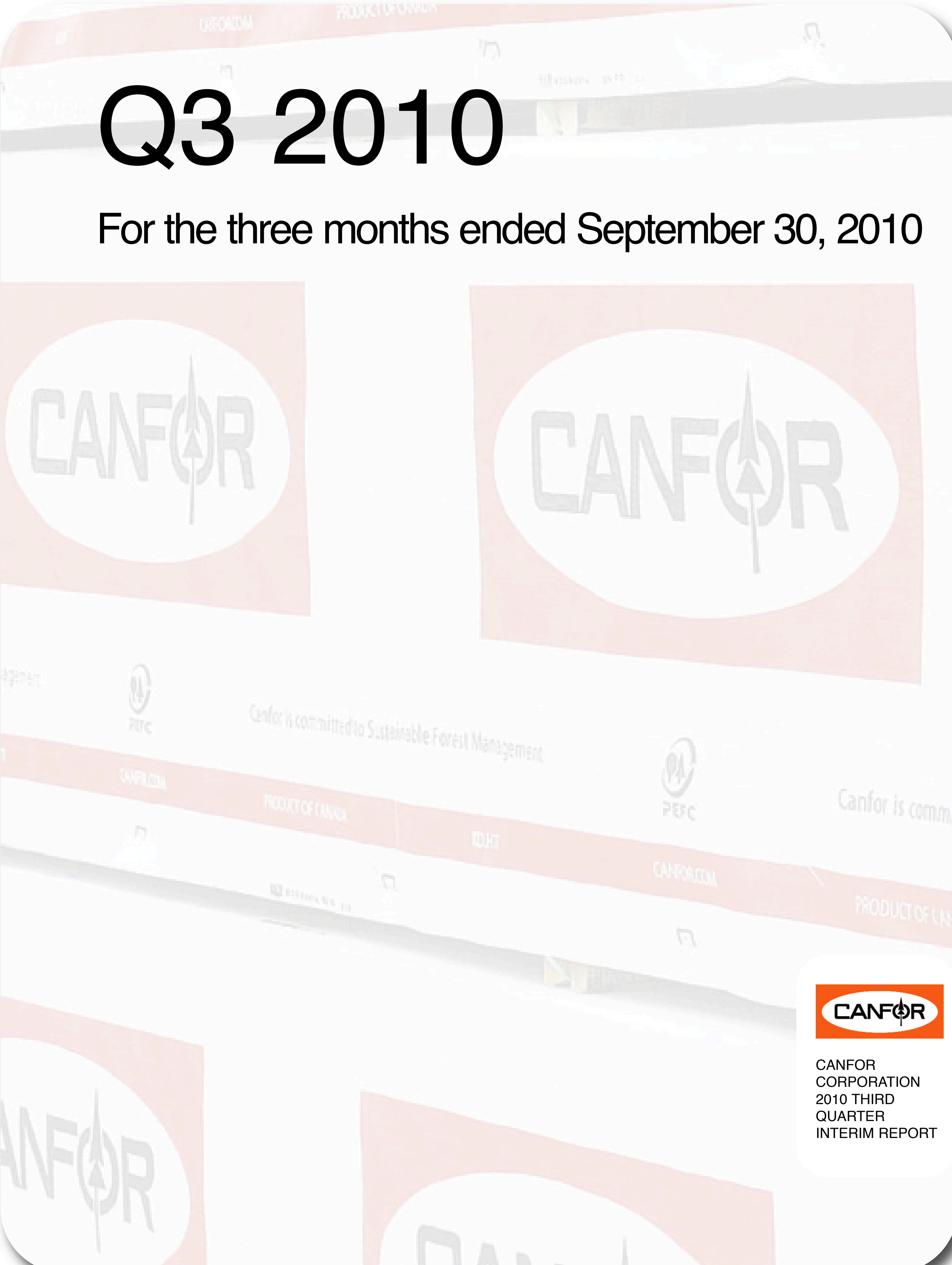
Q3 2010

For the three months ended September 30, 2010



CANFOR CORPORATION 2010 THIRD QUARTER INTERIM REPORT

To Our Shareholders

Canfor Corporation today reported net income of $33.5 million for the third quarter of 2010, compared to $40.4 million for the second quarter of 2010 and $4.1 million for the third quarter of 2009. For the nine months ended September 30, 2010, the Company's net income was $106.4 million, compared to a net loss of $53.7 million for the comparable period in 2009.

Canfor's reported net income comprises both net income attributable to equity shareholders ("shareholder net income") and non-controlling interests. The Company's shareholder net income for the third quarter of 2010 was $5.6 million, or $0.04 per share, down from $18.1 million, or $0.13 per share, for the second quarter of 2010 and an improvement from a loss of $5.2 million, or $0.04 per share, reported for the third quarter of 2009. For the first nine months of 2010, shareholder net income was $39.3 million, or $0.28 per share, compared to a net loss of $53.5 million, or $0.38 per share, for the first nine months of 2009.

Shareholder net income for the third quarter of 2010 included several items affecting comparability with prior periods, which had an overall negative impact of $6.0 million, or $0.04 per share. The most significant of these was an after-tax charge of $13.4 million, or $0.09 per share, relating to the permanent closure of the Company's Clear Lake lumber operation. After taking account of all items affecting comparability, the Company's adjusted shareholder net income for the third quarter of 2010 was $11.6 million, or $0.08 per share, compared to similarly adjusted net income of $28.2 million, or $0.20 per share, for the second quarter of 2010 and an adjusted net loss of $37.5 million, or $0.26 per share, for the third quarter of 2009. For the nine months ended September 30, 2010, adjusted shareholder net income was $50.2 million, or $0.35 per share, compared to an adjusted net loss of $144.4 million, or $1.01 per share, for the nine months ended September 30, 2009.

North American lumber market activity was subdued in the third quarter as the weak U.S. economy and the troubled U.S. housing market continued to weigh on the sector. Average lumber prices in North America were well down from the previous quarter when prices were boosted by a short-lived price rally that ended abruptly in May. Western SPF lumber prices edged up in August and September mostly due to seasonal factors and rising demand from China, while prices for Southern Yellow Pine lumber products continued to slide well into the third quarter before stabilizing in September. Sales realizations from offshore markets, the majority of which are negotiated quarterly or monthly in advance, showed a modest increase compared to the second quarter.

Northern Bleached Softwood Kraft ("NBSK") pulp markets in the third quarter continued to benefit from high prices reflecting steady demand and balanced supply. Prices peaked at record-high levels early in the quarter before weakening slightly as a result of declining pulp consumption, particularly in Asia.

The Company's lumber business operated at approximately 70% of capacity in the third quarter, with its recently restarted Chetwynd and Quesnel mill operations in the British Columbia Interior operating through the quarter. Production from the Quesnel mill is being fully dedicated to the China market.

In September, the Company announced the permanent closure in January 2011 of its Clear Lake lumber operation located near Prince George, B.C. The protracted downturn in the U.S. housing sector and a lack of economic long-term fibre supply to this facility were the major factors behind this decision.

EBITDA reported by the Company for the third quarter of 2010 was $66.0 million, down $36.5 million from the second quarter of 2010. Excluding the impact from inventory write-down movements and the Clear Lake closure provision of $17.8 million, EBITDA was down $26.8 million. For the most part, the decline in EBITDA in the current quarter reflected lower solid wood prices. The Company ended the third quarter of 2010 with a cash balance of $223.1 million, and $420.1 million of available undrawn operating lines of credit.

North American lumber demand is expected to remain steady at current levels over the balance of the year influenced by slower seasonal activity and the continued overhang of unsold home inventory. The strength of the offshore lumber market is expected to continue to partially offset the weakness of the North American market. Several end-use markets in China are now solidly established and are expected to result in higher lumber demand in the fourth quarter.

For pulp, global softwood inventories held by producers and customers have risen through the third quarter of 2010, but are still considered to be balanced, in contrast to hardwood pulp inventories which are in an oversupplied situation. Two North American bleached softwood producers have recently started up, which will result in a modest increase in supply; however, seasonal maintenance downtime through October may mitigate this impact in the near term.

Ronald L. Cliff
Chairman

James F. Shepard
President and Chief Executive Officer

Canfor Corporation
Third Quarter 2010
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 September 30, 2010 relative to the quarters ended June 30, 2010 and September 30, 2009, and the financial position of the Company at September 30, 2010. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2010 and 2009, as well as the 2009 annual MD&A and the 2009 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2009 (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 made to EBITDA (calculated as operating income before amortization) which Canfor considers to be an important 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 Net Income (Loss) (calculated as Net income (loss) attributable to equity shareholders 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 Income (Loss) Attributable to Equity Shareholders") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). EBITDA, Adjusted Net Income (Loss) and Adjusted 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 Canadian GAAP. As there is no standardized method of calculating these measures, Canfor's EBITDA, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and Adjusted Net Income (Loss) to net income (loss) 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 labour and 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 October 27, 2010.

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.

