# Q4 2010

## For the three months ended December 31, 2010

CANFOR
CORPORATION
2010 FOURTH
QUARTER
INTERIM REPORT

**To Our Shareholders**

Canfor Corporation today reported net income of $54.9 million for the fourth quarter of 2010, compared to $33.5 million for the third quarter of 2010 and a net loss of $9.1 million for the fourth quarter of 2009. For the year ended December 31, 2010, the Company's net income was $161.3 million, compared to a net loss of $62.8 million for 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 fourth quarter of 2010 was $30.7 million, or $0.21 per share, up from $5.6 million, or $0.04 per share, for the third quarter of 2010 and an improvement from a loss of $17.0 million, or $0.12 per share, reported for the fourth quarter of 2009. For the 2010 year, shareholder net income was $70.0 million, or $0.49 per share, compared to a net loss of $70.5 million, or $0.50 per share, for 2009.

Shareholder net income for the fourth quarter of 2010 included several items affecting comparability with prior periods, which had an overall positive impact of $17.8 million, or $0.12 per share. After adjusting for all items affecting comparability, the Company's adjusted net income for the fourth quarter of 2010 was $12.9 million, or $0.09 per share, compared to similarly adjusted net income of $11.6 million, or $0.08 per share, for the third quarter of 2010 and an adjusted net loss of $24.2 million, or $0.17 per share, for the fourth quarter of 2009. For the year ended December 31, 2010, adjusted net income was $63.1 million, or $0.44 per share, compared to an adjusted net loss of $162.0 million, or $1.14 per share, for the year ended December 31, 2009.

The North American lumber market continued to reflect a struggling U.S. housing sector in the fourth quarter of 2010. There was some good news on the demand side however, as China's increasing consumption of BC softwood lumber continued in the quarter and helped to support higher North American market prices for narrower dimensions. Northern Bleached Softwood Kraft ("NBSK") pulp markets remained strong in the fourth quarter, with prices holding firm through the quarter after a dip in demand in the third quarter.

Reported EBITDA for the fourth quarter of 2010 was $79.0 million, up $13.0 million from the previous quarter. Excluding the impact from inventory write-down movements, and a third quarter provision related to the announced permanent closure of the Clear Lake lumber operation (which took effect in January 2011), EBITDA was down $2.3 million. Compared to the fourth quarter of 2009, reported EBITDA was up $63.8 million, principally reflecting the improved lumber and pulp market prices.

The average North American benchmark Western SPF (Spruce/Pine/Fir) 2x4 #2&Btr lumber price was up US$46 per thousand board feet, or 21%, in the fourth quarter, but North American price increases for most other grades and dimensions were more modest while prices in offshore markets also saw smaller gains. The Company's Western SPF sales realizations in the fourth quarter also reflected a lower-value sales mix, in part due to lower production of higher-value prime products, as well as a stronger Canadian dollar. As a result, sales realizations were up only slightly from the previous quarter. Southern Yellow Pine ("SYP") lumber price movements were also mixed, with modest gains on narrow widths offset by a small decrease in prices for wider dimensions.

Lumber results for the fourth quarter were somewhat clouded by significant downtime related to capital projects at a number of the Company's operations, including a major sawmill and planer rebuild at the Fort St. John mill. The Company's lumber operations ran at approximately 65% of capacity in the fourth quarter of 2010, down from 70% in the previous quarter. The lower operating levels, as well as higher energy and log costs in the current quarter, contributed to higher unit manufacturing costs compared to the previous quarter.

In December, the Company announced a $300 million three-year capital spending program for its lumber business that is focused on increased productivity, higher recoveries, lower energy costs and efficient prime lumber extraction. Approximately $120 million of this capital spending is scheduled for 2011.

Looking forward, the North American lumber market is expected to see a mild improvement from the projected continuation of recovery of the U.S. economy in 2011. The Canadian housing market is expected to remain relatively steady in the short term, while the strength of the offshore market is expected to continue through 2011.

The global softwood pulp market is expected to remain balanced through the first quarter of 2011 with inventory levels in a range that is expected to support current pricing levels.

**Ronald L. Cliff**
**Chairman**

**James F. Shepard**
**President and Chief Executive Officer**

**Canfor Corporation**
**Fourth 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 December 31, 2010 relative to the quarters ended September 30, 2010 and December 31, 2009, and the financial position of the Company at December 31, 2010. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended December 31, 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; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.*

*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 February 11, 2011.*

### *Forward Looking Statements*

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

**FOURTH QUARTER 2010 EARNINGS OVERVIEW**

Selected Financial Information and Statistics[1]

| (millions of dollars, except for per share amounts) | Q4 2010 | Q3 2010 | Year 2010 | Q4 2009 | Year 2009 |
|---|---|---|---|---|---|
| Sales | **$ 629.1** | $ 588.7 | **$ 2,430.4** | $ 549.6 | $ 2,075.8 |
| EBITDA[2] | **$ 79.0** | $ 66.0 | **$ 325.3** | $ 15.2 | $ (55.1) |
| Operating income (loss) | **$ 39.7** | $ 26.6 | **$ 169.3** | $ (23.6) | $ (210.4) |
| Foreign exchange gain on long-term debt and investments, net | **$ 9.8** | $ 8.9 | **$ 14.7** | $ 8.0 | $ 50.4 |
| Gain on derivative financial instruments[3] | **$ 1.8** | $ 2.8 | **$ 0.1** | $ 2.3 | $ 24.4 |
| Gain on sale of mill property | **$ -** | $ - | **$ -** | $ - | $ 44.6 |
| North Central Plywoods mill fire, net | **$ -** | $ - | **$ -** | $ - | $ (3.0) |
| Net income (loss) | **$ 54.9** | $ 33.5 | **$ 161.3** | $ (9.1) | $ (62.8) |
| Net income (loss) attributable to equity shareholders of Company[4] | **$ 30.7** | $ 5.6 | **$ 70.0** | $ (17.0) | $ (70.5) |
| Net income (loss) per share attributable to equity shareholders of Company, basic and diluted | **$ 0.21** | $ 0.04 | **$ 0.49** | $ (0.12) | $ (0.50) |
| Average exchange rate (US$/CDN$)[5] | **$ 0.987** | $ 0.962 | **$ 0.971** | $ 0.947 | $ 0.876 |
| U.S. housing starts (million units SAAR)[6] | **0.538** | 0.589 | **0.588** | 0.560 | 0.554 |

[1] Certain amounts in prior periods have been reclassified to conform to the presentation in the current period.
[2] Q3 and 2010 year EBITDA 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 Q4 2010, the income attributable to non-controlling interests amounted to $24.2 million, compared to $27.9 million in Q3 2010 and $7.9 million in Q4 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) | Q4 2010 | Q3 2010 | Year 2010 | Q4 2009 | Year 2009 |
|---|---|---|---|---|---|
| **Shareholder Net Income (Loss)** | **$ 30.7** | **$** 5.6 | **$ 70.0** | $ (17.0) | $ (70.5) |
| Foreign exchange gain on long-term debt and investments, net | **$ (6.9)** | **$** (6.3) | **$ (10.4)** | $ (5.8) | $ (36.0) |
| (Gain) loss on derivative financial instruments | **$ (0.5)** | **$** (1.1) | **$ 0.5** | $ (1.4) | $ (19.0) |
| Gain on sale of operating assets of Howe Sound Pulp and Paper Limited Partnership | **$ (4.9)** | **$** - | **$ (4.9)** | $ - | $ - |
| Increase in fair value of asset-backed commercial paper | **$ (5.5)** | **$** - | **$ (5.5)** | $ - | $ - |
| Clear Lake permanent closure provision | **$ -** | **$** 13.4 | **$ 13.4** | $ - | $ - |
| Radium, Rustad and Vavenby indefinite idling provision | **$ -** | **$** - | **$ -** | $ - | $ 6.6 |
| 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 | **$ (17.8)** | **$** 6.0 | **$ (6.9)** | $ (7.2) | $ (91.5) |
| **Adjusted Net Income (Loss)** | **$ 12.9** | **$** 11.6 | **$ 63.1** | $ (24.2) | $ (162.0) |
| **Shareholder net income (loss) per share (EPS), as reported** | **$ 0.21** | **$** 0.04 | **$ 0.49** | $ (0.12) | $ (0.50) |
| Net impact of above items per share | **$ (0.12)** | **$** 0.04 | **$ (0.05)** | $ (0.05) | $ (0.64) |
| **Adjusted Net Income (Loss) per share** | **$ 0.09** | **$** 0.08 | **$ 0.44** | $ (0.17) | $ (1.14) |

