of dollars)	Q2 2009	Q1 2009	YTD 2009	Q2 2008	YTD 2008
Net income (loss), as reported	**$ 10.5**	$ (58.8)	**$ (48.3)**	$ 64.2	$ (21.2)
Add (subtract):					
Amortization	**$ 38.5**	$ 39.6	**$ 78.1**	$ 41.5	$ 85.0
Interest expense, net	**$ 7.0**	$ 8.3	**$ 15.3**	$ 5.7	$ 11.0
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (29.1)**	$ 12.9	**$ (16.2)**	$ 0.1	$ 12.1
(Gain) loss on derivative financial instruments	**$ (25.7)**	$ 21.3	**$ (4.4)**	$ (26.0)	$ (32.0)
Gain on sale of mill property	**$ -**	$ (44.6)	**$ (44.6)**	$ -	$ -
North Central Plywoods mill fire, net	**$ 3.0**	$ -	**$ 3.0**	$ (57.9)	$ (57.9)
Prince George Pulp & Paper mill fire, net	**$ -**	$ -	**$ -**	$ -	$ (8.5)
Other expense (income)	**$ 2.5**	$ (2.5)	**$ -**	$ 1.5	$ 0.3
Income tax (recovery) expense	**$ (1.0)**	$ (49.7)	**$ (50.7)**	$ 24.0	$ (31.7)
Non-controlling interests	**$ 1.6**	$ (11.1)	**$ (9.5)**	$ 9.2	$ 31.2
EBITDA, as reported	**$ 7.3**	$ (84.6)	**$ (77.3)**	$ 62.3	$ (11.7)
Restructuring, mill closure and severance costs	**$ 11.4**	$ 6.4	**$ 17.8**	$ 34.0	$ 37.8
Adjusted EBITDA	**$ 18.7**	$ (78.2)	**$ (59.5)**	$ 96.3	$ 26.1
Positive (negative) impact of inventory write-downs (included in EBITDA and Adjusted EBITDA)	**$ 52.2**	$ (29.8)	**$ 22.4**	$ 88.4	$ 49.5

The global recession continued to weigh heavily on Canfor's results in the second quarter of 2009. Demand for wood products remained at similar levels to the historical lows seen in the previous quarter, with U.S. housing starts averaging 541,000[5] (Seasonally Adjusted Annual Rate – SAAR), compared to 528,000[5] in the first quarter of 2009. Global demand for printing and writing papers, the largest consuming segment of market pulp, was down 18%[6] for May 2009 year-to-date compared to the same period in 2008.

With demand at such low levels, prices for lumber, OSB and pulp products remained weak in the second quarter of 2009. The benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr lumber price averaged US$174[7] per thousand board feet ("Mfbm"), up US$19 per Mfbm from the previous quarter, but down US$56 per Mfbm, or 24%, from the second quarter of 2008. The average benchmark Southern Yellow Pine ("SYP") 2x4 #2 price was US$236[7], substantially unchanged from the previous quarter and US$58 per Mfbm, or 20%, lower than the second quarter of 2008. Northern bleached softwood kraft ("NBSK") pulp list prices for U.S. delivery in the second quarter declined US$28 per tonne to US$645 per tonne, which was US$235 per tonne, or 27%, lower than the second quarter of 2008. NBSK pulp prices bottomed out early in the quarter and moved upwards in May and June to end the quarter at US$660 per tonne for U.S. delivery and US$630 per tonne for Europe delivery.

A 7% increase in the value of the Canadian dollar relative to its U.S. counterpart in the second quarter offset most of the improvement in US dollar lumber prices, and exacerbated the impact of weaker quarter-over-quarter US dollar OSB and pulp prices. At just under 86 cents for the quarter, the Canadian dollar was down 13.2 cents, or 13%, compared to the same quarter of 2008.

[5] U.S. Census Bureau
[6] According to latest information available from Pulp and Paper Products Council
[7] Random Lengths Publications, Inc.

Reflecting the continued challenging market conditions, the Company indefinitely idled its Radium, Rustad and Vavenby sawmills in June and early July, reducing its current lumber operating rate to approximately 50% of capacity.

The Company reported EBITDA of $7.3 million for the second quarter of 2009, an improvement of $91.9 million from the previous quarter. Results in the first and second quarter of 2009 are skewed by the impact of inventory accounting adjustments (as required under Canadian GAAP), which accounts for approximately $82 million of the variance. A significant majority of this relates to the Company's build of log inventories in the B.C. Interior in the first quarter ahead of spring break-up. At the end of the first quarter, the Company recorded additional log inventory write-downs from cost to market related to this seasonally higher log inventory, effectively moving anticipated losses from processing those logs in the second quarter into the first. The spring break-up factor resulted in an estimated $30 million decrease in operating earnings in the first quarter and a corresponding increase in the second quarter. The balance reflects the reversal of inventory write-downs recognized in the previous quarter, resulting principally from lower second quarter costs and higher finished product prices. Inventory accounting adjustments aside, reported EBITDA for the second quarter showed a slight improvement compared to the first quarter, reflecting a 7% decline in lumber unit manufacturing costs and improved Western SPF lumber prices later in the quarter, which more than offset lower pulp prices, the stronger Canadian dollar and indefinite closure costs.

Compared to the same quarter in 2008, EBITDA was down by $55.0 million, reflecting to a large extent weaker lumber and pulp demand and prices and a less favourable inventory write-down movement, partly offset by lower unit lumber, OSB and pulp manufacturing costs, a weaker Canadian dollar and lower restructuring, severance and closure costs.

Other significant items affecting comparability with prior periods included the following amounts (net of tax and non-controlling interests):

- Gains recorded on derivative financial instruments totaling $17.3 million ($0.12 per share), principally reflecting an increase in the value of the Canadian dollar relative to the US dollar in the second quarter. The year-to-date gain is $4.9 million ($0.03 per share).
- A foreign exchange translation gain on the Company's US dollar denominated debt, net of investments, of $19.7 million ($0.14 per share), as a result of the stronger Canadian dollar. Year-to-date, the gain is $10.6 million ($0.07 per share).

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics - Lumber

(millions of dollars unless otherwise noted)	**Q2 2009**	Q1 2009	**YTD 2009**	**Q2 2008**	**YTD 2008**
Sales	**$ 299.2**	$ 277.3	**$ 576.5**	$ 395.3	$ 747.8
EBITDA[8]	**$ 10.6**	$ (68.8)	**$ (58.2)**	$ 46.3	$ (46.7)
Adjusted EBITDA[8]	**$ 20.2**	$ (66.3)	**$ (46.1)**	$ 57.4	$ (34.9)
EBITDA margin	**4%**	(25)%	**(10)%**	12%	(6)%
Adjusted EBITDA margin	**7%**	(24)%	**(8)%**	15%	(5)%
Operating (loss) income [8]	**$ (12.0)**	$ (92.3)	**$ (104.3)**	$ 22.8	$ (96.0)
Average SPF 2x4 #2&Btr lumber price in US$[9]	**$ 174**	$ 155	**$ 165**	$ 230	$ 217
Average SPF price in Cdn$	**$ 203**	$ 193	**$ 198**	$ 232	$ 219
Average SYP 2x4 #2 lumber price in US$[10]	**$ 236**	$ 235	**$ 236**	$ 294	$ 289
Average SYP price in Cdn$	**$ 275**	$ 293	**$ 284**	$ 296	$ 291
Production – SPF lumber (MMfbm)	**759.3**	701.9	**1,461.2**	877.0	1,760.7
Production – SYP lumber (MMfbm)	**58.6**	62.4	**121.0**	104.4	210.4
Shipments – SPF lumber (MMfbm) [11]	**764.5**	684.9	**1,449.4**	935.3	1,798.0
Shipments – SYP lumber (MMfbm) [11]	**69.1**	66.7	**135.8**	125.9	236.2
Shipments – wholesale lumber (MMfbm)	**50.1**	39.0	**89.1**	46.0	95.5

[8]Earnings in Q2 2009 include a positive impact from inventory write-down adjustments of $43.1 million, compared to a negative impact in Q1 2009 of $24.3 million and a positive impact in Q2 2008 of $70.3 million.
[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] Canfor-produced lumber, includes shipments of lumber purchased for remanufacture.

