Q4 2008

For the three months
ended Dec 31, 2008

CANFOR
CORPORATION
2008 FOURTH
QUARTER
REPORT

News Release

For Immediate Release

GLOBAL ECONOMIC CLIMATE SIGNIFICANTLY IMPACTS FOURTH QUARTER RESULTS

Canfor Records Non-Cash Charges of $177 million in Q4; Cash Conservation Efforts Preserve Company's Strong Balance Sheet

February 19, 2009 Vancouver, B.C. - Canfor Corporation (TSX: CFP) today reported a net loss of $229.8 million ($1.61 per share) for the fourth quarter of 2008, compared to a net loss of $94.2 million ($0.66 per share) for the third quarter of 2008 and a net loss of $237.0 million ($1.66 per share) for the fourth quarter of 2007. For the year ended December 31, 2008, the Company's net loss was $345.2 million ($2.42 per share), compared to a net loss of $360.6 million ($2.53 per share) reported for 2007.

The net loss for the fourth quarter of 2008 included one-time items affecting comparability with prior periods, which had a negative impact on net income of $186.3 million ($1.31 per share). The more significant one-time items related to non-cash charges totaling $176.6 million ($1.24 per share), and were comprised of the following:

- Asset impairment charges totaling $74.1 million ($0.52 per share), of which the significant majority relates to the Company's indefinitely idled Tackama plywood and PolarBoard oriented strand board plants. The balance relates to the Company's non-bank asset-backed commercial paper ("ABCP") and other long-term investments. Asset impairments of $189.1 million ($1.32 per share) were recorded in the last quarter of 2007.
- Losses recorded on derivative financial instruments totaling $50.3 million ($0.35 per share), reflecting a rapid decline in the value of the Canadian dollar versus the US dollar and falling energy prices during the fourth quarter.
- A foreign exchange loss of $52.2 million ($0.37 per share) relating to the Company's US dollar denominated long-term debt, net of investments, as a result of the significantly weaker Canadian dollar.

After taking account of all one-time items affecting comparability, the Company reported an adjusted net loss for the fourth quarter of 2008 of $43.5 million ($0.30 per share), compared to similarly adjusted net losses of $3.5 million ($0.02 per share) for the third quarter of 2008 and $69.6 million ($0.49 per share) for the fourth quarter of 2007. For the year ended December 31, 2008, the Company's adjusted net loss was $128.3 million ($0.90 per share), compared to an adjusted net loss of $199.0 million ($1.40 per share) reported for 2007.

The last quarter of 2008 saw a significant deterioration in market conditions for the Company's solid wood and pulp products, as a result of the global economic slowdown and further weakness in the U.S. economy. U.S. housing starts, which were already at historically low levels, dropped a further 25% in the fourth quarter to the lowest level since records began in 1959, and lumber and panel prices fell sharply in response. Pulp prices also fell in the quarter as demand waned and global inventory levels mounted.

In response to the slowing demand, Canfor took extended curtailments at all of its lumber operations over the Christmas period, and indefinitely closed its Tackama plywood plant in October. Market-related downtime was also taken at the Company's Taylor Pulp mill and at Canfor Pulp Limited Partnership ("CPLP"), in which Canfor holds a 50.2% interest.

Operating earnings were down $87.0 million from the previous quarter, which for the most part reflected the impact of lower commodity prices both on sales realizations and inventories, weaker pulp shipments as well as scheduled maintenance outages at CPLP. These were partially offset by a sharp decline in the Canadian dollar in the quarter. Canfor continued to benefit from its cost reduction initiatives and cash conservation efforts in the quarter, delivering another solid operational performance despite the challenges, and ended the year with a cash balance of $362.4 million.

Commenting on the fourth quarter's results, Jim Shepard, Canfor's President and CEO, said: "Despite the deepening of the global economic downturn and its impact on our bottom line, we've taken significant actions to reduce operating costs and maintain the strength of our balance sheet. Over the last 18 months, we've reduced our logging and hauling costs, increased productivity despite curtailments, disposed of non-core assets and enacted salary rollbacks and staff reductions." He added that the Company remains focused on realizing further cost reductions and productivity improvements, and lowering working capital. "Clearly, our industry is facing unprecedented challenges at this time, and responsiveness is key. We will continue to ensure that our production matches the demand in the marketplace," said Shepard.

Shepard said that he fully expected conditions to be even more challenging through 2009 for all of the Company's products, adding that management will remain focused on costs, inventory and cash conservation. In January, the Company took a further 29 million board feet of market curtailments and subsequently announced a further curtailment of 83 million board feet to occur in February, in addition to elimination of shifts at two of its sawmills for an indefinite period. Curtailment was also announced in February at the joint venture Peace Valley OSB mill.

Additional Information and Conference Call

A conference call to discuss the fourth quarter's financial and operating results will be held on Friday, February 20, 2009 at 7:30 AM Pacific time. To participate in the call, please dial 416-641-6126 or Toll-Free 1-866-542-4236. For instant replay access until March 20, 2009, please dial 416-695-5800 or 1-800-408-3053 and enter participant pass code 3281623#. The conference call will be webcast live and will be available at www.canfor.com. This news release, the attached financial statements and presentation used during the conference call can be accessed via the Company's website at http://www.canfor.ca/investors/webcasts.asp.

Forward Looking Statements

Certain statements in this press release 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", "intends", "projects", "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.

Canfor is a leading integrated forest products company based in Vancouver, British Columbia (BC) with interests in BC, Alberta, Quebec, Washington state, and North and South Carolina. The Company is the largest producer of softwood lumber in British Columbia while also producing oriented strand board (OSB), remanufactured lumber products and specialized wood products. Canfor also owns a 50.2% interest in Canfor Pulp Limited Partnership, which is one of the largest producers of northern softwood kraft pulp in Canada and a leading producer of high performance kraft paper. Canfor shares are traded on the Toronto Stock Exchange under the symbol CFP.

Media Contact:

Dave Lefebvre
Director, Public Affairs &
Corporate Communications
(604) 661-5225
Dave.Lefebvre@canfor.com

Investor Contact:

Pat Elliott
Treasurer
(604) 661-5441
Patrick.Elliott@canfor.com

Canfor Corporation

FOURTH QUARTER 2008 EARNINGS OVERVIEW

Selected Financial Information and Statistics

(millions of dollars, except for per share amounts)	Q4 2008	Q3 2008	Year 2008	Q4 2007	Year 2007
Sales	**$ 588.7**	$ 668.0	**$ 2,611.6**	$ 711.0	$ 3,275.6
EBITDA[1]	**$ (30.2)**	$ 55.0	**$ 13.1**	$ (77.5)	$ (88.9)
Operating (loss) income [1]	**$ (74.2)**	$ 12.8	**$ (158.1)**	$ (124.7)	$ (273.0)
Foreign exchange (loss) gain on long-term debt and investments, net	**$ (72.0)**	$ (16.2)	**$ (100.3)**	$ (4.1)	$ 16.2
(Loss) gain on derivative financial instruments[2]	**$ (81.7)**	$ (38.8)	**$ (88.5)**	$ 6.2	$ 16.0
Asset impairments	**$ (99.6)**	$ (70.0)	**$ (169.6)**	$ (256.0)	$ (268.0)
Prince George Pulp & Paper mill fire, net	**$ (0.3)**	$ -	**$ 8.2**	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ -	**$ 57.9**	$ -	$ -
Net loss [1]	**$ (229.8)**	$ (94.2)	**$ (345.2)**	$ (237.0)	$ (360.6)
Net loss per share, basic and diluted [1]	**$ (1.61)**	$ (0.66)	**$ (2.42)**	$ (1.66)	$ (2.53)
Average exchange rate (US$/CDN$) [3]	**$ 0.825**	$ 0.960	**$ 0.938**	$ 1.019	$ 0.930
U.S. housing starts (million units SAAR) [4]	**0.656**	0.876	**0.902**	1.151	1.341

[1] Results for 2008 reflect the Company's retrospective adoption (without prior period restatement) on January 1, 2008 of CICA Handbook Section 3031, *Inventories*, which requires all inventories, including logs, to be valued at the lower of cost or net realizable value. Details of related write-downs and reversals are contained in the following pages. The adjustments affect comparability with prior periods.
[2] Includes gains (losses) from natural gas, diesel and foreign exchange derivative financial instruments (see "Non-Segmented Items" section for more details).
[3] Source – Bank of Canada (average noon rate for the period).
[4] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").
[5] Certain amounts in prior periods have been reclassified to conform to the presentation in the current period.