EBITDA

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

| (millions of dollars) | Q4 2010 | Q3 2010 | Year 2010 | Q4 2009 | Year 2009 |
|---|---|---|---|---|---|
| **Net income (loss), as reported** | **$ 54.9** | $ 33.5 | **$ 161.3** | $ (9.1) | $ (62.8) |
| Add (subtract): | | | | | |
| Amortization | **$ 39.3** | $ 39.4 | **$ 156.0** | $ 38.8 | $ 155.3 |
| Interest expense, net | **$ 5.6** | $ 6.2 | **$ 25.5** | $ 7.1 | $ 29.3 |
| Foreign exchange gain on long-term debt and investments, net | **$ (9.8)** | $ (8.9) | **$ (14.7)** | $ (8.0) | $ (50.4) |
| Gain on derivative financial instruments | **$ (1.8)** | $ (2.8) | **$ (0.1)** | $ (2.3) | $ (24.4) |
| Gain on sale of mill property | **$ -** | $ - | **$ -** | $ - | $ (44.6) |
| North Central Plywoods mill fire, net | **$ -** | $ - | **$ -** | $ - | $ 3.0 |
| Other expense (income) | **$ (11.0)** | $ 3.3 | **$ (8.1)** | $ 2.7 | $ 11.4 |
| Income tax expense (recovery) expense | **$ 1.8** | $ (4.7) | **$ 5.4** | $ (14.0) | $ (71.9) |
| **EBITDA, as reported** | **$ 79.0** | $ 66.0 | **$ 325.3** | $ 15.2 | $ (55.1) |
| Included in above: | | | | | |
| Negative (positive) impact of inventory valuation adjustments[7] | **$ (0.1)** | $ (2.6) | **$ (20.2)** | $ (0.5) | $ (21.2) |
| Clear Lake permanent closure provision | **$ -** | $ 17.8 | **$ 17.8** | $ - | $ - |
| Radium, Rustad and Vavenby indefinite idling provision | **$ -** | $ - | **$ -** | $ - | $ 8.8 |
| **EBITDA excluding impact of inventory valuation adjustments and closure & idling provisions** | **$ 78.9** | $ 81.2 | **$ 322.9** | $ 14.7 | $ (67.5) |

[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.

The North American lumber market continued to reflect a struggling U.S. housing sector in the fourth quarter of 2010. There was some good news on the demand side however, as China's increasing consumption of BC softwood lumber continued in the quarter and helped to support higher North American market prices for narrower dimensions. Northern Bleached Softwood Kraft ("NBSK") pulp markets remained strong in the fourth quarter, with prices holding firm through the quarter after a dip in demand in the third quarter.

Reported EBITDA for the fourth quarter of 2010 was $79.0 million, up $13.0 million from the previous quarter. Excluding the impact from inventory write-down movements, and a third quarter provision related to the announced permanent closure of the Clear Lake lumber operation (which took effect in January 2011), EBITDA was down $2.3 million. Compared to the fourth quarter of 2009, reported EBITDA was up $63.8 million, principally reflecting the improved lumber and pulp market prices.

The average North American benchmark Western SPF (Spruce/Pine/Fir) 2x4 #2&Btr lumber price was up US$46 per thousand board feet, or 21%, in the fourth quarter, but price increases for most other grades and dimensions were more modest while prices in offshore markets also saw smaller gains. The Company's Western SPF sales realizations in the fourth quarter also reflected a lower-value sales mix, in part due to lower production of higher-value prime products, as well as a stronger Canadian dollar. As a result, sales realizations were up only slightly from the previous quarter. Southern Yellow Pine ("SYP") lumber price movements were also mixed, with modest gains on narrow widths offset by a small decrease in prices for wider dimensions.

Lumber results for the fourth quarter were somewhat clouded by significant downtime related to capital projects at a number of the Company's operations, including a major sawmill and planer rebuild at the Fort St. John mill. The Company's lumber operations ran at approximately 65% of capacity in the fourth quarter of 2010, down from 70% in the previous quarter. The lower operating levels, as well as higher energy and log costs in the current quarter, contributed to higher unit manufacturing costs compared to the previous quarter.

## OPERATING RESULTS BY BUSINESS SEGMENT

### Lumber

**Selected Financial Information and Statistics - Lumber**

| (millions of dollars unless otherwise noted) | Q4 2010 | Q3 2010 | Year 2010 | Q4 2009 | Year 2009 |
|---|---|---|---|---|---|
| Sales | $ 318.0 | $ 308.3 | $ 1,255.2 | $ 285.3 | $ 1,118.3 |
| Operating income (loss) | $ (0.6) | $ (18.0) | $ 10.2 | $ (30.8) | $ (171.4) |
| EBITDA, as reported | $ 22.1 | $ 4.8 | $ 99.8 | $ (8.6) | $ (81.4) |
| Negative (positive) impact of inventory valuation adjustments | $ (0.7) | $ (0.5) | $ (21.4) | $ 0.1 | $ (16.2) |
| Clear Lake permanent closure provision | $ - | $ 17.8 | $ 17.8 | $ - | $ - |
| Radium, Rustad and Vavenby indefinite idling provision | $ - | $ - | $ - | $ - | $ 8.8 |
| EBITDA excluding impact of inventory valuation adjustments and closure & idling provisions | $ 21.4 | $ 22.1 | $ 96.2 | $ (8.5) | $ (88.8) |
| Average SPF 2x4 #2&Btr lumber price in US$[8] | $ 269 | $ 223 | $ 256 | $ 205 | $ 182 |
| Average SPF price in Cdn$ | $ 273 | $ 232 | $ 264 | $ 216 | $ 208 |
| Average SYP 2x4 #2 lumber price in US$[9] | $ 256 | $ 243 | $ 301 | $ 231 | $ 233 |
| Average SYP price in Cdn$ | $ 259 | $ 253 | $ 310 | $ 244 | $ 266 |
| U.S. housing starts (million units SAAR) | 0.538 | 0.588 | 0.588 | 0.560 | 0.554 |
| Production – SPF lumber (MMfbm) | 725.1 | 740.9 | 2,886.7 | 691.7 | 2,766.8 |
| Production – SYP lumber (MMfbm) | 82.9 | 94.3 | 355.0 | 76.0 | 267.5 |
| Shipments – SPF lumber (MMfbm)[10] | 760.1 | 736.3 | 2,906.0 | 750.1 | 2,914.2 |
| Shipments – SYP lumber (MMfbm)[10] | 93.4 | 101.6 | 378.9 | 88.4 | 317.6 |
| Shipments – wholesale lumber (MMfbm) | 41.6 | 39.5 | 159.8 | 20.6 | 165.8 |

[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 $22.1 million for the fourth quarter of 2010, an increase of $17.3 million compared to the third quarter, and an improvement of $30.7 million compared to the fourth quarter of 2009. For the 2010 year, EBITDA was $99.8 million, up $181.2 million from 2009.

Results for the previous quarter included a $17.8 million provision for the announced permanent closure of the Clear Lake lumber operations. Excluding this, and inventory valuation adjustments, EBITDA in the fourth quarter was in line with the previous quarter. The solid increases in the benchmark 2x4 prices for Western SPF and SYP lumber were not matched by price movements in North America across most other grades and dimensions and also in offshore markets. In addition, the Company produced and sold a lower proportion of higher-value prime products in the period. As a result of these factors, as well as a stronger Canadian dollar, sales realizations were up only slightly from the previous quarter. In addition, a 4% increase in unit manufacturing costs, which reflected higher unit log and conversion costs, the latter principally reflecting the impact of downtime for capital projects, also impacted the current quarter's results.

