2009

Management's Discussion & Analysis

CANFOR
CORPORATION

2009 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the year ended December 31, 2009 relative to the year ended December 31, 2008, and the financial position of the Company. It should be read in conjunction with Canfor's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2009 and 2008. The financial information contained in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Throughout this discussion, reference is also made to EBITDA (calculated as operating income before amortization) 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) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2009 Compared to 2008") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding in 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 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 February 10, 2010.

<u>Forward Looking Statements</u>

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.

Company Overview

Canfor is a leading Canadian integrated forest products company based in Vancouver, British Columbia, involved primarily in the lumber business, with production facilities in British Columbia, Alberta, Québec and the United States. Canfor also has a 50.2% interest in the pulp and paper business owned by Canfor Pulp Limited Partnership ("CPLP"), a 50% interest in the oriented strand board ("OSB") business of Peace Valley OSB, a 49.99% interest in the pulp and newsprint business of Howe Sound Pulp and Paper Limited Partnership ("HSLP") and owns a bleached chemi-thermo mechanical pulp ("BCTMP") mill ("Taylor Pulp mill"), all of which are located in British Columbia.

Canfor employs approximately 3,380 persons in its wholly owned subsidiaries and 1,770 in jointly owned operations for a total of 5,150 employees.

Lumber

Canfor's lumber operations have a current annual production capacity of approximately 4.9 billion board feet of lumber. The majority of lumber produced by Canfor from its facilities is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-four feet. A growing portion of Canfor's lumber production is comprised of specialty products that command premium prices, including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated ("MSR") lumber used in engineered applications such as roof trusses and floor joists.

Canfor's lumber operations also include two lumber remanufacturing facilities, two finger-joint plants, two lumber treating plants, a whole-log chipping plant and a trucking division. The lumber business segment also includes a 60% interest in Houston Pellet Inc., which has an annual capacity of 150,000 tonnes of wood pellets.

Canfor holds approximately 10.4 million cubic metres of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of British Columbia and northern Alberta, and harvests logs from those tenures to supply its interior lumber operations. Any shortfall in mill requirements are made up with wood purchased from those areas. Operations in Québec and North and South Carolina mostly purchase logs.

Canfor markets lumber products throughout North America and overseas, through its sales offices in Vancouver, Canada, Tokyo, Japan and Shanghai, China. In addition to its own production, Canfor also markets lumber produced externally to complement its product line. While the majority of Canfor's product is sold to markets in the United States, the proportion of shipments to offshore markets, particularly China, has risen significantly in recent years. The Company ships substantially all lumber destined for North America by truck and rail, while the vast majority of product sold offshore is transported by container ship.

Pulp and Paper

Canfor's Pulp and Paper segment is comprised of the CPLP and Taylor Pulp mill operations, all of which are located in British Columbia. CPLP produces northern bleached softwood kraft ("NBSK") pulp and specialty paper. NBSK pulp is primarily a bleached product, although unbleached and semi-bleached grades are also produced at the Prince George Pulp and Paper mill.

The CPLP pulp mills have the capacity to produce over one million tonnes of pulp annually. Over 200,000 tonnes of BCTMP per year can be produced at the Taylor Pulp mill. CPLP's paper machine, located at the Prince George Pulp and Paper mill, has an annual production capacity, at optimum product mix levels, of 140,000 tonnes of kraft paper.

Canfor supplies CPLP with residual wood chips and hog fuel produced at certain of its specified sawmills in the Prince George region. Prices paid by CPLP for residual wood chips are based on a pricing formula to reflect market prices and conditions, with hog fuel (principally bark) purchased by CPLP at market prices. CPLP also has fibre supply agreements with third parties to supplement its supply of wood chips and hog fuel.

All pulp produced by CPLP and the Taylor Pulp mill is sold by CPLP's sales offices in Vancouver, Canada, Brussels, Belgium, and Tokyo, Japan, to customers, primarily in North America, Europe and Asia. The significant majority of product sold to North America is shipped by rail, while product sold overseas is transported by container ship or breakbulk vessel.

Other Operations

The Company's panel operations have a current annual production capacity of approximately 1.7 billion square feet. The Company's only panels facility currently operating is the Peace Valley OSB plant in Fort St. John, British Columbia, which is jointly owned with Louisiana-Pacific Canada Ltd. The Peace Valley OSB mill has an annual capacity of 820 million square feet (3/8" basis). OSB production is primarily performance rated sheathing and flooring, which is used in wall, roof and flooring construction of new homes and in repair and remodeling projects. Canfor also owns an OSB plant ("PolarBoard") and a plywood plant ("Tackama"), both of which are located in Fort Nelson, British Columbia, and are both currently indefinitely idled.

HSLP's operations, which are based in Port Mellon, British Columbia, have the capacity to produce up to 400,000 tonnes of NBSK pulp and 230,000 tonnes of newsprint per year. The mill is jointly owned with Oji Paper Company Ltd. HSLP's results are not reflected in Canfor's consolidated statements, as Canfor's investment in HSLP has been written off.

Business Strategy

Canfor's general business strategy is to be a lumber industry leader with strong financial performance, accomplished through:

- Achieving and maintaining a low cost structure
- Optimizing the extraction of high-margin products and value from its available fibre sources
- Attaining world class supply chain performance
- Building strong long-term partnerships with valued customers
- Maintaining a strong financial position
- Fully engaging employees and utilizing their experience and expertise
- Capitalizing on attractive growth opportunities.

Canfor is focused on being the preferred supplier of lumber to the building industry around the world, with a particular focus on North America and Asia. The Company is committed to being a major supplier to the retail segment of lumber consumption and expanding its presence in key offshore markets, including China and Japan. This objective includes making higher value structural lumber and specialized products to cater to specific customer requirements.

CPLP, which on a day-to-day basis operates under a separate Board and senior management structure, has the following business strategies:

- Preserving its low-cost operating position
- Maintaining the premium quality of its products
- Opportunistically acquiring high quality assets.

OVERVIEW OF 2009

Lumber and panel markets felt the full impact of the severe U.S. and global economic downturn in 2009. The U.S. economy remained in a deep recession for most of the year as it struggled to recover from the upheaval in global credit markets and the continuing effects of the sub-prime mortgage crisis. In the first part of the year, U.S. housing starts fell even further from the historical low levels seen in late 2008 and a sharp falloff in prices followed. For Canadian lumber producers, the challenges were compounded by the continued strength of the Canadian dollar, the 15% export tax levy on shipments from Canada to the U.S., and the continued need to harvest dead pine timber in parts of the B.C. Interior affected by the mountain pine beetle epidemic.

Pulp markets were also severely impacted by the global downturn in the first part of 2009, as evidenced by sharply lower demand for printing and writing papers, the largest consuming segment of market pulp. However, prices bottomed out in April, before moving up steadily over the balance of the year, primarily in response to historically-low inventory levels, curtailments in world supply and improved demand.

In the face of substantially lower demand for solid wood products, Canfor aggressively curtailed production at its solid wood operations, indefinitely idling several more sawmill operations and reducing shifts and shortening work weeks at its other facilities. At the end of 2009, the Company was operating at approximately 55% of its total lumber production capacity (approximately 60% over the 2009 year), and at a small fraction of its panels capacity. Market related downtime was also taken in early 2009 at the CPLP and Taylor Pulp mill operations.

The depressed market conditions weighed heavily on the Company's 2009 financial results. The Company was, however, able to mitigate the full impact of these losses on its cash resources through its continued focus on performance improvement and cash management. Following on from the success of its 2008 "Project Endurance" initiative, the Company in early 2009 launched "Project Endurance 2", a corporate-wide initiative aimed at preserving the Company's strong financial position during the severe downturn, through the realization of further performance improvements, reductions of working capital and non-essential capital spending, and the disposition of additional non-core assets. Project Endurance 2 delivered substantial cash flow benefits to Canfor in 2009, and was a major contributing factor to a decline of 7% in the Company's lumber unit manufacturing costs (compared to 2008), and the preservation of the Company's strong financial position. Through its efforts, the Company limited its 2009 EBITDA loss to $55 million, ending the year with cash of $133 million and one of the strongest balance sheets in the forest products industry.

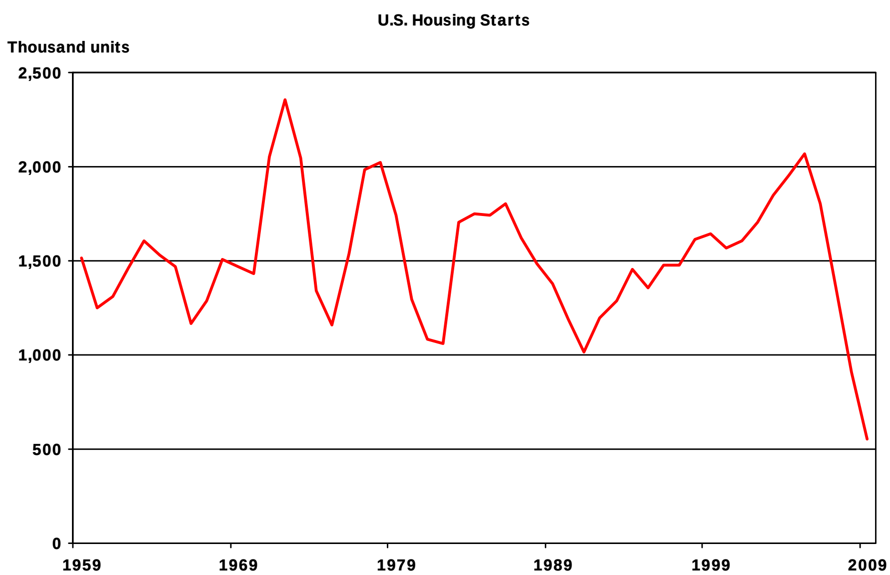
A welcome development for Canadian kraft pulp producers in the fall of 2009 was the federal government's announcement of a Pulp and Paper Green Transformation Program (the "Program"). CPLP was allocated $122.2 million from this Program, which is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. HSLP was allocated $45.5 million under the Program.

A brief review of the more significant developments in 2009 follows.

2009: From Bad to Worse for Solid Wood Producers

(i) The Troubled U.S. Housing Sector

The downturn in the U.S. economy in 2008 intensified in the first part of 2009, and took a further toll on the U.S. housing sector. Housing starts plunged to new record low levels, with April's housing starts of 479,000[1] (Seasonally Adjusted Annual Rates – "SAAR") representing the lowest level since records began in 1959. This was less than half the level of housing starts reported only 12 months earlier. The U.S. federal government's $8,000 tax credit for first-time homebuyers, introduced in January 2009, contributed to a slight pick up of activity in the third quarter of 2009 but this proved to be short-lived and housing activity fell off again towards the end of the year. U.S. housing starts for 2009 totaled 554,000 units, a 39% decrease from an already depressed number of 902,000 starts in 2008. The severity of the current downturn is further evidenced by the fact that 2009 starts were some 45% below troughs in previous downturns over the last 60 years, as highlighted in the following chart.



[1] Source: U.S. Bureau of the Census

Inventories of new and used homes available for sale in the U.S. market in December of 2009 were 8.1[2] months and 7.2 months[3], respectively, down from 12.9 months and 9.3 months at the end of 2008, but still above historical levels. The Repair and Remodeling and Do-It-Yourself sector, however, experienced only a minor decline, and did improve as the year progressed.

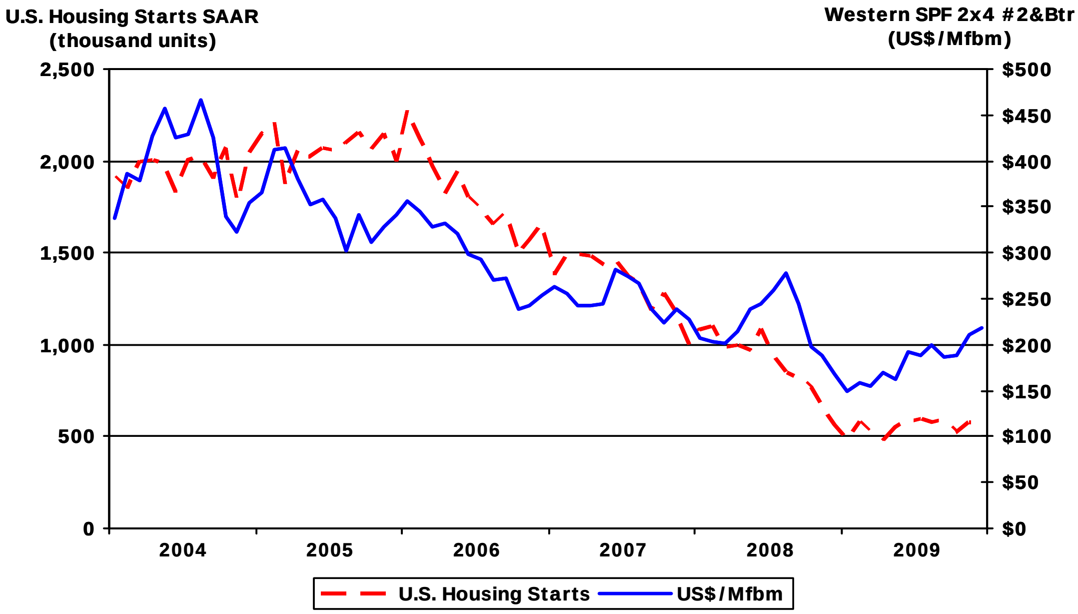
Canadian and offshore markets were also significantly impacted by the global downturn, particularly in the first half of 2009. The second half of the year saw more stable conditions, but both demand and pricing remained well below historical levels. One notable exception was China where demand for Canfor product continued to show rapid growth, so much so that China shipment volumes outpaced Japan (traditionally the Company's largest offshore market) for the first time in 2009.