Overview

The Company recorded a net loss of $229.8 million ($1.61 per share) for the fourth quarter of 2008, an increase of $135.6 million compared to a net loss of $94.2 million ($0.66 per share) reported for the third quarter of 2008, and $7.2 million lower than the net loss of $237.0 million ($1.66 per share) reported for the fourth quarter of 2007. After adjusting for significant items affecting comparability with prior periods, the Company's adjusted net loss was $43.5 million ($0.30 per share) for the fourth quarter of 2008, compared to a similarly adjusted loss of $3.5 million ($0.02 per share) for the third quarter of 2008, and an adjusted loss of $69.6 million ($0.49 per share) for the fourth quarter of 2007.

The quarterly results in 2008 reflect the Company's retrospective adoption without prior restatement of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, *Inventories,* on January 1, 2008, which requires inventories, including logs, to be valued at the lower of cost or net realizable value (previously, the Company valued logs at the higher of net realizable value and replacement cost, if lower than average cost). The adoption of the new accounting standard decreased the fourth quarter's operating income and net income by $3.9 million and $2.6 million ($0.02 per share), respectively, in contrast to the third quarter's results where operating income and net income were increased by $3.9 million and $2.5 million ($0.02 per share) respectively. For the year ended December 31, 2008, the new accounting standard has resulted in an increase in operating income and net income of $30.4 million and $18.7 million ($0.13 per share), respectively.

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)	Q4 2008	Q3 2008	Year 2008	Q4 2007	Year 2007
Net loss, as reported	**$ (229.8)**	$ (94.2)	**$ (345.2)**	$ (237.0)	$ (360.6)
Loss (gain) on derivative financial instruments	**$ 50.3**	$ 21.4	**$ 54.5**	$ (3.5)	$ (11.6)
New inventory accounting standard	**$ 2.6**	$ (2.5)	**$ (18.7)**	$ -	$ -
Foreign exchange loss (gain) on long-term debt and investments, net	**$ 52.2**	$ 11.3	**$ 72.2**	$ 3.5	$ (6.5)
Prince George Pulp & Paper mill fire, net	**$ 0.2**	$ -	**$ (3.4)**	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ -	**$ (45.0)**	$ -	$ -
Restructuring, mill closure and severance costs	**$ 6.8**	$ 3.6	**$ 35.3**	$ 14.2	$ 27.3
Corporate income tax rate reductions	**$ -**	$ -	**$ (9.1)**	$ (35.8)	$ (37.7)
Asset impairments	**$ 74.1**	$ 56.9	**$ 131.0**	$ 189.1	$ 199.2
Other items	**$ 0.1**	$ -	**$ 0.1**	$ (0.1)	$ (9.1)
Net impact of above items	**$ 186.3**	$ 90.7	**$ 216.9**	$ 167.4	$ 161.6
Adjusted net loss	**$ (43.5)**	$ (3.5)	**$ (128.3)**	$ (69.6)	$ (199.0)
Net loss per share (EPS), as reported	**$ (1.61)**	$ (0.66)	**$ (2.42)**	$ (1.66)	$ (2.53)
Net impact of above items per share	**$ 1.31**	$ 0.64	**$ 1.52**	$ 1.17	$ 1.13
Adjusted net loss per share	**$ (0.30)**	$ (0.02)	**$ (0.90)**	$ (0.49)	$ (1.40)

EBITDA

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

(millions of dollars)	Q4 2008	Q3 2008	Year 2008	Q4 2007	Year 2007
Net loss, as reported	**$ (229.8)**	$ (94.2)	**$ (345.2)**	$ (237.0)	$ (360.6)
Add (subtract):					
Non-controlling interests	**$ (12.6)**	$ 5.4	**$ 24.0**	$ 6.1	$ 65.4
Income tax recovery	**$ (80.2)**	$ (30.0)	**$ (141.9)**	$ (155.3)	$ (234.1)
Other (income) expense	**$ (12.9)**	$ (0.1)	**$ (12.7)**	$ 3.3	$ 11.1
Loss (gain) on derivative financial instruments	**$ 81.7**	$ 38.8	**$ 88.5**	$ (6.2)	$ (16.0)
Asset impairments	**$ 99.6**	$ 70.0	**$ 169.6**	$ 256.0	$ 268.0
Foreign exchange loss (gain) on long-term debt and investments, net	**$ 72.0**	$ 16.2	**$ 100.3**	$ 4.1	$ (16.2)
Prince George Pulp & Paper mill fire, net	**$ 0.3**	$ -	**$ (8.2)**	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ -	**$ (57.9)**	$ -	$ -
Interest expense, net	**$ 7.7**	$ 6.7	**$ 25.4**	$ 4.3	$ 9.4
Amortization	**$ 44.0**	$ 42.2	**$ 171.2**	$ 47.2	$ 184.1
EBITDA, as reported	**$ (30.2)**	$ 55.0	**$ 13.1**	$ (77.5)	$ (88.9)
Restructuring, mill closure and severance costs	**$ 10.3**	$ 5.4	**$ 53.5**	$ 21.5	$ 41.3
Adjusted EBITDA	**$ (19.9)**	$ 60.4	**$ 66.6**	$ (56.0)	$ (47.6)
Log inventory (expense) recovery resulting from new inventory accounting standard, included in EBITDA	**$ (3.9)**	$ 3.9	**$ 30.4**	$ -	$ -

The U.S. and global financial and credit market crisis intensified in the fourth quarter of 2008 resulting in an unprecedented decline in demand for solid wood products, with U.S. housing starts plunging to 550,000 (Seasonally Adjusted Annual Rates – SAAR) in December, the lowest level since the U.S. Bureau of the Census began recording in 1959, and prices plummeting to the lowest level in decades.

The quarterly average benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr lumber price fell to US$190 per thousand board feet ("Mfbm") which was US$73 per Mfbm, or 28%, lower than the previous quarter, and US$40 per Mfbm, or 17%, lower compared to the fourth quarter of 2007. Western SPF 2x4 #2&Btr prices ended the year at US$168 per Mfbm, which was US$115 per Mfbm, or 41%, lower than the 2008 peak in August. Prices for Southern Yellow Pine ("SYP") fared little better, with the average benchmark SYP 2x4 #2&Btr price for the fourth quarter at US$258 per Mfbm, US$31 per Mfbm, or 11%, lower than the previous quarter and US$19 per Mfbm, or 7%, lower than the fourth quarter of 2007. Prices ended the year at US$236 per Mfbm, US$78 per Mfbm, or 25%, lower than the 2008 peak in May. Significant reductions were also seen in premiums for wider widths such as 2x10's.

Pulp prices also fell sharply in the fourth quarter of 2008. The average NBSK pulp list price for U.S. delivery was US$787 per tonne, US$93 per tonne lower than the previous quarter and US$70 per tonne lower than the fourth quarter of 2007. Pulp price declines were even steeper in Asian markets.

A rapid weakening of the Canadian dollar compared to the third quarter helped to offset some of the negative impact of the fall in solid wood and pulp prices. The Canadian dollar average of $0.825 for the fourth quarter was 13.5 cents lower than the third quarter, and 19.4 cents lower than the average rate for the final quarter of 2007.

Sales volumes continued to reflect depressed market demand, with shipments down 17% in the Lumber segment, 67% in the Panels segment and 28% in the Pulp and Paper segment compared to the fourth quarter of 2007. The Company continued to significantly curtail its operations to adjust production to this lower market demand, including taking extended shuts in December at all of its operations. Further reductions in production in the Panels segment also occurred due to the indefinite closure in October of the Tackama plywood facility in Fort Nelson, B.C. The Company recorded restructuring, severance and closure costs of $10.3 million in the fourth quarter of 2008, the majority of which related to the indefinite Tackama closure.

Despite the difficult market conditions and low operating rates, the Company's efforts to drive down costs continued to produce results, with the average unit manufacturing cost in the Lumber segment down 12% compared to the same quarter of the previous year, and in line with costs in the third quarter. The major factors accounting for the improved performance were reduced unit log costs, achieved through reduced operating and overhead costs, and lower unit conversion costs that for the most part reflected improved sawmill and planer productivity and reduced overhead.