Overview

The Lumber segment reported an operating loss of $12.0 million for the second quarter of 2009, an $80.3 million improvement over the first quarter of 2009, but an adverse movement of $34.8 million compared to the second quarter of 2008. Over those same periods, Adjusted EBITDA improved by $86.5 million and fell by $37.2 million, respectively. For the first half of 2009, the Lumber segment reported an operating loss of $104.3 million, $8.3 million higher than for the same period of 2008.

The significant majority of the improvement in Adjusted EBITDA compared to the previous quarter was attributable to spring break-up which impacted log inventory write-downs as noted earlier. Adjusted EBITDA in the current quarter was also positively impacted by a 12% increase in the average Western SPF 2x4 #2&Btr price, partly offset by the stronger Canadian dollar compared to the previous quarter. US dollar prices for SYP lumber remained relatively flat. Log and conversion costs were down 7% compared to the previous quarter, for the most part reflecting the Company's continued cost focus as well as seasonally lower energy usage and lower natural gas prices.

The decrease in Adjusted EBITDA compared to the second quarter of 2008 was primarily attributable to lower sales realizations and a more positive impact from inventory accounting adjustments in the second quarter of 2008 (reflecting higher operating rates and correspondingly higher log inventory drawdowns in the 2008 quarter), which more than offset an 8% decrease in unit manufacturing costs and a 13% decrease in the value of the Canadian dollar. Western SPF 2x4 #2&Btr and SYP 2x4 #2 US$ prices were down 24% and 20%, respectively, and similar decreases were seen across most wide grades.

Restructuring, mill closure and severance costs in the second quarter of 2009 were up by $7.1 million compared to the previous quarter, principally reflecting the Company's decision in late May to indefinitely idle the Radium, Rustad and Vavenby sawmills.

Markets

Demand for softwood lumber continued to be weak through the second quarter of 2009 as housing starts remained at historically low levels. U.S. housing starts began the quarter by falling further than the record-low levels seen in the first quarter, but showed a marginal improvement as the quarter progressed. Total U.S. housing starts averaged 541,000 units SAAR[12] for the quarter, in line with the previous quarter, but down 48% from the second quarter of 2008. Single family starts were up 18% compared to the previous quarter, but were still down 37% compared to the second quarter of 2008.

The inventory of new homes for sale fell to a seasonally adjusted figure of 8.8 months[12] of supply by the end of June, compared to 11.3 months supply at the end of March, but is still at historically high levels. Similarly, existing home inventories fell marginally to 9.4 months[13] of supply at the end of the second quarter, compared to 9.6 months at the end of the first quarter of 2009.

Canadian housing starts continued to fall in the second quarter of 2009, to an average of 128,100 units SAAR[14]. This was down 11,300 units SAAR, or 8%, compared to the previous quarter, and down 89,500 units SAAR, or 41%, compared to the second quarter of 2008.

Offshore demand improved somewhat in the second quarter in part driven by increased demand in the Japanese market and continued strong demand in the China market. In the second quarter, lumber shipments to China outpaced shipments to Japan.

Sales

Lumber sales for the second quarter of 2009 were $299.2 million, up $21.9 million, or 8%, compared to the first quarter of 2009, and down $96.1 million, or 24%, compared to the second quarter of 2008.

Average prices for all grades and widths of SPF lumber were up compared to the prior quarter, reflecting several industry-wide production curtailment announcements in the second quarter that reduced supply in the marketplace. However, prices were still significantly down compared to the second quarter of 2008. The average price of Western SPF 2x4 #2&Btr increased by US$19 per Mfbm, or 12%, compared to the previous quarter, but was down US$56 per Mfbm, or 24%, compared to the second quarter of 2008. Average prices for SYP 2x4 #2 were comparable to the first quarter at US$236, but were down US$58, or 20%, compared to the second quarter of 2008. Canadian dollar sales realizations were negatively impacted by a 7% increase in the value of the Canadian dollar, but benefited from a 13% decrease in the dollar compared to the same quarter a year ago.

The Random Lengths Framing Lumber Composite price averaged US$209 per Mfbm for the second quarter of 2009, up US$13 compared to the previous quarter, but remaining well below the trigger price of US$315 per Mfbm required to reduce the export tax rate on all U.S. bound shipments below the current rate of 15%.

Shipments for the second quarter of 2009 were up 82 million board feet, or 11%, compared to the previous quarter, reflecting higher production and a seasonal drawdown of inventories after the traditionally slower winter period. Compared to the second quarter of 2008, shipments were down 228 million board feet, or 21%, reflecting the significantly lower operating rates in the current environment.

Total residual fibre revenue compared to the previous quarter increased in line with production in the current quarter, but compared to the same quarter of 2008, revenue was down sharply due to reduced operating rates and weaker pulp and lumber prices in the current period.

Operations

Lumber production for the second quarter was 818 million board feet, 54 million board feet, or 7%, higher than the prior quarter, and 163 million board feet, or 17%, lower than production for the same quarter in 2008. Significant curtailments were again taken in the second quarter, in the form of shortened work weeks and reduced shifts.

[12] U.S. Census Bureau
[13] National Association of Realtors
[14] CMHC

Overall, the Company's unit manufacturing (log and conversion) costs were down 7% and 8% compared to the previous quarter and the second quarter of 2008, respectively, in both cases reflecting improved productivity, lower energy costs and reduced overhead costs. Compared to the previous quarter, the lower energy costs reflected seasonally lower energy consumption, as well as lower gas prices.

Restructuring costs for the lumber segment amounted to $9.6 million, compared to $2.5 million for the first quarter of 2009, and $11.1 million for the second quarter of 2008. The increase compared to the first quarter reflects the Company's decision to indefinitely idle the Radium, Rustad and Vavenby sawmills. Costs for the second quarter of 2008 included those related to the indefinite idling of the Mackenzie operation in June 2008.

The movement in inventory write-downs in the second quarters of 2009 and 2008 positively impacted operating results by $43.1 million and $70.3 million, respectively, in contrast to the first quarter where EBITDA and operating income were negatively impacted by $24.3 million. The significant majority of the favourable variance to the previous quarter of 2009 related to the normal spring break-up. The adverse variance to the same quarter of 2008 mostly reflected lower operating rates and a correspondingly lower drawdown of log inventories in the current period.

Pulp and Paper[15]

Selected Financial Information and Statistics – Pulp and Paper

(millions of dollars unless otherwise noted)	**Q2 2009**	Q1 2009	**YTD 2009**	**Q2 2008**	**YTD 2008**
Sales	**$ 232.4**	$ 205.3	**$ 437.7**	$ 251.2	$ 493.3
EBITDA[16]	**$ 5.7**	$ (5.0)	**$ 0.7**	$ 26.6	$ 71.7
EBITDA margin	**2%**	(2)%	**0%**	11%	15%
Operating (loss) income[16]	**$ (6.8)**	$ (17.3)	**$ (24.1)**	$ 14.3	$ 47.5
Average pulp price delivered to U.S. – US$[17]	**$ 645**	$ 673	**$ 659**	$ 880	$ 880
Average price in Cdn$	**$ 752**	$ 838	**$ 795**	$ 889	$ 886
Production – pulp (000 mt)	**299.1**	270.0	**569.1**	276.2	560.7
Production – paper (000 mt)	**30.7**	28.4	**59.1**	34.2	66.6
Shipments – Canfor-produced pulp (000 mt)	**344.4**	276.6	**621.0**	289.4	568.4
Pulp marketed on behalf of HSLP (000 mt)[18]	**81.9**	70.9	**152.8**	96.2	174.5
Shipments – paper (000 mt)	**34.3**	25.2	**59.5**	33.7	68.8

[15] Includes the Taylor Pulp mill and 100% of Canfor Pulp Limited Partnership ("CPLP"), which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both northern bleached softwood kraft ("NBSK") and bleached chemi-thermo mechanical pulp ("BCTMP").
[16] Earnings for Q2 2009 include a positive impact from inventory write-down adjustments of $5.5 million, compared to a negative impact in Q1 2009 of $3.7 million and no impact in Q2 2008.
[17] Per tonne, NBSK pulp list price delivered to U.S. (RISI).
[18] Howe Sound Pulp and Paper Limited Partnership pulp mill.