(ii) Prices in U.S. and Canadian Dollars Hit New Record-Lows

Reflecting the continuing collapse of demand for lumber products into 2009, Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr prices fell to their lowest levels in decades. At one point in the first quarter, prices dipped as low as US$134[4] per thousand board feet ("Mfbm"). Many lumber producers, including Canfor, responded by taking significant market downtime, and the contraction in supply resulted in prices edging upwards over subsequent quarters. Nonetheless, Western SPF 2x4 #2&Btr prices in 2009 still averaged only US$182 per Mfbm, some US$40 per Mfbm, or 18%, below 2008 levels. Sales of wide-dimension lumber (width greater than 6 inches) were similarly impacted by the slump in market demand, but in the second half of 2009 prices received a welcome uplift, mostly as a result of low product availability. Prices of Southern Yellow Pine ("SYP") 2x4 #2 East in 2009 fell 17% from the previous year, again reflecting very weak demand. Wider SYP product also experienced significant price declines.

The following chart highlights the trend in U.S. housing starts and monthly average Western SPF 2x4 #2&Btr benchmark lumber prices in 2008 and 2009.

Lumber Price Compared to U.S. Housing Starts

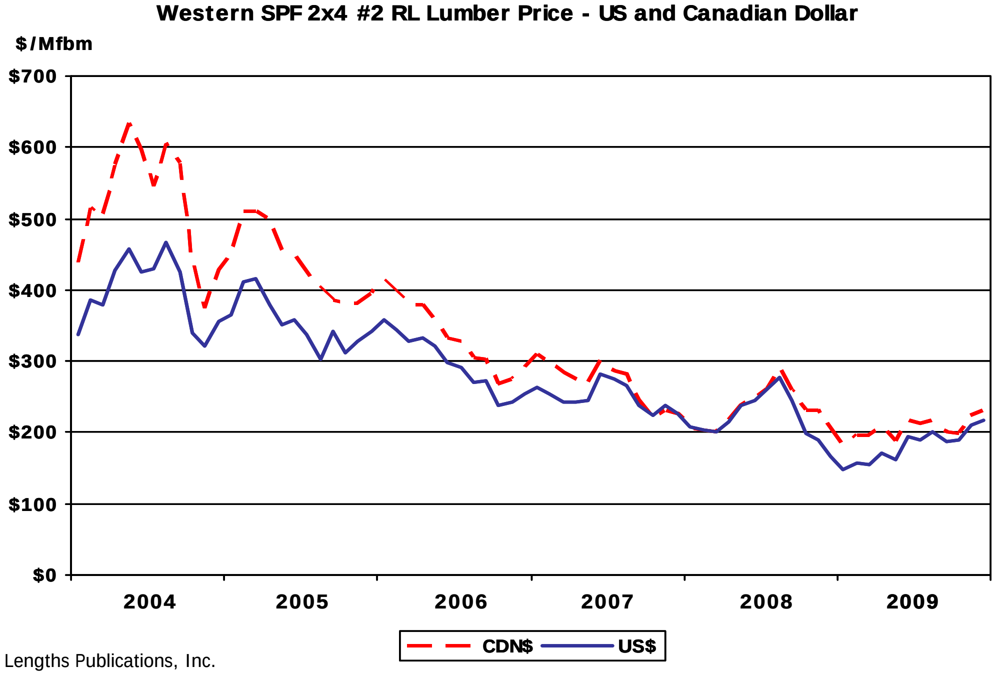


Source: Random Lengths Publications Inc. and U.S. Bureau of the Census

The majority of Canfor's sales are denominated in US dollars, and therefore Canfor's results are considerably impacted by exchange rate movements, with a strong Canadian dollar resulting in lower revenues. Currency markets were volatile for much of 2009. In the first quarter of 2009 the Canadian dollar fell to a low for the year of $0.769[5] against the US dollar reflecting the worsening global economic climate, but then staged a strong recovery over the balance of the year, to end 2009 at $0.956, 14 cents or 17% higher than a year earlier. Over the 2009 year, the Canadian dollar averaged $0.876 versus its U.S. counterpart, down 6 cents, or 7%, compared to 2008.

2 U.S. Bureau of the Census
3 NAR – National Association of Realtors
4 Random Lengths Publications, Inc.
5 Bank of Canada

The following chart highlights the trend in monthly average benchmark Western SPF 2x4 2&Btr lumber prices in US and Canadian dollars (with the Canadian dollar prices representing the US dollar price multiplied by the monthly average exchange rate).



Source: Random Lengths Publications, Inc.

(iii) Continued Payment of Export Tax

Under the Softwood Lumber Agreement ("SLA") implemented by the federal governments of Canada and the U.S. 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 Price	Tax Rate
Over US$355	0 %
US$336-$355	5 %
US$316-$335	10 %
US$315 and under	15 %

The SLA also includes a "Surge Mechanism", which increases the export tax rate for the month by 50% when the monthly volume of exports from a region exceeds a "Trigger Volume" as defined in the SLA.

Except for a Third Country Adjustment export tax refund for the last quarter of 2007 and first quarter of 2008, Canfor's lumber exports from British Columbia to the U.S. have been subject to the highest export tax bracket of 15% since the SLA came into effect in October of 2006. The export tax on lumber shipments from Alberta to the U.S. varied between 15% and 22.5% (the surge tax rate) over the same period.

In 2009, the RLCP averaged US$222 per Mfbm, some 30% below the lowest trigger price threshold, and the Company paid export taxes of approximately $49 million (before taking account of the receipt in January 2009 of the aforementioned Third Country Adjustment refund of $11 million). The total export tax paid since the implementation of the SLA is approximately $237 million.

Canfor Adjusts Production to Match Weaker Product Demand

In response to the challenges besetting the U.S. housing market, Canfor curtailed an additional 720 million board feet of lumber production in 2009, indefinitely idling its Radium, Rustad and Vavenby sawmill operations in the B.C. Interior midway through the year, and taking other downtime in the form of reduced shifts, shortened workweeks, and summer vacation and Christmas shuts at its other operations. In mid-January 2010, the Company also curtailed its Quesnel sawmill as a result of weak market demand and the current economics of running that operation.

As a result of the cooperation of its employees and other stakeholders, the Company both restarted its Mackenzie sawmill operation on a single shift in July 2009, after a 13-month curtailment, and in December 2009 announced the restart of operations at its Chetwynd sawmill in the spring of 2010. The Chetwynd operation has been indefinitely idled since March 2008.

The Company operated at approximately 60% of lumber capacity for the year, which equates to approximately 3 billion feet of lumber production.

The majority of the Company's panels operations continued to be idled through 2009; no plywood was produced in the year and the only OSB plant that operated was the jointly owned Peace Valley ("PV") OSB mill, which itself took significant market downtime in the first half of the year.

A summary of those lumber and panel operations indefinitely idled for part or all of 2009, and the corresponding reduction in production (based on annual capacity), is presented below:

	Date idled	Production capacity
Lumber Mills		(MMfbm)
Chetwynd (scheduled to restart in spring of 2010)	March 2008	220
Mackenzie (restarted in July 2009)	June 2008	305
Radium	July 2009	185
Rustad	July 2009	390
Vavenby	July 2009	235
		1,335
Panels Operations		MMsf (3/8" basis)
PolarBoard (OSB)	June 2008	640
Tackama (Plywood)	October 2008	270
		910

Focus on Operational Improvement and Cash Conservation Continues

The Company followed up on its strong operational performance in 2008, with another solid year of cost management in 2009. Despite significant additional lumber curtailments in 2009, the Company achieved a decrease in its lumber unit manufacturing costs compared to 2008. The savings came primarily from various Project Endurance 2 cost reduction initiatives, as well as lower diesel and natural gas costs and reduced market stumpage and purchased wood costs resulting from lower average lumber market prices. As highlighted earlier, the Company indefinitely idled the PolarBoard and Tackama plants through 2009 in order to mitigate losses in its panels business. Recognizing the severity of the downturn, salary incentive plans were suspended and salary roll-backs remained in place.

A strong cost performance was also achieved in the pulp and paper business segment, with unit manufacturing costs declining 10% compared to 2008, primarily as a result of a combination of cost reduction initiatives and lower fibre, chemical, energy and overhead costs.

Working capital and capital spending continued to be closely managed in 2009. Capital spending was restricted to essential maintenance-of-business expenditures and selected high-return projects. The latter included the completion of the Fort St. John sawmill energy system, several key capital upgrades at the Company's New South sawmill operations and the commencement of a new energy system at the Mackenzie sawmill. In 2009, CPLP also made a payment of $4.3 million to BC Hydro in September to reduce its obligation for power production from a cogeneration project at its Prince George Pulp and Paper Mill. The Company's focus on its supply chain management also resulted in a significant reduction in log, in-process and finished lumber inventory volumes by year end.

Cash flow in 2009 was boosted by sales of non-core assets and insurance claim proceeds, which in total generated cash of approximately $84 million in the year, as follows:

- In February, the Company completed the sale of its former Panel and Fibre operation located in New Westminster, British Columbia, for net proceeds of $46 million.
- In April, the Company reached a final settlement of its North Central Plywoods ("NCP") mill fire claim for net proceeds of $63 million, $33 million of which was received from its insurers in 2009. Significantly, no conditions were attached to the use of the proceeds under the terms of the settlement. The NCP mill was permanently closed following the fire which destroyed the facility.
- In November, the Company completed the sale of surplus property in Vancouver for net proceeds of approximately $5 million.

As a result, the Company was able to end the year in a strong financial position, despite the depressed market conditions, with cash on hand of $133 million, undrawn available operating lines of credit of $426 million, and a consolidated net debt to total capitalization ratio of 14.5%.

Growth of Canfor's Business in China

In 2009, China increased its reliance on Western Canadian SPF lumber due to economic, environmental and supply concerns related to timber sourced from Russia (traditionally a major supplier to China) and increasing acceptance of SPF products in general.

In addition to the above factors, significant progress was made by Canadian federal and provincial governments and the forest industry in the development of wood frame construction in China. China continues to focus its attention on reduced energy usage, particularly carbon reduction initiatives, and potential purchasers are starting to better understand the advantages of the environmental and seismic performance of wood frame construction.

Canfor's product mix sold into China has been mostly focused on lower grade lumber, but the proportion of SPF #2 increased significantly during 2009. The two major reasons were the increased use of lumber in housing construction, where higher grades are required, and better product yields realized by Chinese remanufacturers when converting the SPF #2 raw material into finished products. Although the Company's sales volumes to China do not represent a large percentage of the Company's overall business, nevertheless shipments to China in 2009 were almost double that of 2008.

Green Transformation Program

The Canadian federal government's announcement in October 2009 of the allocation of credits from a Pulp and Paper Green Transformation Program (the "Program") was a welcome development for Canadian kraft pulp producers. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects up until March 2012. CPLP was allocated $122.2 million from this Program and has identified and will be submitting a number of projects for Program approval, which are expected to provide economic and environmental benefits to CPLP's operations. HSLP was allocated $45.5 million under the Program.

OVERVIEW OF CONSOLIDATED RESULTS – 2009 COMPARED TO 2008

Selected Financial Information and Statistics:

(millions of dollars, except for per share amounts)		2009		2008
Sales	$	**2,120.4**	$	2,611.6
EBITDA	$	**(55.1)**	$	13.1
Operating loss	$	**(210.4)**	$	(158.1)
Foreign exchange gain (loss) on long-term debt and investments, net	$	**50.4**	$	(100.3)
Gain (loss) on derivative financial instruments[6]	$	**24.4**	$	(88.5)
Gain on sale of mill property	$	**44.6**	$	-
North Central Plywoods mill fire, net	$	**(3.0)**	$	57.9
Prince George Pulp & Paper mill fire, net	$	**-**	$	8.2
Asset impairments	$	**-**	$	(169.6)
Net loss	$	**(70.5)**	$	(345.2)
Net loss per share, basic and diluted	$	**(0.50)**	$	(2.42)
Average exchange rate (US$/CDN$)[7]	$	**0.876**	$	0.938
U.S. housing starts (million units SAAR)[8]		**0.554**		0.902

[6] Includes gains (losses) from natural gas, diesel, foreign exchange and lumber price derivatives (see "Unallocated and Other Items" section for more details).
[7] Source – Bank of Canada (average noon rate for the period)
[8] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR")

Analysis of Specific Items Affecting Comparability of Net Loss

After-tax impact, net of non-controlling interests

(millions of dollars, except for per share amounts)		2009		2008
Net loss, as reported	$	**(70.5)**	$	(345.2)
Restructuring, mill closure and severance costs	$	**22.4**	$	35.3
Foreign exchange loss (gain) on long-term debt and investments, net	$	**(36.0)**	$	72.2
Loss (gain) loss on derivative financial instruments	$	**(19.0)**	$	54.5
Gain on sale of mill property	$	**(37.8)**	$	-
North Central Plywoods mill fire, net	$	**2.0**	$	(45.0)
Prince George Pulp & Paper mill fire, net	$	**-**	$	(3.4)
Asset impairments	$	**-**	$	131.0
Corporate income tax rate reductions	$	**(7.3)**	$	(9.1)
Net impact of above items	$	**(75.7)**	$	235.5
Adjusted net loss	$	**(146.2)**	$	(109.7)
Net loss per share, as reported	$	**(0.50)**	$	(2.42)
Net impact of above items per share	$	**(0.53)**	$	1.65
Adjusted net loss per share	$	**(1.03)**	$	(0.77)

EBITDA

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

(millions of dollars)		2009		2008
Net loss, as reported	**$**	**(70.5)**	$	(345.2)
Add (subtract):				
Amortization	**$**	**155.3**	$	171.2
Interest expense, net	**$**	**29.3**	$	25.4
Foreign exchange loss (gain) on long-term debt and investments, net	**$**	**(50.4)**	$	100.3
Loss (gain) on derivative financial instruments	**$**	**(24.4)**	$	88.5
Gain on sale of mill property	**$**	**(44.6)**	$	-
North Central Plywoods mill fire, net	**$**	**3.0**	$	(57.9)
Prince George Pulp & Paper mill fire, net	**$**	**-**	$	(8.2)
Asset impairments	**$**	**-**	$	169.6
Other (income) expense	**$**	**11.4**	$	(12.7)
Income tax recovery	**$**	**(71.9)**	$	(141.9)
Non-controlling interests	**$**	**7.7**	$	24.0
EBITDA, as reported	**$**	**(55.1)**	$	13.1
Restructuring, mill closure and severance costs	**$**	**29.9**	$	53.5
Negative (positive) impact of inventory write-downs[9]	**$**	**(21.2)**	$	(28.4)
EBITDA excluding impact of inventory write-downs and restructuring	**$**	**(46.4)**	$	38.2

[9] 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 can occur each year due to market conditions. Where NRV is below cost this can result in swings in inventory write-down amounts recorded each year. In addition to inventory volumes, the level of inventory write-downs recorded reflects changes in market prices, foreign exchange rates, and costs over the respective reporting periods.