THIRD QUARTER 2010 EARNINGS OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Sales	**$ 588.7**	$ 634.7	**$ 1,801.3**	$ 521.2	$ 1,526.2
EBITDA[2]	**$ 66.0**	$ 102.5	**$ 246.3**	$ 7.0	$ (70.3)
Operating income (loss)	**$ 26.6**	$ 64.0	**$ 129.6**	$ (31.4)	$ (186.8)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ 8.9**	$ (12.8)	**$ 4.9**	$ 26.2	$ 42.4
Gain (loss) on derivative financial instruments[3]	**$ 2.8**	$ (3.3)	**$ (1.7)**	$ 17.7	$ 22.1
Gain on sale of mill property	**$ -**	$ -	**$ -**	$ -	$ 44.6
North Central Plywoods mill fire, net	**$ -**	$ -	**$ -**	$ -	$ (3.0)
Net income (loss)	**$ 33.5**	$ 40.4	**$ 106.4**	$ 4.1	$ (53.7)
Net income (loss) attributable to equity shareholders of Company[4]	**$ 5.6**	$ 18.1	**$ 39.3**	$ (5.2)	$ (53.5)
Net income (loss) per share attributable to equity shareholders of Company, basic and diluted	**$ 0.04**	$ 0.13	**$ 0.28**	$ (0.04)	$ (0.38)
Average exchange rate (US$/CDN$)[5]	**$ 0.962**	$ 0.973	**$ 0.966**	$ 0.912	$ 0.858
U.S. housing starts (million units SAAR)[6]	**0.589**	0.602	**0.603**	0.590	0.553

[1] Certain amounts in prior periods have been reclassified to conform to the presentation in the current period.
[2] Q3 and year-to-date 2010 include costs related to the closure of the Clear Lake lumber operations of $17.8 million.
[3] Includes gains (losses) from natural gas, diesel, foreign exchange and lumber future derivative financial instruments (see "Unallocated and Other" section for more details).
[4] Net income (loss) attributable to equity shareholders of Company ("Shareholder Net Income (Loss)") is calculated as net income (loss), less non-controlling interests. For Q3 2010, the income attributable to non-controlling interests amounted to $27.9 million, compared to $22.3 million in Q2 2010 and $9.3 million in Q3 2009.
[5] Source – Bank of Canada (average noon rate for the period).
[6] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").

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

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

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Shareholder Net Income (Loss)	**$ 5.6**	**$** 18.1	**$ 39.3**	$ (5.2)	$ (53.5)
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (6.3)**	**$** 9.0	**$ (3.5)**	$ (19.6)	$ (30.2)
(Gain) loss on derivative financial instruments	**$ (1.1)**	**$** 1.1	**$ 1.0**	$ (12.7)	$ (17.6)
Clear Lake permanent closure provision	**$ 13.4**	**$** -	**$ 13.4**	$ -	$ -
Gain on sale of mill property	**$ -**	**$** -	**$ -**	$ -	$ (37.8)
North Central Plywoods mill fire, net	**$ -**	**$** -	**$ -**	$ -	$ 2.0
Corporate income tax rate reductions	**$ -**	**$** -	**$ -**	$ -	$ (7.3)
Net impact of above items	**$ 6.0**	**$** 10.1	**$ 10.9**	$ (32.3)	$ (90.9)
Adjusted Net Income (Loss)	**$ 11.6**	**$** 28.2	**$ 50.2**	$ (37.5)	$ (144.4)
Net income (loss) per share (EPS), as reported	**$ 0.04**	**$** 0.13	**$ 0.28**	$ (0.04)	$ (0.38)
Net impact of above items per share	**$ 0.04**	**$** 0.07	**$ 0.07**	$ (0.22)	$ (0.63)
Adjusted Net Income (Loss) per share	**$ 0.08**	**$** 0.20	**$ 0.35**	$ (0.26)	$ (1.01)

EBITDA

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

(millions of dollars)		Q3 2010		Q2 2010		YTD 2010		Q3 2009		YTD 2009
Net income (loss), as reported	**$**	**33.5**	$	40.4	**$**	**106.4**	$	4.1	$	(53.7)
Add (subtract):										
Amortization	**$**	**39.4**	$	38.5	**$**	**116.7**	$	38.4	$	116.5
Interest expense, net	**$**	**6.2**	$	6.7	**$**	**19.9**	$	6.9	$	22.2
Foreign exchange (gain) loss on long-term debt and investments, net	**$**	**(8.9)**	$	12.8	**$**	**(4.9)**	$	(26.2)	$	(42.4)
(Gain) loss on derivative financial instruments	**$**	**(2.8)**	$	3.3	**$**	**1.7**	$	(17.7)	$	(22.1)
Gain on sale of mill property	**$**	**-**	$	-	**$**	**-**	$	-	$	(44.6)
North Central Plywoods mill fire, net	**$**	**-**	$	-	**$**	**-**	$	-	$	3.0
Other expense (income)	**$**	**3.3**	$	(3.3)	**$**	**2.9**	$	8.7	$	8.7
Income tax expense (recovery) expense	**$**	**(4.7)**	$	4.1	**$**	**3.6**	$	(7.2)	$	(57.9)
EBITDA, as reported	**$**	**66.0**	$	102.5	**$**	**246.3**	$	7.0	$	(70.3)
Included in above:										
Negative (positive) impact of inventory valuation adjustments[7]	**$**	**(2.6)**	$	5.5	**$**	**(20.1)**	$	1.7	$	(20.7)
Clear Lake permanent closure provision	**$**	**17.8**	$	-	**$**	**17.8**	$	-	$	-
EBITDA excluding impact of inventory valuation adjustments and Clear Lake permanent closure provision	**$**	**81.2**	$	108.0	**$**	**244.0**	$	8.7	$	(91.0)

[7] In accordance with Canadian GAAP, Canfor records its log and finished product inventories at the lower of cost and net realizable value ("NRV"). Significant movements in inventory volumes occur due to the seasonal build and drawdown of logs in the first and second quarters each year, respectively. In periods where market prices are depressed and NRVs are below cost, this movement in log inventory volumes can result in large swings in inventory write-down amounts recorded in those periods. In addition, changes in market prices, foreign exchange rates, and costs over the respective reporting periods affect inventory write-downs.

North American lumber market activity was subdued in the third quarter as the weak U.S. economy and the troubled U.S. housing market continued to weigh on the sector. Average lumber prices in North America were well down from the previous quarter when prices were boosted by a short-lived price rally that ended abruptly in May. North American Western Spruce / Pine / Fir ("SPF") lumber prices edged up in August and September mostly due to seasonal factors and rising demand from China, while prices for Southern Yellow Pine ("SYP") lumber products continued to slide well into the third quarter before stabilizing in September. Sales realizations from offshore markets, the majority of which are negotiated quarterly or monthly in advance, showed a modest increase compared to the second quarter. The average value of the Canadian dollar was down slightly compared to the US dollar. The average export tax on lumber shipments from B.C. and Alberta to the U.S. was 13.3% in the third quarter, up 5% from the second quarter reflecting the 0% export tax rate in June.

The Company's lumber operations ran at approximately 70% of capacity in the third quarter of 2010, up slightly from the second quarter, reflecting a full quarter's production at the Company's recently restarted Chetwynd and Quesnel sawmills offset in part by capital upgrade related downtime at several operations in the period. Unit manufacturing costs were in line with those of the second quarter of 2010.

The Company made the decision during the quarter to permanently close its Clear Lake lumber operation located near Prince George, B.C. in January 2011. This decision reflected the plight of the U.S. housing sector and a lack of economic long-term fibre supply available to the Clear Lake facility. The Company recorded a closure-related provision of $17.8 million in the third quarter.

Northern Bleached Softwood Kraft ("NBSK") pulp markets in the third quarter continued to benefit from high prices reflecting steady demand and balanced supply. Prices peaked at record-high levels early in the quarter before weakening slightly mostly as a result of declining pulp consumption, particularly in Asia.

EBITDA reported by the Company for the third quarter of 2010 was $66.0 million, down $36.5 million from the second quarter of 2010. Excluding the impact from inventory write-down movements and the Clear Lake closure provision, EBITDA was down $26.8 million, principally as a result of lower solid wood prices in the third quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics - Lumber

(millions of dollars unless otherwise noted)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Sales	**$ 308.3**	$ 336.9	**$ 937.2**	$ 281.4	$ 833.0
Operating income (loss)	**$ (18.0)**	$ 17.0	**$ 10.8**	$ (36.3)	$ (140.6)
EBITDA, as reported	**$ 4.8**	$ 38.9	**$ 77.7**	$ (14.6)	$ (72.8)
Negative (positive) impact of inventory valuation adjustments	**$ (0.5)**	$ 2.2	**$ (20.7)**	$ 2.5	$ (16.3)
Clear Lake closure provision	**$ 17.8**	$ -	**$ 17.8**	$ -	$ -
EBITDA excluding impact of inventory valuation adjustments and Clear Lake closure provision	**$ 22.1**	$ 41.1	**$ 74.8**	$ (12.1)	$ (89.1)
Average SPF 2x4 #2&Btr lumber price in US$[8]	**$ 223**	$ 266	**$ 252**	$ 191	$ 173
Average SPF price in Cdn$	**$ 232**	$ 273	**$ 261**	$ 209	$ 202
Average SYP 2x4 #2 lumber price in US$[9]	**$ 243**	$ 379	**$ 316**	$ 230	$ 234
Average SYP price in Cdn$	**$ 253**	$ 390	**$ 327**	$ 252	$ 273
U.S. housing starts (million units SAAR)	**0.589**	0.602	**0.603**	0.590	0.553
Production – SPF lumber (MMfbm)	**740.9**	724.7	**2,161.6**	613.9	2,075.1
Production – SYP lumber (MMfbm)	**94.3**	92.8	**272.1**	70.5	191.5
Shipments – SPF lumber (MMfbm) [10]	**736.3**	736.9	**2,145.9**	714.7	2,164.1
Shipments – SYP lumber (MMfbm) [10]	**101.6**	98.3	**285.5**	66.0	201.8
Shipments – wholesale lumber (MMfbm)	**39.5**	39.9	**118.2**	56.1	145.2

[8] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[9] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[10] Canfor-produced lumber, including lumber purchased for remanufacture.