Overview

Operating income and EBITDA in the Pulp and Paper segment in the second quarter of 2009 were up $10.5 million and $10.7 million, respectively, compared to the previous quarter. The improvement resulted principally from the impact on unit manufacturing costs of higher production volumes (reflecting first quarter market curtailments and seasonally lower productivity levels), as well as lower fibre, chemical and natural gas costs. In addition, a further $3.5 million business interruption insurance receivable was recorded by CPLP upon settlement of an insurance claim arising from its Prince George Pulp and Paper Mill's chip screening and in-feed system fire in early 2008. These factors more than offset weaker Canadian dollar sales realizations resulting from lower US dollar pulp prices and a stronger Canadian dollar.

Compared to the same quarter of 2008, operating earnings and EBITDA were down $21.1 million and $20.9 million, respectively, primarily as a result of significantly weaker NBSK pulp and BCTMP US dollar prices and a higher percentage of sales into lower margin business (including non-contract business and the tissue segment), which more than offset a weaker Canadian dollar, lower fibre and energy costs, and costs associated with a scheduled maintenance outage at CPLP's Northwood Pulp mill in the comparative quarter of 2008.

Markets

During the second quarter of 2009, continued weakness in global pulp demand was more than offset by supply reductions due to temporary and permanent mill closures, resulting in significant reductions in producer inventory stocks. Year-to-date demand for market pulp was below 2008 levels, mainly due to reduced demand for printing and writing papers over the same period. According to the latest available information from the Pulp and Paper Product Council ("PPPC"), global demand for printing and writing papers decreased 18% for May 2009 year-to-date, when compared to the same period in 2008.

The reduction in supply has resulted in declining pulp inventories from the beginning of the year. At the end of June 2009, World 20[19] producer bleached softwood pulp inventories were down to 26 days of supply (June 2008 – 29 days), after peaking at 43 days in January 2009.

Demand for kraft paper in North America continued to be weak in the second quarter of 2009. A primary driver for the overall market weakness continues to be the poor housing market and low consumer confidence. Prices slipped a further 3% in the second quarter and sales realizations were further negatively impacted by the stronger Canadian dollar.

Sales

Shipments of Canfor-produced pulp in the second quarter of 2009 were up 25% compared to the previous quarter, and up 19% compared to the second quarter of 2008, in both cases reflecting higher levels of product made available for sale and increased shipments into China.

Average NBSK market pulp list prices for U.S. delivery in the second quarter were down US$28 per tonne, or 4%, from the previous quarter. However prices moved up in May and June, and ended the quarter at US$660 per tonne, up US$25 from two months earlier. Price gains in European and Asian markets were higher, with list prices in Europe increasing US$50 per tonne and prices to China rising US$60 per tonne. Average BCTMP prices also trailed those for the prior quarter.

Operations

Pulp production for the second quarter of 2009 was 299,000 tonnes, which was 29,000 tonnes higher than the previous quarter due primarily to higher operating rates that reflected less market downtime and seasonally higher productivity. Compared to the second quarter of 2008, production was up 23,000 tonnes, in large part due to a scheduled maintenance outage at CPLP's Northwood pulp mill in 2008, and production lost in 2008 due to the Prince George Pulp and Paper Mill fire.

Unit manufacturing costs for the second quarter of 2009 were down compared to the previous quarter, reflecting the higher production volumes, as well as lower fibre, chemical and natural gas costs. The lower fibre costs resulted principally from a reduction in higher-cost whole log chipping. Lower energy costs reflected seasonally lower natural gas usage and lower gas prices.

Unit manufacturing costs were also down compared to the second quarter of 2008, with higher operating rates, and lower fibre, energy and overhead costs being the primary contributing factors. The lower fibre costs reflected lower prices for both sawmill residual and whole log chips, and a higher proportion of residual chips consumed in the period.

Inventory write-down movements positively impacted operating results by $5.5 million in the second quarter of 2009, and negatively impacted results in the previous quarter by $3.7 million. The variance reflected reduced inventory levels and improving pulp prices at the end of June.

[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").

Unallocated and Other Items

(millions of dollars)	Q2 2009	Q1 2009	YTD 2009	Q2 2008	YTD 2008
Operating loss of Panels operations	$ (6.3)	$ (9.4)	$ (15.7)	$ (11.4)	$ (38.3)
Corporate costs	$ (6.1)	$ (5.2)	$ (11.3)	$ (4.9)	$ (9.9)
Interest expense, net	$ (7.0)	$ (8.3)	$ (15.3)	$ (5.7)	$ (11.0)
Foreign exchange gain (loss) on long-term debt and investments, net	$ 29.1	$ (12.9)	$ 16.2	$ (0.1)	$ (12.1)
Gain (loss) on derivative financial instruments	$ 25.7	$ (21.3)	$ 4.4	$ 26.0	$ 32.0
Gain on sale of mill property	$ -	$ 44.6	$ 44.6	$ -	$ -
North Central Plywoods mill fire, net	$ (3.0)	$ -	$ (3.0)	$ 57.9	$ 57.9
Prince George Pulp & Paper mill fire, net	$ -	$ -	$ -	$ (0.3)	$ 8.5
Other income (expense), net	$ (2.5)	$ 2.5	$ -	$ (1.5)	$ (0.3)

Results of the Panels operations continued to reflect weak OSB market conditions for the Peace Valley ("PV") OSB joint venture, the only facility currently operating, and the ongoing costs of indefinitely idling the Tackama and PolarBoard plants. The loss was down $3.1 million compared to the previous quarter, with lower inventory write-downs in the current quarter, principally related to spring break-up, together with lower input and conversion costs and seasonally lower indefinite closure costs more than offsetting a $5.8 million charge recorded in connection with the North Central Plywoods ("NCP") claim settlement. The second quarter of 2008's results included restructuring, mill closure and severance costs of $22.6 million resulting substantially from the NCP mill closure and the indefinite idling of PolarBoard.

Corporate costs were $6.1 million in the second quarter of 2009, up $0.9 million compared to the first quarter of 2009 and up $1.2 million compared to the second quarter of 2008, mostly related to higher compensation costs linked to share price movements and severance costs arising from further cost reduction initiatives.

Net interest expense of $7.0 million in the second quarter of 2009 was down $1.3 million from the previous quarter. The decrease reflected the repayment of debt of $99.7 million and $75.8 million on March 1 and April 1, respectively, as well as reduced working capital requirements in the period. The net expense was $1.3 million higher than the comparative quarter in 2008, with the savings from lower debt levels more than offset by lower cash balances, and the impact of weaker Canadian dollar on interest arising on US dollar denominated debt.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt, net of investments, for the second quarter of 2009 of $29.1 million. This resulted from a 6.7 cent, or 8%, increase in the value of the Canadian dollar against the US dollar over the quarter.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in natural gas and diesel costs, foreign exchange rates and lumber prices. In the second quarter of 2009, the Company recorded a net gain of $25.7 million related to its derivative instruments, which was due principally to the stronger Canadian dollar. The following table summarizes the gain (loss) on derivative financial instruments for the comparable periods.