Compared to the fourth quarter of 2009, the improvement in EBITDA principally reflected the improved market prices, with improved sales realizations across all products and regions. The impact from these price increases was partially offset by a 3% increase in unit manufacturing costs, reflecting the increased downtime for capital projects in the current quarter, as well as increased pressure on log costs, due in part to higher diesel prices.

## Markets

During the fourth quarter, the U.S. housing market weakened to levels not seen since early 2009, with total U.S. housing starts averaging 538,000 units[11] SAAR (Seasonally Adjusted Annual Rate) for the fourth quarter, a decrease of 9% from the previous quarter. Single family starts were in line with the previous quarter at 436,000 units, while multi-family starts declined 33%, to 102,000 units. Compared to the same quarter last year, total housing starts were 22,000, or 4%, lower with single family starts down 10% and multi-family starts up 32%. Inventories of new and existing homes were down compared to the previous quarter, with the latter relating in part to a temporary moratorium on foreclosures taken in some states during the year.

Canadian housing starts eased in the fourth quarter of 2010, resulting from slower economic growth, higher interest rates and increased concern over housing affordability. Housing starts averaged 179,000 units[12] SAAR, a decrease of 12,000 units, or 6%, compared to the previous quarter, and in line with the fourth quarter of 2009.

Canfor's offshore lumber shipments continued to set new volume records following the strong performance from the last quarter. Increased lumber demand from China and Japan led to a 49% rise in offshore volume from the third quarter. China continued to lead all offshore shipment volumes, with shipments in the quarter including an increased proportion of #2&Btr grade.

## Sales

Sales for the lumber segment in the fourth quarter of 2010 were $318.0 million, up $9.7 million, or 3%, from the third quarter, and up $32.7 million, or 11%, compared to the fourth quarter of 2009.

Total shipments for the fourth quarter of 2010 were 895 million board feet, up 2% compared to the previous quarter. Shipments to China represented 26% of total shipments, compared to 15% in the previous quarter, with the proportion of #2&Btr grade lumber to China also seeing a solid increase. Compared to the fourth quarter of 2009, total shipment levels were up 4%, mostly reflecting the increased China volume.

As highlighted earlier, sales realizations were up only slightly from the previous quarter, despite a US$46 per Mfbm increase in the average Random Length Western SPF 2x4 #2&Btr price for the quarter to US$269, with prices for most other grades (including studs and Machine Stress Rated ("MSR") products) and dimensions showing more modest gains. SYP prices were also mixed, with narrow dimensions seeing modest gains while wider dimensions saw decreases as high as 9%. Sales realizations from offshore markets, where contracts are usually negotiated monthly or quarterly in advance, were down slightly from the previous quarter, as modest price gains across most products and regions were offset by a higher proportion of sales to China and the stronger Canadian dollar. A lower value sales mix in the quarter also had an adverse impact on realizations.

Compared to the fourth quarter of 2009, Western SPF prices were well up for all but the widest dimensions, and the average Western SPF 2x4 #2&Btr price increased US$64 per Mfbm. Over the same period, SYP prices were more mixed, with the benchmark 2x4 #2 price up US$25 per Mfbm, but most wider dimensions saw price reductions. Prices to offshore markets were up significantly from the comparative period. Higher freight costs in the current quarter partly offset the pricing gains.

The average value of the Canadian dollar compared to the US dollar in the fourth quarter was up 2.5 cents, or 3%, from the previous quarter, and up 4 cents, or 4%, compared to the fourth quarter of 2009, offsetting some of the improvements in US dollar pricing for Western SPF lumber products.

The Random Lengths Framing Lumber Composite price averaged US$271 per Mfbm for the fourth quarter of 2010, up US$22, or 9% compared to the previous quarter, but still well below the trigger price of US$315 that is required to reduce the export tax rate on all U.S. bound shipments below the current rate of 15%.

Total residual fibre revenue was down compared to the previous quarter and reflected less sawmill production and lower sawmill chip prices linked to a decrease in average NBSK pulp prices. Compared to the fourth quarter of 2009, residual fibre revenue was up reflecting improved pulp prices and, to a lesser extent, higher sawmill production.

[11] U.S. Census Bureau
[12] CMHC – Canada Mortgage and Housing Corporation

Operations

The Company's lumber mills operated at approximately 65% of capacity in the fourth quarter of 2010. Lumber production was 808 million board feet, down 27 million board feet, or 3%, compared to the prior quarter, but up 40 million board feet, or 5%, compared to the fourth quarter of 2009. The decrease compared to the previous quarter primarily reflected downtime taken for capital upgrades at various mills, as well as shuts taken at most mills over the Christmas period. The lower production in the fourth quarter of 2009 primarily reflected both the idled Chetwynd sawmill and the Mackenzie sawmill operating on only one shift in that period.

Overall, the Company's lumber unit manufacturing costs were up 4% compared to the previous quarter, reflecting increases to both log and conversion costs. Increased conversion costs reflected the impact on unit fixed costs of downtime for capital upgrades and, to a lesser extent, Christmas shuts at most mills as well as seasonally higher energy usage. Increased log costs reflected higher hauling and road construction costs and increased prices paid for purchased wood.

Compared to the same period in the prior year unit manufacturing costs were up 3%. The increased costs reflected the capital downtime in the current period, as well as higher hauling rates, road costs and purchased wood prices.

Restructuring, mill closure and severance costs in the current quarter were $1.4 million, compared to $19.3 million in the previous quarter which included $17.8 million relating to the decision to permanently close the Clear Lake sawmill. The costs in the current quarter principally related to the ongoing costs of the idled Radium, Rustad and Vavenby sawmills. Restructuring costs of $4.3 million in the fourth quarter of 2009 also included costs in relation to the Chetwynd and Mackenzie sawmills.

## Pulp and Paper

**Selected Financial Information and Statistics – Pulp and Paper**[13]

| (millions of dollars unless otherwise noted) | Q4 2010 | Q3 2010 | Year 2010 | Q4 2009 | Year 2009 |
|---|---|---|---|---|---|
| Sales | **$ 300.8** | $ 269.0 | **$ 1,119.6** | $ 253.3 | $ 918.2 |
| Operating income (loss) | **$ 50.4** | $ 52.8 | **$ 191.6** | $ 16.5 | $ 5.4 |
| EBITDA | **$ 62.6** | $ 65.0 | **$ 240.2** | $ 29.3 | $ 55.9 |
| Average pulp price delivered to U.S. – US$[14] | **$ 967** | $ 1,000 | **$ 960** | $ 820 | $ 718 |
| Average price in Cdn$ | **$ 980** | $ 1,040 | **$ 989** | $ 866 | $ 820 |
| Production – pulp (000 mt) | **320.6** | 285.7 | **1,229.0** | 307.3 | 1,192.0 |
| Production – paper (000 mt) | **34.7** | 34.7 | **136.7** | 38.4 | 131.1 |
| Shipments – Canfor-produced pulp (000 mt) | **331.1** | 276.9 | **1,225.0** | 315.4 | 1,243.5 |
| Pulp marketed on behalf of HSLP (000 mt)[15] | **-** | 85.2 | **271.9** | 68.2 | 322.9 |
| Shipments – paper (000 mt) | **39.0** | 33.6 | **144.7** | 38.1 | 135.0 |

[13] Includes the Taylor pulp mill and 100% of Canfor Pulp Limited Partnership, which is consolidated in Canfor's results. Pulp production and shipment volumes presented are for both northern bleached softwood kraft ("NBSK") and bleached chemi-thermo mechanical pulp ("BCTMP").
[14] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).
[15] Howe Sound Pulp and Paper Limited Partnership pulp mill.