Overview

Reported EBITDA for the Lumber segment was $4.8 million for the third quarter of 2010, a decrease of $34.1 million compared to the second quarter of 2010, but an improvement of $19.4 million from the third quarter of 2009. For the nine months ended September 30, 2010, EBITDA was $77.7 million, up $150.5 million from the same period in 2009.

Results for the third quarter of 2010 include a $17.8 million provision for the permanent closure of the Clear Lake lumber operations. Excluding this impact, and inventory valuation adjustments, EBITDA for the third quarter of 2010 was $22.1 million, down $19.0 million from the second quarter of 2010 but an improvement of $34.2 million compared to the third quarter of 2009.

Shipments of Canfor-produced lumber for the third quarter of 2010 totaled 838 million board feet, in line with the preceding quarter and up 7% from the third quarter of 2009, principally due to increased shipments to China. North American lumber prices for most grades and widths climbed slowly through the quarter, although average prices remained well below those of the previous quarter. Sales realizations to offshore markets showed a modest increase. Compared to the same quarter of 2009, higher US dollar lumber prices were mitigated by a 5% strengthening of the Canadian dollar. The average lumber export tax rate in the third quarter was 13.3%, up 5% from the previous quarter due to the 0% rate in June.

Overall unit manufacturing costs were in line with the previous quarter and the third quarter of 2009. Sawmill residual chip prices improved reflecting the higher Canadian dollar pulp sales realizations in the quarter.

Markets

After showing some signs of improvement in the first part of the year, in part due to the U.S. federal government's Home Buyers Tax Credit that ended on April 30, U.S. housing activity in the third quarter was subdued. High unemployment, weak consumer spending, the current overhang of unsold home inventories and record-high foreclosure rates continued to weigh on the sector. Total U.S. housing starts averaged 589,000 units[11] SAAR for the third quarter, a decrease of 2% from the previous quarter. Single family starts, which consume a higher proportion of lumber, were down 11% compared to the previous quarter to 437,000 units, while multi-family starts were up 37%, at 152,000 units. Compared to the same quarter last year, total housing starts were substantially unchanged, with single family starts down 12% and multi-family starts up 69%.

In Canada, lumber consumption eased in the third quarter of 2010, principally as a result of slower housing activity. Housing starts averaged 190,000 units[12] SAAR, a decrease of 8,000 units, or 4%, compared to the previous quarter and up 34,000, or 22%, compared to the third quarter of 2009.

Sales

Sales for the lumber segment in the third quarter of 2010 were $308.3 million, down $28.6 million, or 8%, from the second quarter, and up $26.9 million, or 10%, compared to the third quarter of 2009.

Total shipments for the third quarter of 2010 were 877 million board feet, in line with the second quarter. Shipments to China, which led all offshore shipments and established a new volume milestone in the quarter, represented 15% of total shipments, compared to 11% in the previous quarter. Along with the increased volume, China's demand profile shows increasing volumes of #2&Btr grade of lumber. Compared to the third quarter of 2009, shipment levels were up 41 million board feet, or 5%, reflecting the higher demand from China.

After a significant drop in North American lumber prices towards the end of the second quarter of 2010, prices for most grades and widths of SPF lumber stabilized early in the third quarter of 2010 before recording modest gains. The average Western SPF 2x4 #2&Btr price for the quarter of US$223[13] per Mfbm was 16% below the previous quarter price of US$266, although the price decline for wider dimensions was less marked. SYP lumber prices continued their descent from May through August, with average prices falling by 25% to 35% in the third quarter across all widths. Sales realizations to offshore markets showed a modest increase. Compared to the third quarter of 2009, Western SPF 2x4 2&Btr prices were up US$32 per Mfbm, with prices for some wider dimensions remaining at levels similar to the prior year. Over the same period, SYP prices were largely unchanged, while offshore prices saw solid gains.

The average value of the Canadian dollar compared to the US dollar in the third quarter of 2010 was down marginally from the previous quarter, but compared to the third quarter of 2009 it strengthened 5%, offsetting some of the improvements in US dollar pricing for Western SPF lumber products.

Under the Softwood Lumber Agreement implemented by the federal governments of Canada and the United States in 2006, Canadian softwood lumber exporters pay an export tax on lumber shipped to the U.S. when the price of lumber is at or below US$355 per Mfbm, as determined by the Random Lengths Framing Lumber Composite Price ("RLCP"). The export tax rate is determined monthly, with the rate being based on the following trigger prices:

Trigger RLCP	Tax Rate
Over US$355	0 %
US$336-$355	5 %
US$316-$335	10 %
US$315 and under	15 %

[11] U.S. Census Bureau
[12] CMHC – Canada Mortgage and Housing Corporation
[13] Random Lengths Publications, Inc.

Export tax rates on Canadian lumber shipments to the U.S. were 10% in July (15% for Alberta shipments) and 15% for August and September on B.C. shipments (22.5% for Alberta shipments). The average export tax rates of 13.3% for B.C shipments and 20% for Alberta shipments were 5.0% and 7.5% higher than the previous quarter, respectively, reflecting the absence of any export tax on June shipments.

Total residual fibre revenue was up compared to the previous quarter and also the third quarter of 2009, as sawmill chip prices are based on NBSK pulp prices, which increased compared to both periods.

Operations

The Company's lumber mills operated at approximately 70% of capacity in the third quarter of 2010. Lumber production was 835 million board feet, 18 million board feet, or 2%, higher than the prior quarter, and 151 million board feet, or 22%, higher than the third quarter of 2009. The increase compared to the second quarter of 2010 primarily reflected production at the Chetwynd and Quesnel sawmills after their restarts in May and June, respectively. This was offset in part by capital upgrade related downtime at several sawmills in the current quarter. The lower production for the third quarter of 2009 reflected market curtailment in the form of summer vacation shuts, and the idling of the Chetwynd and Mackenzie mill operations in that period.

Overall, the Company's lumber unit manufacturing (log and conversion) costs were comparable to the previous quarter, with marginally lower log costs offsetting slightly higher conversion costs mostly stemming from the restarted Chetwynd sawmill, which operated on one shift through the quarter. Unit manufacturing costs were also in line with the third quarter of 2009.

Restructuring, mill closure and severance costs in the current quarter were $19.3 million, with $17.8 million of this relating to the decision to permanently close the Clear Lake sawmill. The remaining restructuring costs relate to the ongoing idling of the Radium, Rustad and Vavenby sawmills. Restructuring costs of $4.8 million in the previous quarter also included costs related to the Chetwynd and Quesnel sawmills prior to their restart. Restructuring costs of $4.5 million in the third quarter of 2009 also included idled costs at the Mackenzie sawmill, prior to its restart in that quarter.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[14]

(millions of dollars unless otherwise noted)	**Q3 2010**	Q2 2010	**YTD 2010**	Q3 2009	YTD 2009
Sales	**$ 269.0**	$ 280.1	**$ 818.8**	$ 227.2	$ 664.9
Operating income (loss) [15]	**$ 52.8**	$ 54.5	**$ 141.2**	$ 13.0	$ (11.1)
EBITDA[14]	**$ 65.0**	$ 66.8	**$ 177.6**	$ 25.9	$ 26.6
Average pulp price delivered to U.S. – US$[16]	**$ 1,000**	$ 993	**$ 958**	$ 733	$ 684
Average price in Cdn$	**$ 1,040**	$ 1,021	**$ 992**	$ 804	$ 797
Production – pulp (000 mt)	**285.7**	315.6	**908.4**	315.6	884.7
Production – paper (000 mt)	**34.7**	36.3	**102.0**	33.6	92.7
Shipments – Canfor-produced pulp (000 mt)	**276.9**	301.4	**893.9**	307.1	928.1
Pulp marketed on behalf of HSLP (000 mt)[17]	**85.2**	95.2	**271.9**	101.9	254.7
Shipments – paper (000 mt)	**33.6**	34.4	**105.7**	37.4	96.9

[14] Includes the Taylor Pulp mill and 100% of Canfor Pulp Limited Partnership, 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").
[15] Earnings for Q3 2010 include a positive impact from inventory write-down adjustments of $0.3 million, compared to a negative impact of $0.1 million in Q2 2010 and positive impact of $0.7 million in Q3 2009.
[16] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).
[17] Howe Sound Pulp and Paper Limited Partnership pulp mill.

Overview

The Pulp and Paper segment's EBITDA for the third quarter of 2010 was $65.0 million, slightly less than EBITDA of $66.8 million reported for the second quarter. Higher average NBSK pulp sales realizations in the third quarter, reflecting higher market prices and the slightly weaker Canadian dollar, were offset by lower shipments and higher fibre costs. The lower shipments reflected weaker BCTMP demand and less NBSK pulp production available for sale as a result of an extended scheduled maintenance outage at Canfor Pulp Limited Partnership's ("CPLP") Northwood Pulp Mill.

Compared to the same quarter of 2009, EBITDA for the current quarter was up $39.1 million, in large measure due to significantly higher Canadian dollar pulp sales realizations. NBSK pulp US dollar list prices were up by 36% from the comparative quarter. A 5% stronger average Canadian dollar, lower shipment volumes, and higher fibre and freight costs in the current period partly offset the improved market prices.

Markets

Bleached softwood pulp markets remained balanced through the third quarter of 2010, although inventories increased as a result of reduced demand from China and the typical seasonal slowdown through the summer months.