The Company recorded a net loss of $70.5 million ($0.50 per share) for the year ended December 31, 2009, which was $274.7 million ($1.92 per share) less than the net loss of $345.2 million ($2.42 per share) reported for the year ended December 31, 2008.

After adjusting for significant items affecting comparability with prior periods, the Company's adjusted net loss for 2009 was $146.2 million ($1.03 per share), compared to a similarly adjusted net loss of $109.7 million ($0.77 per share) for 2008.

The Company recorded an operating loss of $210.4 million in 2009, a $52.3 million higher loss than 2008. Reported EBITDA was negative $55.1 million, an adverse movement of $68.2 million compared to EBITDA of $13.1 million for the previous year. For the most part, the adverse variances reflected significantly reduced operating income for the pulp and paper business and, to a lesser extent, higher losses in the lumber business.

For the lumber business, the impact of lower lumber and residual chip prices in 2009 more than offset further operational cost improvements achieved, lower market stumpage rates (related to lower Canadian lumber prices) and lower natural gas and diesel prices. The 2008 year also included a Third Country Adjustment export tax refund of $10.8 million. Losses from the Company's plywood and OSB operations were down in 2009, for the most part reflecting one-time costs in 2008 related to the indefinite idling of Tackama and PolarBoard, and the permanent closure of the Company's NCP plywood mill in 2008, as well as mitigating losses by not operating the Tackama and PolarBoard mills through all of 2009. Corporate costs continued to trend downwards in 2009.

The significantly lower pulp and paper earnings in 2009 reflected the effects of very weak demand and depressed US dollar prices in the first part of the year. These were offset in part by lower unit manufacturing costs, higher market pulp shipments and the lower average value of the Canadian dollar. Lower unit manufacturing costs were primarily attributable to cost reduction initiatives, lower fibre, chemical and energy prices and the impact of fewer scheduled maintenance outages. The higher market pulp shipments primarily related to increased non-contractual sales volumes.

For solid wood products, inventory write-down adjustments were again recorded by the Company in 2009. Differences in inventory write-down adjustments recorded at the end of 2009 and 2008 positively impacted 2009 operating income by $21.2 million, and reflected a combination of lower inventory volumes, reduced costs and higher prices at the end of 2009 compared to 2008. In 2008, operating income was also positively impacted by write-down movements of $28.4 million, which for the most part reflected significantly lower costs and log inventory volumes at the end of 2008 versus 2007, which more than offset the negative impact of weaker prices over the same period.

Reflecting the Canadian dollar's increase of 14 cents, or 17%, compared to the US dollar from a year earlier, the Company in 2009 recorded a foreign exchange translation gain on its US dollar denominated debt less investments of $50.4 million (2008 - loss of $100.3 million). With the Canadian dollar gaining ground against its U.S. counterpart through most of 2009, the Company recorded a gain of $36 million on its foreign exchange collars and forward contracts in 2009 (2008 – loss of $86.1 million), which was partly offset by losses on natural gas swaps. The net gain on derivative financial instruments was $24.4 million for 2009 (2008 - loss of $88.5 million).

In February of 2009 the Company completed the sale of the site of its former Panel and Fibre operation located in New Westminster, British Columbia, for net proceeds of $46.0 million. The Company also reached a final settlement of its NCP mill fire claim in April of 2009 for net proceeds of $63.3 million, $33.3 million of which was received from its insurers in 2009 (the other $30 million cash was received in 2008). No conditions were attached to the use of the proceeds under the terms of the settlement.

A more detailed review of the Company's operational performance and results is provided in "Operating Results by Business Segment – 2009 compared to 2008", which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2009 COMPARED TO 2008

The following discussion of Canfor's operating results relates to the operating segments and the non-segmented items as per the Segmented Information note in the Company's consolidated financial statements.

Canfor's operations include the Lumber and Pulp and Paper segments. Effective January 1, 2009 the Company's panels business is no longer reported separately as an operating segment. With the exception of the Peace Valley OSB Limited Partnership, of which the Company owns a 50% share, all panel operations are currently indefinitely idled. The results of the panels business are now included in the Unallocated & Other segment.

Lumber

Selected Financial Information and Statistics - Lumber

Summarized results for the Lumber segment for 2009 and 2008 are as follows:

(millions of dollars, unless otherwise noted)		**2009**		2008
Sales	**$**	**1,162.9**	$	1,490.5
Operating income (loss)	**$**	**(171.4)**	$	(155.0)
EBITDA, as reported	**$**	**(81.4)**	$	(55.5)
Restructuring, mill closure and severance costs	**$**	**20.9**	$	18.7
Negative (positive) impact of inventory write-downs	**$**	**(16.2)**	$	(13.9)
EBITDA excluding impact of inventory write-downs and restructuring	**$**	**(76.7)**	$	(50.7)
Capital expenditures	**$**	**39.1**	$	39.5
Average SPF 2x4 #2 & Btr lumber price in US$[10]	**$**	**182**	$	222
Average SPF price in Cdn$	**$**	**208**	$	237
Average SYP 2x4 #2 lumber price in US$[11]	**$**	**233**	$	281
Average SYP price in Cdn$	**$**	**266**	$	300
Production – SPF lumber (MMfbm)		**2,766.8**		3,299.4
Production – SYP lumber (MMfbm)		**267.5**		388.6
Shipments – Canfor-produced SPF lumber (MMfbm)[12]		**2,914.2**		3,388.2
Shipments – Canfor-produced SYP lumber (MMfbm)[12]		**317.6**		432.7
Shipments – wholesale lumber (MMfbm)		**165.8**		171.0

[10] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[11] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[12] Includes shipments of lumber purchased for remanufacture.

Overview

The Lumber segment reported negative EBITDA of $81.4 million for 2009, an adverse movement of $25.9 million compared to negative EBITDA of $55.5 million reported for 2008. EBITDA excluding the impact of inventory write-downs and restructuring was down by the same amount from the prior year. Additional market-related curtailment taken in 2009 was approximately 720 million board feet, or 15% of production capacity.

The decline in EBITDA reflected the weaker market conditions in 2009, with lumber sales prices in Canadian dollars and residual chip prices well down from 2008 levels. The Third Country Adjustment export tax refund of $10.8 million recorded in late 2008 also contributed to the adverse variance. Partly offsetting these factors were lower unit manufacturing costs, reflecting improved operational performance and cost reductions as well as lower energy costs and losses mitigated through curtailment. Restructuring costs for 2009 were $2.2 million higher at $20.9 million, for the most part reflecting costs related to the indefinite idling of three B.C. Interior sawmill operations midway through the year.

Markets

Canfor's total lumber sales volume for 2009 was approximately 3,400 million board feet, down 15% from 2008, with SPF and SYP making up 91% and 9% of total sales, respectively.

In 2009, sales to the U.S. accounted for 69% of total sales revenue, down 3% from 2008, as the Company increased its proportion of sales to Canada and Asia. A breakdown of lumber sales by country for 2009 and 2008 is provided below:

Lumber Sales by Country (based on dollar values):

	2009	**2008**
U.S.	**69%**	72%
Canada	**16%**	16%
Asia	**14%**	11%
Other	**1%**	1%
	100%	100%

Total U.S. housing starts for 2009 were the lowest on record at 554,000[13] units, a 39% decline from 2008. Single family starts declined by 29% from the previous year to 444,000[13] units. In the second half of 2009, existing home sales increased and inventories declined, assisted by the U.S. Federal government's housing stimulus package that was implemented during the year. The stimulus package also resulted in a marginal increase in U.S. housing starts during the second half of the year. New and existing home inventories fell from over 12 months supply early in the year to 8.1[13] months and 7.2[14] months respectively by year end, in part explained by falling prices and the stimulus package.

In comparison, the repair and renovation sector experienced a more modest decline, with sales activity picking up as the year progressed. Lumber sales volumes for the sector were only 3% below the previous year.

Total Canadian housing starts were 149,000[15] units in 2009, a decrease of 30% from 2008 starts of 211,000 units. However, Canadian housing starts trended higher in the latter part of 2009, after a significant decline for the first seven months of the year.

Offshore lumber demand increased significantly in 2009, with shipment volumes as a percentage of total sales increasing from 9% in 2008 to 15% in 2009. This was mostly attributable to shipments to China, where higher demand for more construction grade lumber (partly response to the Sichuan earthquake in 2008) led to a doubling of shipments from 2008. Shipments to Japan in 2009 reflected a 15% decrease in 2x4 housing starts.

[13] U.S. Bureau of the Census
[14] NAR – National Association of Realtors
[15] CMHC

Sales

Canfor's lumber sales revenues of $1,163 million for 2009 were down $328 million, or 22%, compared to 2008, reflecting the 15% decline in shipments and price erosion across all grades in 2009. Shipments in 2009 were approximately 600 million board feet down from 2008, as the Company continued to respond to weaker demand by taking more production curtailment. The Western SPF lumber 2x4 #2&Btr Random Lengths price averaged US$155[16] per Mfbm in the first quarter before gradually improving to US$205 per Mfbm in the fourth quarter. For 2009, the average price was US$182 per Mfbm, an 18% decrease from the previous year. Similarly, SYP 2x4 #2 Random Lengths prices fell by 17% against last year, averaging US$233 per Mfbm.

Prices for wider SPF and SYP dimensions were also down compared to 2008, though in most cases the drop was less severe than for 2x4 products. The 7% decrease in the average value of the Canadian dollar versus the US dollar for 2009 compared to 2008 helped to offset some of the price erosion for SPF producers.

Total residual fibre revenue for 2009 was well down from 2008 levels, reflecting significantly lower sawmill operating rates and residual chip prices, the latter resulting from lower average NBSK pulp prices.

Operations

Lumber production for 2009 was 3,034 million board feet, 654 million board feet, or 18%, lower than for 2008. The lower production mostly reflected the indefinite idling of the Rustad, Radium and Vavenby sawmills midway through the year, and reduced shifts, shortened work weeks and vacation shuts at the Company's other operations. The Chetwynd sawmill remained closed through 2009, while the Mackenzie mill recommenced operations in July of 2009 on a single shift basis.

Despite the challenges presented by additional curtailments, the Company continued to make headway in reducing costs in 2009. Total unit manufacturing costs were down 7% compared to the prior year, the major contributing factors being operating and overhead cost reductions, lower market stumpage and purchased wood costs (related to lower lumber market prices), weaker energy prices and sawmill and planer productivity gains.

The Company's export tax expense in 2009 was $48.7 million (2008 - $55.1 million), substantially reflecting a 15% export tax on shipments to the U.S. from the Company's B.C. Interior operations through 2009. Lower market prices and fewer shipments to U.S. destinations in 2009 outweighed the impact of the Third Country Adjustment refund of $10.8 million recorded in late 2008.

The contract between the Company's B.C. Interior manufacturing operations and the United Steelworkers Union ("USW") expired on July 1, 2009. The Company is currently in negotiations with the USW regarding a new labour agreement.

[16] Random Lengths Publications, Inc.

Pulp and Paper

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

(millions of dollars, unless otherwise noted)		2009		2008
Sales	$	**918.2**	$	950.8
Operating income	$	**5.4**	$	76.8
EBITDA	$	**55.9**	$	125.6
Capital expenditures	$	**17.9**	$	39.9
Average pulp price delivered to U.S. - in US$[18]	$	**718**	$	857
Average pulp price in Cdn$	$	**820**	$	914
Production – pulp (000 mt)		**1,192.0**		1,124.6
Production – paper (000 mt)		**131.1**		132.6
Shipments – Canfor-produced pulp (000 mt)		**1,243.5**		1,088.0
Pulp marketed on behalf of HSLP (000 mt)[19]		**322.9**		313.1
Shipments – paper (000 mt)		**135.0**		124.8

[17] Includes Taylor Pulp mill and 100% of CPLP, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.
[18] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc, - "RISI")
[19] Howe Sound Pulp and Paper Limited Partnership Pulp mill

Overview

EBITDA generated by the Pulp and Paper segment for 2009 was $55.9 million, down $69.7 million from 2008, due principally to weaker realized prices in Canadian dollar terms for NBSK pulp and BCTMP over the year. The lower sales realizations reflected a sharp drop in US dollar list prices in the first part of the year and a higher percentage of sales into lower margin business. Lower fibre, chemical and natural gas costs along with various cost reductions and fewer scheduled maintenance outages partly offset the impact of the weaker sales realizations.

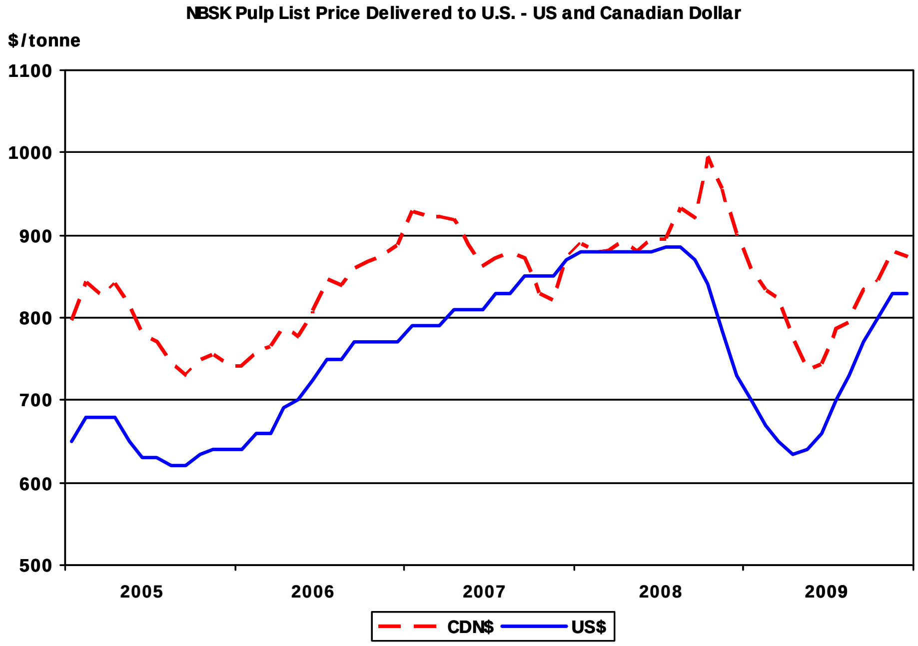
Markets

A significant number of pulp mills were idled during 2009, either indefinitely or permanently, which kept supply constrained, resulting in significant reductions in producer inventory stocks. After a very challenging first quarter, pulp consumption steadily improved through the balance of the year.