Overview

The Pulp and Paper segment's EBITDA for the last quarter of 2010 was $62.6 million, slightly less than EBITDA of $65.0 million reported for the third quarter. Lower average pulp sales realizations resulting from lower market prices and the stronger Canadian dollar, as well as higher energy and production overhead costs, in the fourth quarter were mostly offset by the impact of a 20% increase in shipments and lower fibre costs. The higher shipments reflected increased demand, particularly from China, as well as less pulp available for sale in the prior quarter as a result of an extended scheduled maintenance outage taken at Canfor Pulp Limited Partnership's ("CPLP") Northwood pulp mill.

Compared to the same quarter of 2009, EBITDA for the current quarter was up $33.3 million, in large measure due to higher market pulp prices. NBSK pulp US dollar list prices were up by 18% from the comparative quarter. A 4% stronger Canadian dollar, and higher fibre and administrative costs partly offset the improved prices as well as a 5% increase in shipments.

Markets

Strong global softwood pulp demand in the fourth quarter of 2010, led by China, allowed inventories held by producers and customers to decrease to low levels. According to the World 20 report[16], world pulp shipments hit an all time high in December 2010 and were 15% stronger than in December 2009. Global demand for printing and writing papers increased 6%[17] for 2010 as compared to 2009.

The improvement in consumption resulted in decreasing global softwood pulp inventories through the fourth quarter of 2010. At the end of December 2010, World 20 producers of bleached softwood pulp inventories were at 25 days of supply. By comparison, September 2010 inventories were at 27 days of supply. Market conditions are generally considered balanced when inventories fall in the 27-30 days of supply range.

Sales

Shipments of Canfor-produced pulp for the fourth quarter of 2010 were 331,000 tonnes, up 54,000 tonnes, or 20%, from the previous quarter, reflecting the higher demand and the impact of the extended maintenance outage at the Northwood pulp mill in the prior quarter. Compared to the fourth quarter of 2009, shipments were up 5%.

Modest downward pressure was exerted on pricing in the latter half of 2010 with the restarts of Chilean pulp mills (after the earthquake earlier in the year) and two idled North American mills. As a result of the tight market conditions however, producers were successful at mitigating pressure to reduce prices from the peak of US$1,020 reached in the second quarter of 2010. North American NBSK pulp list prices averaged US$967 per tonne in the fourth quarter, representing a US$33 per tonne decrease from the third quarter. In contrast, average China NBSK pulp list prices were in line with the previous quarter, driven by strong demand from that region.

Compared to the fourth quarter of 2009, NBSK list pulp prices to the U.S. were up US$147, or 18%, reflecting the overall improvement in pulp markets in that period. The increase was partially offset by a 4% increase in the Canadian dollar.

Operations

Pulp production in the fourth quarter of 2010 was 321,000 tonnes, up 12% from the previous quarter and up 4% from the fourth quarter of 2009. The increase compared to the previous quarter primarily reflected the third quarter Northwood extended scheduled maintenance outage and market curtailment taken at the Taylor pulp mill early in the third quarter in response to a drop in demand.

Unit manufacturing costs for the fourth quarter of 2010 were down compared to the third quarter as the favourable impact of higher production volumes (on unit fixed costs) as well as lower fibre costs more than offset higher maintenance and seasonally higher energy costs. The decrease in fibre costs was largely attributable to lower priced sawmill residual and whole log chips.

Compared to the fourth quarter of 2009, unit manufacturing costs showed a small increase with higher fibre costs offsetting the impact of higher production volumes and reduced natural gas consumption. The higher fibre costs resulted from higher sawmill residual chip prices partly offset by reductions in the cost and volume of higher-cost whole log chipping. Higher costs in the current quarter also reflected increased short-term incentive compensation costs and expenses relating to the conversion of Canfor Pulp Income Fund to a public corporation (Canfor Pulp Products Inc.) on January 1, 2011.

[16] 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.

[17] Pulp and Paper Products Council (“PPPC”).

**Unallocated and Other Items**

| (millions of dollars) | Q4 2010 | Q3 2010 | Year 2010 | Q4 2009 | Year 2009 |
|---|---|---|---|---|---|
| Operating loss of Panels operations[18] | **$ (2.8)** | $ (1.9) | **$ (7.9)** | $ (3.5) | $ (23.0) |
| Corporate costs | **$ (7.3)** | $ (6.3) | **$ (24.6)** | $ (5.8) | $ (21.4) |
| Interest expense, net | **$ (5.6)** | $ (6.2) | **$ (25.5)** | $ (7.1) | $ (29.3) |
| Foreign exchange gain on long-term debt and investments, net | **$ 9.8** | $ 8.9 | **$ 14.7** | $ 8.0 | $ 50.4 |
| Gain on derivative financial instruments | **$ 1.8** | $ 2.8 | **$ 0.1** | $ 2.3 | $ 24.4 |
| Gain on sale of mill property | **$ -** | $ - | **$ -** | $ - | $ 44.6 |
| North Central Plywoods mill fire, net | **$ -** | $ - | **$ -** | - | $ (3.0) |
| Other income (expense), net | **$ 11.0** | $ (3.3) | **$ 8.1** | $ (2.7) | $ (11.4) |

[18] 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 $2.8 million for the fourth quarter, compared to a loss of $1.9 million for the previous quarter. Excluding the impact of inventory valuation adjustments, the operating loss in the fourth quarter was $2.2 million, compared to $3.7 million in the previous quarter. Results for the fourth quarter included the gain on sale of non-core assets and other positive one-time adjustments of $2.5 million. The OSB price recovered from its low of US$160 per thousand square feet ("Msf") in September to end the year at US$200 per Msf, but the higher prices in the fourth quarter were outweighed by a lower-value sales mix and a stronger Canadian dollar. Compared to the fourth quarter of 2009, the operating loss of panels operations before inventory valuation adjustments improved $2.0 million, due mostly to higher prices and the one-time items in the current quarter more than offsetting a stronger Canadian dollar and higher unit manufacturing costs.

Corporate costs were $7.3 million in the fourth quarter of 2010, up $1.0 million from the previous quarter and $1.5 million from the fourth quarter of 2009. The increased costs compared to the third quarter primarily reflected higher share-based compensation. Compared to the same quarter in 2009, the increased costs also reflected higher share-based compensation and the reinstatement in 2010 of the Company's short term incentive compensation plan for salaried employees.

Net interest expense of $5.6 million for the fourth quarter of 2010 was down slightly from the previous quarter, reflecting the impact of the stronger Canadian dollar on interest on US dollar denominated debt, and higher cash balances. Compared to the fourth quarter of 2009, the lower net interest expense was attributable principally to lower long-term debt and higher cash balances in the period, as well as the positive impact from the stronger Canadian dollar.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt, net of investments, of $9.8 million for the fourth quarter of 2010 as a result of a 4% increase in the value of the Canadian dollar against the US dollar at the respective quarter ends. This gain is slightly higher than gains recorded in both comparable periods, which also saw the Canadian dollar strengthen.

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 fourth quarter of 2010, the Company recorded a net gain of $1.8 million related to all it derivative instruments, with gains attributable to the stronger Canadian dollar and, to a lesser extent, higher market diesel prices partially offset by losses on lumber futures. The following table summarizes the gains (losses) on derivative financial instruments for the comparable periods.

| (millions of dollars) | Q4 2010 | Q3 2010 | Year 2010 | Q4 2009 | Year 2009 |
|---|---|---|---|---|---|
| Foreign exchange collars and forward contracts | **$ 3.3** | $ 4.4 | **$ 4.0** | $ 2.7 | $ 36.0 |
| Natural gas swaps | **$ -** | $ (1.7) | **$ (5.2)** | $ (1.5) | $ (16.0) |
| Diesel options and swaps | **$ 0.6** | $ 0.7 | **$ 0.8** | $ 0.4 | $ 1.6 |
| Lumber futures | **$ (2.1)** | $ (0.6) | **$ 0.5** | $ 0.7 | $ 2.8 |
| | **$ 1.8** | $ 2.8 | **$ 0.1** | $ 2.3 | $ 24.4 |

Other income, net of $11.0 million for the fourth quarter of 2010 included $6.3 million in relation to an increase in fair value of the Company's investment in asset-backed commercial paper and $5.5 million related to a gain on the sale of the operating assets of Howe Sound Pulp and Paper Limited Partnership. These and other smaller items were offset in part by a net foreign exchange loss of $3.7 million on US dollar denominated cash, receivables and payables of Canadian operations.