Global printing and writing paper demand maintained steady growth through the third quarter of 2010. The printing and writing paper manufacturing sector experienced steady demand through August 2010 (the latest published information available), with demand up 6%[18] over August 2009. For August year-to-date, printing and writing paper demand is up 8% versus the same period in 2009.

Reduced bleached softwood pulp demand has resulted in an increase in inventory from the very low global pulp inventory levels experienced in the first half of 2010 to current levels that are in a balanced range. At the end of September 2010, World 20[19] producer inventories of bleached softwood pulp inventories were 27 days of supply, an increase of 6 days over June 2010. By comparison, September 2009 inventories were 22 days of supply. Market conditions are generally considered balanced when inventories fall in the 27-30 days of supply range.

Sales

At 277,000 tonnes, shipments of Canfor-produced pulp for the third quarter of 2010 were down 8% from the previous quarter, and down 10% from the third quarter of 2009, principally due to the Northwood Pulp Mill extended scheduled maintenance outage and market curtailment taken at the Taylor pulp mill in the current quarter.

The NBSK pulp list price in North America peaked at US$1,020 per tonne in July 2010, before some pressure from rising bleached softwood pulp inventories resulted in prices falling to US$990 per tonne. In Canadian dollar terms the price increases compared to the third quarter of 2009 have been somewhat mitigated by the strengthening of the Canadian dollar. Freight costs were up compared to the same quarter of 2009, primarily due to higher container rates into Asia.

BCTMP sales realizations for the third quarter of 2010 were in line with the previous quarter, but the quarter was characterized by a marked slowdown in demand. Compared to the third quarter of 2009, sales realizations were well up reflecting the overall improvement in pulp markets over that period.

Operations

Pulp production for the third quarter of 2010 was 286,000 tonnes, down 9% from the previous quarter and the comparative quarter in the prior year, primarily due to the Northwood extended scheduled maintenance outage and market curtailment at the Taylor Pulp mill.

Unit manufacturing costs for the third quarter of 2010 were up 3% compared to the second quarter as the impact of lower production volumes (on unit fixed costs) and higher fibre costs were partially offset by lower energy costs. The increase in fibre costs was attributable to an increase in the price of sawmill residual chips. Maintenance costs were also higher, reflecting the impact of increased deferred maintenance amortization following the scheduled outage at CPLP's Intercontinental pulp mill in the second quarter.

Compared to the third quarter of 2009, unit manufacturing costs were up due to the impact on unit fixed costs of lower production volumes, as well as higher maintenance spending and higher fibre costs. The latter resulted from higher sawmill residual chip prices, which were partly offset by a reduction in higher-cost whole log chipping. Higher costs also reflected increased short-term incentive compensation costs in the current year.

[18] Pulp and Paper Products Council ("PPPC").

[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 PPPC.

Unallocated and Other Items

(millions of dollars)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Operating loss of Panels operations[20]	**$ (1.9)**	$ (2.7)	**$ (5.1)**	$ (3.8)	$ (19.5)
Corporate costs	**$ (6.3)**	$ (4.8)	**$ (17.3)**	$ (4.3)	$ (15.6)
Interest expense, net	**$ (6.2)**	$ (6.7)	**$ (19.9)**	$ (6.9)	$ (22.2)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ 8.9**	$ (12.8)	**$ 4.9**	$ 26.2	$ 42.4
Gain (loss) on derivative financial instruments	**$ 2.8**	$ (3.3)	**$ (1.7)**	$ 17.7	$ 22.1
Gain on sale of mill property	**$ -**	$ -	**$ -**	$ -	$ 44.6
North Central Plywoods mill fire, net	**$ -**	$ -	**$ -**	-	$ (3.0)
Other income (expense), net	**$ (3.3)**	$ 3.3	**$ (2.9)**	$ (8.7)	$ (8.7)

[20] The Panels operations include the Peace Valley OSB (Oriented Strand Board) joint venture, the only facility currently operating, and the Company's Tackama plywood and PolarBoard OSB plants, both of which are currently indefinitely idled.

The Panels operations reported an operating loss of $1.9 million for the third quarter, compared to a loss of $2.7 million for the previous quarter. While the average OSB price was US$178 per thousand square feet ("Msf"), down US$119, or 40%, compared to the previous quarter, the majority of a significant inventory write-down recorded in the previous quarter was reversed due to a drawdown of log inventories. The operating loss for the third quarter of 2010 was half that of the third quarter last year, mostly due to the absence of any favourable inventory accounting adjustments in the prior period.

Corporate costs were $6.3 million for the third quarter of 2010, up $1.5 million from the previous quarter and $2.0 from the third quarter of 2009. The increased costs compared to the previous quarter reflected higher share based compensation, and restructuring costs. Higher costs compared to the third quarter of 2009 also reflected higher share based compensation as well as the reinstatement of the Company's short term incentive compensation plan in 2010.

Net interest expense of $6.2 million for the third quarter of 2010 was down slightly from the previous quarter and the third quarter of 2009.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt, net of investments, of $8.9 million for the third quarter of 2010 as a result of a 3% increase in the value of the Canadian dollar against the US dollar at the respective quarter ends. This compared to a loss of $12.8 million for the second quarter of 2010, reflecting a 4% decrease in the value of the Canadian dollar, and a gain of $26.2 million for the third quarter of 2009, reflecting an 8% increase in the value of the Canadian dollar.

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. For the third quarter of 2010, the Company recorded a net gain of $2.8 million related to all its derivative instruments, with gains attributable to the stronger Canadian dollar and, to a lesser extent, higher market diesel prices partially offset by losses on natural gas swaps and lumber futures. The following table summarizes the gains (losses) on derivative financial instruments for the comparable periods.

(millions of dollars)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Foreign exchange collars and forward contracts	**$ 4.4**	$ (9.5)	**$ 0.7**	$ 16.8	$ 33.3
Natural gas swaps	**$ (1.7)**	$ 0.2	**$ (5.2)**	$ (1.5)	$ (14.5)
Diesel options and swaps	**$ 0.7**	$ (1.0)	**$ 0.1**	$ 0.2	$ 1.2
Lumber futures	**$ (0.6)**	$ 7.0	**$ 2.7**	$ 2.2	$ 2.1
	$ 2.8	$ (3.3)	**$ (1.7)**	$ 17.7	$ 22.1

Other expense, net of $3.3 million for the third quarter of 2010 was principally attributable to net unfavourable foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations in the current quarter. Other income for both comparable quarters also principally reflected the impact of foreign exchange movements on US dollar denominated working capital balances.

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)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Increase (decrease) in cash and cash equivalents	**$ (3.8)**	$ 132.8	**$ 89.7**	$ (0.1)	$ (209.7)
Operating activities	**$ 62.3**	$ 171.9	**$ 250.1**	$ 33.3	$ (54.8)
Financing activities	**$ (23.7)**	$ (16.5)	**$ (85.0)**	$ (16.1)	$ (205.7)
Investing activities	**$ (41.7)**	$ (22.9)	**$ (74.8)**	$ (15.9)	$ 51.8
Ratio of current assets to current liabilities			**2.1 : 1**		2.4 : 1
Ratio of net debt to capitalization			**5.9%**		11.8%
ROCE - Consolidated[21]	**0.6%**	1.4%	**3.3%**	(0.1)%	(2.4)%
ROCE - Canfor solid wood business[22]	**(1 .0)%**	0.1%	**(0.3)%**	(0.6)%	(2.6)%

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

Changes in Financial Position

Operating activities generated cash of $62.3 million in the third quarter of 2010 compared to $171.9 million in the previous quarter. A significant part of the variance is attributable to the drawdown of log inventories during the Canadian spring break-up period in the second quarter of 2010. Reduced cash earnings in the current quarter also contributed to the lower cash inflows, along with a $16.9 million cash tax refund in the previous quarter. Compared to the third quarter of 2009, cash from operating activities was up $29.0 million, primarily as a result of improved cash operating earnings, partly offset by working capital reductions in the third quarter of 2009 following the indefinite idling in June 2009 of the Company's Radium, Rustad and Vavenby sawmills.

Financing activities used cash of $23.7 million in the third quarter of 2010, compared to $16.5 million used in the previous quarter and $16.1 million used in the third quarter of 2009. The current quarter's outflows were comprised principally of cash distributions paid to non-controlling interests of $23.5 million, up $7.4 million from the previous quarter and up $21.9 million from the third quarter of 2009. In the third quarter of 2009, operating loan repayments of $15.7 million were paid, principally by CPLP.

Investing activities in the third quarter of 2010 used net cash of $41.7 million compared to $22.9 million used in the previous quarter and $15.9 million used in the third quarter of 2009. The increase relative to the second quarter of 2010 was mostly related to work on the Company's Fort St. John sawmill and planer rebuild, the commencement of an energy system at its Prince George sawmill as well as several planer optimizer installations completed in the quarter. Capital expenditures at CPLP were also higher, reflecting projects related to the Green Transformation Program that are expected to be reimbursed under this program.

Changes in Equity

In addition to the net income of $33.5 million for the third quarter of 2010 which was credited to equity, accumulated other comprehensive income decreased by $8.7 million, due substantially to the impact of the 3% increase in the value of the Canadian dollar on the translation of the Company's foreign subsidiaries at quarter end. Distributions to non-controlling interests of $25.3 million were also charged to equity.

Liquidity and Financial Requirements

On July 30, 2010, the Company amended its main bank credit facility to a $350 million facility with a maturity date of October 31, 2013. The previous credit facility of $355 million was scheduled to mature on June 30, 2011. The general terms and conditions of the new credit facility are similar to the previous facility and include a new feature which allows for an increase of up to $100 million with existing or new lenders.