EBITDA for the fourth quarter of 2008 was negative $30.2 million, down $85.2 million compared to the third quarter of 2008, but up $47.3 million compared to the fourth quarter of 2007. The decline in EBITDA compared to the third quarter reflected the factors noted above, with the impact of the weaker commodity prices both on actual sales realizations and inventory valuations, lower pulp shipments and scheduled maintenance outages at CPLP being the major contributing factors. These were partially offset by a significant decline in the value of the Canadian dollar and an export tax refund receivable recorded in the fourth quarter of 2008. Compared to the fourth quarter of 2007, the improvement in EBITDA was principally due to reductions in the Lumber segment's unit manufacturing costs and the significant weakening of the Canadian dollar, and to a lesser extent the export tax refund recorded in the current period. These more than offset the impact of lower prices, decreased sales volumes, and higher scheduled maintenance outages and fibre costs at CPLP's operations in the current period.

Other significant items affecting comparability with prior periods included the following:

- Asset impairment charges of $99.6 million ($74.1 million, after tax), of which the significant majority related to the indefinitely idled Tackama and PolarBoard plants. The remainder of the impairment related to the Company's non-bank asset-backed commercial paper ("ABCP"), and certain other long-term investments.
- Losses recorded on derivative financial instruments of $81.7 million ($50.3 million, after tax), reflecting a significant drop in value of the Canadian dollar against the US dollar for the fourth quarter, as well as a decline in energy prices. See additional commentary in "Non-Segmented Items" section.
- A net foreign exchange loss of $72.0 million ($52.2 million, after tax) relating to the Company's US-dollar denominated long-term debt and investments, as a result of the sharp decline in the Canadian dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics - Lumber

(millions of dollars unless otherwise noted)	Q4 2008	Q3 2008	Year 2008	Q4 2007	Year 2007
Sales	**$ 363.9**	$ 378.8	**$ 1,490.5**	$ 395.3	$ 1,942.7
EBITDA[6]	**$ (24.1)**	$ 15.3	**$ (55.5)**	$ (73.9)	$ (198.4)
Adjusted EBITDA	**$ (20.4)**	$ 18.4	**$ (36.9)**	$ (66.9)	$ (176.8)
EBITDA margin[6]	**(7)%**	4%	**(4)%**	(19)%	(10)%
Adjusted EBITDA margin	**(6)%**	5%	**(2)%**	(17)%	(9)%
Operating loss [6]	**$ (50.8)**	$ (8.2)	**$ (155.0)**	$ (99.5)	$ (301.2)
Average SPF 2x4 #2&Btr lumber price in US$[7]	**$ 190**	$ 263	**$ 222**	$ 230	$ 250
Average SPF price in Cdn$	**$ 230**	$ 274	**$ 237**	$ 226	$ 269
Average SYP 2x4 #2 lumber price in US$[8]	**$ 258**	$ 289	**$ 281**	$ 277	$ 280
Average SYP price in Cdn$	**$ 313**	$ 301	**$ 300**	$ 272	$ 301
Production – SPF lumber (MMfbm)	**791.6**	747.1	**3,299.4**	866.8	4,111.6
Production – SYP lumber (MMfbm)	**78.6**	99.6	**388.6**	93.3	389.2
Shipments – SPF lumber (MMfbm) [9]	**834.3**	755.9	**3,388.2**	988.4	4,233.5
Shipments – SYP lumber (MMfbm) [9]	**86.2**	110.3	**432.7**	103.3	448.7
Shipments – wholesale lumber (MMfbm)	**35.7**	39.8	**171.0**	57.2	325.2

[6] EBITDA and Operating loss for the fourth quarter of 2008 include a log inventory write-down expense of $1.5 million (Q3 - $0.9 million recovery), which resulted primarily from lower prices.
[7] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[8] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[9] Canfor-produced lumber, includes shipments of lumber purchased for remanufacture.

Overview

The Lumber segment reported an operating loss of $50.8 million for the fourth quarter of 2008, up $42.6 million compared to the third quarter of 2008, but an improvement of $48.7 million compared to the fourth quarter of 2007. Over those same periods, Adjusted EBITDA was down $38.8 million and up $46.5 million, respectively.

The decrease in Adjusted EBITDA relative to the third quarter was primarily attributable to a sharp decline in prices, as evidenced by a 28% fall in average Western SPF 2x4#2&Btr prices and an 11% drop in average SYP 2x4#2 prices, both of which were reflective of worsening market conditions. The falling prices also had a significant impact on log and lumber inventory devaluations, with a $16 million expense in the fourth quarter being $9 million higher than the expense recorded in the third quarter. The effect of these movements was partially offset by a sharp decline in the value of the Canadian dollar, which fell approximately 16% against the US dollar, and by a $10.8 million Softwood Lumber Agreement ("SLA") Third Country Adjustment export tax refund receivable which was recorded in the quarter (see "Sales" for more details). Log and conversion costs were held at similar levels to the previous quarter.

Compared to the fourth quarter of 2007, the improvement in Adjusted EBITDA reflected significantly lower log and manufacturing costs, achieved in the face of significant downtime in the current period. The fall in US dollar lumber prices between both quarters was offset by the decrease in the value of the Canadian dollar compared to the US dollar in the fourth quarter of 2008. Adjusted EBITDA was also positively impacted by the $10.8 million export tax refund noted above.

Markets

Demand for lumber in the U.S. continued to decline during the fourth quarter of 2008, with total U.S. housing starts dropping to 550,000 units SAAR[10] in December, the lowest level since the U.S. Bureau of the Census began recording in 1959. U.S. housing starts were down 220,000 units SAAR, or 25%, compared to the previous quarter, and down 495,000 units SAAR, or 43%, compared to the fourth quarter of 2007. Single family starts continued to fall sharply during the quarter, down 23% compared to the previous quarter and 44% compared to the same quarter of 2007.

Inventories of new homes for sale at the end of the fourth quarter of 2008 were 12.9 months[10], up 1.4 months compared to the previous quarter, and up 3.1 months compared to the fourth quarter of 2007. Inventories of existing homes at the end of 2008 were at 9.3 months[11], down slightly compared to both the end of the third quarter and the end of 2007.

Canadian housing starts steadily declined throughout the quarter, averaging 190,000 units[12] SAAR, down 21,000 units, or 10%, compared to the previous quarter, and down 24,000 units, or 11%, compared to the fourth quarter of 2007.

Offshore demand remained relatively stable throughout the quarter. In Japan, a modest increase in 2x4 housing starts helped to offset an overall decline in construction activity.

Sales

Lumber sales for the fourth quarter of 2008 were down by $14.9 million, or 4%, compared to the third quarter of 2008, and down $31.4 million, or 8%, compared to the fourth quarter of 2007.

The average price for all grades and widths of SPF and SYP lumber fell sharply compared to the prior quarter and fourth quarter of 2007. Lumber SPF prices, as measured by Western SPF 2x4 #2&Btr, were down US$73 per Mfbm, or 28%, compared to the previous quarter, and down US$40 per Mfbm, or 17%, compared to the fourth quarter of 2007. Average prices for SYP lumber, as measured by 2x4 #2&Btr, were down US$31 per Mfbm, or 11%, compared to the previous quarter and down US$19 per Mfbm, or 7%, versus the comparative quarter last year. Similar declines were recorded for wider widths. Canadian dollar sales realizations were positively impacted by a 16% increase in the value of the US dollar relative to the previous quarter, and an increase of 24% compared to the same quarter a year ago.

The Random Lengths Framing Lumber Composite price averaged US$223 per Mfbm for the fourth quarter of 2008 (down US$50 per Mfbm compared to the previous quarter), 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%. In December of 2008, the Company received information from the Canada Revenue Agency indicating it was eligible to claim a Third Country Adjustment refund under the SLA of a third of the 15% export charges paid for the quarters ended December 31, 2007 and March 31, 2008. The claim arises from year-over-year movements in the Canadian and U.S. market share of total U.S. consumption of softwood lumber products, and the share of U.S. consumption from imports not originating in Canada. The Company has filed for a refund of $10.8 million.

Shipments for the fourth quarter of 2008 were up 50 million board feet, or 6%, compared to the previous quarter as the Company took measures to reduce its inventories. Compared to the fourth quarter of 2007, shipments were down 193 million board feet, or 17%, reflecting significant additional market-related curtailment.

Total residual fibre sales revenue was in line with both comparable periods. Compared to the third quarter, a small increase in sales volumes reflecting the slightly higher production was offset by lower residual chip prices resulting from falling pulp prices. Compared to the fourth quarter of 2007, a decrease in sales volumes was offset by an increase in chip prices.

[10] U.S. Bureau of the Census
[11] National Association of Realtors
[12] CMHC

Operations

Lumber production for the fourth quarter was 870 million board feet, 24 million board feet, or 3%, higher than for the previous quarter and 90 million board feet, or 9%, lower than for the same quarter in 2007. Compared to the same quarter of 2007, lower production for the current period reflected the indefinite closures of the Mackenzie and Chetwynd sawmills, as well as a reduced number of shifts. Production in the fourth quarter of 2008 included the Darlington sawmill in South Carolina, which was acquired in late 2007.