The steady improvement in consumption and continued reduction of supply resulted in lower pulp inventories. At the end of December 2009, World 20[20] producers of bleached softwood pulp inventories stood at 23 days of supply, in stark contrast to 40 days of supply at the end of 2008. Market conditions are considered balanced when inventories fall in the 27 to 30 days of supply range.

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

The following chart highlights the significant downward trend in US and Canadian dollar NBSK pulp list price delivered to the U.S in the second half of 2008 and early 2009, followed by the steady improvement thereafter (with the Canadian dollar prices representing the US dollar price multiplied by the monthly average exchange rate).



Source: RISI

Sales

Shipments of Canfor-produced pulp were up 14% compared to the prior year, with the increase attributable mostly to higher production levels at CPLP resulting primarily from fewer scheduled maintenance outages and the impact of the Prince George Pulp and Paper Mill fire in 2008. The additional production volume in 2009 was largely absorbed by higher sales of lower margin business, including non-contract business.

Compared to the previous year, average NBSK pulp list prices were down US$139, or 16%, though this was offset partially by a weaker average Canadian dollar in 2009. Realized pulp prices in Canadian dollar terms for NBSK pulp were 14% lower than 2008, with the weaker Canadian dollar and lower freight costs only partly offsetting the lower list prices and the lower value sales mix. BCTMP prices were down almost 20% from the prior year in US dollar terms, but saw similar increases to NBSK pulp list prices in the second half of the year. Paper shipments were also up compared to 2008, though prices were down 13% in Canadian dollar terms.

Price increases were implemented by pulp producers in the last three quarters of 2009. NBSK pulp price increases from the bottom of the market in April 2009 totalled US$195 per tonne or 30%, bringing December list prices before discounts in the U.S. and Northern Europe markets to US$830[21] and US$800 per tonne respectively, and China, with no discounts, to US$710 per tonne.

Operations

Pulp production volume was 1,192,000 tonnes for 2009, up 67,000 tonnes compared to the prior year. As highlighted, this was principally the result of fewer scheduled maintenance outages and the impact of the fire at the Prince George Pulp and Paper mill in 2008. Unit manufacturing costs fell by over 10% when compared to 2008, with lower fibre, chemical and energy costs, the impact of fewer scheduled maintenance outages, higher production volumes and cost reduction initiatives all contributing to the improvement. The decrease in fibre costs reflected lower prices for residual chips and whole log chips, partially offset by an increase in volume of higher cost whole log chips.

[21] RISI

Unallocated and Other Items

(millions of dollars)		2009		2008
Operating loss of Panels operations	$	(23.0)	$	(56.9)
Corporate and other costs	$	(21.4)	$	(23.0)
Interest expense, net	$	(29.3)	$	(25.4)
Foreign exchange gain (loss) on long-term debt and investments, net	$	50.4	$	(100.3)
Gain (loss) on derivative financial instruments	$	24.4	$	(88.5)
Gain on sale of mill property	$	44.6	$	-
North Central Plywoods mill fire, net	$	(3.0)	$	57.9
Prince George Pulp & Paper mill fire, net	$	-	$	8.2
Asset impairments	$	-	$	(169.6)
Other income (expense), net	$	(11.4)	$	12.7

Operating Loss of Panels Operations

Results of the Panels operations in 2009 reflected the continued challenging market conditions and ongoing costs associated with the indefinite idling of the Company's Tackama and PolarBoard plants. The operating loss of $23.0 million for 2009 was down $33.9 million from 2008, principally due to one-time costs in 2008 related to the indefinite idling of Tackama (October 2008) and PolarBoard (June 2008) and the permanent closure of the NCP mill (June 2008). In 2009, the Company continued to mitigate losses by idling Tackama and PolarBoard for the whole year. At the PV OSB operation, the lower average Canadian dollar and lower input costs offset the impact of weaker market prices in 2009.

Corporate and Other Costs

Corporate and other costs, which comprise corporate, head office and certain information technology costs, decreased by $1.6 million in 2009 compared to 2008. This was due primarily to various cost reduction initiatives and the elimination of Canfor's short term incentive compensation in 2009, which more than offset higher salary based compensation due to an increase in the Company's share price, and higher severance costs and amortization costs in 2009.

Interest Income and Expense

Net interest expense for 2009 increased $3.9 million from 2008 to $29.3 million, with lower interest expense resulting from the repayment of long-term debt of $176 million more than offset by a reduction in interest income, for the most part reflecting reduced cash balances and lower interest rates on short-term investments. The expense for 2009 also included fees related to CPLP's new credit facilities.

Foreign Exchange Gain (Loss) on Translation of Long-Term Debt and Investments

At the end of 2009, the Canadian dollar was up 14 cents, or 17%, versus the US dollar from a year earlier. As a result, the Company recorded a foreign exchange translation gain on its US dollar denominated debt less investments of $50.4 million (2008 - loss of $100.3 million).

Gain (Loss) on Derivative Financial Instruments

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in natural gas and diesel costs, foreign exchange rates and lumber prices. In 2009, the Company recorded a net gain of $24.4 million related to its derivative instruments (2008 – loss of $88.5 million). With the Canadian dollar gaining ground against its U.S. counterpart for most of 2009, the Company recorded a gain of $36.0 million on its foreign exchange collars and forward contracts in 2009 (2008 – loss of $86.1 million), which was offset partly by losses incurred on natural gas swaps.

The following table summarizes the amounts of the various components for the comparable periods.

Gain (Loss) on Derivative Financial Instruments:

(millions of dollars)		2009		2008
Foreign exchange collars and forward contracts	**$**	**36.0**	$	(86.1)
Natural gas swaps	**$**	**(16.0)**	$	1.0
Diesel options and swaps	**$**	**1.6**	$	(3.4)
Lumber futures	**$**	**2.8**	$	-
	$	**24.4**	$	(88.5)

Asset Impairments

In the 2008 year, Canfor recorded asset impairments totaling $169.6 million. These related principally to certain of the Company's panels capital assets, and assets related to Howe Sound Pulp and Paper Limited Partnership and Coastal Fibre Limited Partnership. Impairments were also recorded in relation to the Company's investment in non-bank asset-backed commercial paper ("ABCP"), as well as other investments and spare parts inventory balances. (see "Critical Accounting Estimates: Asset Impairments" for more details.)

Sale of Panel and Fibre 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.

Settlement of NCP Mill Fire Claim

In April 2009, the Company and its insurer agreed a final settlement on its NCP insurance claim for gross proceeds of $65.5 million, less a deductible of $2.2 million, to give net proceeds of $63.3 million. The Company received cash advances of $30.0 million from its insurer in 2008 and the remaining amount of $33.3 million in the second quarter of 2009. Under the terms of the settlement, there are no conditions attached to the use of the proceeds.

Other Income and Expense

Other expense for 2009 was $11.4 million, compared to income of $12.7 million recorded for 2008. In both years, the significant majority of these amounts reflected foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations.

Income Tax Recovery

The Company recorded an income tax recovery of $71.9 million in 2009, compared to a recovery of $141.9 million in 2008.

The 2009 recovery is comprised of a current income tax recovery of $49.4 million and a future income tax recovery of $22.5 million. The most significant factors contributing to the future income tax recovery are the impact of an increase in the non-capital losses carried forward, which gave rise to a recovery of $16.2 million, the impact of the reversal in temporary differences relating to property plant and equipment, which gave rise to a recovery of $25.9 million, offset by the impact of the realization of derivative financial instruments, which gave rise to an expense of $21.1 million.

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

(millions of dollars)	2009	2008
Net loss before income taxes and non-controlling interests	**$ (134.7)**	$ (463.1)
Income tax recovery at statutory rate	**$ 40.4**	$ 143.6
Add (deduct):		
Non-controlling interests	**2.3**	7.4
Change in corporate income tax rates	**7.3**	9.1
Entities with different income tax rates and other tax adjustments	**2.9**	4.4
Tax recovery at rates other than statutory rate	**2.8**	3.5
Permanent difference from capital gains and losses and other non-deductible items	**16.2**	(26.1)
Income tax recovery	**$ 71.9**	$ 141.9

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at the end of the years 2009 and 2008:

(millions of dollars, except for ratios)	2009	2008
Net cash	**$ 133.4**	$ 362.4
Operating working capital	**326.2**	322.7
Current portion of long-term debt	**(34.0)**	(168.3)
Current portion of deferred reforestation	**(27.8)**	(32.5)
Income taxes recoverable	**45.5**	47.1
Net working capital	**443.3**	531.4
Long-term investments	**93.7**	125.7
Property, plant, equipment and timber	**1,676.6**	1,798.5
Goodwill	**73.3**	85.7
Deferred charges	**117.1**	110.2
Net assets	**$ 2,404.0**	$ 2,651.5
Long-term debt	**$ 333.3**	$ 428.7
Deferred reforestation obligation	**60.3**	63.1
Other long-term provisions and accruals	**149.5**	145.7
Future income taxes, net	**200.8**	242.4
Non-controlling interests	**273.3**	276.8
Shareholders' equity	**1,386.8**	1,494.8
	$ 2,404.0	$ 2,651.5
Ratio of current assets to current liabilities	**2.6 : 1**	2.0 : 1
Ratio of net debt to capitalization	**14.5%**	14.8%

The decrease in net assets in 2009 primarily reflected the Company's losses for the year, as well as the impact of the stronger Canadian dollar on its US dollar denominated debt.

Canfor's ratio of current assets to current liabilities was 2.6:1 at the end of 2009, up from 2.0:1 at the end of 2008. While net working capital decreased by $88.1 million over the year, lower current liabilities at the end of 2009 resulted in a higher current ratio compared to the end of 2008 (due to the lower denominator in the ratio calculation). The net decrease in actual net working capital resulted primarily from 2009 cash operating losses and capital spending, which were offset in part by working capital reductions and proceeds from the Panel and Fibre property sale.

The Company's net debt to capitalization ratio was 14.5% at December 31, 2009, which was substantially unchanged from the previous year. The impact of lower net debt balances at year end, in part reflecting foreign exchange gains on US dollar debt, offset the impact of the year's net loss and the foreign exchange loss on Canfor's self-sustaining foreign operations recorded in shareholders' equity.

CHANGES IN FINANCIAL POSITION

At the end of 2009, Canfor had $133.4 million of cash and cash equivalents.

(millions of dollars, except for rations)		**2009**		2008
Cash generated from (used in)				
Operating activities	**$**	**(68.6)**	$	151.8
Financing activities		**(208.3)**		(42.4)
Investing activities		**49.6**		(48.4)
Foreign exchange gain (loss) on cash and cash equivalents of self-sustaining foreign operations		**(1.7)**		5.9
Increase (decrease) in cash and cash equivalents	**$**	**(229.0)**	$	66.9

The changes in the components of these cash flows during 2009 are discussed below:

Operating Activities

In 2009, Canfor used cash from operations of $68.6 million, compared to cash of $151.8 million generated in 2008. Cash used in 2009 reflected higher operating losses, which were partly offset by reductions in working capital balances, related to lower operating levels and targeted reductions in log, in-process and finished goods inventory levels. For 2008, the cash generated from operations included an income tax refund of $137.5 million, related to previous period losses, and lower trade receivables balances, which were partly offset by restructuring, mill closure and severance payments made during that year.

Financing Activities

Financing activities in 2009 used net cash of $208.3 million, $165.9 million higher than the $42.4 million used in 2008. The increase reflected repayments of long-term debt totaling $175.5 million in 2009 compared to $14.8 million repaid in 2008. Also in 2009, CPLP repaid its operating loan of $25.2 million drawn in 2008, and the Company paid less cash distributions to non-controlling interests (2009 - $8.9 million; 2008 - $52.3 million), due to lower cash flow from operations.

Investing Activities

Net cash generated from investing activities in 2009 amounted to $49.6 million (2008 – outflow of $48.4 million).

Property, plant and equipment additions totaled $59.0 million for 2009, of which approximately $40 million was spent to improve the Company's cost position, production and capacity. The balance was to maintain the existing productive capacity of the operations or to ensure Canfor's safety and environmental performance. The challenging operating climate led to the continuation of restrained capital spending in 2009. The more significant projects included completion of the Fort St. John sawmill energy system, where bark is burned to provide heat for drying lumber, a capital upgrade at the Darlington sawmill and the commencement of a new energy system at the Mackenzie sawmill. In the pulp segment, capital spending consisted primarily of essential maintenance of business projects and a payment of $4.3 million by CPLP to BC Hydro in September to reduce CPLP's obligation for power production from its cogeneration project at the Prince George Pulp and Paper Mill.

Sales of non-core assets, including the site of the Company's former Panel and Fibre operation, generated cash of $55.3 million. The Company also received cash of $33.3 million upon final settlement of its NCP mill fire claim (in 2008, the Company received advances of $30.0 million). Cash of $19.9 million was also received in connection with the partial redemption of ABCP and interest income related to the ABCP's restructuring period.

Changes in Equity

In addition to the 2009 $70.5 million net loss charged to retained earnings, other comprehensive income decreased by $37.5 million, reflecting the impact of the stronger Canadian dollar on the translation of the Company's foreign subsidiaries.

FINANCIAL REQUIREMENTS AND LIQUIDITY

Operating Loans

On a consolidated basis, at December 31, 2009, the Company had $445.6 million of unsecured operating loan facilities, of which $0.6 million was drawn down and an additional $18.6 million was reserved for several standby letters of credit. The Company also had a separate facility to cover a $16.0 million standby letter of credit.

Excluding CPLP, the Company's bank operating lines were $405.6 million of which $0.6 million was drawn down and $18.1 million was reserved for several standby letters of credit, the majority of which relates to unregistered pension plans.