At September 30, 2010, the Company on a consolidated basis had cash and cash equivalents of $223.1 million and $437.9 million of bank operating lines of credit, which were not drawn down and $17.8 million was reserved for several standby letters of credit. In addition, CPLP had a separate credit facility to cover a $16.0 million standby letter of credit issued to BC Hydro.

The Company's consolidated net debt to capitalization ratio at the end of third quarter of 2010 was 5.9%.

The Company and CPLP remained in compliance with the covenants relating to its operating lines of credit and long-term debt during the quarter, and expect to remain so for the foreseeable future.

Softwood Lumber Agreement

On October 8, 2010, the U.S. Trade Representative sent a letter to the federal Minister of International Trade of Canada requesting formal consultations under the Softwood Lumber Agreement concerning timber pricing activities in British Columbia. The U.S. complaint relates to the pricing of mountain pine beetle-killed timber in the B.C. Interior. If consultations do not resolve the issue, an arbitration request may be made by the U.S. government. The Company is currently unable to reasonably estimate the likelihood or effect of any adverse determination of this dispute.

Sale of Howe Sound Pulp and Paper

On October 1, 2010, Howe Sound Pulp and Paper Limited Partnership ("HSLP") completed the sale of all its operating assets to Howe Sound Pulp and Paper Corporation, an unrelated, newly formed subsidiary of Paper Excellence B.V. HSLP is jointly owned by Canfor and Oji Paper Co., Ltd. of Japan. The sale is not expected to have a material impact on Canfor's net income in the fourth quarter of 2010, or on the Company's total assets or liabilities.

OUTLOOK

Lumber

North American lumber demand is expected to remain steady at current levels over the balance of the year influenced by slower seasonal activity and the continued overhang of unsold home inventory. In Canada, housing activity is expected to level off for the remainder of 2010 reflecting slower economic growth, recent increases in interest rates and concerns over home affordability. The strength of the offshore market is expected to continue to partially offset the weakness of the North American market. Several end-use markets in China are now solidly established and are expected to result in higher lumber demand in the fourth quarter. In Japan, 2x4 housing starts are expected to remain stable, while hybrid home construction is anticipated to provide additional opportunities for the application of Western SPF lumber.

Pulp and Paper

Global softwood inventories held by producers and customers have risen through the third quarter of 2010. Softwood inventory levels are still considered to be balanced in contrast to hardwood inventories which are in an over supplied situation. Two North American bleached softwood producers have recently restarted which will result in a modest increase in supply. However, seasonal maintenance downtime in October may mitigate this increase in supply in the near term. The North American NBSK pulp list price for October 2010 is announced at US$970 per tonne, a US$20 per tonne reduction from September 2010.

OUTSTANDING SHARES

At October 27, 2010, there were 142,630,347 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

The Canadian Institute of Chartered Accountants ("CICA") has issued three new inter-related accounting standards, Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements*, and 1602 *Non-controlling Interests*. Prospective application of these new Sections is mandatory for annual reporting periods beginning on or after January 1, 2011, with earlier adoption permitted. The CICA requires all three Sections to be adopted concurrently. Canfor has adopted the new standards as of January 1, 2010.

Section 1582 replaces CICA Handbook Section 1581 *Business Combinations*, and brings the accounting for business combinations under Canadian GAAP in line with the accounting under International Financial Reporting Standards ("IFRS"). This will impact Canfor's financial statements should a business combination, such as a merger or an acquisition, occur during the year.

Sections 1601 and 1602 replace CICA Handbook Section 1600 *Consolidated Financial Statements.* Adoption of these Sections also reduces the differences between Canadian GAAP and IFRS. The adoption of Section 1602 has had a significant impact on the consolidated balance sheets and consolidated statements of income (loss) of Canfor. The non-controlling interests on Canfor's balance sheet have been reclassified from long-term liabilities into equity, and the net income (loss) of non-controlling interests is no longer deducted in arriving at the total net income (loss) of Canfor. The "Net income attributable to equity shareholders of the Company," as disclosed on the statements of income (loss), is comparable to "Net income (loss)" reported in previous years. These changes have been adopted retrospectively.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For interim and annual periods in 2011 and beyond, Canfor will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS"). In order to ensure accurate and efficient reporting under IFRS, the Company developed a conversion implementation plan in 2008, which was designed to identify differences between Canadian GAAP and IFRS that affect Canfor and any required changes to accounting processes and controls (including information technology systems).

A number of differences between Canadian GAAP and IFRS were identified that are expected to have a significant impact on Canfor's financial statements, and these are summarized in the following section. The Company is currently in the process of quantifying these differences in order to prepare an opening balance sheet under IFRS as of January 1, 2010 and comparative information throughout the remainder of the year. The finalization of this opening balance sheet and comparative information is subject to changes in IFRS which are expected in the near term. In particular, the anticipated new standard relating to joint ventures may have a significant impact on Canfor's financial statements, as it is expected to remove the option of proportional consolidation of these entities. It is currently anticipated that the opening balance sheet under IFRS, and the reconciliation of this to Canadian GAAP, will be presented in the Company's annual report for the 2010 year.

No significant impacts were identified in relation to the Company's information systems or day-to-day accounting processes and controls. Canfor is reviewing its disclosure controls and procedures and will update these as required to ensure that they are appropriate for reporting under IFRS during 2011. Various training sessions have been carried out for those employees impacted by the transition to IFRS, with further training to be provided as required prior to the changeover in 2011.

Significant accounting impacts of conversion to IFRS for Canfor

The areas that are expected to have a significant impact on Canfor are explained below. Since the process of finalizing the accounting impacts of the conversion to IFRS is still ongoing, and the accounting standards will continue to evolve through 2011, it is possible that further differences may arise that could have a significant impact on the Company's financial statements under IFRS.

<u>IFRS 1 "First time adoption of International Financial Reporting Standards"</u>

As a first-time adopter of IFRS, the Company is required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". IFRS 1 provides a number of optional exemptions to first-time adopters. The exemptions which are significant to Canfor, and that it currently plans to take, are included in the sections which follow.

Property, plant and equipment

There are differences in the methodology used to determine if an asset should be impaired under IFRS compared to that under Canadian GAAP. The Canadian GAAP rules provide for a two-step test, with no impairment being required if the undiscounted future expected cash flows relating to an asset are higher than the carrying value of that asset. Under IFRS, the undiscounted cash flows are not considered and an impairment is recorded where the recoverable amount (defined as the higher of 'value in use' and 'fair value less costs to sell') is below the asset's carrying value. This difference may result in an impairment being recorded under IFRS, but not under Canadian GAAP, and therefore require an opening balance sheet adjustment under IFRS. If an impairment is required under IFRS, the future annual amortization expense would be reduced due to the lower base value of the assets.

In addition under IFRS, timber licenses will no longer be grouped with Property, plant and equipment, but will be classified separately as an intangible asset on the balance sheet.

One further adjustment to the opening balance sheet is expected to be the reclassification of major inspection and overhaul expenses at CPLP's pulp mills to Property, plant and equipment, where such amounts occur at regular intervals over the life of the asset and those intervals are longer than one year. This adjustment would result in the related expenses being reclassified to capital assets and a higher amortization expense being recorded going forward. This would have a positive impact on the Company's EBITDA under IFRS compared to Canadian GAAP.

Employee future benefits

IFRS 1 provides an exemption that allows a company transitioning to IFRS to recognize all unamortized actuarial gains and losses in its opening balance sheet on transition. This adjustment would impact retained earnings at the opening balance sheet date. Canfor plans to take this exemption.

IFRS also provides different options for the treatment of these actuarial gains and losses going forward than those available under Canadian GAAP. One of these options is to recognize the full amounts of such gains and losses in the Company's balance sheet each year, with the adjustment recorded to Other Comprehensive Income, rather than recognizing these amounts through the income statement over a number of years. Canfor plans to take this option.

In addition, under IFRS past service costs associated with defined benefit plans that have fully vested are required to be expensed immediately. Under Canadian GAAP, these may be amortized on a straight-line basis over the average remaining service period of active employees. This will have an impact on Canfor's opening balance sheet and future employee benefit expense.

Joint ventures

Canadian GAAP allows for the use of proportional consolidation in the accounting for joint ventures. This is also currently allowed under IFRS, however it is expected that future changes in IFRS may remove this option and permit only the equity method of accounting for such interests. This would affect a number of Canfor's balance sheet and income statement line items, specifically in relation to the Company's interest in the Peace Valley OSB joint venture, as these items would be presented as one line item on each of these statements.

Presentation of financial statements, including presentation of non-controlling interests

IFRS requires that non-controlling interests be treated as a component of equity, rather than as a liability, in the Company's balance sheet, with the related income (loss) no longer deducted in arriving at net income (loss), but disclosed separately on the face of the income statement. Canfor has elected to early adopt this change under Canadian GAAP during 2010.

In addition to the other changes noted in this section, a number of other reclassifications between line items on the financial statements are expected under IFRS.

Business combinations

IFRS 1 provides an exemption that allows companies transitioning to IFRS not to restate business combinations entered into prior to the date of transition. Canfor plans to take this exemption. In addition, the Company has elected to early adopt a new standard under Canadian GAAP from January 1, 2010 which would align the accounting for business combinations under Canadian GAAP to IFRS, should any such combinations occur in 2010.

Foreign exchange

IFRS 1 provides an exemption that allows a Company to reset its cumulative translation account to zero at the date of transition, with the balance being transferred to opening retained earnings. Canfor plans to take this exemption.