## 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) | Q4 2010 | Q3 2010 | Year 2010 | Q4 2009 | Year 2009 |
|---|---|---|---|---|---|
| Increase (decrease) in cash and cash equivalents | **$ 37.2** | $ (3.8) | **$ 126.9** | $ (19.3) | $ (229.0) |
| Operating activities | **$ 93.1** | $ 62.3 | **$ 343.2** | $ (13.8) | $ (68.6) |
| Financing activities | **$ (29.2)** | $ (23.7) | **$ (114.2)** | $ (2.6) | $ (208.3) |
| Investing activities | **$ (26.2)** | $ (41.7) | **$ (101.0)** | $ (2.2) | $ 49.6 |
| Ratio of current assets to current liabilities | | | **2.1 : 1** | | 2.6 : 1 |
| Net debt to capitalization | | | **3.3%** | | 12.4% |
| ROCE – Consolidated[19] | **2.2%** | 0.6% | **5.5%** | (0.8)% | (3.1)% |
| ROCE - Canfor solid wood business[20] | **0.8%** | (1.3)% | **0.2%** | (1.6)% | (4.1)% |

[19] 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.
[20] 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 and pulp and paper operations, including CPLP and the Taylor pulp mill.

### Changes in Financial Position

Cash generated in operating activities in the fourth quarter of 2010 was $93.1 million, compared to $62.3 million in the previous quarter. The increase mostly reflected working capital movements which included cash received in relation to the sale of the operating assets of the Howe Sound Pulp and Paper Limited Partnership. Partially offsetting the positive working capital movements was an increase of $22.7 million in salary pension plan contributions made by the Company in the quarter, mostly reflecting a payment pertaining to previous quarters. Cash operating earnings were similar in both quarters.

Financing activities used cash of $29.2 million in the fourth quarter of 2010, compared to $23.7 million in the previous quarter and $2.6 million in the fourth quarter of 2009. Cash outflow in the current quarter principally reflected cash distributions paid to non-controlling interests of $28.2 million, up $4.7 million from the previous quarter and $25.6 million from the fourth quarter of 2009. Debt repayments of $1.4 million were also made in the current quarter.

Investing activities used $26.2 million in the fourth quarter of 2010, compared to $41.7 million in the previous quarter and $2.2 million in the fourth quarter of 2009. Cash used for capital additions was $47.0 million in the current quarter, slightly higher than the third quarter. Capital additions included further work on the Company's Fort St. John sawmill and planer rebuild, and various other lumber mill upgrade projects including an energy system at the Prince George sawmill and several planer optimizer installations. Capital expenditures at CPLP were also up mostly reflecting projects related to the Green Transformation Program ("Program"), with CPLP obtaining Program approval in the quarter for a $100 million project to upgrade its Northwood pulp mill recovery boiler. CPLP had cash receipts of $19.1 million in the fourth quarter as reimbursements for capital additions under the Program.

### Changes in Equity

In addition to the net income of $54.9 million for the fourth quarter of 2010 which was credited to equity, the accumulated other comprehensive loss increased by $5.3 million, due substantially to the impact of the stronger Canadian dollar at quarter end on the translation of the Company's foreign subsidiaries. Distributions to non-controlling interests of $38.8 million were also charged to equity, and proceeds of $0.4 million from the exercise of stock options were added to share capital.

### Liquidity and Financial Requirements

At December 31, 2010, the Company on a consolidated basis had cash and cash equivalents of $260.3 million and $433.5 million of bank operating lines of credit, which were undrawn, with $17.8 million reserved for several standby letters of credit. In addition, CPLP had a separate credit facility to cover a $13.2 million standby letter of credit issued to BC Hydro. 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.

The Company's consolidated net debt to total capitalization at the end of 2010 was 3.3%.

Scheduled debt repayments in 2011 include US$32.3 million, due on March 1, and US$50 million due on April 1.

### Softwood Lumber Agreement ("SLA") Update

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

As the arbitration is a state-to-state international dispute under the SLA, Canada is preparing a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. It is not possible at this time to predict the outcome or the value of the claim, and accordingly no provision has been recorded by the Company.

### Sale of Howe Sound Pulp and Paper

In October 2010, Howe Sound Pulp and Paper Limited Partnership (now called 6382 Pulp and Paper Limited Partnership), a kraft pulp and newsprint mill operation jointly owned by Canfor and Oji Paper Co. Ltd., completed the sale of all of its operating assets. As a result of the sale, Canfor recorded a gain of $5.5 million. In conjunction with this sale, Canfor also completed the sale of Coastal Fibre Limited Partnership, which had no effect on income.

## OUTLOOK

### Lumber

The North American lumber market is expected to see a mild improvement from the projected continued recovery in the U.S. economy in 2011. Demand in the residential construction market is forecast to gradually trend higher in the second half of the year with new home inventories moving closer to more normalized levels and foreclosure activity easing. The repair and remodeling market is expected to show some recovery in 2011, following three years of decline.

The Canadian housing market is expected to remain relatively steady in the short term. Housing activity may pull back later in 2011 should interest rates rise.

The strength of the offshore market is expected to continue through 2011. Growth in China's lumber demand is likely to persist as consumption increases in all sectors of the Chinese lumber market. In Japan, 2x4 based housing starts are expected to continue at a healthy level, while the growth in hybrid (traditional post and beam with 2x4 components) home construction will continue to yield more opportunities for SPF lumber.

### Pulp and Paper

The global softwood pulp market is expected to remain balanced through the first quarter of 2011 with inventory levels in a range that is expected to support current pricing levels. Demand remains solid with continued strong shipments into China and sustained demand in the North America Printing and Writing paper sector. Pulp mill operating rates are expected to increase in February with minimal scheduled downtime and as previously idled mills reach full capacity. In the second quarter of 2011 however, annual maintenance downtime coupled with extended outages due to several large capital projects in Canada funded under the Federal Government Green Transformation Program should tighten supply. Any relative weakness of the US dollar versus the Canadian dollar and the Euro is expected to exert upward pressure on US dollar list prices.

## Canfor Corporation
## Consolidated Balance Sheets

| (millions of dollars, unaudited) | | **As at December 31, 2010** | | As at December 31, 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | **$** | **260.3** | $ | 133.4 |
| Accounts receivable | | | | |
| Trade | | **146.9** | | 137.2 |
| Other | | **54.2** | | 41.9 |
| Income taxes recoverable | | **-** | | 45.5 |
| Future income taxes, net | | **12.4** | | 11.4 |
| Inventories (Note 2) | | **326.6** | | 311.3 |
| Prepaid expenses | | **38.8** | | 36.4 |
| Total current assets | | **839.2** | | 717.1 |
| **Long-term investments and other** (Note 3) | | **102.2** | | 93.7 |
| **Property, plant, equipment and timber** | | **1,631.0** | | 1,676.6 |
| **Goodwill** | | **69.6** | | 73.3 |
| **Deferred charges** | | **136.3** | | 117.1 |
| | **$** | **2,778.3** | $ | 2,677.8 |
| **LIABILIITES** | | | | |
| **Current Liabilities** | | | | |
| Operating loans (Note 4 (a)) | **$** | **-** | $ | 0.6 |
| Accounts payable and accrued liabilities | | **292.9** | | 211.4 |
| Current portion of long-term debt (Note 4 (b)) | | **82.5** | | 34.0 |
| Current portion of deferred reforestation obligation | | **31.6** | | 27.8 |
| Total current liabilities | | **407.0** | | 273.8 |
| **Long-term debt** (Note 4 (b)) | | **235.6** | | 333.3 |
| **Long-term accrued liabilities and obligations** (Note 5) | | **209.3** | | 209.8 |
| **Future income taxes, net** | | **209.3** | | 200.8 |
| | **$** | **1,061.2** | $ | 1,017.7 |
| **EQUITY** | | | | |
| Share capital – 142,669,347 common shares outstanding (2009 – 142,589,297) | **$** | **1,125.4** | $ | 1,124.7 |
| Contributed surplus | | **31.9** | | 31.9 |
| Retained earnings | | **316.2** | | 246.2 |
| Accumulated other comprehensive income (loss) | | **(26.3)** | | (16.0) |
| Total equity attributable to shareholders of Company | | **1,447.2** | | 1,386.8 |
| Non-controlling interests (Note 1 (b)) | | **269.9** | | 273.3 |
| Total equity | **$** | **1,717.1** | $ | 1,660.1 |
| | **$** | **2,778.3** | $ | 2,677.8 |