The Company's operating loan facilities include two facilities in the amounts of US$12.9 million ("Facility A") and US$34.1 million ("Facility B") at December 31, 2009, which were negotiated in the first quarter of 2009. Facility A expires in January 2012, with the option of four one-year extensions, and is non-recourse to the Company under normal circumstances, except for 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.

On September 30, 2009, CPLP completed a new $40.0 million bank credit facility with a maturity date of November 30, 2011, of which $0.5 million was utilized at December 31, 2009 for standby letters of credit issued for general business purposes. In addition, CPLP arranged 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 under an Energy Purchase Agreement.

Debt Covenants

Canfor has certain financial covenants on its debt obligations that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on total shareholders' equity. The net debt to total capitalization is calculated by dividing total debt, less cash and cash equivalents, by shareholders' equity plus total debt less cash and cash equivalents. Debt obligations are held by various entities within the Canfor group and the individual debt agreements specify the entities within the group that are to be included in the covenant calculations.

In certain circumstances, when net debt to total capitalization exceeds a certain threshold, Canfor is subject to an interest coverage ratio that requires a minimum amount of EBITDA relative to net interest expense.

In addition, CPLP has leverage and interest coverage ratios calculated by reference to operating earnings before interest, taxes, depreciation and amortization.

Provisions contained in Canfor's long-term borrowing agreements also limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. Canfor was in compliance with all its debt covenants for the year ended December 31, 2009.

2010 Projected Capital Spending and Debt Repayments

Based on its current outlook for 2010, assuming no further deterioration in market conditions in 2010, the Company anticipates that it may invest approximately $75 million in capital projects (net of estimated Green Transformation funds received), which will consist primarily of maintenance of business expenditures and a small number of improvement projects. Scheduled long-term debt repayments in 2010 consist of a US$32.3 million payment due in March. Canfor intends to finance its planned capital expenditures and scheduled debt repayments from existing cash reserves.

Derivative Financial Instruments

As at December 31, 2009, the Company had the following derivatives:

a. Foreign exchange forward contracts and collars of US$98.0 million. There were unrealized gains of $1.6 million on the foreign exchange derivatives at the end of the year. The contracts in place at the end of 2009 were as follows:

	2009	
	Notional Amount	**Exchange Rates**
US dollar collars	(millions of US dollars)	(protection / topside, per dollar)
0-12 months		
US Dollar Collars	**$ 12.0**	**$ 1.0500 / $ 1.2200**
US dollar forward sales contracts	(millions of US dollars)	(range of rates, per dollar)
0-12 months		
US Dollar Forward Contracts	**$ 86.0**	**$ 1.0302 - $ 1.0723**

In early 2010, the Company entered into additional foreign exchange collars with a total notional amount of $165.0 million and protection and topside rates of $1.04 and $1.21 per US dollar, respectively.

b. Floating to fixed swaps that fix the price of future natural gas purchases on 3.2 million gigajoules. There were unrealized losses of $6.8 million on the natural gas swaps at the end of the year.

	2009	
	Notional Amount	**Average Rate**
Natural Gas	(millions of gigajoules)	(dollars per gigajoule)
Floating to fixed swap		
0 – 12 months	**2.1**	**$ 7.53**
13 – 36 months	**1.1**	**$ 8.04**

c. Floating to fixed swaps that fix the price of diesel purchases on 2.0 million gallons. There were unrealized losses of $0.9 million on these swaps at the end of the year. Canfor uses heating oil contracts as proxy to hedge the diesel purchases.

	2009	
	Notional Amount	**Average Rate**
Diesel	(millions of gallons)	(dollars per gallon)
Floating to fixed swap		
0 – 12 months	**1.8**	**$ 2.49**
13 – 36 months	**0.2**	**$ 2.12**

d. Futures contracts for the sale of lumber with a total notional amount of 55.8 MMfbm. There were unrealized gains of $0.3 million at year end on these contracts.

	2009	
	Notional Amount	**Average Rate**
Lumber	(MMfbm)	(US dollars per Mfbm)
Futures contracts		
0 – 12 months	**55.8**	**$ 242.30**

Commitments

The following table summarizes Canfor's financial contractual obligations at December 31, 2009 for each of the next five years and thereafter:

(millions of dollars)	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt and capital lease obligations	$ 34.0	$ 87.4	$ 52.3	$ 193.6	$ -	$ -	$ 367.3
Interest payments on long-term debt	$ 21.4	$ 16.2	$ 11.9	$ 7.8	$ -	$ -	$ 57.3
Operating leases	$ 15.1	$ 10.1	$ 6.7	$ 4.1	$ 1.6	$ 0.7	$ 38.3
	$ 70.5	$ 113.7	$ 70.9	$ 205.5	$ 1.6	$ 0.7	$ 462.9

Other contractual obligations not included in the table above are:

- Contractual commitments totaling $30.2 million, principally related to the construction of capital assets. This relates in part to the new energy system at the Mackenzie sawmill and capital expenditures at the Chetwynd sawmill in advance of its anticipated re-opening in the spring of 2010.
- Purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor's requirements in any given year.
- Deferred reforestation, for which a liability of $88.1 million has been recorded at December 31, 2009 (2008 – $95.6 million). The reforestation liability is a fluctuating obligation, based on the area harvested. The future cash outflows are a function of the actual costs of silviculture programs and of harvesting and are based on, among other things, the location of the harvesting and the activities necessary to adequately stock harvested areas and achieve a "free-to-grow" state.
- Obligations to pay pension and other post-employment benefits, for which a liability of $132.2 million has been recorded at December 31, 2009 (2008 - $127.0 million).

Pension Obligations

A new funding valuation as of December 31, 2009 is currently being performed for certain pension plans of the Company. The Company estimates that the cash funding contributions required for 2010 will likely be between $25 million and $40 million, in part dependent upon the amortization period of the funding deficit (5 or 10 years, subject to regulator approval). Of this amount, approximately $8 million will relate to current service costs of active employees.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on the same terms as those accorded to unrelated third parties, except where noted otherwise.

Howe Sound Pulp and Paper Limited Partnership

Howe Sound Pulp and Paper Limited Partnership ("HSLP") is jointly owned by Canfor and Oji Paper Co. Ltd. ("Oji"), as limited partners, and operates a kraft pulp and newsprint mill at Port Mellon, British Columbia.

At December 31, 2009, Canfor recorded a total net receivable from HSLP, after impairments, of $21.2 million. Canfor's transactions with HSLP during 2009, as well as various receivable balances that are included in this net receivable balance, are set out below:

(a) Under a long-term fibre agreement with Western Forest Products Inc., Coastal Fibre Limited Partnership ("CFLP") purchases chips and logs for resale to HSLP at CFLP's cost. In 2009, these purchases totaled $9.8 million and $11.2 million respectively and the balance receivable at December 31, 2009 was $21.3 million. CFLP charges HSLP a commission for this service, which amounted to $0.1 million in 2009 and at December 31, 2009, there was a balance receivable of $0.9 million. These amounts have been proportionately consolidated in Canfor's financial statements.

(b) Canfor and Oji, the partners of HSLP, and HSLP have a prepayment agreement whereby the partners prepay HSLP in advance of the due date for receivables for pulp marketed, or to be marketed, and collected on their behalf. Canfor charges a market rate of interest to HSLP for the period paid in advance and the prepayment is partially covered by the assignment of current or future accounts receivable. The agreement provides for Canfor and Oji to prepay up to a maximum amount of $60.0 million each, which is used as short-term operating funds by HSLP. Canfor, through CPLP, markets the pulp production of HSLP for which it receives commissions under the terms of its agency sales agreement. Canfor provides management, fibre supply and other services to HSLP at cost. At December 31, 2009, Canfor has a balance of $41.4 million owing from HSLP.

Other

Other related party transactions include:

1. The purchase of pulp chips and lumber, at market value, from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which Canfor holds a one-third equity interest; and
2. Shipping services provided to Canfor by Seaboard International Shipping Company, in which Canfor holds a minority interest.

Additional details are contained in note 27 to Canfor's 2009 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Sales and income (millions of dollars)								
Sales	$ 549.6	$ 540.9	$ 541.7	$ 488.2	$ 588.7	$ 668.0	$ 706.4	$ 648.5
Operating income (loss)	$ (23.6)	$ (31.4)	$ (31.2)	$ (124.2)	$ (74.2)	$ 12.8	$ 20.8	$ (117.5)
Net income (loss)	$ (17.0)	$ (5.2)	$ 10.5	$ (58.8)	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)
Per common share (dollars)								
Net income (loss) – basic and diluted	$ (0.12)	$ (0.04)	$ 0.07	$ (0.41)	$ (1.61)	$ (0.66)	$ 0.45	$ (0.60)
Statistics								
Lumber shipments (MMfbm)	887	837	884	791	956	906	1,107	1,023
OSB shipments (MMsf 3/8")	63	69	61	30	56	91	153	164
Pulp shipments (000 mt)	315	307	344	277	236	284	289	279
Average exchange rate – US$/Cdn$	$ 0.947	$ 0.912	$ 0.858	$ 0.803	$ 0.825	$ 0.960	$ 0.990	$ 0.996
Average Western SPF 2x4 #2&Btr lumber price (US$)	$ 205	$ 191	$ 174	$ 155	$ 190	$ 263	$ 230	$ 205
Average SYP (East) 2x4 #2 lumber price (US$)	$ 231	$ 230	$ 236	$ 235	$ 258	$ 289	$ 294	$ 285
Average OSB price – North Central (US$)	$ 172	$ 178	$ 145	$ 154	$ 172	$ 202	$ 174	$ 138
Average NBSK pulp list price delivered to U.S. (US$)	$ 820	$ 733	$ 645	$ 673	$ 787	$ 880	$ 880	$ 880

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills, OSB plants, and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and summer months. These factors, along with global supply and demand conditions, affect the Company's shipment volumes. Also, the global economic slowdown and collapse of the U.S housing market has adversely impacted the Company's results since 2008.

THREE-YEAR COMPARATIVE REVIEW

(millions of dollars, except per share amounts)		2009		2008		2007
Sales	**$**	**2,120.4**	$	2,611.6	$	3,275.6
Net income (loss)	**$**	**(70.5)**	$	(345.2)	$	(360.6)
Total assets	**$**	**2,677.8**	$	3,200.4	$	3,507.8
Total long-term financial liabilities	**$**	**333.3**	$	428.7	$	481.6
Net income (loss) per share, basic and diluted	**$**	**(0.50)**	$	(2.42)	$	(2.53)

QUARTER ENDED DECEMBER 31, 2009 VS. QUARTER ENDED DECEMBER 31, 2008

Overview of Operating Results

The Company recorded EBITDA of $15.2 million and a net loss of $17.0 million for the fourth quarter of 2009, compared to negative EBITDA of $30.2 million and a net loss of $229.8 million in the fourth quarter of 2008. The loss per share (basis and diluted) was $0.12 for the fourth quarter of 2009, compared to a loss per share of $1.61 in the fourth quarter of 2008.

The fourth quarter of 2008's results included asset impairment charges of $99.6 million ($74.1 million, or $0.52 per share after taxes).

An overview of the results by business segment for the fourth quarter of 2009 compared to the last quarter of 2008 follows.

Lumber

Selected Financial Information and Statistics - Lumber

Summarized results for the Lumber segment for the fourth quarter of 2009 and 2008 were as follows:

(millions of dollars, unless otherwise noted)		Q4 2009		Q4 2008
Sales	**$**	**285.3**	$	363.9
Operating income (loss)	**$**	**(30.8)**	$	(50.8)
EBITDA, as reported	**$**	**(8.6)**	$	(24.1)
Restructuring, mill closure and severance costs	**$**	**4.3**	$	3.7
Negative (positive) impact of inventory write-downs	**$**	**0.1**	$	15.5
EBITDA excluding impact of inventory write-downs and restructuring	**$**	**(4.2)**	$	(4.9)
Average SPF 2x4 #2 & Btr lumber price in US$[22]	**$**	**205**	$	190
Average SPF price in Cdn$	**$**	**216**	$	230
Average SYP 2x4 #2 lumber price in US$[23]	**$**	**231**	$	258
Average SYP price in Cdn$	**$**	**244**	$	313
Production – SPF lumber (MMfbm)		**691.7**		791.6
Production – SYP lumber (MMfbm)		**76.0**		78.6
Shipments – Canfor-produced SPF lumber (MMfbm) [24]		**750.1**		834.3
Shipments – Canfor-produced SYP lumber (MMfbm) [24]		**115.8**		86.2
Shipments – wholesale lumber (MMfbm)		**20.6**		35.7

[22] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[23] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[24] Includes shipments of lumber purchased for remanufacture.

Overview

The Lumber segment reported negative EBITDA of $8.6 million for the fourth quarter of 2009, an improvement of $15.5 million from EBITDA of negative $24.1 million reported for the same quarter of 2008. Excluding the impact of inventory write-down adjustments and restructuring costs, EBITDA in the current quarter was down $0.7 million from the comparative period. In the last quarter of 2008, the Company recorded higher inventory write-downs, following a significant decline in market prices that resulted from a sharp falloff in demand.

Compared to the same quarter of 2008, there were modest increases in US dollar prices for most narrow dimension Western SPF lumber products, and more significant price gains for several wider dimensions. The Company's unit manufacturing costs at its sawmills were down 8%, despite significantly higher market curtailment. The price gains and lower unit costs offset the combined impact of the 15% increase in the value of the Canadian dollar compared to the US dollar, the Third Country Adjustment export tax refund recorded in late 2008, and to a lesser extent lower residual chip prices related to lower Canadian dollar realized NBSK pulp prices.

Markets

Demand for softwood lumber remained weak in the last quarter of 2009. U.S. housing starts averaged 554,000[25] units SAAR for the quarter, a 16% decrease from the fourth quarter of 2008, while single family starts were in line with the comparative quarter at 472,000[25] units. Home sales increased and inventories of both new and existing homes declined in response to lower home prices, historically low mortgage rates, and the U.S. federal government's tax credit of $8,000 for first-time homebuyers. The U.S. federal government has extended the deadline for this credit from November 2009 to April 2010, and recently announced a further home buyers tax credit of $6,500 for current homeowners, also until April 2010.