Provisions

The threshold for recognition of provisions under IFRS is lower than that under Canadian GAAP. Under IFRS, a provision must be recorded where required payment is “probable”, which is a lower threshold than “likely” under Canadian GAAP. This could result in additional provisions being required on transition to IFRS. The measurement of those provisions may also be adjusted, with IFRS requiring the mid-point in a range of potential outcomes to be used, whereas Canadian GAAP permits use of an amount at the low end of the range where no amount within the range of outcomes is indicated as a better estimate than any other. Measurement of provisions may also be affected by differences in the required calculation, such as the determination of the discount rate to be used.

Income taxes

A number of the adjustments noted in the sections above are expected to have an impact on taxes, resulting in differences between the tax amounts recorded under IFRS and Canadian GAAP.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2010, 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 2009 annual statutory reports which are available on www.canfor.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION[23]

	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Sales and income (millions of dollars)								
Sales	**$ 588.7**	$ 634.7	$ 577.9	$ 549.6	$ 521.3	$ 530.3	$ 474.7	$ 576.9
Operating income (loss)	**$ 26.6**	$ 64.0	$ 39.0	$ (23.6)	$ (31.4)	$ (31.2)	$ (124.2)	$ (74.2)
Net income (loss)	**$ 33.5**	$ 40.4	$ 32.5	$ (9.1)	$ 4.1	$ 12.1	$ (69.9)	$ (242.4)
Shareholder net income (loss)	**$ 5.6**	$ 18.1	$ 15.6	$ (17.0)	$ (5.2)	$ 10.5	$ (58.8)	$ (229.8)
Per common share (dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.04**	$ 0.13	$ 0.11	$ (0.12)	$ (0.04)	$ 0.07	$ (0.41)	$ (1.61)
Statistics								
Lumber shipments (MMfbm)	**877**	875	797	887	837	884	791	956
OSB shipments (MMsf 3/8”)	**58**	72	73	63	69	61	30	56
Pulp shipments (000 mt)	**277**	301	316	315	307	344	277	236
Average exchange rate – US$/Cdn$	**$ 0.962**	$ 0.973	$ 0.961	$ 0.947	$ 0.912	$ 0.858	$ 0.803	$ 0.825
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 223**	$ 266	$ 268	$ 205	$ 191	$ 174	$ 155	$ 190
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 243**	$ 379	$ 329	$ 231	$ 230	$ 236	$ 235	$ 258
Average OSB price – North Central (US$)	**$ 178**	$ 295	$ 214	$ 172	$ 178	$ 145	$ 154	$ 172
Average NBSK pulp list price delivered to U.S. (US$)	**$ 1,000**	$ 993	$ 880	$ 820	$ 733	$ 645	$ 673	$ 787

[23] Certain amounts in prior periods have been reclassified to conform to the presentation in the current period.

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, operating losses in the last quarter of 2008 and the 2009 year reflect the impact of a global economic slowdown.

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)	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Shareholder net income (loss), as reported	**$ 5.6**	$ 18.1	$ 15.6	$ (17.0)	$ (5.2)	$ 10.5	$ (58.8)	$ (229.8)
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (6.3)**	$ 9.0	$ (6.2)	$ (5.8)	$ (19.6)	$ (19.7)	$ 9.1	$ 52.2
(Gain) loss on derivative financial instruments	**$ (1.1)**	$ 1.1	$ 1.0	$ (1.4)	$ (12.7)	$ (17.3)	$ 12.4	$ 50.3
Clear Lake permanent closure provision	**$ 13.4**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Gain on sale of mill property	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (37.8)	$ -
North Central Plywoods mill fire, net	**$ -**	$ -	$ -	$ -	$ -	$ 2.0	$ -	$ -
Asset impairments	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 74.1
Corporate income tax rate reductions	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (7.3)	$ -
Other items	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.2
Net impact of above items	**$ 6.0**	$ 10.1	$ (5.2)	$ (7.2)	$ (32.3)	$ (35.0)	$ (23.6)	$ 176.8
Adjusted net income (loss)	**$ 11.6**	$ 28.2	$ 10.4	$ (24.2)	$ (37.5)	$ (24.5)	$ (82.4)	$ (53.0)
Shareholder net income (loss) per share (EPS), as reported	**$ 0.04**	$ 0.13	$ 0.11	$ (0.12)	$ (0.04)	$ 0.07	$ (0.41)	$ (1.61)
Net impact of above items per share	**$ 0.04**	$ 0.07	$ (0.04)	$ (0.05)	$ (0.22)	$ (0.24)	$ (0.17)	$ 1.24
Adjusted net income (loss) per share	**$ 0.08**	$ 0.20	$ 0.07	$ (0.17)	$ (0.26)	$ (0.17)	$ (0.58)	$ (0.37)

Canfor Corporation
Consolidated Balance Sheets

(millions of dollars, unaudited)	**As at September 30, 2010**	As at December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 223.1**	$ 133.4
Accounts receivable		
Trade	**170.2**	137.2
Other	**63.0**	41.9
Income taxes recoverable	**0.1**	45.5
Future income taxes, net	**11.4**	11.4
Inventories (Note 2)	**333.0**	311.3
Prepaid expenses	**49.6**	36.4
Total current assets	**850.4**	717.1
Long-term investments and other (Note 3)	**84.8**	93.7
Property, plant, equipment and timber	**1,640.9**	1,676.6
Goodwill	**71.5**	73.3
Deferred charges	**115.2**	117.1
	$ 2,762.8	$ 2,677.8
LIABILIITES		
Current Liabilities		
Operating loans (Note 4 (a))	**$ -**	$ 0.6
Accounts payable and accrued liabilities	**283.2**	211.4
Current portion of long-term debt (Note 4 (b))	**85.4**	34.0
Current portion of deferred reforestation obligation	**27.6**	27.8
Total current liabilities	**396.2**	273.8
Long-term debt (Note 4 (b))	**245.2**	333.3
Long-term accrued liabilities and obligations (Note 5)	**210.5**	209.8
Future income taxes, net	**205.0**	200.8
	$ 1,056.9	$ 1,017.7
EQUITY		
Share capital – 142,623,347 common shares outstanding	**$ 1,125.0**	$ 1,124.7
Contributed surplus	**31.9**	31.9
Retained earnings	**285.5**	246.2
Accumulated other comprehensive income (loss)	**(21.0)**	(16.0)
Total equity attributable to shareholders of Company	**1,421.4**	1,386.8
Non-controlling interests (Note 1 (b))	**284.5**	273.3
Total equity	**$ 1,705.9**	$ 1,660.1
	$ 2,762.8	$ 2,677.8

Subsequent event (Note 14)

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 September 30, 2010	3 months ended September 30, 2009	9 months ended September 30, 2010	9 months ended September 30, 2009
Sales	**$ 588.7**	$ 521.2	**$ 1,801.3**	$ 1,526.2
Costs and expenses				
Manufacturing and product costs	**371.8**	379.3	**1,129.5**	1,183.4
Freight and other distribution costs	**103.8**	101.0	**314.3**	306.2
Export taxes	**9.7**	13.3	**29.7**	37.5
Amortization	**39.4**	38.4	**116.7**	116.5
Selling and administration costs	**16.9**	14.4	**49.6**	45.4
Restructuring, mill closure and severance costs (Note 6)	**20.5**	6.2	**31.9**	24.0
	562.1	552.6	**1,671.7**	1,713.0
Operating income (loss)	**26.6**	(31.4)	**129.6**	(186.8)
Interest expense, net	**(6.2)**	(6.9)	**(19.9)**	(22.2)
Foreign exchange gain (loss) on long-term debt and investments, net	**8.9**	26.2	**4.9**	42.4
Gain (loss) on derivative financial instruments (Note 12)	**2.8**	17.7	**(1.7)**	22.1
Gain on sale of mill property (Note 7)	**-**	-	**-**	44.6
North Central Plywoods mill fire, net	**-**	-	**-**	(3.0)
Other income (expense), net	**(3.3)**	(8.7)	**(2.9)**	(8.7)
Net income (loss) before income taxes	**28.8**	(3.1)	**110.0**	(111.6)
Income tax recovery (expense) (Note 9)	**4.7**	7.2	**(3.6)**	57.9
Net income (loss)	**$ 33.5**	$ 4.1	**$ 106.4**	$ (53.7)
Net income (loss) attributable to: (Note 1 (b))				
Equity shareholders of Company	**$ 5.6**	$ (5.2)	**$ 39.3**	$ (53.5)
Non-controlling interests	**27.9**	9.3	**67.1**	(0.2)
	$ 33.5	$ 4.1	**$ 106.4**	$ (53.7)
Net income (loss) per common share: (in dollars) (Note 10)				
Attributable to equity shareholders of Company				
– Basic and Diluted	**$ 0.04**	$ (0.04)	**$ 0.28**	$ (0.38)