Gain (loss) on derivative financial instruments:	3 months ended June 30,		6 months ended June 30,	
(millions of dollars)	2009	2008	2009	2008
Foreign exchange collars and forward contracts	$ 27.3	$ (0.2)	$ 16.5	$ (11.1)
Natural gas swaps	$ (3.5)	$ 16.8	$ (13.0)	$ 31.1
Diesel options and swaps	$ 2.4	$ 9.2	$ 1.0	$ 11.4
Commodity futures	$ (0.5)	$ 0.2	$ (0.1)	$ 0.6
	$ 25.7	$ 26.0	$ 4.4	$ 32.0

An amount of $3.0 million was charged to "North Central Plywoods mill fire, net" in the second quarter of 2009 following the Company's final settlement on its NCP insurance claim in April.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow and financial position for and as at the end of the following periods:

(millions of dollars)	Q2 2009	Q1 2009	YTD 2009	Q2 2008	YTD 2008
Increase (decrease) in cash and cash equivalents	**$ (2.4)**	$ (207.2)	**$ (209.6)**	$ 56.1	$ 2.1
Operating activities	**$ 38.9**	$ (127.0)	**$ (88.1)**	$ 74.6	$ 71.1
Financing activities	**$ (79.2)**	$ (110.4)	**$ (189.6)**	$ (11.8)	$ (36.5)
Investing activities	**$ 37.7**	$ 30.0	**$ 67.7**	$ (6.7)	$ (32.5)
Foreign exchange gains on cash and cash equivalents of self-sustaining operations	**$ 0.2**	$ 0.2	**$ 0.4**	$ -	$ -
Ratio of current assets to current liabilities			**2.4 : 1**		2.4 : 1
Ratio of net debt to capitalization			**16%**		10%

Changes in Financial Position

Operating activities generated cash of $38.9 million in the second quarter of 2009, compared to cash used of $127.0 million in the previous quarter, and $74.6 million generated in the second quarter of 2008. The positive variance compared to the previous quarter reflected a significant reduction in working capital (mostly relating to the drawdown of log and pulp product inventories), and lower log and conversion costs, partially offset by higher income tax refunds received in the prior period. Compared to the same quarter of 2008, the reduction in cash generated principally reflected weaker operating results across all segments. On a year-to-date basis, operating activities have used cash of $88.1 million in 2009, compared to $71.1 million of cash generated for the first half of 2008, with approximately half of the variance related to higher income tax refunds received in the comparative period. The increased operating losses to date in 2009 accounted for the significant majority of the balance.

Financing activities used cash of $79.2 million in the second quarter of 2009, principally for the repayment of long-term debt of $75.8 million (US$60.0 million). Operating bank loans decreased $1.8 million. Cash distributions paid to non-controlling interests were $1.5 million, down from $13.2 million paid in the same quarter of 2008, and reflected lower CPLP distributions.

Investing activities in the second quarter of 2009 resulted in net cash inflows of $37.7 million, and reflected final proceeds from the NCP claim settlement of $33.3 million and proceeds from the partial redemption of the Company's investment in ABCP of $10.4 million. Capital spending of $7.5 million in the quarter reflected cash conservation efforts, and was well down from $26.3 million reported for the same quarter of 2008.

Changes in Equity

In addition to the $10.5 million net income for the quarter which was credited to retained earnings, other comprehensive income decreased by $21.0 million, substantially due to the impact of the stronger Canadian dollar on the translation of its self-sustaining foreign subsidiaries.

Liquidity and Financial Requirements

At June 30, 2009, the Company, on a consolidated basis, had cash and cash equivalents of $152.8 million and $492.0 million of bank operating lines of credit, of which $42.8 million was reserved for several standby letters of credit. Of CPLP's $75.0 million share of these operating lines, $15.1 million was drawn down at June 30, 2009. The Company's net debt to capitalization ratio at the end of the second quarter was 16%.

On April 1, 2009, the Company repaid $75.8 million (US$60.0 million) of privately placed notes at 5.66% interest rate. A debt repayment was also made in the first quarter, consisting of $99.7 million (US$77.3 million) of privately placed senior notes (US$45.0 million at 7.98% interest rate and US$32.3 million at 8.03% interest rate).

At June 30, 2009, the Company had in place foreign exchange collar option contracts for US$197 million and forward sale contracts for US$51.4 million covering the period to January 2010. The collar contracts fix the Company's US dollar exchange rate between a minimum of CDN$0.98 and a maximum of CDN$1.12. The forward sale contract US dollar rates vary between CDN$1.09 and CDN$1.24.

OUTLOOK

Lumber

Lumber markets are expected to improve marginally in the third quarter of 2009, with lumber prices anticipated to show a modest increase as the full effect of industry-wide production curtailments is realized during the summer months. Looking further ahead, prospects of a meaningful recovery of the housing market before the second quarter of 2010 are diminishing. The demand for lumber in the repair and renovation sector is projected to remain at current levels, with U.S. homeowners expected to focus on repair and remodeling activities instead of purchasing new homes.

Lumber consumption in Canada is expected to remain under pressure due to a prolonged weakening of the Canadian housing market. However, strong shipments to China are projected to extend in the near-term as 2x4 housing construction is getting recognition in regions susceptible to earthquakes. Similarly, shipments to Japan are expected to increase as demand improves in the second half of the year.

Pulp and Paper

The outlook for the second half of 2009 is one of moderate optimism. Supply has been reduced to a level that balances demand and, when combined with low pulp producer inventories, provides an opportunity for additional price increases in the coming months. The reductions in supply are primarily the result of temporary and permanent mill closures in Canada and Scandinavia as high cost facilities strive to conserve cash and control inventories. Partially offsetting the mill closures has been the impact of the U.S. Black Liquor tax subsidy, which may have enabled some higher cost U.S. pulp mills to continue to operate. Demand is expected to recover slightly from earlier this year, but remain weak relative to 2008. Overall, additional modest improvements in price are expected during the balance of 2009.

The Canadian Green Transformation Program is not expected to have a major impact on supply. The program was announced by the Canadian government on June 17, 2009 and proposes to provide a $0.16 cent per litre credit to qualifying Canadian facilities for black liquor consumption from January 1, 2009 onwards, until the cap of $1 billion is reached. The program is to take the form of funding for qualifying energy and environmental capital projects. Although full details of the program have not been finalized it is estimated that the $1 billion ceiling based on black liquor consumption would be reached by the Canadian industry sometime during the summer of 2009. The Partnership expects to qualify for funding under this program and has commenced development of a list of significant qualifying capital projects in anticipation of submission once the program details are finalized.

OUTSTANDING SHARES

At July 29, 2009, there were 142,589,297 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Section 3064, *Goodwill and Intangible Assets.* This section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets* and Section 3450, *Research and Development Costs*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new Standard, EIC 27, *Revenues and Expenditures During the Pro-operating Period,* is withdrawn and so various preproduction and start-up costs are required to be expensed as incurred. This Standard did not have a material impact on Canfor's consolidated financial statements.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February of 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual periods in fiscal years beginning on or after January 1, 2011.

The Company has developed a conversion implementation plan to ensure that differences between Canadian GAAP and IFRS that affect Canfor are identified, and any required changes to accounting processes and controls (including information technology systems) are made in a timely manner to ensure a smooth transition on January 1, 2010.

The key elements of the conversion implementation plan are as follows:

Project Structure

The Company has a project manager dedicated to leading the conversion to IFRS. The project manager is working with other members of the finance team to execute the elements of the implementation plan. An implementation team is working closely with senior management in a number of different business areas to ensure that the impacts of the conversion throughout the business are managed in a timely and efficient manner. A steering committee has been established to oversee the project.

Process and Timing

The process of converting to IFRS has been divided into a number of different stages, many of which will run concurrently. A detailed diagnostic has now been completed, and a number of areas identified for further consideration before the date of transition. Various accounting policy choices have been identified and are being considered by the steering committee.