The slow recovery of the Canadian housing market from the lows in the first part of 2009 continued in the fourth quarter. Housing starts averaged 171,000[26] thousand units SAAR, in line with the fourth quarter of 2008.

Total offshore lumber sales volumes almost doubled from the fourth quarter of last year, with shipments to both China and Japan well up, gaining 31% and 29% respectively.

Sales

Lumber sales revenue for the fourth quarter of 2009 was down $78.6 million, or 22%, compared to the fourth quarter of 2008. Overall, shipments were down 70 million board feet, or 7%, with additional market-related curtailment offset in part by higher drawdowns in finished good inventories as well as productivity gains in the current quarter.

Lumber SPF prices, as measured by Western SPF 2x4 #2&Btr, were up US$15 per Mfbm, or 8%, compared to the fourth quarter of 2008. Similar movements were recorded for most other Western SPF widths. The one exception was 2x10 wide dimension lumber products, where US dollar prices moved up over 50% from the same quarter in 2008. With the exception of 2x10 products, the pricing gains were eroded by a 12 cent, or 15%, increase in the average value of the Canadian dollar compared to the same quarter a year ago. Average prices for SYP lumber, as measured by 2x4 #2, were down US$27 per Mfbm, or 10%, over the same period.

The Random Lengths Framing Lumber Composite price averaged US$243[27] per Mfbm for the fourth quarter of 2009, remaining well below the trigger price of US$315 per Mfbm required to reduce the export tax rate on all U.S. bound shipments below the current rate of 15%.

Total residual fibre revenue was down sharply compared to the same quarter of 2008 due to the combination of reduced operating rates and weaker Canadian dollar NBSK pulp prices in the current period.

[25] U.S Census Bureau
[26] CMHC
[27] Random Lengths Publications, Inc.

Operations

Lumber production for the fourth quarter of 2009 was 768 million board feet, 103 million board feet, or 12%, lower than for the same quarter in 2008. Production for the current quarter reflected the indefinite idling of the Chetwynd, Radium, Rustad and Vavenby sawmills, as well as a reduced number of shifts at other locations. In the same quarter of 2008, the Company's Chetwynd and Mackenzie mills were idled. Productivity gains partly offset the impact of the additional market curtailment in the current period.

Unit manufacturing costs were 8% lower than the same quarter of 2008, mainly due to further cost reduction initiatives which reduced operating and overhead costs, lower energy costs, increased sawmill and planer productivity, and lower log market stumpage rates and purchased wood costs resulting from depressed markets and lumber prices.

The impact of inventory write-down adjustments was minimal in the fourth quarter of 2009. In contrast, the fourth quarter of 2008's results included a negative impact of $15.5 million from such adjustments, principally reflecting the sharp falloff in prices resulting from the significant deterioration in market conditions during that quarter.

Restructuring costs in the fourth quarter were $4.3 million, $0.6 million higher than for the last quarter of 2008. Costs in the fourth quarter of 2009 included costs associated with three B.C. Interior sawmills that were indefinitely idled midway through the year, while the Mackenzie sawmill was idled through the last quarter of 2008 (subsequently reopened in July 2009).

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[28]

Summarized results for the Pulp and Paper segment for the fourth quarter of 2009 and 2008 were as follows:

(millions of dollars, unless otherwise noted)		**Q4 2009**		**Q4 2008**
Sales	**$**	**253.3**	$	204.3
Operating (loss) income[29]	**$**	**16.5**	$	(2.2)
EBITDA[30]	**$**	**29.3**	$	8.9
Average pulp price delivered to U.S. – US$[30]	**$**	**820**	$	787
Average price in Cdn$	**$**	**866**	$	954
Production – pulp (000 mt)		**307.3**		256.1
Production – paper (000 mt)		**38.4**		30.1
Shipments – Canfor-produced pulp (000 mt)		**315.4**		235.6
Pulp marketed on behalf of HSLP (000 mt)[31]		**68.2**		52.6
Shipments – paper (000 mt)		**38.1**		24.3

[28] Includes the Taylor Pulp mill and 100% of CPLP, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.
[29] Earnings for 2009 include a positive impact from inventory write-down adjustments of $2.4 million (2008 – negative impact of $2.5 million)
[30] Per tonne, NBSK pulp price delivered to U.S. (RISI)
[31] Howe Sound Pulp and Paper Limited Partnership Pulp mill

Overview

EBITDA in the Pulp and Paper segment for the fourth quarter of 2009 was $29.3 million, up $20.4 million from the fourth quarter of 2008. The improved performance was primarily attributable to higher shipments, lower fibre, chemical and natural gas costs, fewer scheduled maintenance outages and the favourable impact of higher production volumes on unit costs. Higher NBSK pulp and BCTMP US dollar prices and lower freight costs were more than offset by the much stronger Canadian dollar and a lower value sales mix. Both CPLP and the Taylor Pulp mill took market downtime towards the end of the fourth quarter of 2008, as a result of a sharp drop in demand and prices.

Markets

Pulp market conditions were strong in the fourth quarter of 2009 as a significant number of pulp mills remained idled which kept supply constrained, resulting in significant reductions in producer inventory stocks. The consumption levels have been steadily improving since earlier in the year. Although full year 2009 Pulp and Paper Products Council statistics indicate that global demand for printing and writing papers was down 11%, there has been steady improvement in monthly demand since the end of the first quarter of 2009.

The steady improvement in consumption and continued reduction of supply has resulted in lower pulp inventories. At the end of December 2009, World 20[32] producers of bleached softwood pulp inventories stood at 23 days of supply. By comparison, December 2008 inventories stood at 40 days of supply. Market conditions are considered balanced when inventories fall in the 27 to 30 days of supply range.

Kraft paper demand in the fourth quarter remained strong as customers had to replenish stock levels that had been drawn down, in many cases to critically low levels.

Sales

Shipments of Canfor-produced pulp were up 80,000 tonnes, or 34%, from the fourth quarter of 2008, primarily reflecting improved demand and additional non-contract business.

Average NBSK market pulp list prices for U.S. delivery in the fourth quarter of 2009 were US$820 per tonne, up US$33, or 4%, from the comparable quarter of 2008. The increase in US dollar prices was more than offset by the 15% increase in the value of the Canadian dollar and a higher percentage of sales of lower margin business (including non-contract business to Asia).

Operations

Pulp production for the fourth quarter of 2009 was 307,000 tonnes, up 51,000 tonnes, or 20%, compared to the fourth quarter of 2008, mostly as a result of fewer scheduled maintenance outages, and the market curtailment taken by CPLP and the Taylor Pulp mill in late 2008.

Unit manufacturing costs were well down compared to the same quarter of 2008, as a result of higher production volumes, lower fibre, chemical and energy costs and the impact of less scheduled maintenance. The lower fibre costs reflected lower market prices for sawmill residual and whole log chips.

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

Unallocated and Other Items

(millions of dollars)		Q4 2009		Q4 2008
Operating loss of Panels operations[33]	**$**	**(3.5)**	$	(15.2)
Corporate costs	**$**	**(5.8)**	$	(6.0)
Interest expense, net	**$**	**(7.1)**	$	(7.7)
Foreign exchange gain (loss) on long-term debt and investments, net	**$**	**8.0**	$	(72.0)
Gain (loss) on derivative financial instruments	**$**	**2.3**	$	(81.7)
Prince George Pulp & Paper mill fire, net	**$**	**-**	$	(0.3)
Asset impairments	**$**	**-**	$	(99.6)
Other income (expense), net	**$**	**(2.7)**	$	12.9

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

Results of the Panels operations in the fourth quarter of 2009 reflected weak OSB market conditions and the ongoing costs of indefinitely idling the Tackama and PolarBoard plants. The operating loss of $3.5 million for the fourth quarter of 2009 represented an improvement of $11.7 million from the same quarter in 2008, and was mostly the result of the indefinite idling of the Tackama plant in October 2008 and higher log inventory write-downs recorded in the last quarter of 2008. At Peace Valley OSB, a higher-value sales mix and lower wax and resin costs in the current quarter more than offset the impact of the stronger Canadian dollar on sales realizations and annual maintenance shutdown costs in the fourth quarter of 2009.

Corporate costs were $5.8 million for the fourth quarter of 2009, down $0.2 million from the fourth quarter of 2008, as savings from the elimination of short term incentive compensation in 2009 and other cost reduction initiatives were offset by higher share based compensation in the current period, due to an increase in the Company's share price, and the reversal of an incentive compensation expense recorded in the last quarter of 2008.

Net interest expense of $7.1 million for the fourth quarter of 2009 was down $0.6 million from the fourth quarter of 2008. Savings from lower debt levels in the current quarter and the impact of the stronger Canadian dollar on interest on US dollar denominated debt more than offset lower interest income on reduced cash balances in the current period. The expense for the fourth quarter of 2009 also included fees related to CPLP's new credit facilities.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt, net of investments, of $8.0 million for the fourth quarter of 2009, as a result of the 2% increase in the value of the Canadian dollar against the US dollar over the quarter. In the fourth quarter of 2008, the Company recorded a loss of $72.0 million, as a result of a 13% decline in the value of the Canadian dollar over that period.

In the fourth quarter of 2009, the Company recorded a net gain of $2.3 million related to its derivative instruments, due substantially to the stronger Canadian dollar. For the fourth quarter of 2008, the Company recorded a net loss of $81.7 million, as a result of the significant weakening of the Canadian dollar over that period.

Other expense, net of $2.7 million for the fourth quarter of 2009 and other income, net of $12.9 million for the fourth quarter of 2008 for the most part reflected foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations over each of the respective quarters.

EBITDA RECONCILIATION AND SPECIFIC ITEMS AFFECTING COMPARABILITY

EBITDA Reconciliation

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

(millions of dollars)	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net (loss) income, as reported	**$ (17.0)**	**$ (5.2)**	**$ 10.5**	**$ (58.8)**	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)
Add (subtract):								
Amortization	**$ 38.8**	**$ 38.4**	**$ 38.5**	**$ 39.6**	$ 44.0	$ 42.2	$ 41.5	$ 43.5
Interest expense, net	**$ 7.1**	**$ 6.9**	**$ 7.0**	**$ 8.3**	$ 7.7	$ 6.7	$ 5.7	$ 5.3
Foreign exchange loss (gain) on long-term debt and temporary investments, net	**$ (8.0)**	**$ (26.2)**	**$ (29.1)**	**$ 12.9**	$ 72.0	$ 16.2	$ 0.1	$ 12.0
Loss (gain) on derivative financial instruments	**$ (2.3)**	**$ (17.7)**	**$ (25.7)**	**$ 21.3**	$ 81.7	$ 38.8	$ (26.0)	$ (6.0)
Gain on sale of mill property	**$ -**	**$ -**	**$ -**	**$ (44.6)**	$ -	$ -	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	**$ -**	**$ 3.0**	**$ -**	$ -	$ -	$ (57.9)	$ -
Prince George Pulp & Paper mill fire, net	**$ -**	**$ -**	**$ -**	**$ -**	$ 0.3	$ -	$ -	$ (8.5)
Asset impairments	**$ -**	**$ -**	**$ -**	**$ -**	$ 99.6	$ 70.0	$ -	$ -
Other (income) expense	**$ 2.7**	**$ 8.7**	**$ 2.5**	**$ (2.5)**	$ (12.9)	$ (0.1)	$ 1.5	$ (1.2)
Income tax (recovery) expense	**$ (14.0)**	**$ (7.2)**	**$ (1.0)**	**$ (49.7)**	$ (80.2)	$ (30.0)	$ 24.0	$ (55.7)
Non-controlling interests	**$ 7.9**	**$ 9.3**	**$ 1.6**	**$ (11.1)**	$ (12.6)	$ 5.4	$ 9.2	$ 22.0
EBITDA, as reported	**$ 15.2**	**$ 7.0**	**$ 7.3**	**$ (84.6)**	$ (30.2)	$ 55.1	$ 62.3	$ (74.0)
Restructuring, mill closure and severance costs	**$ 5.9**	**$ 6.2**	**$ 11.4**	**$ 6.4**	$ 10.3	$ 5.4	$ 34.0	$ 3.8
Negative (positive) impact of inventory write-downs[34]	**$ (0.5)**	**$ 1.7**	**$ (52.2)**	**$ 29.8**	$ 17.6	$ 3.5	$ (88.4)	$ 38.9
EBITDA excluding impact of inventory write-downs and restructuring	**$ 20.6**	**$ 14.9**	**$ (33.5)**	**$ (48.4)**	$ (2.3)	$ 64.0	$ 7.9	$ (31.3)

[34] 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. Where NRV is below cost this can result in large swings in inventory write-down amounts recorded in those periods. In addition to inventory volumes, the level of inventory write-downs recorded in a reporting period reflects changes in market prices, foreign exchange rates, and costs over the respective reporting periods.