Conversion costs were in line with the previous quarter, and 7% lower than the same quarter of 2007, mainly due to increased productivity and cost reduction initiatives carried out in 2008. Log costs were also comparable to the previous quarter, but were down significantly compared to the final quarter of 2007, primarily due to lower operating and overhead costs. Overall, the Company's unit cash manufacturing costs were comparable to the third quarter of 2008, and down 12% relative to the fourth quarter of 2007.

Panels

Selected Financial Information and Statistics - Panels

(millions of dollars unless otherwise noted)	**Q4 2008**	Q3 2008	**Year 2008**	Q4 2007	Year 2007
Sales	**$ 20.5**	$ 36.0	**$ 170.3**	$ 70.5	$ 297.7
EBITDA[13]	**$ (10.9)**	$ (0.1)	**$ (40.8)**	$ (28.8)	$ (53.5)
Adjusted EBITDA	**$ (4.2)**	$ 2.2	**$ (6.3)**	$ (14.4)	$ (39.0)
EBITDA margin[13]	**(53)%**	0%	**(24)%**	(41)%	(18)%
Adjusted EBITDA margin	**(20)%**	6%	**(4)%**	(20)%	(13)%
Operating loss [13]	**$ (15.2)**	$ (3.4)	**$ (56.9)**	$ (34.2)	$ (76.5)
Average plywood price in Cdn$[14]	**$ 336**	$ 333	**$ 338**	$ 374	$ 376
Average OSB price in US$[15]	**$ 172**	$ 202	**$ 172**	$ 165	$ 161
Average OSB price in Cdn$	**$ 209**	$ 210	**$ 183**	$ 162	$ 173
Production – plywood (MMsf 3/8")	**13.8**	44.1	**233.4**	93.1	385.0
Production – OSB (MMsf 3/8")	**56.8**	85.3	**434.8**	167.6	673.2
Shipments – plywood (MMsf 3/8")	**28.2**	54.2	**264.1**	90.3	385.4
Shipments – OSB (MMsf 3/8")	**55.7**	90.5	**462.9**	166.3	669.9

[13] EBITDA and Operating loss for the fourth quarter of 2008 include a log inventory write-down expense of $2.4 million (Q3 – recovery of $3.0 million), which resulted primarily from higher log inventory volumes at the PV OSB mill at the end of the year.
[14] Canadian softwood plywood, per Msf 3/8" basis, delivered to Toronto (Source – C.C. Crowe Publications, Inc.)
[15] OSB, per Msf 7/16" North Central (Source – Random Lengths Publications, Inc.)

Overview

The Panels segment recorded an operating loss of $15.2 million for the fourth quarter, an increase of $11.8 million from the previous quarter, but an improvement of $19.0 million compared to the fourth quarter of 2007.

Adjusted EBITDA was down $6.4 million compared to the previous quarter, mainly due to a $2.4 million expense in relation to log inventory devaluations in the fourth quarter, compared to a $3.0 million recovery in the prior quarter. Shipments were down 42% compared to the previous quarter, reflecting the indefinite idling of the Tackama plywood operation in October and significant curtailment at the joint venture Peace Valley ("PV") OSB facility in the last quarter of 2008.

Compared to the same quarter of 2007, Adjusted EBITDA was up $10.2 million primarily as a result of lower losses due to the indefinite idling of the PolarBoard and Tackama operations, as well as higher OSB prices in Canadian dollar terms, which were up 29% compared to the fourth quarter of 2007.

Restructuring, mill closure and severance costs of $6.7 million were recorded in the Panels segment in the fourth quarter, principally as a result of the indefinite closure of Tackama. The fourth quarter of 2007's results reflected restructuring costs of $14.4 million related to the permanent closure of the Company's Panel and Fibre mill in New Westminster, B.C.

Markets

Panel markets were weak in the fourth quarter of 2008, with sluggish activity reflecting the falloff in demand. OSB prices declined through the fourth quarter, ending the year at US$153 per Msf[16], while plywood prices remained at historically low prices through the quarter.

Sales

OSB prices averaged US$172 per Msf for the fourth quarter of 2008, down US$30 per Msf, or 15%, from the previous quarter, but up 4% from the fourth quarter of 2007. The Canadian softwood plywood 3/8" delivered Toronto price was largely unchanged from the previous quarter, but was down $38 per Msf, or 10%, from the fourth quarter of 2007. Total shipment volumes were down 42% compared to the previous quarter, and down 67% compared to the fourth quarter of 2007, principally as a result of the fire that destroyed the North Central Plywoods ("NCP") facility at Prince George, B.C. in May, the permanent closure of the Panel and Fibre operations in January, the indefinite closures of PolarBoard in June and Tackama in October, and curtailments at the PV OSB mill.

Operations

Production in the fourth quarter reflected the significantly lower operating rates resulting from curtailment, with volumes down 45% and 73% versus the previous quarter and fourth quarter of 2007, respectively. Unit cash manufacturing costs were up compared to the previous quarter and the fourth quarter of 2007, reflecting the much lower operating rates. Increases in wax and resin costs in 2008 also had a significant impact on the results when compared to the fourth quarter of 2007.

[16] Random Lengths

Pulp and Paper[17]

Selected Financial Information and Statistics – Pulp and Paper

(millions of dollars unless otherwise noted)	Q4 2008	Q3 2008	Year 2008	Q4 2007	Year 2007
Sales	**$ 204.3**	$ 253.2	**$ 950.8**	$ 245.2	$ 1,035.2
EBITDA	**$ 8.9**	$ 45.1	**$ 125.6**	$ 27.7	$ 190.5
EBITDA margin	**4%**	18%	**13%**	11%	18%
Operating (loss) income	**$ (2.2)**	$ 31.5	**$ 76.8**	$ 12.9	$ 137.2
Average pulp price delivered to U.S. – US$[18]	**$ 787**	$ 880	**$ 857**	$ 857	$ 823
Average price in Cdn$	**$ 954**	$ 917	**$ 914**	$ 841	$ 885
Production – pulp (000 mt)	**256.1**	307.8	**1,124.6**	313.2	1,244.5
Production – paper (000 mt)	**30.1**	35.9	**132.6**	33.1	131.6
Shipments – Canfor-produced pulp (000 mt)	**235.6**	284.0	**1,088.0**	308.3	1,228.9
Pulp marketed on behalf of HSLP (000 mt) [19]	**52.6**	86.0	**313.1**	93.3	366.6
Shipments – paper (000 mt)	**24.3**	31.7	**124.8**	32.4	129.5

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

Overview

Operating income and EBITDA in the Pulp and Paper segment in the fourth quarter of 2008 were down $33.7 million and $36.2 million, respectively, from the previous quarter. The decrease mostly resulted from lower pulp sales volumes and prices (reflecting significantly weaker demand) and scheduled maintenance outages taken in the current period. These were partially offset by the favourable impact on realized prices from the weaker Canadian dollar. As a result of the falling demand, both CPLP and Taylor Pulp took curtailments towards the end of the quarter.

Compared to the same quarter of 2007, operating income and EBITDA were down $15.1 million and $18.8 million respectively. The significantly weaker Canadian dollar resulted in higher Canadian dollar sales realizations, but this benefit was more than offset by lower sales volumes, weaker global prices, increased scheduled maintenance outage costs, and higher freight and fibre costs in the current quarter.

Markets

World pulp markets continued to weaken through the fourth quarter. PPPC[20] reported total Global 100 chemical market pulp shipments in December of 2008 were at a rate of 88% of capacity compared to 94% for December of 2007. For NBSK market pulp, the shipment rate in December of 2008 was 83% of capacity compared to 95% for the same month in 2007.

As a result of the lower shipments, producer market pulp inventories increased during the fourth quarter of 2008, from 44 days to 46 days of supply for total chemical market pulp and from 36 days to 40 days of supply for softwood market pulp. By comparison, producer inventories at the end of 2007 were 29 days for total chemical pulp and 27 days of supply for softwood market pulp.

The decline in market pulp shipments was mainly caused by decreased demand for printing and writing papers, the largest consuming segment of market pulp. In particular, demand for printing and writing papers in North America declined by 11% compared to the third quarter of 2008 and by 19% compared to the fourth quarter of 2007.

As a result of the rapid decline in pulp demand, list prices in North American and European markets declined from US$870 per tonne and US$860 per tonne, respectively, at the beginning of the fourth quarter, to US$730 per tonne and US$635 per tonne at the end of the quarter.