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

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

(millions of dollars, unaudited)	3 months ended September 30, **2010**	3 months ended September 30, 2009	9 months ended September 30, **2010**	9 months ended September 30, 2009
Consolidated Statements of Changes in Equity				
Share capital				
Balance at beginning of period	**$ 1,125.0**	$ 1,124.7	**$ 1,124.7**	$ 1,124.7
Common shares issued on exercise of stock options	**-**	-	**0.3**	-
Balance at end of period	**$ 1,125.0**	$ 1,124.7	**$ 1,125.0**	$ 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	**$ 279.9**	$ 268.4	**$ 246.2**	$ 316.7
Net income (loss) attributable to equity shareholders of Company for period	**5.6**	(5.2)	**39.3**	(53.5)
Balance at end of period	**$ 285.5**	$ 263.2	**$ 285.5**	$ 263.2
Accumulated other comprehensive income (loss)				
Balance at beginning of period	**$ (12.3)**	$ 3.6	**$ (16.0)**	$ 21.5
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**(8.7)**	(10.5)	**(5.0)**	(28.4)
Balance at end of period	**$ (21.0)**	$ (6.9)	**$ (21.0)**	$ (6.9)
Non-controlling interests (Note 1 (b))				
Balance at beginning of period	**$ 281.9**	$ 263.6	**$ 273.3**	$ 276.8
Net income (loss) attributable to non-controlling interests	**27.9**	9.3	**67.1**	(0.2)
Distributions to non-controlling interests	**(25.3)**	(1.6)	**(55.9)**	(5.3)
Balance at end of period	**$ 284.5**	$ 271.3	**$ 284.5**	$ 271.3
Total equity – Balance at end of period	**$ 1,705.9**	$ 1,684.2	**$ 1,705.9**	$ 1,684.2
Consolidated Statement of Comprehensive Income (Loss)				
Net income (loss) for period	**$ 33.5**	$ 4.1	**$ 106.4**	$ (53.7)
Other comprehensive income (loss) for period:				
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**(8.7)**	(10.5)	**(5.0)**	(28.4)
Total comprehensive income (loss)	**$ 24.8**	$ (6.4)	**$ 101.4**	$ (82.1)
Total comprehensive income (loss) attributable to: (Note 1 (b))				
Equity shareholders of Company	**$ (3.1)**	$ (15.7)	**$ 34.3**	$ (81.9)
Non-controlling interests	**27.9**	9.3	**67.1**	(0.2)
	$ 24.8	$ (6.4)	**$ 101.4**	$ (82.1)

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 September 30, 2010	3 months ended September 30, 2009	9 months ended September 30, 2010	9 months ended September 30, 2009
Cash generated from (used in)				
Operating activities				
Net income (loss) for period	**$ 33.5**	$ 4.1	**$ 106.4**	$ (53.7)
Items not affecting cash				
Amortization	**39.4**	38.4	**116.7**	116.5
Future income taxes	**(4.3)**	(3.3)	**4.2**	(21.1)
Long-term portion of deferred reforestation	**(5.2)**	(7.9)	**(7.0)**	(8.1)
Clear Lake permanent closure provision (Note 6)	**17.8**	-	**17.8**	-
Gain on sale of mill property (Note 7)	**-**	-	**-**	(44.6)
North Central Plywoods mill fire, net	**-**	-	**-**	3.0
Foreign exchange (gain) loss on long-term debt and investments, net	**(8.9)**	(26.2)	**(4.9)**	(42.4)
Changes in mark-to-market values of derivative financial instruments	**(3.6)**	(22.6)	**2.6**	(60.9)
Deferred maintenance amortization	**1.1**	0.8	**7.6**	2.3
Employee future benefits	**3.3**	2.8	**11.8**	9.1
Other, net	**(0.1)**	(1.7)	**1.7**	(3.2)
Salary pension plan contributions	**(2.0)**	(3.8)	**(5.2)**	(12.3)
Deferred scheduled maintenance spending	**-**	(0.8)	**(5.8)**	(3.4)
Net change in non-cash working capital (Note 11)	**(8.7)**	53.5	**4.2**	64.0
	62.3	33.3	**250.1**	(54.8)
Financing activities				
Repayment of long-term debt (Note 4 (b))	**-**	-	**(33.7)**	(175.5)
Increase (decrease) in operating bank loans	**-**	(15.7)	**(0.6)**	(25.0)
Cash distributions paid to non-controlling interests	**(23.5)**	(1.6)	**(50.8)**	(6.3)
Other	**(0.2)**	1.2	**0.1**	1.1
	(23.7)	(16.1)	**(85.0)**	(205.7)
Investing activities				
Additions to property, plant, equipment and timber	**(43.9)**	(22.4)	**(80.6)**	(48.7)
Proceeds from disposal of property, plant, equipment and timber	**0.6**	1.8	**1.1**	48.8
Proceeds from North Central Plywoods mill fire claim	**-**	-	**-**	33.3
Proceeds from redemption of asset-backed commercial paper	**1.3**	3.9	**3.9**	14.3
Other, net	**0.3**	0.8	**0.8**	4.1
	(41.7)	(15.9)	**(74.8)**	51.8
Foreign exchange gain (loss) on cash and cash equivalents of self-sustaining foreign operations	**(0.7)**	(1.4)	**(0.6)**	(1.0)
Increase (decrease) in cash and cash equivalents	**(3.8)**	(0.1)	**89.7**	(209.7)
Cash and cash equivalents at beginning of period	**226.9**	152.8	**133.4**	362.4
Cash and cash equivalents at end of period	**$ 223.1**	$ 152.7	**$ 223.1**	$ 152.7
Cash (payments) receipts in period				
Interest, net	**$ (3.6)**	$ (6.6)	**$ (16.5)**	$ (22.0)
Income taxes	**$ -**	$ (0.1)	**$ 45.6**	$ 48.2

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 ("GAAP") for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor Corporation's ("Canfor" or "the Company") Annual Report for the year ended December 31, 2009 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 2009 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

The Canadian Institute of Chartered Accountants ("CICA") has issued three new inter-related accounting standards, Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements*, and 1602 *Non-controlling Interests*. Prospective application of these new Sections is mandatory for annual reporting periods beginning on or after January 1, 2011, with earlier adoption permitted. The CICA requires all three Sections to be adopted concurrently. Canfor adopted the new standards as of January 1, 2010.

Section 1582 replaces CICA Handbook Section 1581 *Business Combinations*, and brings the accounting for business combinations under Canadian GAAP in line with the accounting under International Financial Reporting Standards ("IFRS"). This will impact Canfor's financial statements should a business combination, such as a merger or an acquisition, occur during the year.

Sections 1601 and 1602 replace CICA Handbook Section 1600 *Consolidated Financial Statements.* Adoption of these Sections also reduces the differences between Canadian GAAP and IFRS. The adoption of Section 1602 has had a significant impact on the consolidated balance sheets and consolidated statements of income (loss) of Canfor. The non-controlling interests on Canfor's balance sheet have been reclassified from long-term liabilities into equity, and the net income (loss) of non-controlling interests is no longer deducted in arriving at the total net income (loss) of Canfor. The "Net income (loss) attributable to equity shareholders of the Company," as disclosed on the consolidated statements of income (loss), is comparable to the "Net income (loss)" reported in previous years. These changes have been applied retrospectively.

2. Inventories

(millions of dollars)		**As at September 30, 2010**		As at December 31, 2009
Logs	**$**	**35.6**	$	39.9
Finished products		**187.5**		164.7
Residual fibre		**26.0**		22.3
Processing materials and supplies		**83.9**		84.4
	$	**333.0**	$	311.3

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory write-downs at September 30, 2010 totaled $3.3 million (December 31, 2009 – $25.7 million).

3. Long-Term Investments and Other

(millions of dollars)		As at September 30, 2010		As at December 31, 2009
Non-bank asset-backed commercial paper (“ABCP”)	**$**	**36.5**	$	41.1
Other investments		**26.1**		27.3
Customer agreements		**14.4**		16.8
Other deposits, loans and advances		**7.8**		8.5
	$	**84.8**	$	93.7

4. Operating Loans and Long-Term Debt

(a) Operating Loans

On a consolidated basis, at September 30, 2010, the Company had $437.9 million of unsecured operating loan facilities (December 31, 2009 – $445.6 million), of which $nil was drawn down (December 31, 2009 – $0.6 million) and $17.8 million was reserved for several standby letters of credit (December 31, 2009 – $18.6 million). The Company also had a separate facility to cover a $16.0 million standby letter of credit at September 30, 2010 and December 31, 2009.

On July 30, 2010, the Company amended its main bank credit facility to a $350 million facility with a maturity date of October 31, 2013. The previous credit facility of $355 million was scheduled to mature on June 30, 2011. The general terms and conditions of the new credit facility are similar to the previous facility and include a new feature which allows for an increase of up to $100 million with existing or new lenders.

In addition, the Company’s operating loan facilities include two facilities in the amounts of US$12.9 million (“Facility A”) and US$32.5 million (“Facility B”) at September 30, 2010. 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 an amount of US$6.7 million. Facility B expires in January 2011 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.

Excluding Canfor Pulp Limited Partnership (“CPLP”), the Company’s bank operating lines at September 30, 2010 were $397.9 million (December 31, 2009 - $405.6 million) of which $nil was drawn down (December 31, 2009 – $0.6 million) and $17.3 million (December 31, 2009 – $18.1 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 that their interest rate is plus or minus a margin.

At September 30, 2010, CPLP had a $40.0 million bank loan facility (December 31, 2009 - $40.0 million) with a maturity date of November 30, 2011, of which $0.5 million was utilized for a standby letter of credit issued for general business purposes (December 31, 2009 - $0.5 million). The terms of this financing 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. In addition, CPLP has a separate facility with a maturity date of November 30, 2011, to cover a $16.0 million standby letter of credit issued to BC Hydro.

As at September 30, 2010, the Company and CPLP were in compliance with all covenants relating to its operating lines of credit.

(b) Long-Term Debt

On March 1, 2010, the Company repaid $33.7 million (US$32.3 million) of privately placed senior notes with an interest rate of 8.03%.