Specific Items Affecting Comparability of Net Loss

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)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net income (loss), as reported	**$ (17.0)**	**$ (5.2)**	**$ 10.5**	**$ (58.8)**	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)
Restructuring, mill closure and severance costs	**$ 5.4**	**$ 5.3**	**$ 7.5**	**$ 4.2**	$ 6.9	$ 3.6	$ 22.3	$ 2.6
Foreign exchange (gain) loss on long-term debt and temporary investments, net	**$ (5.8)**	**$ (19.6)**	**$ (19.7)**	**$ 9.1**	$ 52.2	$ 11.3	$ -	$ 8.7
(Gain) loss on derivative financial instruments	**$ (1.4)**	**$ (12.7)**	**$ (17.3)**	**$ 12.4**	$ 50.3	$ 21.4	$ (14.5)	$ (2.7)
Gain on sale of mill property	**$ -**	**$ -**	**$ -**	**$ (37.8)**	$ -	$ -	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	**$ -**	**$ 2.0**	**$ -**	$ -	$ -	$ (45.0)	$ -
Prince George Pulp & Paper mill fire, net	**$ -**	**$ -**	**$ -**	**$ -**	$ 0.2	$ -	$ -	$ (3.6)
Asset impairments	**$ -**	**$ -**	**$ -**	**$ -**	$ 74.1	$ 56.9	$ -	$ -
Corporate income tax rate reductions	**$ -**	**$ -**	**$ -**	**$ (7.3)**	$ -	$ -	$ -	$ (9.1)
Net impact of above items	**$ (1.8)**	**$ (27.0)**	**$ (27.5)**	**$ (19.4)**	$ 183.7	$ 93.2	$ (37.2)	$ (4.1)
Adjusted net income (loss)	**$ (18.8)**	**$ (32.2)**	**$ (17.0)**	**$ (78.2)**	$ (46.1)	$ (1.0)	$ 27.0	$ (89.5)
Net income (loss) per share (EPS), as reported	**$ (0.12)**	**$ (0.04)**	**$ 0.07**	**$ (0.41)**	$ (1.61)	$ (0.66)	$ 0.45	$ (0.60)
Net impact of above items per share	**$ (0.01)**	**$ (0.19)**	**$ (0.19)**	**$ (0.14)**	$ 1.29	$ 0.65	$ (0.26)	$ (0.03)
Adjusted net income (loss) per share	**$ (0.13)**	**$ (0.23)**	**$ (0.12)**	**$ (0.55)**	$ (0.32)	$ (0.01)	$ 0.19	$ (0.63)

OUTLOOK

Lumber Markets

Looking ahead, although lumber market prices have improved significantly in early 2010, market conditions in the U.S. are expected to show only a modest improvement for the year overall. New and existing home inventories are forecast to decline somewhat during this period, although high unemployment rates and high mortgage delinquency and foreclosure rates are expected to limit this reduction. Global lumber supply and inventory levels are expected to remain at historically low levels and demand is projected to show a modest increase, in part due to the extension of the U.S. home buyer tax credit to April, 30, 2010. The combination of all these factors is expected to have a positive impact on prices for all products in the first half of the year relative to the fourth quarter of 2009. Lumber consumption in Canada is also expected to increase as new housing starts rise with improved consumer confidence.

The repair and remodeling segment is also expected to show some modest improvement as a result of a projected increase in home sales and increased consumer spending.

Overall, markets in Asia are expected to remain strong, particularly in Japan, China and Korea, which should ensure that inventory levels remain low.

Pulp and Paper Markets

Markets are expected to remain strong through the first quarter of 2010 due to strong seasonal demand. Approximately 12% of global capacity is still idled and some mill restarts are expected to help absorb the current supply shortfall. Inventories held by producers and customers are at low levels compared to what is considered a balanced market. With the supply/demand balance still in the favour of producers, there is potential for further price increases in March or April. Any relative weakness in the US dollar versus the Canadian dollar and the Euro is also expected to exert upward pressure on list prices which are denominated in US dollars.

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. Management regularly reviews these estimates and assumptions based on 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 Canfor's financial position.

Employee Future Benefits

Canfor has various defined benefit and defined contribution plans providing both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other retirement benefit plans are accrued in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA").

Canfor uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other retirement benefit plan obligations. The application of these recommendations requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the expected rate of return on plan assets, the rate of compensation increase and the assumed health care cost trend rates. Management and the Board of Directors' Pension Committee evaluate these assumptions annually based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are amortized over the average remaining service period of the active employee group covered by the plans, only to the extent that the unrecognized net actuarial gains and losses are in excess of 10% of the greater of the accrued benefit obligations and the market-related value of plan assets.

The actuarial assumptions used in measuring Canfor's defined benefit plan are as follows:

	2009		2008	
(weighted average assumptions)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation as of December 31:				
Discount rate	6.25%	6.75%	6.60%	6.70%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Benefit costs for year ended December 31:				
Discount rate	6.60%	6.70%	5.60%	5.50%
Expected long-term rate of return on plan assets	7.50%	n/a	7.50%	n/a
Rate of compensation increase	3.00%	n/a	3.00%	n/a

Assumed health care cost trend rates were as follows:

(weighted average assumptions)	2009	2008
Initial health care cost trend rate	7.15%	5.83%
Ultimate health care trend rate	4.20%	4.40%
Year ultimate rate reached	2029	2014

Assumed health care cost trend rates have a significant effect on the amounts reported for the other post-retirement benefit plans. A one percentage point change in assumed health care cost trend rates in each year would have had the following impact on the amounts recorded in 2009:

	1% Increase	1% Decrease
Increase (decrease) in accrued benefit obligation	$ 20.0	$ 16.3
Increase (decrease) in total service and interest cost	$ 1.4	$ 1.1

See "Financial Requirements and Liquidity – Pension Obligations" section for further discussion regarding the funding position of Canfor's pension plans.

Deferred Reforestation

Canfor accrues an estimate of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation. An estimate is recorded in the financial statements based on the number of hectares of timber harvested in the period and the estimated costs of fulfilling Canfor's obligation. Payments in relation to reforestation are expected to occur over periods of up to 16 years (the significant majority occurring in the first seven years) and have been discounted accordingly at rates of 4% to 9%. The actual costs that will be incurred in the future may vary based on, among other things, the actual costs at the time of silviculture activities.

Future Income Taxes

In accordance with CICA recommendations, Canfor recognizes future income tax assets when it is more likely than not that the future income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the future income tax assets could be reduced or increased, resulting in an income tax expense or recovery. Canfor reevaluates its future income tax assets on a regular basis.

Asset Retirement Obligations

Canfor records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period when a reasonable estimate of fair value can be made. For CPLP's landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 32 to 40 years and have been discounted at rates ranging from 5.8% to 6.3%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. The fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through changes to earnings and reduced by actual costs of settlement.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when such costs are probable and can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable.

Impairment of Goodwill

Goodwill, which is the excess of the purchase price paid for an acquisition over the fair value of the net assets acquired, is not amortized but is assessed annually for impairment or more frequently if events or circumstances indicate that it may be impaired.

In order to assess the goodwill for impairment, an analysis of the future expected discounted cash flows of the assets to which the goodwill relates is prepared as and when required. As part of this process, assumptions are made in relation to forecast product prices and exchange rates. Price forecasts are determined with reference to Resource Information Systems, Inc. ("RISI") publications and management estimates, and forecast exchange rates are based on forecasts from various recognized authorities. Given the inherent uncertainty regarding longer term prices and foreign exchange rates, management considers various possible scenarios and assigns probabilities to the likelihood of occurrence of each of these. The net present value of the future expected cash flows is compared to the carrying value of the Company's investment in these assets, including goodwill, at year end.

Based upon the analysis performed in 2009 the net present value of the estimated future discounted cash flows exceeded the value of the investment, and therefore no impairments to goodwill were required. However, if the U.S. and global economic downturn were to be longer or more severe than anticipated in the forecast assumptions, there is a possibility that an impairment of goodwill may be required in future periods.

Asset Impairments

Capital Assets

Canfor reviews the carrying values of its long-lived assets on a regular basis as events or changes in circumstances may warrant. Where the carrying value of assets is not expected to be recoverable from future cash flows, they are written down to fair value. A review of the carrying values of Canfor's sawmill and panelboard operations and various other assets was undertaken in 2008 and 2009 as a result of operating losses in both years and difficult market conditions.

The first step in this process was to determine for each operation whether projected undiscounted future cash flows from operations exceeded the net carrying amount of the assets as of the assessment date. For those operations where impairment was indicated, the second step was to calculate fair values using discounted future cash flows expected from their use and eventual disposition.

Estimates of future cash flows used to test the recoverability of Canfor's long-lived assets generally include key assumptions related to forecast product prices and exchange rates. Other significant assumptions are the estimated useful life of the long-lived assets, and the impacts of both the Softwood Lumber Agreement with the U.S. and Mountain Pine Beetle epidemic. Price and foreign exchange forecasts for 2010 and beyond were determined with reference to Resource Information Systems, Inc. publications.

As a result of its review, no impairment charges were required in relation to Canfor's capital assets in 2009 (2008 – $77.2 million).

Assets related to Howe Sound Pulp and Paper Limited Partnership and Coastal Fibre Limited Partnership

Canfor holds a 49.99% interest in Howe Sound Pulp and Paper Limited Partnership ("HSLP") and a 50% interest in Coastal Fibre Limited Partnership ("CFLP"), an entity which supplies chips and logs and related services to HSLP. An impairment charge on assets related to HSLP and CFLP of $70.0 million was recorded in 2008, reflecting fair value based on estimated future cash flows. No further impairments were recorded in 2009.

Non-Bank Asset-Backed Commercial Paper

In 2008, an impairment of $10.2 million (US$8.4 million) was recorded in relation to the Company's investment in non-bank asset-backed commercial paper ("ABCP"). These investments had failed to make payment on maturity and were subject to a restructuring plan, which was completed in January 2009. The ABCP was impaired to estimated fair value at December 31, 2008. No further impairments were recorded in 2009.

Other

An impairment amount of $12.2 million was recognized for the year ended December 31, 2008 in relation to other investments and spare parts inventory at indefinitely idled operations.

Valuation of Log and Finished Product Inventories

Solid wood inventories are written down to the lower of cost and net realizable value, which is determined by taking into account forecast prices and exchange rates for the period over which the inventories are expected to be sold. Forecast prices are determined using RISI forecasts and management's estimates as at the year end, and may differ from the actual prices at which the inventories are sold. At the end of December 2009, the inventory balances included total write-downs of $25.7 million.

Allowance for Doubtful Accounts

An allowance for doubtful accounts of $2.1 million has been recorded at December 31, 2009 which reflects management's assessment of risks attached to specific receivable balances. While significant bad debts have not been experienced in prior years, the provision is considered appropriate due to the continued downturn in the U.S. which may affect the ability of certain customers to pay amounts owed to the Company.

CHANGES IN ACCOUNTING POLICIES

Goodwill and Deferred Start-Up Costs

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 Goodwill and Intangible Assets. These requirements have been incorporated into the consolidated financial statements.

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

Financial Instruments

During 2009, the CICA amended Handbook Section 3862 Financial Instruments – Disclosures to require enhanced disclosures about the relative reliability of the data that an entity uses to measure the fair values of its financial instruments. Additional disclosures as required by this amendment include the classification of financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs uses in estimating fair values. These disclosures have been included in Note 26 to the financial statements.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

The 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 expects to early adopt the new standards as of January 1, 2010.

Section 1582 will replace CICA Handbook Section 1581 Business Combinations, and will bring 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 will have a significant impact on the consolidated balance sheet and consolidated statement of income (loss) of Canfor. The non-controlling interest on Canfor's balance sheet will be reclassified from long-term liabilities into equity, and the net income (loss) of non-controlling interests will no longer be deducted in arriving at the total net income (loss) of Canfor. As at December 31, 2009, the effect of applying the new Sections on Canfor's balance sheet would be to reduce long-term liabilities by $273.3 million, and increase equity by the same amount.

International Financial Reporting Standards

In February 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with IFRS for interim and annual periods in fiscal years beginning on or after January 1, 2011. More information on the adoption of IFRS can be found under "Conversion to International Financial Reporting Standards" later in this MD&A.

RISKS AND UNCERTAINTIES

Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, forest land base, government regulations, policy reform and labour disputes, and, for Canadian companies, a history of trade disputes and issues and Aboriginal land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, Canfor does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.

Aboriginal Issues

Canadian judicial decisions have recognized the continued existence in the country of Aboriginal rights, including title, to lands continuously used or occupied by Aboriginal groups. Although Aboriginal groups have claimed Aboriginal rights over substantial portions of B.C. no Aboriginal right or title has yet been determined in areas overlapping with Canfor's forest tenures and other operations. While uncertainty regarding property rights in Canada (including forest tenure and other resource rights) continues to exist, particularly in those areas where treaties have not been concluded with Aboriginal groups, the Government of B.C. has provided greater certainty for the forest industry by reaching agreements on forest resources with many bands. As a means of protecting treaty and aboriginal rights, as well as undetermined aboriginal rights, Canadian courts continue to confirm a duty to consult with Aboriginal groups when the Crown has knowledge of existing rights or the potential existence of an Aboriginal right, such as title, and contemplates conduct that might adversely impact them. The courts have not extended this duty to third parties, such as forest companies.

As issues relating to Aboriginal and treaty rights and consultation continue to be heard, developed and resolved in Canadian courts, Canfor will continue to cooperate, communicate and exchange information and views with Aboriginal groups and government, and participate with the Crown in its consultation processes with Aboriginal groups in order to foster good relationships and minimize risks to its tenures and operational plans. Due to their complexity, it is not expected that the issues regarding Aboriginal and treaty rights or consultation will be finally resolved in the short term and, accordingly, the impact of these issues on the timber supply from Crown lands and Canfor's tenures and on Canfor's operations is unknown at this time.

Canfor believes in building mutually beneficial and lasting relationships with local First Nations whose treaty rights or potential Aboriginal rights overlap with Canfor's areas of operations. Some of these relationships with Aboriginal people have been formalized through agreements that generally seek to increase First Nations' participation in Canfor's planning and harvesting activities while strengthening Canfor's access to fibre.

Environmental Issues

Canfor's operations are subject to environmental regulation by federal, provincial, state and local authorities, including specific environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid waste, landfill operations, forestry practices, site remediation and the protection of endangered species and critical habitat. Canfor has incurred, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on Canfor's business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from Canfor's available cash flow. In addition, Canfor may discover currently unknown environmental issues, contamination, or conditions relating to its past or present operations. This may require site or other remediation costs to maintain compliance or correct violations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on Canfor's business, financial condition and operational results.

Canfor has systems in place to identify, account for and appropriately address potential environmental liabilities. The Company also has governance in place including an Environmental Health and Safety Committee of the Board, an Environmental Management Committee including Officers of the Company, and environmental professionals on staff to manage potential risks, issues and liabilities.

Canfor has in place internal policies and procedures under which all its forestry and manufacturing operations are audited for compliance with laws and accepted standards and with its management systems. Canfor's woodlands operations in Canada are third-party certified to internationally-recognized sustainable forest management standards. Canfor's operations and its ability to sell its products could be adversely affected if those operations did not, or were perceived by the public as failing to, comply with applicable laws and standards, including responsible environmental and sustainable forestry standards.