Any changes required to systems and controls (including information technology systems) will be identified as the project progresses; these are currently projected to be designed and tested by the end of the third quarter of 2009. The implementation of any significant changes to systems and controls, as well as related training, is currently scheduled for the second half of 2009.

A draft opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) is currently planned to be completed in the first half of 2010. Draft financial statements and disclosure information will be prepared for each quarter in 2010 (to be used for comparative purposes in 2011) and reporting under IFRS will commence for interim and annual periods in 2011.

Progress to Date

At June 30, 2009, the Company has completed an evaluation and diagnostic of the impact of IFRS on Canfor's financial statements. A number of issues had been identified for discussion by senior management before final decisions are made with respect to accounting policy choices and elections. The Company has identified a number of key areas where it is likely to be impacted by changes in accounting policy. These include:

- Employee future benefits
- Property, plant, equipment and timber
- Intangible assets
- Impairment of assets
- Provisions, including deferred reforestation obligations and asset retirement obligations
- Presentation of financial statements, including presentation of minority interests

As a first-time adopter of IFRS, the Company is required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". A number of exemptions are available under this Standard which the Company is currently evaluating. The more significant exemptions include: recognizing through opening retained earnings all cumulative actuarial gains and losses on employee benefit plans, and cumulative translation adjustments on self sustaining operations; avoiding a retroactive restatement of previous business combinations under IFRS; and electing to use fair value at the transition date as deemed cost for capital assets in certain circumstances.

No significant impact on the Company's systems and controls has currently been identified from the review carried out to date. Further training of impacted staff will be carried out in the second half of 2009 and going forward.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending June 30, 2009, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2008 annual statutory reports which are available on www.sedar.com or www.canfor.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Sales and income (millions of dollars)								
Sales	**$ 541.7**	$ 488.2	$ 588.7	$ 668.0	$ 706.4	$ 648.5	$ 711.0	$ 837.4
Operating (loss) income	**$ (31.2)**	$ (124.2)	$ (74.2)	$ 12.8	$ 20.8	$ (117.5)	$ (124.7)	$ (52.1)
Net income (loss)	**$ 10.5**	$ (58.8)	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)	$ (237.0)	$ (42.1)
Per common share (dollars)								
Net income (loss) – basic and diluted	**$ 0.07**	$ (0.41)	$ (1.61)	$ (0.66)	$ 0.45	$ (0.60)	$ (1.66)	$ (0.30)
Statistics								
Lumber shipments (MMfbm)	**884**	791	956	906	1,107	1,023	1,149	1,301
Plywood shipments (MMsf 3/8")	**-**	-	28	54	96	86	90	90
OSB shipments (MMsf 3/8")	**61**	30	56	91	153	164	166	162
Pulp shipments (000 mt)	**344**	277	236	284	289	279	308	307
Average exchange rate – US$/Cdn$	**$ 0.858**	$ 0.803	$ 0.825	$ 0.960	$ 0.990	$ 0.996	$ 1.019	$ 0.957
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 174**	$ 155	$ 190	$ 263	$ 230	$ 205	$ 230	$ 260
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 236**	$ 235	$ 258	$ 289	$ 294	$ 285	$ 277	$ 273
Average OSB price – North Central (US$)	**$ 145**	$ 154	$ 172	$ 202	$ 174	$ 138	$ 165	$ 177
Average NBSK pulp list price delivered to U.S. (US$)	**$ 645**	$ 673	$ 787	$ 880	$ 880	$ 880	$ 857	$ 837

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 sawmills, OSB plants, and pulp mills. 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. Also, the global recession has adversely impacted the Company's results since late 2008.

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

After-tax impact, net of non-controlling interests

(millions of dollars, except for per share amounts)	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Net income (loss), as reported	**$ 10.5**	$ (58.8)	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)	$ (237.0)	$ (42.1)
Export tax refund	**$ -**	$ -	$ (7.1)	$ -	$ -	$ -	$ -	$ -
Restructuring, mill closure and severance costs	**$ 7.5**	$ 4.2	$ 6.8	$ 3.6	$ 22.3	$ 2.6	$ 14.2	$ 7.3
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (19.7)**	$ 9.1	$ 52.2	$ 11.3	$ -	$ 8.7	$ 3.5	$ (5.1)
(Gain) loss on derivative financial instruments	**$ (17.3)**	$ 12.4	$ 50.3	$ 21.4	$ (14.5)	$ (2.7)	$ (3.5)	$ (6.9)
Gain on sale of mill property	**$ -**	$ (37.8)	$ -	$ -	$ -	$ -	$ -	$ -
North Central Plywoods mill fire, net	**$ 2.0**	$ -	$ -	$ -	$ (45.0)	$ -	$ -	$ -
Prince George Pulp & Paper mill fire, net	**$ -**	$ -	$ 0.2	$ -	$ -	$ (3.6)	$ -	$ -
Asset impairments	**$ -**	$ -	$ 74.1	$ 56.9	$ -	$ -	$ 189.1	$ 6.0
Corporate income tax rate reductions	**$ -**	$ (7.3)	$ -	$ -	$ -	$ (9.1)	$ (35.8)	$ (0.9)
Other items	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (0.1)	$ (4.2)
Net impact of above items	**$ (27.5)**	$ (19.4)	$ 176.5	$ 93.2	$ (37.2)	$ (4.1)	$ 167.4	$ (3.8)
Net (loss) income, as adjusted	**$ (17.0)**	$ (78.2)	$ (53.3)	$ (1.0)	$ 27.0	$ (89.5)	$ (69.6)	$ (45.9)
Net (loss) income per share (EPS), as reported	**$ 0.07**	$ (0.41)	$ (1.61)	$ (0.66)	$ 0.45	$ (0.60)	$ (1.66)	$ (0.30)
Net impact of above items per share	**$ (0.19)**	$ (0.14)	$ 1.24	$ 0.65	$ (0.26)	$ (0.03)	$ 1.17	$ (0.03)
Net (loss) income per share, as adjusted	**$ (0.12)**	$ (0.55)	$ (0.37)	$ (0.01)	$ 0.19	$ (0.63)	$ (0.49)	$ (0.33)

Canfor Corporation
Consolidated Balance Sheets

(millions of dollars, unaudited)		**As at June 30, 2009**		As at December 31, 2008
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**152.8**	$	362.4
Accounts receivable				
Trade		**161.6**		105.9
Other		**24.8**		93.7
Income taxes recoverable		**31.8**		47.1
Future income taxes, net		**17.9**		31.2
Inventories (Note 2)		**344.5**		404.9
Prepaid expenses		**40.4**		35.1
Total current assets		**773.8**		1,080.3
Long-term investments and other (Note 3)		**106.0**		125.7
Property, plant, equipment and timber		**1,743.6**		1,798.5
Goodwill		**80.7**		85.7
Deferred charges		**112.8**		110.2
	$	**2,816.9**	$	3,200.4
LIABILITIES				
Current Liabilities				
Operating loans (Note 4 (a))	**$**	**15.9**	$	25.2
Accounts payable and accrued liabilities		**246.9**		322.9
Current portion of long-term debt (Note 4 (b))		**37.6**		168.3
Current portion of deferred reforestation obligation		**32.2**		32.5
Total current liabilities		**332.6**		548.9
Long-term debt (Note 4 (b))		**369.1**		428.7
Long-term accrued liabilities and obligations (Note 5)		**211.4**		208.8
Future income taxes, net		**211.6**		242.4
Non-controlling interests		**263.6**		276.8
	$	**1,388.3**	$	1,705.6
SHAREHOLDERS' EQUITY				
Share capital – 142,589,297 common shares outstanding	**$**	**1,124.7**	$	1,124.7
Contributed surplus		**31.9**		31.9
Retained earnings		**268.4**		316.7
Accumulated other comprehensive income		**3.6**		21.5
	$	**1,428.6**	$	1,494.8
	$	**2,816.9**	$	3,200.4