Contingency (Note 15)

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 December 31, 2010 | 3 months ended December 31, 2009 | 12 months ended December 31, 2010 | 12 months ended December 31, 2009 |
|---|---|---|---|---|
| **Sales** | **$ 629.1** | $ 549.6 | **$ 2,430.4** | $ 2,075.8 |
| **Costs and expenses** | | | | |
| Manufacturing and product costs | **411.4** | 401.5 | **1,540.9** | 1,584.9 |
| Freight and other distribution costs | **113.7** | 104.2 | **428.0** | 410.4 |
| Export taxes | **10.3** | 11.2 | **40.0** | 48.7 |
| Amortization | **39.3** | 38.8 | **156.0** | 155.3 |
| Selling and administration costs | **13.7** | 11.6 | **63.3** | 57.0 |
| Restructuring, mill closure and severance costs | **1.0** | 5.9 | **32.9** | 29.9 |
| | **589.4** | 573.2 | **2,261.1** | 2,286.2 |
| **Operating income (loss)** | **39.7** | (23.6) | **169.3** | (210.4) |
| Interest expense, net | **(5.6)** | (7.1) | **(25.5)** | (29.3) |
| Foreign exchange gain (loss) on long-term debt and investments, net | **9.8** | 8.0 | **14.7** | 50.4 |
| Gain (loss) on derivative financial instruments (Note 13) | **1.8** | 2.3 | **0.1** | 24.4 |
| Gain on sale of mill property (Note 7) | **-** | - | **-** | 44.6 |
| North Central Plywoods mill fire, net | **-** | - | **-** | (3.0) |
| Other income (expense), net (Note 8) | **11.0** | (2.7) | **8.1** | (11.4) |
| Net income (loss) before income taxes | **56.7** | (23.1) | **166.7** | (134.7) |
| Income tax recovery (expense) (Note 10) | **(1.8)** | 14.0 | **(5.4)** | 71.9 |
| **Net income (loss)** | **$ 54.9** | $ (9.1) | **$ 161.3** | $ (62.8) |
| **Net income (loss) attributable to:** (Note 1 (b)) | | | | |
| Equity shareholders of Company | **$ 30.7** | $ (17.0) | **$ 70.0** | $ (70.5) |
| Non-controlling interests | **24.2** | 7.9 | **91.3** | 7.7 |
| | **$ 54.9** | $ (9.1) | **$ 161.3** | $ (62.8) |
| **Net income (loss) per common share:** (in dollars) (Note 11) | | | | |
| Attributable to equity shareholders of Company | | | | |
| – Basic and Diluted | **$ 0.21** | $ (0.12) | **$ 0.49** | $ (0.50) |

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 December 31, **2010** | 2009 | 12 months ended December 31, **2010** | 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 | **0.4** | - | **0.7** | - |
| Balance at end of period | **$ 1,125.4** | $ 1,124.7 | **$ 1,125.4** | $ 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 | **$ 285.5** | $ 263.2 | **$ 246.2** | $ 316.7 |
| Net income (loss) attributable to equity shareholders of Company for period | **30.7** | (17.0) | **70.0** | (70.5) |
| Balance at end of period | **$ 316.2** | $ 246.2 | **$ 316.2** | $ 246.2 |
| **Accumulated other comprehensive income (loss)** | | | | |
| Balance at beginning of period | **$ (21.0)** | $ (6.9) | **$ (16.0)** | $ 21.5 |
| Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries | **(5.3)** | (9.1) | **(10.3)** | (37.5) |
| Balance at end of period | **$ (26.3)** | $ (16.0) | **$ (26.3)** | $ (16.0) |
| **Non-controlling interests** (Note 1 (b)) | | | | |
| Balance at beginning of period | **$ 284.5** | $ 271.3 | **$ 273.3** | $ 276.8 |
| Net income (loss) attributable to non-controlling interests | **24.2** | 7.9 | **91.3** | 7.7 |
| Distributions to non-controlling interests | **(38.8)** | (5.9) | **(94.7)** | (11.2) |
| Balance at end of period | **$ 269.9** | $ 273.3 | **$ 269.9** | $ 273.3 |
| **Total equity – Balance at end of period** | **$ 1,717.1** | $ 1,660.1 | **$ 1,717.1** | $ 1,660.1 |
| **Consolidated Statement of Comprehensive Income (Loss)** | | | | |
| Net income (loss) for period | **$ 54.9** | $ (9.1) | **$ 161.3** | $ (62.8) |
| Other comprehensive income (loss) for period: | | | | |
| Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries | **(5.3)** | (9.1) | **(10.3)** | (37.5) |
| **Total comprehensive income (loss)** | **$ 49.6** | $ (18.2) | **$ 151.0** | $ (100.3) |
| **Total comprehensive income (loss) attributable to:** (Note 1 (b)) | | | | |
| Equity shareholders of Company | **$ 25.4** | $ (26.1) | **$ 59.7** | $ (108.0) |
| Non-controlling interests | **24.2** | 7.9 | **91.3** | 7.7 |
| | **$ 49.6** | $ (18.2) | **$ 151.0** | $ (100.3) |

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 December 31, **2010** | 3 months ended December 31, 2009 | 12 months ended December 31, **2010** | 12 months ended December 31, 2009 |
|---|---|---|---|---|
| **Cash generated from (used in)** | | | | |
| **Operating activities** | | | | |
| Net income (loss) for period | **$ 54.9** | $ (9.1) | **$ 161.3** | $ (62.8) |
| Items not affecting cash | | | | |
| Amortization | **39.3** | 38.8 | **156.0** | 155.3 |
| Future income taxes (Note 10) | **3.4** | (1.4) | **7.6** | (22.5) |
| Long-term portion of deferred reforestation | **(0.3)** | 5.3 | **(7.3)** | (2.8) |
| Clear Lake permanent closure provision (Note 6) | **-** | - | **17.8** | - |
| Increase in fair value of asset-backed commercial paper (Note 3) | **(6.3)** | - | **(6.3)** | - |
| 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 | **(9.8)** | (8.0) | **(14.7)** | (50.4) |
| Changes in mark-to-market values of derivative financial instruments | **(4.3)** | (4.6) | **(1.7)** | (65.5) |
| Deferred maintenance amortization | **0.8** | 3.6 | **8.4** | 5.9 |
| Employee future benefits | **4.4** | 2.3 | **16.2** | 11.4 |
| Other, net | **(13.6)** | 5.3 | **(11.9)** | 2.1 |
| Salary pension plan contributions (Note 9) | **(24.7)** | (4.1) | **(29.9)** | (16.4) |
| Deferred scheduled maintenance spending | **(0.3)** | (7.1) | **(6.1)** | (10.5) |
| Net change in non-cash working capital (Note 12) | **49.6** | (34.8) | **53.8** | 29.2 |
| | **93.1** | (13.8) | **343.2** | (68.6) |
| **Financing activities** | | | | |
| Repayment of long-term debt (Note 4 (b)) | **(1.4)** | - | **(35.1)** | (175.5) |
| Increase (decrease) in operating bank loans | **-** | 0.4 | **(0.6)** | (24.6) |
| Cash distributions paid to non-controlling interests | **(28.2)** | (2.6) | **(79.0)** | (8.9) |
| Other, net | **0.4** | (0.4) | **0.5** | 0.7 |
| | **(29.2)** | (2.6) | **(114.2)** | (208.3) |
| **Investing activities** | | | | |
| Additions to property, plant, equipment and timber | **(47.0)** | (10.3) | **(127.6)** | (59.0) |
| Green Transformation Program reimbursements | **19.1** | - | **20.2** | - |
| Proceeds from disposal of property, plant, equipment and timber | **0.9** | 6.5 | **2.0** | 55.3 |
| Proceeds from North Central Plywoods mill fire claim | **-** | - | **-** | 33.3 |
| Proceeds from redemption of asset-backed commercial paper | **0.7** | 1.1 | **4.6** | 15.4 |
| Other, net | **0.1** | 0.5 | **(0.2)** | 4.6 |
| | **(26.2)** | (2.2) | **(101.0)** | 49.6 |
| **Foreign exchange gain (loss) on cash and cash equivalents of self-sustaining foreign operations** | **(0.5)** | (0.7) | **(1.1)** | (1.7) |
| **Increase (decrease) in cash and cash equivalents** | **37.2** | (19.3) | **126.9** | (229.0) |
| **Cash and cash equivalents at beginning of period** | **223.1** | 152.7 | **133.4** | 362.4 |
| **Cash and cash equivalents at end of period** | **$ 260.3** | $ 133.4 | **$ 260.3** | $ 133.4 |
| **Cash (payments) receipts in period** | | | | |
| Interest, net | **$ (7.3)** | $ (7.5) | **$ (23.8)** | $ (29.5) |
| Income taxes | **$ 0.3** | $ 3.8 | **$ 45.9** | $ 52.0 |