At September 30, 2010, the fair value of the Company’s long-term debt, which was measured at its amortized cost of $330.6 million, was $348.0 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 September 30, 2010**		As at December 31, 2009
Deferred reforestation obligation	**$**	**53.3**	$	60.3
Accrued pension obligations		**19.7**		19.6
Accrued pension bridge benefit obligations		**9.2**		9.1
Other post-employment benefits		**108.3**		103.5
Asset retirement obligations		**5.1**		4.8
Other		**14.9**		12.5
	$	**210.5**	$	209.8

6. Clear Lake Permanent Closure Provision

In September 2010, the Company announced the permanent closure of its Clear Lake B.C. lumber operation, effective January 13, 2011. Related closure costs of $17.8 million are included in restructuring, mill closure and severance costs for the third quarter of 2010.

7. Sale of Mill Property

In February 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.

8. Employee Future Benefits Expense

	3 months ended September 30,				9 months ended September 30,			
(millions of dollars)		**2010**		2009		**2010**		2009
Defined benefit pension plans	**$**	**4.3**	$	3.5	**$**	**12.9**	$	10.5
Other employee future benefit plans		**3.3**		3.0		**9.9**		8.9
Defined contribution pension plans and 401(k) plans		**0.9**		0.9		**2.6**		2.7
Contributions to forest industry union plans		**3.8**		3.4		**11.1**		11.0
	$	**12.3**	$	10.8	**$**	**36.5**	$	33.1

9. Income Taxes

	3 months ended September 30,				9 months ended September 30,			
(millions of dollars)		**2010**		2009		**2010**		2009
Current	**$**	**0.4**	$	3.9	**$**	**0.6**	$	36.8
Future		**4.3**		3.3		**(4.2)**		21.1
Income tax recovery (expense)	**$**	**4.7**	$	7.2	**$**	**(3.6)**	$	57.9

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

	3 months ended September 30,				9 months ended September 30,			
(millions of dollars)		**2010**		2009		**2010**		2009
Income tax recovery (expense) at statutory rate 2010 - 28.5% (2009 - 30%)	**$**	**(8.2)**	$	0.9	**$**	**(31.3)**	$	33.5
Add (deduct):								
Non-taxable income related to non-controlling interests in limited partnerships		**8.0**		2.8		**19.2**		(0.1)
Change in corporate income tax rates		**-**		-		**-**		7.3
Entities with different income tax rates and other tax adjustments		**0.8**		0.9		**0.5**		3.2
Tax recovery (expense) at rates other than statutory rate		**-**		(0.6)		**1.5**		2.5
Permanent difference from capital gains and losses and other non-deductible items		**4.1**		3.2		**6.5**		11.5
Income tax recovery (expense)	**$**	**4.7**	$	7.2	**$**	**(3.6)**	$	57.9

10. 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 September 30,		9 months ended September 30,	
	2010	2009	**2010**	2009
Weighted average number of common shares	**142,623,347**	142,589,297	**142,606,227**	142,589,297
Incremental shares from potential exercise of options [a]	**-**	-	**2,247**	-
Diluted number of common shares [a]	**142,623,347**	142,589,297	**142,608,474**	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 are not included in the total common shares outstanding for purposes of the calculation of diluted net income (loss) per share.

11. Net Change in Non-Cash Working Capital

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2010**	2009	**2010**	2009
Accounts receivable	**$ 2.2**	$ 14.1	**$ (38.2)**	$ (11.1)
Income taxes recoverable	**(0.1)**	(4.2)	**45.4**	11.1
Inventories	**(11.7)**	18.6	**(22.6)**	78.8
Prepaid expenses	**(5.0)**	3.8	**(13.3)**	(1.4)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	**5.9**	21.2	**32.9**	(13.4)
Net (increase) decrease in working capital	**$ (8.7)**	$ 53.5	**$ 4.2**	$ 64.0

12. 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 September 30, 2010, the fair value of derivative financial instruments was a net liability of $3.9 million (December 31, 2009 – net liability of $5.8 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 included in the consolidated statements of income (loss):

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2010**	2009	**2010**	2009
Foreign exchange collars and forward contracts	**$ 4.4**	$ 16.8	**$ 0.7**	$ 33.3
Natural gas swaps	**(1.7)**	(1.5)	**(5.2)**	(14.5)
Diesel options and swaps	**0.7**	0.2	**0.1**	1.2
Lumber futures	**(0.6)**	2.2	**2.7**	2.1
	$ 2.8	$ 17.7	**$ (1.7)**	$ 22.1

The following table summarizes the fair value of the derivative financial instruments included in the consolidated balance sheets:

(millions of dollars)	As at September 30, 2010	As at December 31, 2009
Foreign exchange collars and forward contracts	**$ 2.1**	$ 1.6
Natural gas swaps	**(6.8)**	(6.8)
Diesel options and swaps	**0.5**	(0.9)
Lumber futures	**0.3**	0.3
	$ (3.9)	$ (5.8)
Less: current portion	**(3.5)**	(3.5)
Long-term portion	**$ (0.4)**	$ (2.3)

13. Segmented Information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("CEO") and the executive management team, who operate as Canfor's chief operating decision maker. The CEO and executive management team are responsible for allocating resources and assessing performance of the operating segments.

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

- *Lumber* - Includes logging operations, and manufacture and sale of various grades and widths of lumber products.
- *Pulp and paper* – Includes purchase of residual fibre, and production and sale of pulp and paper products, including northern bleached softwood kraft ("NBSK") and bleached chemi-thermo mechanical pulp ("BCTMP"). This segment includes 100% of Canfor Pulp Limited Partnership and the Taylor Pulp mill.

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

Sales in the panels business (which does not meet the criteria to be a separate reportable segment) for the three months ended September 30, 2010 were $11.4 million (three months ended September 30, 2009 - $12.6 million) and $45.3 million for the nine months ended September 30, 2010 (nine months ended September 30, 2009 - $28.3 million).

(millions of dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended September 30, 2010							
Sales to external customers	**$**	**308.3**	**269.0**	**11.4**	**-**	**$**	**588.7**
Sales to other segments	**$**	**31.9**	**-**	**-**	**(31.9)**	**$**	**-**
Operating income (loss)	**$**	**(18.0)**	**52.8**	**(8.2)**	**-**	**$**	**26.6**
Amortization	**$**	**22.8**	**12.2**	**4.4**	**-**	**$**	**39.4**
Capital expenditures	**$**	**31.0**	**12.8**	**0.1**	**-**	**$**	**43.9**
3 months ended September 30, 2009							
Sales to external customers	$	281.4	227.2	12.6	-	$	521.2
Sales to other segments	$	35.2	-	-	(35.2)	$	-
Operating income (loss)	$	(36.3)	13.0	(8.1)	-	$	(31.4)
Amortization	$	21.7	12.9	3.8	-	$	38.4
Capital expenditures	$	15.8	6.5	0.1	-	$	22.4

(millions of dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
9 months ended September 30, 2010							
Sales to external customers	**$**	**937.2**	**818.8**	**45.3**	**-**	**$**	**1,801.3**
Sales to other segments	**$**	**101.7**	**-**	**-**	**(101.7)**	**$**	**-**
Operating income (loss)	**$**	**10.8**	**141.2**	**(22.4)**	**-**	**$**	**129.6**
Amortization	**$**	**66.9**	**36.4**	**13.4**	**-**	**$**	**116.7**
Capital expenditures	**$**	**60.5**	**20.0**	**0.1**	**-**	**$**	**80.6**
Identifiable assets	**$**	**1,371.9**	**913.5**	**477.4**	**-**	**$**	**2,762.8**
9 months ended September 30, 2009							
Sales to external customers	$	833.0	664.9	28.3	-	$	1,526.2
Sales to other segments	$	92.3	-	0.1	(92.4)	$	-
Operating income (loss)	$	(140.6)	(11.1)	(35.1)	-	$	(186.8)
Amortization	$	67.8	37.7	11.0	-	$	116.5
Capital expenditures	$	33.5	15.0	0.2	-	$	48.7
Identifiable assets	$	1,326.2	885.6	520.1	-	$	2,731.9

Sales to external customers in the lumber segment include the following sales of lumber not produced by Canfor:

(millions of dollars)	3 months ended September 30, **2010**	3 months ended September 30, 2009	9 months ended September 30, **2010**	9 months ended September 30, 2009
Sales of lumber not produced by Canfor	**$ 48.0**	$ 45.9	**$ 135.1**	$ 137.8

Geographic Information

(millions of dollars)	3 months ended September 30, **2010**	3 months ended September 30, 2009	9 months ended September 30, **2010**	9 months ended September 30, 2009
Sales by location of customer				
Canada	**$ 76.3**	$ 69.5	**$ 224.9**	$ 206.6
United States	**269.0**	260.0	**862.7**	780.9
Asia	**182.1**	140.9	**525.9**	400.3
Europe	**48.5**	43.0	**153.9**	116.0
Other	**12.8**	7.8	**33.9**	22.4
	$ 588.7	$ 521.2	**$ 1,801.3**	$ 1,526.2

(millions of dollars)	**As at September 30, 2010**	As at December 31, 2009
Capital assets and goodwill by location		
Canada	**$ 1,567.8**	$ 1,598.1
United States	**144.5**	151.7
Asia and Other	**0.1**	0.1
	$ 1,712.4	$ 1,749.9

14. Subsequent Event

On October 1, 2010, Howe Sound Pulp and Paper Limited Partnership ("HSLP") completed the sale of all its operating assets to Howe Sound Pulp and Paper Corporation, an unrelated, newly formed subsidiary of Paper Excellence B.V. HSLP is jointly owned by Canfor and Oji Paper Co., Ltd. of Japan. The sale is not expected to have a material impact on Canfor's net income in the fourth quarter of 2010, or on the Company's total assets or liabilities.

15. Comparative Figures

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