On November 25, 2009, the B.C. Ministry of Environment released new greenhouse gas ("GHG") reporting regulations under the Greenhouse Gas Reduction Act, requiring any facilities emitting more than 10,000 tonnes of CO2 gas to report 2010 emissions in 2011. Based on this new regulation, a small number of Canfor's sawmills and all of the pulp mills (including CPLP's pulp mills) will have to register and report GHG emissions in 2011. GHG emission reporting has been required federally and in Alberta for several years. CPLP's facilities have been reporting federally, however Canfor facilities have not triggered federal or Alberta reporting thresholds. Canfor is also a participant in the carbon offset market in Alberta, selling offset credits tied to its purchase of renewable heat and power from a biomass cogeneration facility in Grande Prairie.

Financial Risk Management and Earnings Sensitivities

Demand for forest products, both wood products and pulp and paper, is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of its products are sold in US dollars. Consequently, changes in foreign currency relative to the Canadian dollar can impact Canfor's revenues and earnings.

Financial Risk Management

Canfor is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market price risk.

Canfor's Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk.

(a) Credit risk:

Credit risk is the risk of financial loss to Canfor if a customer or third party to a derivative instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable and long-term investments and other. Cash and cash equivalents includes cash held through major Canadian and international financial institutions and temporary investments with an original maturity date of three months or less.

Canfor utilizes a combination of credit insurance, letters of credit and self-insurance to manage the risk associated with trade receivables. Approximately 65% of the outstanding trade receivables are covered by credit insurance. Canfor's trade receivable balance at December 31, 2009 is $137.2 million, net of an allowance for doubtful accounts of $2.1 million. At December 31, 2009, approximately 97% of the trade accounts receivable balance was within Canfor's established credit terms.

(b) Liquidity risk:

Liquidity risk is the risk that Canfor will be unable to meet its financial obligations on a current basis. Canfor manages liquidity risk through regular cash-flow forecasting in conjunction with maintaining in good standing adequate committed operating bank loan facilities.

At December 31, 2009, Canfor has operating loans of $0.6 million, accounts payable and accrued liabilities of $211.4 million and current debt obligations of $34.0 million (US$32.3 million), all of which fall due for payment within one year of the balance sheet date.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency and commodity prices.

(i) Interest Rate risk:

Canfor is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Canfor's cash and cash equivalents include term deposits with original maturity dates of three months or less.

Changes in the market interest rates do not have a significant impact on Canfor's results of operations due to the short-term nature of the respective financial assets and obligations and because all long-term debt is based on fixed rates of interest.

Canfor currently does not use derivative instruments to reduce its exposure to interest rate risk.

(ii) Currency risk:

Canfor is exposed to foreign exchange risk primarily related to the US dollar, as Canfor's products are sold principally in US dollars and all long-term debt is denominated in US dollars. In addition, Canfor holds financial assets and liabilities primarily related to New South Companies Inc. based in South Carolina, in US dollars.

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses and the US dollar denominated debt. Part of the remaining exposure is covered by option contracts (foreign exchange collars) that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars (See "Derivative Financial Instruments" section below).

(iii) Energy Price risk:

Canfor is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The exposure may be hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. In the case of diesel oil, Canfor uses heating oil contracts to hedge its exposure (See "Derivative Financial Instruments" section below).

(iv) Commodity Price risk:

Canfor is exposed to commodity price risk related to the sale of lumber, pulp, paper, and oriented strand board. From time to time, Canfor enters into futures contracts on the Chicago Mercantile Exchange for lumber and forward contracts direct with customers for pulp. Under the Price Risk Management Controls Policy, up to 15% of lumber sales and 5% of pulp sales may be sold in this way.

Derivative Financial Instruments

Subject to risk management policies approved by its Board of Directors, Canfor, from time to time, uses derivative instruments, such as forward exchange contracts and option contracts to hedge future movements of exchange rates and futures and forward contracts to hedge commodity prices. See section "Financial Requirements and Liquidity" for details of Canfor's derivative financial instruments outstanding at year end.

Sensitivities

Estimates of the sensitivity of Canfor's pre-tax results to currency fluctuations and prices for its principal products, based on 2010 Business Plan forecast production and year end foreign exchange rates, are set out in the following table:

	Impact on annual pre-tax earnings (millions of dollars)
SPF lumber – US$10 change per Mfbm[35, 36]	$ 27
SYP lumber – US$10 change per Mfbm[35, 36]	$ 5
Pulp – US$10 change per tonne [35, 36, 37]	$ 8
Canadian dollar – US$0.01 change per Canadian dollar:	
Operations[37]	$ 8
US dollar denominated debt[37]	$ 3

[35] Based on sales of Canfor-produced product.
[36] Excluding potential change in fibre costs.
[37] Includes Canfor's 50.2% interest in CPLP.

Market Conditions

Prices for lumber and panels in 2008 and 2009 have been at historically low levels, which has resulted in large operating losses incurred by the Company in both years, and significant asset impairments recorded in 2008. Should the U.S. and global economic slowdown continue for an extended period of time, there exists a risk that the Company may not remain in compliance with its debt covenants and would have to renegotiate the terms of its borrowing agreements with lenders.

Government Regulation

Canfor is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water and the health and safety of employees. If Canfor is unable to extend or renew a material approval, licence or permit required by such laws, or if there is a delay in renewing any material approval, licence or permit, Canfor's business, financial condition, results of operations and cash flows could be materially adversely affected. Future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to additional expenditures or liabilities.

Income Trust Taxation

On June 12, 2007, legislation was substantively enacted whereby distributions made by publicly traded income trusts and partnerships will be taxed similar to that of income earned and distributed by a corporation. The Specified Investment Flow-Through Trust (SIFT) Tax will become effective on January 1, 2011. On March 12, 2009 the Canadian government enacted legislation (SIFT Conversion Rules) which enables the conversion of a SIFT entity into a corporation on a tax-free rollover basis, prior to 2013. Canfor Pulp Income Fund has reviewed its options and intends to present a proposal for unitholders' approval as its annual general meeting on April 27, 2010 involving an internal restructuring under which unitholders will hold their beneficial interest in CPLP through a corporation rather than a trust. The Company does not consider that this change will have a material impact on its business.

Labour Agreements and Competition for Professional Skilled Labour

Any labour disruptions and any costs associated with labour disruptions at Canfor's mills could have a material adverse effect on its production levels and results of operations. Canfor's various collective agreements with the USWA (United Steelworkers of America), the PPWC (Pulp, Paper and Woodworkers of Canada) and the CEP (Communications, Energy and Paperworkers Union) have terms expiring in June 2009 (USW-Interior B.C.), January 2010 (USW-Uneeda), June 2014 (PPWC) and February 2010 (CEP) respectively. Any future inability to negotiate acceptable contracts could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers. Canfor is currently engaged in negotiations with USW-Interior B.C.

Market conditions may cause shortages of both professional and skilled labour, which could have an adverse impact on the operation and management of Canfor's facilities.

Maintenance Obligations and Facility Disruptions

Canfor's manufacturing processes are vulnerable to operational problems that could impair Canfor's ability to manufacture its products. Canfor could experience a breakdown in any of its machines, or other important equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during operations must be conducted. Such disruptions could cause a significant loss of production, which could have a material adverse effect on Canfor's business, financial condition and operating results.

Mountain Pine Beetle

Timber affected by the Mountain Pine Beetle continued to be a focus for Canfor harvesting activities in B.C. in 2009. The impact of the infestation on Canfor's operations continues to be manageable in the short term and, by applying new technology and best practices, the Company will continue to harvest in the dead pine stands. However, given the nature and extent of the infestation, the long-term operational and financial impact on Canfor may be significant.

A major assumption about impact on harvest levels is the shelf life of the dead Lodgepole Pine, which represents the length of time the timber is commercially viable for sawlogs. Indications are that shelf life can vary from 3 to 15 years depending on soil moisture levels. In addition, utilization of the attacked fibre has been improved by adjustments to harvesting processes to allocate more of this timber to pulping operations.

In 2010, the Chief Forester for the Province of B.C. is scheduled to review the Annual Allowable Cut ("AAC") for six Timber Supply Areas, with Canfor having operations in five of these. At this time the review is not expected to significantly impact the AAC in these areas.

In Alberta, the Mountain Pine Beetle outbreak continues to impact the quality of increasing amounts of fibre, with beetle flights from B.C. in August 2009 leading to additional outbreaks in previously non-infested areas. Government commitments to maintain funding of mountain pine beetle detection, monitoring and management programs into 2010 were secured, despite the significant revenue shortfalls experienced by the Alberta government in 2009.

In February 2010, Canfor received approval for an amendment to its Forest Management Agreement ("FMA") management plan in Alberta which is designed to increase harvesting of newly infested pine stands and pine stands that are most susceptible to beetle attack. The amendment resulted in an increase of approximately 13% in the AAC that will enable the Company to harvest the majority of highly susceptible pine stands in the FMA over the next fifteen years.

Obligations to BC Hydro

Effective September 15, 2009 CPLP finalized an amending energy agreement with BC Hydro which provides for the sale of power production that exceeds an amended commitment of the original cogeneration project at the Prince George Pulp and Paper Mill. The obligation to produce power for the remainder of the term of the agreement, extending to August 2020, is reduced to 338 GWh per year from 390 GWh. Under the agreement, CPLP is required to post a letter of credit as security in annually decreasing amounts as the minimum required amount of electricity is generated. At December 31, 2009, CPLP had no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of $16.0 million had been issued to BC Hydro as security for future power generation commitments.

Residual Fibre Revenues

Wood chips are a residual product of Canfor's lumber manufacturing process and are primarily sold to CPLP. These chips are the principal raw material utilized by CPLP in its pulp manufacturing operations. Canfor has a Fibre Supply Agreement with CPLP, which contains a pricing formula that currently results in CPLP paying Canfor market prices for wood chips based on combined pulp market variability and CPLP product mix efficiencies. Canfor currently provides approximately 63% of CPLP's chip requirements. If market conditions caused CPLP to cease pulp operations for an extended period of time, Canfor would have a limited market for its chip supply and this could affect its ability to run its sawmills economically. Similarly, if lumber market conditions were such that Canfor is unable to provide the current volume of chips to CPLP as a result of sawmill closures, whether temporary or permanent, CPLP's financial results could be materially affected.

Softwood Lumber Agreement

The Softwood Lumber Agreement ("SLA"), in effect from October 2006, provides both Canada and the U.S. with rights to terminate the agreement. In order to terminate under all circumstances except one, the U.S. must provide a six month notice period, and cannot launch a new countervailing duty ("CVD") or anti-dumping duty ("ADD") investigation for 12 months after termination. The exception is that the U.S. may terminate immediately and launch new CVD or ADD cases without the 12 month standstill if Canada is accused of an egregious breach of the SLA. Canada may terminate at any time with six months notice.

Any early termination of the SLA would likely result in the U.S. initiating a new CVD and ADD investigation, potentially leading to duties imposed on the Canadian lumber producers, including the Company.

In addition to the above, the SLA includes a "Surge Mechanism", which increases the export tax rate for the month by 50% when the monthly volume of exports from a region exceeds a certain "Trigger Volume" as defined in the SLA. In 2009, the Company paid surge tax of $0.9 million on shipments from Alberta.

Stumpage Rates

The B.C. government introduced a Market Pricing System ("MPS") for the B.C. Interior on July 1, 2006. Canfor is actively participating in discussions on MPS with the Ministry of Forests, which is scheduled for its fourth annual update on July 1, 2010. Canfor will continue to seek to manage and reduce the stumpage costs for its Interior operations under the stumpage appraisal system. The near-term imperative is to ensure that the stumpage system accurately reflects the market value of timber and is responsive to the deteriorating quality of the beetle-impacted fibre. Changes to the stumpage system and resultant stumpage rates could have a material impact on Canfor's business.

Transportation Services

Canfor relies primarily on third parties for transportation of its products, as well as delivery of raw materials, a significant portion of which are transported by railroad, trucks and ships. If any of Canfor's third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, Canfor may be unable to sell those products at full value, or at all, or unable to manufacture its products in response to customer demand, which could have a material adverse effect on Canfor's financial condition and operating results. In addition, if any of these third parties were to cease operations or cease doing business with Canfor, the Company's operations or cost structure may be adversely impacted.

OUTSTANDING SHARE DATA

At February 10, 2010, there were 142,589,297 common shares issued and outstanding. In addition, at February 10, 2010, there were 200,468 stock options outstanding with exercise prices ranging from $8.30 to $10.10 per share.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ending December 31, 2009, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the year ended December 31, 2009 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2009, the CEO and CFO have concluded that these controls are operating effectively.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Company developed a conversion implementation plan to ensure that differences between Canadian GAAP and IFRS that affect Canfor were identified and that any required changes to accounting processes and controls (including information technology systems) could be made in a timely manner to ensure a smooth transition on January 1, 2010. The conversion plan also includes elements to ensure the timely preparation of comparative information under IFRS for 2010, and to ensure efficient and accurate reporting under IFRS in 2011.

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

Canfor has reviewed the impact of IFRS on its systems, processes and controls. No significant impacts were identified in relation to its information systems or day-to-day accounting processes. Canfor is reviewing its disclosure controls and procedures and will update these as required to ensure that they are appropriate for reporting under IFRS. In addition, 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 changeover in 2011.

Significant accounting impacts of conversion to IFRS for Canfor

A number of differences between Canadian GAAP and IFRS have been identified that are expected to have a significant impact on Canfor's financial statements. The Company is currently in the process of and quantifying these differences in order to prepare an opening balance sheet under IFRS as of January 1, 2010. 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 it currently plans to take are noted below.

<u>Property, plant and equipment</u>

The methodology used to determine if an asset should be impaired is somewhat different under IFRS 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 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 over 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.

<u>Employee future benefits</u>

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 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 minority interests

IFRS requires that minority interests be treated as a component of equity, rather than as a liability, in the Company's balance sheet. In addition, under IFRS the related income (loss) is no longer deducted in arriving at net income (loss), but disclosed separately on the face of the income statement. As noted in the section "Changes in Accounting Policy" earlier in this document, effective January 1, 2010, Canfor has also elected to early adopt a new standard under Canadian GAAP which is aligned with IFRS.

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 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

Canfor is currently in the process of completing its review of the impacts of the transition to IFRS related to income taxes.

Additional information about the Company, including its 2009 Annual Information Form, is available at www.sedar.com or at www.canfor.com.