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, and the change in accounting policy has been made in accordance with the transitional provisions of the standards.

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 would have impacted Canfor's financial statements if a business combination, such as a merger or an acquisition, had occurred 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 December 31, 2010** | As at December 31, 2009 |
|---|---|---|
| Logs | **$ 53.9** | $ 39.9 |
| Finished products | **169.7** | 164.7 |
| Residual fibre | **17.4** | 22.3 |
| Processing materials and supplies | **85.6** | 84.4 |
| | **$ 326.6** | $ 311.3 |

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory write-downs at December 31, 2010 totaled $3.2 million (December 31, 2009 – $25.7 million).

## 3. Long-Term Investments and Other

| (millions of dollars) | | As at December 31, 2010 | | As at December 31, 2009 |
|---|---|---|---|---|
| Asset-backed commercial paper ("ABCP") | **$** | **40.9** | $ | 41.1 |
| Other investments | | **26.5** | | 27.3 |
| Customer agreements | | **13.4** | | 16.8 |
| Investment tax credits | | **6.4** | | - |
| Other deposits, loans and advances | | **15.0** | | 8.5 |
| | **$** | **102.2** | $ | 93.7 |

In the fourth quarter of 2010, the Company recorded a gain of $6.3 million arising from a change in fair value of its US dollar denominated investment in ABCP, based on information available from increased liquidity of the investments held by the Company.

## 4. Operating Loans and Long-Term Debt

### (a) Operating Loans

On a consolidated basis, at December 31, 2010, the Company had $433.5 million of unsecured operating loan facilities (December 31, 2009 – $445.6 million) which were undrawn (December 31, 2009 – $0.6 million drawn) 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 $13.2 million standby letter of credit at December 31, 2010 (December 31, 2009 - $16.0 million).

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 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$12.8 million ("Facility A") and US$29.8 million ("Facility B") at December 31, 2010. Facility A expires in January 2012, 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 December 31, 2010 were $393.5 million (December 31, 2009 - $405.6 million) which were undrawn (December 31, 2009 – $0.6 million drawn) and $17.3 million was reserved for several standby letters of credit (December 31, 2009 – $18.1 million), 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 December 31, 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 $13.2 million standby letter of credit issued to BC Hydro.

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

As at December 31, 2010, the Company and CPLP were in compliance with all covenants relating to their 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%. A further $1.4 million of other long-term debt obligations were repaid in the fourth quarter of 2010.

At December 31, 2010, the fair value of the Company's long-term debt, which was measured at its amortized cost of $318.1 million, was $332.4 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 December 31, 2010** | | As at December 31, 2009 |
|---|---|---|---|---|
| Deferred reforestation obligation | **$** | **53.0** | $ | 60.3 |
| Accrued pension obligations | | **19.0** | | 19.6 |
| Accrued pension bridge benefit obligations | | **10.7** | | 9.1 |
| Other post-employment benefits | | **108.9** | | 103.5 |
| Asset retirement obligations | | **5.2** | | 4.8 |
| Other | | **12.5** | | 12.5 |
| | **$** | **209.3** | $ | 209.8 |

## 6. Clear Lake Permanent Closure Provision

In September 2010, the Company announced the permanent closure of its Clear Lake, BC, lumber operation, effective January 13, 2011. Related closure costs of $17.8 million were 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, BC, 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. Other Income (Expense)

| | 3 months ended December 31, | | | | 12 months ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| (millions of dollars) | | **2010** | | 2009 | | **2010** | | 2009 |
| Foreign exchange gain (loss) on translation of working capital | **$** | **(3.7)** | $ | (2.1) | **$** | **(4.9)** | $ | (11.4) |
| Change in fair value of ABCP (Note 3) | | **6.3** | | - | | **6.3** | | - |
| Gain on sale of operating assets of Howe Sound Pulp and Paper Limited Partnership | | **5.5** | | - | | **5.5** | | - |
| Other, net | | **2.9** | | (0.6) | | **1.2** | | - |
| | **$** | **11.0** | $ | (2.7) | **$** | **8.1** | $ | (11.4) |

In October 2010, Howe Sound Pulp and Paper Limited Partnership (now called 6382 Pulp and Paper Limited Partnership), a kraft pulp and newsprint mill operation jointly owned by Canfor and Oji Paper Co. Ltd., completed the sale of all of its operating assets. As a result of the sale, Canfor recorded a gain of $5.5 million. In conjunction with this sale, Canfor also completed the sale of Coastal Fibre Limited Partnership, which had no effect on income.

## 9. Employee Future Benefits

The breakdown of the employee future benefits expense is as follows:

| | 3 months ended December 31, | | | | 12 months ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| (millions of dollars) | | **2010** | | 2009 | | **2010** | | 2009 |
| Defined benefit pension plans | **$** | **4.8** | $ | 3.5 | **$** | **17.9** | $ | 14.0 |
| Other employee future benefit plans | | **3.7** | | 2.4 | | **13.6** | | 11.3 |
| Defined contribution pension plans and 401(k) plans | | **1.4** | | 0.8 | | **5.1** | | 3.5 |
| Contributions to forest industry union plans | | **3.3** | | 3.5 | | **14.4** | | 14.5 |
| | **$** | **13.2** | $ | 10.2 | **$** | **51.0** | $ | 43.3 |

In the fourth quarter of 2010, the Company made salary pension plan contributions of $24.7 million, of which $23.0 million related to prior quarters.