Sales

Shipments of Canfor-produced pulp were down 17% compared to the previous quarter, reflecting the sharp fall off in demand in the fourth quarter. Overall realized pulp prices in Canadian dollar terms were down slightly compared to the third quarter of 2008, as the decline in pulp prices and a higher proportion of sales into lower priced Asian and spot markets offset the favourable impact of the weaker Canadian dollar.

Compared to the fourth quarter of 2007, shipments of Canfor-produced pulp were down 24%, for the most part reflecting significantly weaker demand in the fourth quarter of 2008. Realized Canadian dollar NBSK and BCTMP pulp prices showed a modest increase compared to the fourth quarter of 2007, primarily due to the impact of the weaker Canadian dollar which more than offset lower global prices, in US dollars.

Operations

Pulp production for the fourth quarter was 52,000 tonnes lower than the third quarter of 2008, and 57,000 tonnes less than the fourth quarter of 2007. The reduced production primarily resulted from scheduled maintenance outages at CPLP, and market curtailment taken at CPLP and Taylor Pulp in the current quarter.

Unit manufacturing costs were higher compared to the previous quarter, principally due to reduced operating rates and costs associated with scheduled maintenance outages. Fibre costs were down slightly, reflecting lower prices for sawmill residual chips and the elimination of higher cost whole log chipping.

[20] Pulp and Paper Products Council

Compared to the same quarter of 2007, unit manufacturing costs were up significantly primarily due to lower production volumes, scheduled maintenance outage costs and higher fibre costs. The higher fibre costs resulted from increased prices for sawmill residual chips and a higher percentage of whole log chipping. Freight costs were also up over the fourth quarter of 2007.

Non-Segmented Items

(millions of dollars)	**Q4 2008**	Q3 2008	**Year 2008**	Q4 2007	Year 2007
Corporate costs	**$ (6.0)**	$ (7.1)	**$ (23.0)**	$ (3.9)	$ (32.5)
Interest expense, net	**$ (7.7)**	$ (6.7)	**$ (25.4)**	$ (4.3)	$ (9.4)
Foreign exchange (loss) gain on long-term debt and investments, net	**$ (72.0)**	$ (16.2)	**$ (100.3)**	$ (4.1)	$ 16.2
(Loss) gain on derivative financial instruments	**$ (81.7)**	$ (38.8)	**$ (88.5)**	$ 6.2	$ 16.0
Asset impairments	**$ (99.6)**	$ (70.0)	**$ (169.6)**	$ (256.0)	$ (268.0)
Prince George Pulp & Paper mill fire, net	**$ (0.3)**	$ -	**$ 8.2**	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ -	**$ 57.9**	$ -	$ -
Other income (expense), net	**$ 12.9**	$ 0.1	**$ 12.7**	$ (3.5)	$ (11.1)

Corporate costs for the fourth quarter of 2008 were down $1.1 million compared to the third quarter of 2008, mostly due to the reversal of incentive compensation expense in the fourth quarter, and $2.1 million higher than for the fourth quarter of 2007 due mainly to a reversal of $2.3 million of incentive compensation expense at the end of 2007.

Net interest expense for the fourth quarter was $7.7 million, similar to the net expense in the third quarter. For the year as a whole, the net interest expense was $16.0 million higher than for 2007, reflecting higher net indebtedness in 2008.

In the fourth quarter of 2008, the Company recorded a foreign exchange translation loss on its US dollar denominated debt, net of investments, of $72.0 million, as a result of a 16.5 cent, or 16%, decline in the value of the Canadian dollar against the US dollar over the quarter.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in natural gas and diesel costs, foreign exchange rates and lumber prices. In the fourth quarter of 2008, the Company recorded a loss of $81.7 million related to its derivative instruments. For the most part, this was due to the significant weakening of the Canadian dollar, but losses were also recorded on natural gas and diesel derivatives. The following table summarizes the gain (loss) on derivative financial instruments for the comparable periods.

Gain (loss) on derivative financial instruments:

	3 months ended December 31,		Year ended December 31,	
(millions of dollars)	**2008**	2007	**2008**	2007
Foreign exchange collars and forward contracts	**$ (65.6)**	$ (0.1)	**$ (86.1)**	$ 14.3
Natural gas swaps	**$ (4.8)**	$ 3.3	**$ 1.0**	$ (9.1)
Diesel options and swaps	**$ (11.3)**	$ 3.0	**$ (3.4)**	$ 9.1
Commodity futures	**$ -**	$ -	**$ -**	$ 1.7
	$ (81.7)	$ 6.2	**$ (88.5)**	$ 16.0

The Company also recorded an asset impairment charge of $99.6 million in the fourth quarter of 2008. Of this amount, $83.4 million related substantially to impairment charges on the indefinitely idled Tackama plywood and PolarBoard OSB mills. The balance related to long-term investments, including a $10.2 million charge for the Company's ABCP.

Other income amounted to $12.9 million in the fourth quarter of 2008, and $12.7 million for the 2008 year compared to an expense of $11.1 million in 2007. The significant majority of these amounts reflected foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	Q4 2008	Q3 2008	Year 2008	Q4 2007	Year 2007
Increase (decrease) in cash and cash equivalents	**$ 28.2**	$ 36.6	**$ 66.9**	$ (108.3)	$ (728.3)
Operating activities	**$ 20.9**	$ 63.3	**$ 157.7**	$ (50.9)	$ (483.1)
Financing activities	**$ 8.1**	$ (14.0)	**$ (42.4)**	$ (25.8)	$ (174.3)
Investing activities	**$ (0.8)**	$ (12.7)	**$ (48.4)**	$ (31.6)	$ (70.9)
Ratio of current assets to current liabilities			**2.0 : 1**		3.0 : 1
Ratio of net debt to capitalization			**15%**		10%

Changes in Financial Position

Operating activities generated $20.9 million of cash in the fourth quarter of 2008, compared to $63.3 million in the previous quarter, and using $50.9 million in the fourth quarter of 2007. The reduction compared to the previous quarter was due primarily to increased operating losses compared to the previous period, offset partially by a favourable movement in non-cash working capital, including lower trade receivables and reduced inventory levels. Compared to the fourth quarter of 2007, the improvement reflected reduced cash operating losses for the period, as well as favourable working capital movements in the fourth quarter of 2008.

Financing activities generated $8.1 million of cash in the fourth quarter of 2008, with CPLP's draw-down on its operating bank loan of $21.1 million more than offsetting cash distributions paid to non-controlling interests of $12.8 million in the quarter.

Net cash used in investing activities was $0.8 million in the fourth quarter of 2008, with $21.9 million of capital expenditures in the period mostly offset by $20.0 million of advances received relating to the NCP mill fire. The capital spending included work on the energy optimization project at the Fort St John sawmill and the curve saw project at the Conway sawmill, as well as the completion of the replacement chip screening and in-feed system at CPLP's Prince George Pulp & Paper mill.

Changes in Equity

In addition to the $229.8 million net loss for the quarter which was charged to retained earnings, the Company recorded a credit to other comprehensive income of $43.7 million related to the foreign exchange translation adjustment on self-sustaining foreign subsidiaries, due substantially to the sharp decline in the value of the Canadian dollar between the end of the third and fourth quarters.

Liquidity and Financial Requirements

At December 31, 2008, the Company, on a consolidated basis, had cash and cash equivalents of $362.4 million and $430.0 million of bank operating lines of credit available, of which $41.4 million was reserved for several standby letters of credit. Of CPLP's $75.0 million share of these operating lines available, $25.2 million was drawn down at December 31, 2008. The Company's net debt to capitalization ratio at the end of 2008 was 15%.

At December 31, 2008, the Company had in place foreign exchange collar and forward contracts for US$397.0 million and US$95.8 million, covering the period to December of 2009. The collar contracts fix the Company's exchange rate between a minimum of CDN$0.98 to US$1.00 and a maximum of CDN$1.13 to US$1.00, while the forward contract rates average between CDN$1.1963 to US$1.00 and CDN$1.2618 to US$1.00.

On January 30, 2009, Canfor entered into two new operating loan facilities in the amounts of US$16.7 million ("Facility A") and US$43.7 million ("Facility B"). Facility A expires in January of 2012, with the option of four one-year extensions, and is non-recourse to Canfor, except for US$6.7 million. Facility B expires in January of 2011, with the option of five one-year extensions, and is non-recourse to Canfor under normal circumstances. The ABCP assets of the Company have been pledged as security to support these credit facilities.