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, J.F. Shepard

Canfor Corporation
Consolidated Statements of Income (Loss)

(millions of dollars, unaudited)	3 months ended June 30, 2009	3 months ended June 30, 2008	6 months ended June 30, 2009	6 months ended June 30, 2008
Sales	**$ 541.7**	$ 706.4	**$ 1,029.9**	$ 1,354.9
Costs and expenses				
Manufacturing and product costs	**385.0**	447.0	**829.0**	1,021.4
Freight and other distribution costs	**107.9**	129.7	**205.2**	244.8
Export taxes	**13.3**	18.2	**24.2**	31.6
Amortization	**38.5**	41.5	**78.1**	85.0
Selling and administration costs	**16.8**	15.2	**31.0**	31.0
Restructuring, mill closure and severance costs (Note 6)	**11.4**	34.0	**17.8**	37.8
	572.9	685.6	**1,185.3**	1,451.6
Operating (loss) income	**(31.2)**	20.8	**(155.4)**	(96.7)
Interest expense, net	**(7.0)**	(5.7)	**(15.3)**	(11.0)
Foreign exchange gain (loss) on long-term debt and investments, net	**29.1**	(0.1)	**16.2**	(12.1)
Gain on derivative financial instruments (Note 13)	**25.7**	26.0	**4.4**	32.0
Gain on sale of mill property (Note 7)	**-**	-	**44.6**	-
North Central Plywoods mill fire, net (Note 8)	**(3.0)**	57.9	**(3.0)**	57.9
Prince George Pulp & Paper mill fire, net	**-**	-	**-**	8.5
Other expense, net	**(2.5)**	(1.5)	**-**	(0.3)
Net income (loss) before income taxes and non-controlling interests	**11.1**	97.4	**(108.5)**	(21.7)
Income tax recovery (expense) (Note 10)	**1.0**	(24.0)	**50.7**	31.7
Non-controlling interests	**(1.6)**	(9.2)	**9.5**	(31.2)
Net income (loss)	**$ 10.5**	$ 64.2	**$ (48.3)**	$ (21.2)
Per common share (in dollars) (Note 11)				
Net income (loss) - Basic and Diluted	**$ 0.07**	$ 0.45	**$ (0.34)**	$ (0.15)

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

Canfor Corporation
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive (Loss) Income

(millions of dollars, unaudited)	3 months ended June 30, **2009**	3 months ended June 30, 2008	6 months ended June 30, **2009**	6 months ended June 30, 2008
Consolidated Statements of Changes in Shareholders' Equity				
Share capital				
Balance at beginning and end of period	**$ 1,124.7**	$ 1,124.7	**$ 1,124.7**	$ 1,124.7
Contributed surplus				
Balance at beginning and end of period	**$ 31.9**	$ 31.9	**$ 31.9**	$ 31.9
Retained earnings				
Balance at beginning of period	**$ 257.9**	$ 576.5	**$ 316.7**	$ 692.5
Change in accounting for inventories	**-**	-	**-**	(30.6)
Net income (loss) for the period	**10.5**	64.2	**(48.3)**	(21.2)
Balance at end of period	**$ 268.4**	$ 640.7	**$ 268.4**	$ 640.7
Accumulated other comprehensive income (loss)				
Balance at beginning of period	**$ 24.6**	$ (25.0)	**$ 21.5**	$ (32.0)
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**(21.1)**	(1.8)	**(18.0)**	5.4
Reclassification to income of losses on derivative instruments designated as cash flow hedges in prior periods	**0.1**	(0.2)	**0.1**	(0.4)
Balance at end of period	**$ 3.6**	$ (27.0)	**$ 3.6**	$ (27.0)
Total shareholders' equity – Balance at end of period	**$ 1,428.6**	$ 1,770.3	**$ 1,428.6**	$ 1,770.3
Consolidated Statement of Comprehensive (Loss) Income				
Net income (loss) for the period	**$ 10.5**	$ 64.2	**$ (48.3)**	$ (21.2)
Other comprehensive (loss) income				
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**(21.1)**	(1.8)	**(18.0)**	5.4
Reclassification to income of losses on derivative instruments designated as cash flow hedges in prior periods	**0.1**	(0.2)	**0.1**	(0.4)
Other comprehensive (loss) income	**(21.0)**	(2.0)	**(17.9)**	5.0
Total comprehensive (loss) income	**$ (10.5)**	$ 62.2	**$ (66.2)**	$ (16.2)

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

Canfor Corporation
Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended June 30, 2009	3 months ended June 30, 2008	6 months ended June 30, 2009	6 months ended June 30, 2008
Cash generated from (used in)				
Operating activities				
Net income (loss) for the period	**$ 10.5**	$ 64.2	**$ (48.3)**	$ (21.2)
Items not affecting cash:				
Amortization	**38.5**	41.5	**78.1**	85.0
Future income taxes	**10.9**	13.0	**(17.8)**	(19.1)
Long-term portion of deferred reforestation	**(9.7)**	(15.8)	**(0.2)**	0.5
Gain on sale of mill property (Note 7)	**-**	-	**(44.6)**	-
North Central Plywoods mill fire, net (Note 8)	**3.0**	(57.9)	**3.0**	(57.9)
Prince George Pulp & Paper mill fire, net	**-**	-	**-**	(8.5)
Foreign exchange (gain) loss on long-term debt and investments, net	**(29.1)**	0.1	**(16.2)**	12.1
Unrealized gain on derivative financial instruments	**(40.7)**	(19.3)	**(38.3)**	(25.3)
Non-controlling interests	**1.6**	9.2	**(9.5)**	31.2
Other, net	**(2.7)**	(2.2)	**6.3**	4.3
Net proceeds from replacement of derivative financial instruments	**-**	11.0	**-**	11.0
Salary pension plan contributions	**(4.5)**	(1.7)	**(8.5)**	(4.6)
Deferred scheduled maintenance spending	**(2.6)**	(6.5)	**(2.6)**	(6.9)
Net change in non-cash working capital (Note 12)	**63.7**	39.0	**10.5**	70.5
	38.9	74.6	**(88.1)**	71.1
Financing activities				
Repayment of long-term debt	**(75.8)**	-	**(175.5)**	(14.8)
(Decrease) increase in operating bank loans	**(1.8)**	1.5	**(9.3)**	5.3
Cash distributions paid to non-controlling interests	**(1.5)**	(13.2)	**(4.7)**	(26.8)
Other	**(0.1)**	(0.1)	**(0.1)**	(0.2)
	(79.2)	(11.8)	**(189.6)**	(36.5)
Investing activities				
Additions to property, plant, equipment and timber	**(7.5)**	(16.6)	**(26.3)**	(35.9)
Proceeds from disposal of property, plant and equipment	**0.8**	5.3	**47.0**	6.7
Proceeds from North Central Plywoods mill fire claim (Note 8)	**33.3**	-	**33.3**	-
Proceeds from Prince George Pulp & Paper mill fire claim	**-**	4.4	**-**	8.0
Advances to affiliated companies	**-**	-	**-**	(11.5)
Interest received for restructuring period of asset-backed commercial paper (Note 3)	**1.0**	-	**4.5**	-
Proceeds from redemption of asset-backed commercial paper (Note 3)	**10.4**	-	**10.4**	-
Other	**(0.3)**	0.2	**(1.2)**	0.2
	37.7	(6.7)	**67.7**	(32.5)
Foreign exchange gain on cash and cash equivalents	**0.2**	-	**0.4**	-
(Decrease) increase in cash and cash equivalents	**(2.4)**	56.1	**(209.6)**	2.1
Cash and cash equivalents at beginning of period	**155.2**	241.5	**362.4**	295.5
Cash and cash equivalents at end of period	**$ 152.8**	$ 297.6	**$ 152.8**	$ 297.6
Cash payments (receipts) in the period				
Interest, net	**$ 10.3**	$ 7.4	**$ 15.4**	$ 12.6
Income taxes	**$ (17.6)**	$ (4.3)	**$ (48.3)**	$ (123.6)

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

Notes to the Consolidated Interim Financial Statements

(unaudited, in millions of dollars unless otherwise noted)

1. Significant Accounting Policies and Changes in Accounting Policies

(a) Basis of Presentation

These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor's Annual Report for the year ended December 31, 2008 available at www.canfor.com or www.sedar.com. These interim financial statements follow the same accounting policies and methods of computation as used in the 2008 consolidated financial statements, except as noted below.