## 10. Income Taxes

| (millions of dollars) | 3 months ended December 31, 2010 | 2009 | 12 months ended December 31, 2010 | 2009 |
|---|---|---|---|---|
| Current | **$ 1.6** | $ 12.6 | **$ 2.2** | $ 49.4 |
| Future | **(3.4)** | 1.4 | **(7.6)** | 22.5 |
| Income tax recovery (expense) | **$ (1.8)** | $ 14.0 | **$ (5.4)** | $ 71.9 |

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

| (millions of dollars) | 3 months ended December 31, 2010 | 2009 | 12 months ended December 31, 2010 | 2009 |
|---|---|---|---|---|
| Income tax recovery (expense) at statutory rate 2010 - 28.5% (2009 - 30%) | **$ (16.2)** | $ 6.9 | **$ (47.5)** | $ 40.4 |
| Add (deduct): | | | | |
| Non-taxable income related to non-controlling interests in limited partnerships | **6.8** | 2.4 | **26.0** | 2.3 |
| Change in corporate income tax rates | **-** | - | **-** | 7.3 |
| Entities with different income tax rates and other tax adjustments | **1.2** | (0.3) | **1.7** | 2.9 |
| Tax recovery (expense) at rates other than statutory rate | **1.3** | 0.3 | **2.8** | 2.8 |
| Permanent difference from capital gains and losses and other non-deductible items | **5.1** | 4.7 | **11.6** | 16.2 |
| Income tax recovery (expense) | **$ (1.8)** | $ 14.0 | **$ (5.4)** | $ 71.9 |

## 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 December 31, 2010 | 2009 | 12 months ended December 31, 2010 | 2009 |
|---|---|---|---|---|
| Weighted average number of common shares | **142,636,749** | 142,589,297 | **142,613,920** | 142,589,297 |
| Incremental shares from potential exercise of options | **2,405** | - | **2,287** | - |
| Diluted number of common shares | **142,639,154** | 142,589,297 | **142,616,207** | 142,589,297 |

## 12. Net Change in Non-Cash Working Capital

| (millions of dollars) | 3 months ended December 31, 2010 | 2009 | 12 months ended December 31, 2010 | 2009 |
|---|---|---|---|---|
| Accounts receivable | **$ 34.5** | $ (13.6) | **$ (3.7)** | $ (24.7) |
| Income taxes recoverable | **0.3** | (9.5) | **45.7** | 1.6 |
| Inventories | **5.9** | 10.9 | **(16.7)** | 89.7 |
| Prepaid expenses | **10.8** | (0.1) | **(2.5)** | (1.5) |
| Accounts payable, accrued liabilities and current portion of deferred reforestation obligation | **(1.9)** | (22.5) | **31.0** | (35.9) |
| Net (increase) decrease in working capital | **$ 49.6** | $ (34.8) | **$ 53.8** | $ 29.2 |

## 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 December 31, 2010, the fair value of derivative financial instruments was a net liability of $4.1 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 December 31, | | 12 months ended December 31, | |
|---|---|---|---|---|
| (millions of dollars) | **2010** | 2009 | **2010** | 2009 |
| Foreign exchange collars and forward contracts | **$ 3.3** | $ 2.7 | **$ 4.0** | $ 36.0 |
| Natural gas swaps | **-** | (1.5) | **(5.2)** | (16.0) |
| Diesel options and swaps | **0.6** | 0.4 | **0.8** | 1.6 |
| Lumber futures | **(2.1)** | 0.7 | **0.5** | 2.8 |
| | **$ 1.8** | $ 2.3 | **$ 0.1** | $ 24.4 |

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

| (millions of dollars) | **As at December 31, 2010** | As at December 31, 2009 |
|---|---|---|
| Foreign exchange forward contracts | **$ 1.6** | $ 1.6 |
| Natural gas swaps | **(4.7)** | (6.8) |
| Diesel options and swaps | **1.0** | (0.9) |
| Lumber futures | **(2.0)** | 0.3 |
| | **$ (4.1)** | $ (5.8) |
| Less: current portion | **(4.1)** | (3.5) |
| Long-term portion | **$ -** | $ (2.3) |

## 14. Segmented Information

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 whole logs for chipping, and production and sale of pulp and paper products, including northern bleached softwood kraft ("NBSK") pulp 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 panel business (which does not meet the criteria to be a separate reportable segment) for the three months ended December 31, 2010 were $10.3 million (three months ended December 31, 2009 - $11.0 million) and $55.6 million for the year ended December 31, 2010 (year ended December 31, 2009 - $39.3 million).

| (millions of dollars) | | Lumber | Pulp & Paper | Unallocated & Other | Elimination Adjustment | | Consolidated |
|---|---|---|---|---|---|---|---|
| **3 months ended December 31, 2010** | | | | | | | |
| **Sales to external customers** | **$** | **318.0** | **300.8** | **10.3** | **-** | **$** | **629.1** |
| **Sales to other segments** | **$** | **28.1** | **-** | **-** | **(28.1)** | **$** | **-** |
| **Operating income (loss)** | **$** | **(0.6)** | **50.4** | **(10.1)** | **-** | **$** | **39.7** |
| **Amortization** | **$** | **22.7** | **12.2** | **4.4** | **-** | **$** | **39.3** |
| **Capital expenditures** | **$** | **27.6** | **19.3** | **0.1** | **-** | **$** | **47.0** |
| | | | | | | | |
| 3 months ended December 31, 2009 | | | | | | | |
| Sales to external customers | $ | 285.3 | 253.3 | 11.0 | - | $ | 549.6 |
| Sales to other segments | $ | 31.2 | - | - | (31.2) | $ | - |
| Operating income (loss) | $ | (30.8) | 16.5 | (9.3) | - | $ | (23.6) |
| Amortization | $ | 22.2 | 12.8 | 3.8 | - | $ | 38.8 |
| Capital expenditures | $ | 5.6 | 2.9 | 1.8 | - | $ | 10.3 |
| | | | | | | | |
| **12 months ended December 31, 2010** | | | | | | | |
| **Sales to external customers** | **$** | **1,255.2** | **1,119.6** | **55.6** | **-** | **$** | **2,430.4** |
| **Sales to other segments** | **$** | **129.8** | **-** | **-** | **(129.8)** | **$** | **-** |
| **Operating income (loss)** | **$** | **10.2** | **191.6** | **(32.5)** | **-** | **$** | **169.3** |
| **Amortization** | **$** | **89.6** | **48.6** | **17.8** | **-** | **$** | **156.0** |
| **Capital expenditures** | **$** | **88.1** | **39.3** | **0.2** | **-** | **$** | **127.6** |
| **Identifiable assets** | **$** | **1,379.7** | **892.7** | **505.9** | **-** | **$** | **2,778.3** |
| | | | | | | | |
| 12 months ended December 31, 2009 | | | | | | | |
| Sales to external customers | $ | 1,118.3 | 918.2 | 39.3 | - | $ | 2,075.8 |
| Sales to other segments | $ | 123.5 | - | 0.1 | (123.6) | $ | - |
| Operating income (loss) | $ | (171.4) | 5.4 | (44.4) | - | $ | (210.4) |
| Amortization | $ | 90.0 | 50.5 | 14.8 | - | $ | 155.3 |
| Capital expenditures | $ | 39.1 | 17.9 | 2.0 | - | $ | 59.0 |
| Identifiable assets | $ | 1,279.3 | 861.8 | 536.7 | - | $ | 2,677.8 |

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

| | 3 months ended December 31, | | 12 months ended December 31, | |
|---|---|---|---|---|
| (millions of dollars) | **2010** | 2009 | **2010** | 2009 |
| Sales of lumber not produced by Canfor | **$ 15.1** | $ 5.0 | **$ 59.6** | $ 55.3 |

## Geographic Information

| | 3 months ended December 31, | | 12 months ended December 31, | |
|---|---|---|---|---|
| (millions of dollars) | **2010** | 2009 | **2010** | 2009 |
| Sales by location of customer | | | | |
| Canada | **$ 70.2** | $ 68.3 | **$ 295.1** | $ 274.9 |
| United States | **252.1** | 262.2 | **1,114.8** | 1,043.0 |
| Asia | **240.5** | 155.6 | **766.4** | 556.0 |
| Europe | **47.1** | 52.3 | **201.0** | 168.3 |
| Other | **19.2** | 11.2 | **53.1** | 33.6 |
| | **$ 629.1** | $ 549.6 | **$ 2,430.4** | $ 2,075.8 |

| (millions of dollars) | | As at December 31, 2010 | | As at December 31, 2009 |
|---|---|---|---|---|
| Capital assets and goodwill by location | | | | |
| Canada | **$** | **1,558.8** | $ | 1,598.1 |
| United States | | **141.6** | | 151.7 |
| Asia and Other | | **0.2** | | 0.1 |
| | **$** | **1,700.6** | $ | 1,749.9 |

## 15. Contingency

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

As the arbitration is a state-to-state international dispute under the SLA, Canada is preparing a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. It is not possible at this time to predict the outcome or the value of the claim, and accordingly no provision has been recorded by the Company.

## 16. Comparative Figures

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