Asset-Backed Commercial Paper

Since August of 2007, there has been no active market for non-bank asset-backed commercial paper ("ABCP"). Canfor's funds are invested in the ABCP of four different Canadian trusts, which failed to make payment at maturity and, along with 16 other ABCP conduits, were subject to restructuring under the Pan-Canadian Investors Committee for Third Party structured Asset-Backed Commercial Paper ("the Pan-Canadian Investors Committee"). On March 17, 2008 the Pan-Canadian Investors Committee filed with the Ontario Superior Court of Justice a comprehensive arrangement pursuant to the Companies' Creditors Arrangement Act to restructure the affected trusts. The final restructuring plan was approved on January 12, 2009 and completed on January 21, 2009.

At December 31, 2008 an additional impairment of $10.2 million (US$8.4 million) was recorded on ABCP based on the estimated fair value at year end, which took into account information available to Canfor related to its specific holdings of ABCP, and assumed a high likelihood of success for the proposed ABCP restructuring plan. The book value at December 31, 2008 reflected the impact of a weaker Canadian dollar on the US dollar denominated ABCP. No changes to fair value resulted from the completion of the restructuring plan after year-end.

Sale of Panel and Fibre Mill Property

On February 13, 2009, Canfor completed the sale of a property located at New Westminster, British Columbia, for gross proceeds of $47.5 million. The property is the site of Canfor's former Panel and Fibre operation, which was permanently closed at the beginning of 2008. The transaction will result in a pre-tax gain of approximately $44 million.

OUTLOOK

Lumber and Panel Markets

A turnaround in housing starts will remain the key indicator for improved demand for wood products. Although Canfor's business was initially impacted by the fall in U.S. housing starts, the global economic slowdown has started to affect lumber demand in all of Canfor's other major markets. A slow recovery of the U.S. housing industry is not projected before 2010, as homebuilders struggle to reduce their inventory of new homes. Housing prices must stabilize in order for consumer confidence to be restored. Canadian housing starts began to be affected by the global economic downturn towards the end of 2008, and starts below 185,000 are projected for 2009, compared to 211,000 for 2008.

The Repair and Remodeling and Do-It-Yourself sector is projected to be more negatively impacted in 2009 than it was in 2008 as home prices continue to fall and credit remains inaccessible to many homeowners or prospective buyers.

In Japan, housing starts are projected to decline in 2009. Demand from other offshore markets is also anticipated to slow down in the coming year. The Company anticipates its percentage of sales to China to continue to increase in 2009.

Similar to lumber, the panels market is projected to remain under pressure for 2009 due to the low housing start forecast and ongoing global economic declines.

In January, the Company took a further 29 million board feet of market curtailment and subsequently announced a further curtailment of 83 million board feet to occur in February, in addition to elimination of shifts at two of its sawmills for an indefinite period. Curtailment was also announced in February at the joint venture Peace Valley OSB mill.

Pulp and Paper Markets

Weak pulp and paper markets are projected to continue through the first quarter of 2009 and to remain challenging for at least the first half of 2009.

Canfor Corporation
Consolidated Balance Sheets

(millions of dollars, unaudited)	As at December 31, 2008	As at December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 362.4**	$ 295.5
Accounts receivable		
Trade	**105.9**	199.5
Other (Note 2)	**93.7**	74.3
Income taxes recoverable	**47.1**	136.7
Future income taxes, net	**31.2**	-
Inventories (Note 1(b))	**404.9**	472.0
Prepaid expenses	**35.1**	40.8
Total current assets	**1,080.3**	1,218.8
Long-term investments and other (Note 3)	**125.7**	170.4
Property, plant, equipment and timber	**1,798.5**	1,959.4
Goodwill	**85.7**	69.2
Deferred charges	**110.2**	90.0
	$ 3,200.4	$ 3,507.8
LIABILITIES		
Current Liabilities		
Operating loans (Note 4)	**$ 25.2**	$ -
Accounts payable and accrued liabilities	**322.9**	335.0
Current portion of long-term debt (Note 4)	**168.3**	15.2
Current portion of deferred reforestation obligation	**32.5**	34.4
Future income taxes, net	**-**	19.0
Total current liabilities	**548.9**	403.6
Long-term debt (Note 4)	**428.7**	481.6
Long-term accrued liabilities and obligations (Note 5)	**208.8**	203.5
Future income taxes, net	**242.4**	299.5
Non-controlling interests	**276.8**	302.5
	$ 1,705.6	$ 1,690.7
SHAREHOLDERS' EQUITY		
Share capital – 142,589,312 common shares outstanding	**$ 1,124.7**	$ 1,124.7
Contributed surplus	**31.9**	31.9
Retained earnings	**316.7**	692.5
Accumulated other comprehensive income (loss)	**21.5**	(32.0)
	$ 1,494.8	$ 1,817.1
	$ 3,200.4	$ 3,507.8

Subsequent Event (Note 15)

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

APPROVED BY THE BOARD

"R. L. Cliff" *"J.F. Shepard"*

Director, R.L. Cliff Director, J.F. Shepard

Canfor Corporation
Consolidated Statements of Loss

(millions of dollars, unaudited)	3 months ended December 31, 2008	3 months ended December 31, 2007	12 months ended December 31, 2008	12 months ended December 31, 2007
Sales	**$ 588.7**	$ 711.0	**$ 2,611.6**	$ 3,275.6
Costs and expenses				
Manufacturing and product costs	**472.5**	610.5	**1,953.1**	2,583.6
Freight and other distribution costs	**117.1**	127.5	**476.2**	565.0
Export taxes (Note 2 (c))	**6.0**	17.4	**55.1**	101.8
Amortization	**44.0**	47.2	**171.2**	184.1
Selling and administration costs	**13.0**	11.6	**60.6**	72.8
Restructuring, mill closure and severance costs (Note 6)	**10.3**	21.5	**53.5**	41.3
	662.9	835.7	**2,769.7**	3,548.6
Operating loss	**(74.2)**	(124.7)	**(158.1)**	(273.0)
Interest expense, net	**(7.7)**	(4.3)	**(25.4)**	(9.4)
Foreign exchange (loss) gain on translation of long-term debt and investments, net	**(72.0)**	(4.1)	**(100.3)**	16.2
(Loss) gain on derivative financial instruments (Note 12)	**(81.7)**	6.2	**(88.5)**	16.0
North Central Plywoods mill fire, net (Note 2 (a))	**-**	-	**57.9**	-
Prince George Pulp & Paper mill fire, net (Note 2 (b))	**(0.3)**	-	**8.2**	-
Asset impairments (Note 8)	**(99.6)**	(256.0)	**(169.6)**	(268.0)
Other income (expense), net	**12.9**	(3.3)	**12.7**	(11.1)
Net loss before income taxes and non-controlling interests	**(322.6)**	(386.2)	**(463.1)**	(529.3)
Income tax recovery (Note 9)	**80.2**	155.3	**141.9**	234.1
Non-controlling interests	**12.6**	(6.1)	**(24.0)**	(65.4)
Net loss	**$ (229.8)**	$ (237.0)	**$ (345.2)**	$ (360.6)
Per common share (in dollars) (Note 10)				
Net loss - Basic and Diluted	**$ (1.61)**	**$** (1.66)	**$ (2.42)**	$ (2.53)