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, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

(b) Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Section: 3064 – "Goodwill and Intangible Assets". These requirements have been incorporated into the unaudited interim consolidated financial statements.

This Section replaced Section 3062 – "Goodwill and Intangible Assets" and Section 3450 – "Research and Development Costs", and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new Standard, EIC 27 – "Revenues and Expenditures During the Pre-operating Period" is withdrawn and so various pre-production and start-up costs are required to be expensed as incurred. No material adjustments were required upon adoption of this new Standard.

2. Inventories

(millions of dollars)	**As at June 30, 2009**	As at December 31, 2008
Logs	**$ 38.6**	$ 49.1
Lumber	**122.7**	118.7
Pulp	**59.9**	97.2
Paper	**18.8**	20.7
Panel products	**0.7**	1.5
Residual fibre	**15.2**	25.3
Processing materials and supplies	**88.6**	92.4
	$ 344.5	$ 404.9

The above inventory balances are stated after inventory write-downs from cost to net realizable value, which reflect historically low prices for most products at both reporting dates. Inventory write-downs at June 30, 2009 totaled $23.5 million (December 31, 2008 – $46.2 million).

3. Long-Term Investments and Other

(millions of dollars)		As at June 30, 2009		As at December 31, 2008
Non-bank asset-backed commercial paper	$	**51.3**	$	69.3
Other investments		**28.8**		28.9
Customer agreements		**19.9**		22.9
Other deposits, loans and advances		**6.0**		4.6
	$	**106.0**	$	125.7

In the first half of 2009, the Company received interest related to its non-bank asset-backed commercial paper ("ABCP") of $4.5 million (US$3.6 million). During the second quarter of 2009, the Company also received proceeds of $10.4 million (US$8.8 million) from the partial redemption of its ABCP. The proceeds were recorded as reductions to the carrying value of the ABCP, all of which is denominated in U.S. dollars. The balance of the movement in the ABCP between December 31, 2008 and June 30, 2009 reflected the impact of the stronger Canadian dollar.

4. Operating Loans and Long-Term Debt

(a) Operating Loans

On a consolidated basis, at June 30, 2009, the Company had $492.0 million of unsecured operating loan facilities (December 31, 2008 – $432.0 million), of which $15.9 million was drawn down (December 31, 2008 – $25.2 million) and an additional $42.8 million was reserved for several standby letters of credit (December 31, 2008 – $41.4 million).

The Company's operating loan facilities include two facilities in the amounts of US$13.2 million ("Facility A") and US$38.4 million ("Facility B") at June 30, 2009, which were negotiated in the first quarter of 2009. Facility A expires in January 2012, with the option of four one-year extensions, and is non-recourse to the Company under normal circumstances, except for US$6.7 million. Facility B expires in January 2011, with the option of five one-year extensions, and is non-recourse to the Company under normal circumstances. The ABCP assets of the Company have been pledged as security to support these credit facilities.

The Company's bank operating lines, excluding Canfor Pulp Limited Partnership ("CPLP"), were $417.0 million (December 31, 2008 - $357.0 million) of which $0.8 million was drawn down (December 31, 2008 – nil) and $18.1 million (December 31, 2008 – $17.3 million) was reserved for several standby letters of credit, the majority of which relates to unregistered pension plans. Except for Facility A and Facility B, 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 and Facility B have similar terms, except their interest rate is plus or minus a margin. Other than Facility A and Facility B, the other bank operating line, expires in June 2011.

CPLP's bank operating line was $75.0 million (December 31, 2008 – $75.0 million) of which $15.1 million was drawn down (December 31, 2008 – $25.2) and $24.7 million (December 31, 2008 – $24.1 million) was reserved for a standby letter of credit issued to BC Hydro in connection with a 15 year electrical cogeneration agreement. Interest is payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation and amortization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. This bank operating line expires in November 2009.

(b) Long-Term Debt

On March 2, 2009, the Company repaid $99.7 million (US$77.3 million) of privately placed senior notes (US$45.0 million at 7.98% interest rate and US$32.3 million at 8.03% interest rate).

On April 1, 2009, the Company repaid $75.8 million (US$60.0 million) of 5.66% interest rate privately placed senior notes.

At June 30, 2009, the fair value of the Company's long-term debt, which was measured at its amortized cost of $406.7 million, was $401.9 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. Long-term Accrued Liabilities and Obligations

(millions of dollars)	**As at June 30, 2009**	As at December 31, 2008
Deferred reforestation obligation	**$ 62.9**	$ 63.1
Accrued pension obligations	**20.7**	20.0
Accrued pension bridge benefit obligations	**8.9**	8.7
Other post-employment benefits	**101.2**	98.3
Asset retirement obligations	**4.8**	4.7
Other	**12.9**	14.0
	$ 211.4	$ 208.8

6. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with the indefinite or permanent closures of facilities and staff reductions. The expense for the second quarter of 2009 amounted to $11.4 million and resulted principally from the Company's decision in late May to indefinitely idle the Radium, Rustad and Vavenby sawmill operations, as well as ongoing costs related to Mackenzie, Chetwynd, PolarBoard and Tackama operations which remained indefinitely idled through the quarter.

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

	3 months ended June 30,		6 months ended June 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Lumber	**$ 9.6**	$ 11.1	**$ 12.1**	$ 11.9
Unallocated and other	**1.8**	22.9	**5.7**	25.9
	$ 11.4	$ 34.0	**$ 17.8**	$ 37.8

The following table provides a reconciliation of the restructuring, mill closure and severance liabilities at June 30, 2009 and December 31, 2008:

(millions of dollars)	**As at June 30, 2009**	As at December 31, 2008
Accrued liability at beginning of period	**$ 23.3**	$ 29.8
Costs in the period [a]	**19.1**	39.8
Paid during the period	**(15.5)**	(46.3)
Accrued liability at end of period	**$ 26.9**	$ 23.3

[a] Excluding non-cash expenses and recoveries related to provisions for capital asset and inventory write-downs resulting from indefinite and permanent mill closures.

7. Sale of Mill Property

In February of 2009, the Company completed the sale of a property located in New Westminster, British Columbia, for net proceeds of $46.0 million. The property was the site of the Company's former Panel and Fibre operation, which was permanently closed at the beginning of 2008. The sale transaction resulted in a pre-tax gain of $44.6 million ($37.8 million after-tax).

8. Settlement of North Central Plywoods Mill Fire Insurance Claim

In April of 2009, the Company reached a final settlement of the North Central Plywoods mill fire claim for gross proceeds of $65.5 million, less a deductible of $2.2 million, for net proceeds of $63.3 million. The balance of the settlement proceeds of $33.3 million was received from the insurer in the second quarter of 2009. The final settlement resulted in a pre-tax loss of $8.8 million ($6.0 million after-tax) in the second quarter of 2009 of which $5.8 million was recorded to manufacturing and product costs and $3.0 million was recorded to North Central Plywoods mill fire, net. Under the terms of the settlement, there are no conditions attached to the use of the proceeds.