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

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

(millions of dollars, unaudited)	3 months ended December 31, **2008**	3 months ended December 31, 2007	12 months ended December 31, **2008**	12 months ended December 31, 2007
Consolidated Statements of Changes in Shareholders' Equity				
Share capital				
Balance at beginning of period	**$ 1,124.7**	$ 1,124.7	**$ 1,124.7**	$ 1,124.3
Common shares issued on exercise of stock options	**-**	-	**-**	0.4
Balance at end of period	**$ 1,124.7**	$ 1,124.7	**$ 1,124.7**	$ 1,124.7
Contributed surplus				
Balance at beginning and end of period	**$ 31.9**	$ 31.9	**$ 31.9**	$ 31.9
Retained earnings				
Balance at beginning of period	**$ 546.5**	$ 929.5	**$ 692.5**	$ 1,068.5
Implementation of financial instruments standards (Note 1 (b))	**-**	-	**-**	(13.2)
Change in accounting for Canfor Pulp Limited Partnership's pension liability	**-**	-	**-**	(2.2)
Change in accounting for inventories (Note 1 (b))	**-**	-	**(30.6)**	-
Net loss for the period	**(229.8)**	(237.0)	**(345.2)**	(360.6)
Balance at end of period	**$ 316.7**	$ 692.5	**$ 316.7**	$ 692.5
Accumulated other comprehensive loss				
Balance at beginning of period	**$ (22.2)**	$ (30.1)	**$ (32.0)**	$ -
Implementation of financial instruments standards (Note 1 (b))	**-**	-	**-**	(1.9)
Reclassification of foreign exchange translation adjustment	**-**	-	**-**	3.0
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**43.7**	(1.9)	**54.2**	(35.7)
Reclassification to income of (losses) gains on derivative instruments designated as cash flow hedges in prior periods	**-**	-	**(0.7)**	2.6
Balance at end of period	**$ 21.5**	$ (32.0)	**$ 21.5**	$ (32.0)
Total shareholders' equity – Balance at end of period	**$ 1,494.8**	$ 1,817.1	**$ 1,494.8**	$ 1,817.1
Consolidated Statement of Comprehensive Loss				
Net loss for the period	**$ (229.8)**	$ (237.0)	**$ (345.2)**	$ (360.6)
Other comprehensive income (loss)				
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**43.7**	(1.9)	**54.2**	(35.7)
Reclassification to income of (losses) gains on derivative instruments designated as cash flow hedges in prior periods	**-**	-	**(0.7)**	2.6
Other comprehensive income (loss)	**43.7**	(1.9)	**53.5**	(33.1)
Total comprehensive loss	**$ (186.1)**	$ (238.9)	**$ (291.7)**	$ (393.7)

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

Canfor Corporation
Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended December 31, 2008	3 months ended December 31, 2007	12 months ended December 31, 2008	12 months ended December 31, 2007
Cash generated from (used in)				
Operating activities				
Net loss for the period	**$ (229.8)**	$ (237.0)	**$ (345.2)**	$ (360.6)
Items not affecting cash:				
Amortization	**44.0**	47.2	**171.2**	184.1
Income taxes	**(39.1)**	(109.1)	**(43.5)**	(111.9)
Long-term portion of deferred reforestation	**7.2**	(2.9)	**(2.5)**	(5.3)
North Central Plywoods mill fire, net (Note 2 (a))	**-**	-	**(57.9)**	-
Prince George Pulp & Paper mill fire, net (Note 2 (b))	**0.3**	-	**(8.2)**	-
Foreign exchange loss (gain) on translation of long-term debt	**80.2**	(4.1)	**115.2**	(92.5)
Loss (gain) on derivative financial instruments (Note 12)	**81.7**	(6.2)	**88.5**	(16.0)
Asset impairments (Note 8)	**99.6**	256.0	**169.6**	268.0
Non-controlling interests	**(12.6)**	6.1	**24.0**	65.4
Other	**(13.7)**	15.2	**3.9**	40.6
Net proceeds from replacement of derivative financial instruments	**-**	-	**11.0**	-
Salary pension plan contributions	**(4.3)**	(4.0)	**(15.9)**	(21.7)
Deferred scheduled maintenance spending	**(2.9)**	(2.4)	**(8.7)**	(4.7)
Net change in non-cash working capital (Note 11)	**10.3**	(9.7)	**56.2**	(428.5)
	20.9	(50.9)	**157.7**	(483.1)
Financing activities				
Proceeds from long-term debt	**-**	-	**-**	0.3
Repayment of long-term debt	**-**	(8.3)	**(14.8)**	(99.4)
Increase (decrease) in operating bank loans	**21.1**	(1.8)	**25.2**	(1.1)
Cash distributions paid to non-controlling interests	**(12.8)**	(15.6)	**(52.3)**	(74.2)
Other	**(0.2)**	(0.1)	**(0.5)**	0.1
	8.1	(25.8)	**(42.4)**	(174.3)
Investing activities				
Decrease in temporary investments	**-**	-	**-**	124.5
Reclassification of non-bank asset-backed commercial paper	**-**	-	**-**	(85.9)
Business acquisitions	**(0.8)**	(16.8)	**(0.8)**	(16.8)
Additions to property, plant, equipment and timber	**(21.9)**	(27.5)	**(80.2)**	(90.6)
Proceeds from disposal of property, plant and equipment	**1.3**	1.2	**5.6**	4.0
Partial proceeds from North Central Plywoods fire claim (Note 2 (a))	**20.0**	-	**30.0**	-
Partial proceeds from Prince George Pulp & Paper mill fire damage claim (Note 2 (b))	**1.5**	-	**9.5**	-
Advances to affiliated companies	**-**	-	**(11.5)**	-
Other	**(0.9)**	11.5	**(1.0)**	(6.1)
	(0.8)	(31.6)	**(48.4)**	(70.9)
Increase (decrease) in cash and cash equivalents	**28.2**	(108.3)	**66.9**	(728.3)
Cash and cash equivalents at beginning of period	**334.2**	403.8	**295.5**	1,023.8
Cash and cash equivalents at end of period	**$ 362.4**	$ 295.5	**$ 362.4**	$ 295.5
Cash payments (receipts) in the period				
Interest, net	**$ 7.9**	$ 14.1	**$ 26.6**	$ 25.3
Income taxes	**$ (1.8)**	$ (0.9)	**$ (137.5)**	$ 230.5

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

Notes to the Consolidated Interim Financial Statements

(unaudited, in millions of dollars unless otherwise noted)

1. Significant Accounting Policies and Changes in Accounting Policies

(a) Basis of Presentation

These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor's Annual Report for the year ended December 31, 2007 available at www.canfor.com or www.sedar.com. These interim financial statements follow the same accounting policies and methods of computation as used in the 2007 consolidated financial statements, except as noted below.

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills, 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 and panel products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

(b) Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Sections: 1535 "Capital Disclosures", 3031 "Inventories", 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". Handbook sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation". These requirements have been incorporated into the unaudited interim consolidated financial statements.

Section 1535 - Capital Disclosures

This Section establishes standards for disclosures about an entity's capital and how it is managed. Under this standard, the Company is required to disclose qualitative information about its objectives, policies and processes for managing capital, quantitative data about what it regards as capital, and whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

Section 3031 - Inventories

This Section replaced Section 3030 – "Inventories" and provides significantly more guidance on the measurement of inventories, with an expanded definition of cost, and the requirement that inventories must be measured at the lower of cost and net realizable value. In addition, the section sets out additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-downs or reversal of write-downs. In conjunction with Section 3061 "Property Plant and Equipment", it also provides guidance on the classification of major spare parts and stand-by equipment.

On January 1, 2008, the Company adopted the new recommendations retrospectively, without prior period restatement. As a result of implementing these standards, inventories decreased by $60.6 million (log inventories by $46.5 million, processing materials and supplies by $14.1 million), property, plant and equipment increased by $14.1 million, future income tax liabilities decreased by $15.9 million and opening retained earnings were reduced by $30.6 million.

Total inventory write-downs at December 31, 2008 were $46.2 million.

Section 3862 - Financial Instruments – Disclosures

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

Section 3863 – Financial Instruments – Presentation

This Section establishes standards for presentation of financial instruments and non-financial derivatives.

On January 1, 2007, the Company adopted Sections 3855, 3861, 3865, "*Financial Instruments", "Financial Instruments – Disclosure and Presentation", "Financial Instruments – Hedges"* and Section 1530, "*Comprehensive Income"*. Opening retained earnings were reduced by $13.2 million as a result of the implementation of these new standards. This amount was comprised of a $14.2 million deferred unrealized foreign exchange loss on long-term debt arising from a previous hedging relationship and $2.8 million of deferred financing costs that were written off, partially offset by a $3.8 million adjustment to the associated liabilities for future income taxes and non-controlling interests.

(c) Future Accounting Policy Changes

In February 2008, the CICA issued a new accounting standard, Handbook Section 3064 – "Goodwill and Intangible Assets". This Section replaces CICA Handbook Section 3062 – "Goodwill and Intangible Assets" and Section 3450 – "Research and Development Costs", and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new Standard, EIC 27 – "Revenues and Expenditures During the Pre-operating Period" is withdrawn and so various pre-production and start-up costs are required to be expensed as incurred. This Standard will be applicable to the Company for annual and interim accounting periods beginning on January 1, 2009. The Company does not expect that this Standard will have a material impact on its consolidated financial statements.

In 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly listed companies to use International Financial Reporting Standards ("IFRS"), replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. From that date onwards, publicly traded companies and certain other publicly accountable enterprises will be required to report under IFRS. The Company is currently evaluating the impact of these new standards on its consolidated financial statements.