9. Employee Future Benefits Expense

	3 months ended June 30,		6 months ended June 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Defined benefit pension plans	**$ 3.5**	$ 0.9	**$ 7.0**	$ 1.6
Other employee future benefit plans	**3.0**	4.3	**5.9**	8.5
Defined contribution pension plans and 401(k) plans	**0.9**	0.8	**1.8**	1.8
Contributions to forest industry union plans	**3.9**	5.0	**7.6**	10.4
	$ 11.3	$ 11.0	**$ 22.3**	$ 22.3

10. Income Taxes

	3 months ended June 30,		6 months ended June 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Current	**$ 11.9**	$ (11.0)	**$ 32.9**	$ 12.6
Future	**(10.9)**	(13.0)	**17.8**	19.1
	$ 1.0	$ (24.0)	**$ 50.7**	$ 31.7

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

	3 months ended June 30,		6 months ended June 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Income tax (expense) recovery at statutory tax rate	**$ (3.3)**	$ (30.2)	**$ 32.6**	$ 6.7
Add (deduct):				
Non-controlling interests	**0.4**	2.9	**(2.9)**	9.7
Change in corporate income tax rates	**-**	-	**7.3**	9.1
Entities with different income tax rates and other tax adjustments	**1.1**	1.0	**2.3**	1.7
Tax (expense) recovery at rates other than statutory rate	**(1.3)**	(3.4)	**3.1**	0.4
Permanent difference from capital gains and losses and other non-deductible items	**4.1**	5.7	**8.3**	4.1
Income tax recovery (expense)	**$ 1.0**	$ (24.0)	**$ 50.7**	$ 31.7

11. Net Income (Loss) 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 June 30,		6 months ended June 30,	
	2009	2008	**2009**	2008
Weighted average number of common shares	**142,589,297**	142,589,297	**142,589,297**	142,589,297
Incremental shares from potential exercise of options [a]	**-**		**-**	1,847
Diluted number of common shares [a]	**142,589,297**	142,589,297	**142,589,297**	142,589,297

[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.

12. Net Change in Non-Cash Working Capital

	3 months ended June 30,		6 months ended June 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Accounts receivable	**$ 2.2**	$ (0.5)	**$ (32.2)**	$ (6.0)
Income taxes recoverable	**4.0**	16.3	**15.3**	112.4
Inventories	**109.3**	73.4	**60.2**	(9.6)
Prepaid expenses	**(8.4)**	(22.2)	**(5.2)**	(20.3)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	**(43.4)**	(28.0)	**(27.6)**	(6.0)
	$ 63.7	$ 39.0	**$ 10.5**	$ 70.5

13. 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 and energy costs. At June 30, 2009, the fair value of derivative financial instruments was a net liability of $29.7 million (December 31, 2008 – net liability of $69.3 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three and six months ended June 30, 2009 and 2008:

	3 months ended June 30,		6 months ended June 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Foreign exchange collars and forward contracts	**$ 27.3**	$ (0.2)	**$ 16.5**	$ (11.1)
Natural gas swaps	**(3.5)**	16.8	**(13.0)**	31.1
Diesel options and swaps	**2.4**	9.2	**1.0**	11.4
Commodity futures	**(0.5)**	0.2	**(0.1)**	0.6
	$ 25.7	$ 26.0	**$ 4.4**	$ 32.0

The following table summarizes the fair market value of the derivative financial instruments included in the balance sheet at June 30, 2009 and December 31, 2008:

(millions of dollars)	**As at June 30, 2009**	As at December 31, 2008
Foreign exchange collars and forward contracts	**$ (12.8)**	$ (53.2)
Natural gas swaps	**(12.3)**	(6.5)
Diesel options and swaps	**(4.0)**	(9.6)
Commodity futures	**(0.6)**	-
	(29.7)	(69.3)
Less: current portion	**(26.7)**	(65.4)
Long-term portion	**$ (3.0)**	$ (3.9)

14. Segmented Information [a]

Business Segment Information

(millions of dollars)		Lumber [b]	Pulp & Paper [d]	Unallocated & Other [e]	Elimination Adjustment		Consolidated
3 months ended June 30, 2009							
Sales to external customers	**$**	**299.2**	**232.4**	**10.1**	**-**	**$**	**541.7**
Sales to other segments [c]	**$**	**16.8**	**-**	**-**	**(16.8)**	**$**	**-**
Operating loss	**$**	**(12.0)**	**(6.8)**	**(12.4)**	**-**	**$**	**(31.2)**
Amortization	**$**	**22.6**	**12.5**	**3.4**	**-**	**$**	**38.5**
Capital expenditures	**$**	**5.2**	**2.2**	**0.1**	**-**	**$**	**7.5**
3 months ended June 30, 2008							
Sales to external customers	$	395.3	251.2	59.9	-	$	706.4
Sales to other segments [c]	$	26.1	-	1.4	(27.5)	$	-
Operating income (loss)	$	22.8	14.3	(16.3)	-	$	20.8
Amortization	$	23.5	12.2	5.8	-	$	41.5
Capital expenditures	$	6.5	9.8	0.3	-	$	16.6
6 months ended June 30, 2009							
Sales to external customers	**$**	**576.5**	**437.7**	**15.7**	**-**	**$**	**1,029.9**
Sales to other segments [c]	**$**	**32.2**	**-**	**0.1**	**(32.3)**	**$**	**-**
Operating loss	**$**	**(104.3)**	**(24.1)**	**(27.0)**	**-**	**$**	**(155.4)**
Amortization	**$**	**46.1**	**24.8**	**7.2**	**-**	**$**	**78.1**
Capital expenditures	**$**	**17.7**	**8.5**	**0.1**	**-**	**$**	**26.3**
Identifiable assets	**$**	**1,379.5**	**867.0**	**570.4**	**-**	**$**	**2,816.9**
6 months ended June 30, 2008							
Sales to external customers	$	747.8	493.3	113.8	-	$	1,354.9
Sales to other segments [c]	$	50.6	-	2.7	(53.3)	$	-
Operating (loss) income	$	(96.0)	47.5	(48.2)	-	$	(96.7)
Amortization	$	49.3	24.1	11.6	-	$	85.0
Capital expenditures	$	16.4	19.1	0.4	-	$	35.9
Identifiable assets	$	1,517.1	961.4	919.2	-	$	3,397.7

(a) Operations are presented by product line.

(b) Sales for the second quarter include sales of Canfor-produced lumber of $242.4 million (three months ended June 30, 2008 – $335.8 million) and $459.7 million for the year-to-date (six months ended June 30, 2008 – $615.6 million).

(c) Sales to other segments are accounted for at prices that approximate market value.

(d) Includes 100% of Canfor Pulp Limited Partnership and the Taylor Pulp Mill.

(e) Effective January 1, 2009, the operating results, capital expenditures and identifiable assets of the Company's panels business are no longer reported separately as an operating segment. With the exception of the Peace Valley OSB Limited Partnership, of which the Company owns a 50% share, all panel operations are currently indefinitely idled. Operating results, capital expenditures and identifiable assets of the panels business are now included in the Unallocated & Other segment. Sales of panels for the second quarter were $10.1 million (three months ended June 30, 2008 - $59.9 million) and $15.7 million for the year-to-date (six months ended June 30, 2008 – $113.8 million).

Geographic Information

(millions of dollars)	3 months ended June 30, **2009**	2008	6 months ended June 30, **2009**	2008
Sales by location of customer				
Canada	**$ 80.7**	$ 129.3	**$ 162.0**	$ 263.0
United States	**267.5**	373.8	**520.9**	719.3
Europe	**37.3**	50.9	**72.9**	96.3
Far East and Other	**156.2**	152.4	**274.1**	276.3
	$ 541.7	$ 706.4	**$ 1,029.9**	$ 1,354.9

(millions of dollars)	**As at June 30, 2009**	As at December 31, 2008
Capital assets and goodwill by location		
Canada	**$ 1,650.8**	$ 1,697.9
United States	**173.3**	186.1
Far East and Other	**0.2**	0.2
	$ 1,824.3	$ 1,884.2

15. Comparative Figures

Certain comparative information has been reclassified to conform to the presentation in the current period.