2. Other Receivables

(a) North Central Plywoods Mill Fire

Other receivables include $41.4 million in relation to a fire at the Company's North Central Plywoods ("NCP") facility in Prince George, British Columbia on May 26, 2008, which completely destroyed the mill. The mill is insured for equivalent replacement value. At the end of the year, the Company had not reached final settlement with its insurer, and accordingly estimated the insurance property damage amount receivable using preliminary engineering estimates and other information available. By December 31, 2008, the Company had received advances of $30.0 million from the insurer which were offset against the total property damage and business interruption receivable of $71.4 million. The insurance property damage receivable was estimated on the basis that the insurance proceeds will be applied towards capital improvements at the Company's other operations.

Based on estimated insurance proceeds, net of an aggregate policy deductible and costs related to the fire, the Company recorded a pre-tax gain of $57.9 million. The estimates are subject to adjustments in future periods.

(b) Prince George Pulp & Paper Mill Fire

Other receivables include $7.2 million in relation to a fire at Canfor Pulp Limited Partnership's ("CPLP") Prince George Pulp & Paper mill in January 2008, which destroyed the chip screening and in-feed system. CPLP recorded a related pre-tax gain on disposal of capital assets of $8.2 million. In connection with claims arising from the fire, CPLP recorded the following receivables during 2008:

- a property damage insurance receivable of $12.2 million, net of a $3.3 million policy deductible; and
- a business interruption insurance receivable of $19.1 million, net of a $1.0 million policy deductible, plus a $3.0 million receivable in temporary chip in-feed system costs.

By December 31, 2008, CPLP had received total advances of $27.1 million in connection with these claims, of which $15.9 million related to the business interruption claim, and $11.2 million to property damage. Of the latter amount, $9.5 million has been classified as an investing activity in the Consolidated Cash Flow Statements; the balance of $1.7 million represents demolition costs. Subsequent to December 31, 2008, a further $2.7 million has been received as partial payment against the accrued insurance receivable.

(c) Export Tax Receivable, Net

As at December 31, 2008, the Company had a net export tax receivable of $3.3 million (2007 – payable of $5.2 million) as a result of a Third Country Adjustment export tax refund of $10.8 million related to the quarters ended December 31, 2007 and March 31, 2008. This refund was based on information received from the Canada Revenue Agency in December 2008.

3. Long-Term Investments and Other

(millions of dollars)	**As at December 31, 2008**	As at December 31, 2007
Non-bank asset-backed commercial paper (Note 8)	**$ 69.3**	$ 64.0
Coastal Fibre Limited Partnership long-term fibre agreement (Note 8)	**-**	37.1
Other Investments	**28.9**	35.0
Customer agreements	**22.9**	21.1
Derivative instruments	**-**	4.4
Other deposits, loans and advances	**4.6**	8.8
	$ 125.7	$ 170.4

The non-bank asset-backed commercial paper ("ABCP") of $69.3 million (US$56.6 million) is measured at the estimated fair value of combined investments in asset-backed commercial paper of four different Canadian trusts with total original principal amount of US$81.2 million and original maturities between August and September 2007.

4. Operating Loans and Long-Term Debt

At December 31, 2008, the Company, on a consolidated basis, had $430.0 million of unsecured operating lines available (2007 – $409.0 million), of which $25.2 million was drawn down (2007 – nil) and an additional $41.4 million was reserved for several standby letters of credit (2007 – $40.1 million).

The Company's available operating line excluding CPLP was $355.0 million (2007 - $325.0 million) of which $17.3 million (2007 – $12.7 million) was reserved for several standby letters of credit, the majority of which relates to unregistered pension plans. Interest is payable at floating rates based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio. The operating loan expires in June 2011.

CPLP's available operating line at December 31, 2008 was $75.0 million (2007 – $75.0 million) of which $25.2 million was drawn down (2007 – nil) and $24.1 million (2007 – $27.4 million) was reserved for a standby letter of credit issued to BC Hydro in connection with a 15 year electrical cogeneration agreement. Interest is payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation and amortization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The operating loan expires in November 2009.

At December 31, 2008, the fair value of the Company's long-term debt, which was measured at its amortized cost of $597.0 million, was $578.1 million. The fair value of long-term debt was determined based on prevailing market rates for long-term debt with similar characteristics and risk profiles.

5. Long-term Accrued Liabilities and Obligations

(millions of dollars)	**As at December 31, 2008**	As at December 31, 2007
Deferred reforestation obligation	**$ 63.1**	$ 65.6
Accrued pension obligations	**20.0**	19.1
Accrued pension bridge benefit obligations	**8.7**	7.9
Other post-employment benefits	**98.3**	87.0
Asset retirement obligations	**4.7**	11.1
Other	**14.0**	12.8
	$ 208.8	$ 203.5

6. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with the indefinite or permanent closures of facilities and staff reductions. The expense for the fourth quarter of 2008 amounted to $10.3 million and substantially resulted from the indefinite closure of the Tackama panel operation in October 2008, and the other indefinitely idled PolarBoard, Mackenzie and Chetwynd operations.

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

	3 months ended December 31,		12 months ended December 31,	
(millions of dollars)	**2008**	2007	**2008**	2007
Lumber	**$ 3.7**	$ 7.1	**$ 18.7**	$ 21.7
Panels	**6.7**	14.4	**34.5**	14.4
Corporate and other	**(0.1)**	-	**0.3**	5.2
	$ 10.3	$ 21.5	**$ 53.5**	$ 41.3

The following table provides a reconciliation of the restructuring, mill closure and severance liability for the 2007 and 2008 years:

(millions of dollars)	**As at December 31, 2008**	As at December 31, 2007
Accrued liability at beginning of period	**$ 29.8**	$ 4.9
Costs in the period [a]	**39.8**	33.3
Paid during the period	**(46.3)**	(8.4)
Accrued liability at end of period	**$ 23.3**	$ 29.8

[a] Excluding non-cash expenses, which include provisions for capital asset and inventory write-downs resulting from indefinite and permanent mill closures, in both years

7. Employee Future Benefits

The Company's total benefit costs were as follows:

(millions of dollars)	3 months ended December 31, **2008**	3 months ended December 31, 2007	12 months ended December 31, **2008**	12 months ended December 31, 2007
Defined benefit pension plans	**$ 0.8**	$ 4.4	**$ 3.3**	$ 17.5
Other employee future benefit plans	**4.3**	4.3	**17.2**	17.2
Defined contribution pension plans and 401(k) plans	**0.9**	0.2	**3.6**	1.6
Contributions to forest industry union plans	**3.8**	4.6	**18.4**	22.8
	$ 9.8	$ 13.5	**$ 42.5**	$ 59.1

8. Asset Impairments

(millions of dollars)	3 months ended December 31, **2008**	3 months ended December 31, 2007	12 months ended December 31, **2008**	12 months ended December 31, 2007
Capital assets	**$ 77.2**	$ 231.4	**$ 77.2**	$ 231.4
Assets related to Howe Sound Pulp and Paper Limited Partnership and Coastal Fibre Limited Partnership	**-**	-	**70.0**	14.0
Non-bank asset-backed commercial paper (Note 3)	**10.2**	10.6	**10.2**	16.2
Other	**12.2**	14.0	**12.2**	6.4
	$ 99.6	$ 256.0	**$ 169.6**	$ 268.0

Capital Assets

The Company 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 the Company's sawmill and panelboard operations and various other assets was undertaken in 2007 and 2008 as a result of operating losses in both years and the 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 an 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 the Company's long-lived assets generally include key assumptions related to forecast 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 the Mountain Pine Beetle epidemic. Price forecasts beyond 2009 were determined with reference to Resource Information Systems, Inc. publications, and forecast exchange rates were based on forecasts from various recognized authorities. Given the importance of the US$/Cdn$ exchange rate in the Company's business, where most sales are denominated in US dollars and most costs incurred in Canadian dollars, probabilities were assigned to the likelihood of occurrence of several exchange rate scenarios, and a weighted average of these was used in determining the impairments to be recorded.

As a result of its review, the Company recorded a capital asset impairment charge of $77.2 million in the fourth quarter of 2008 (fourth quarter of 2007 – $231.4 million).

Non-bank Asset-backed Commercial Paper

Since August 2007, there has been no active market for non-bank asset-backed commercial paper ("ABCP"). The Company's funds are invested in the ABCP of four different Canadian Trusts, which failed to make payment at maturity and, along with 16 other ABCP conduits were subject to restructuring under the Pan-Canadian Investors Committee for Third Party structured Asset-Backed Commercial Paper ("the Pan-Canadian Investors Committee"). On March 17, 2008 the Pan-Canadian Investors Committee filed with the Ontario Superior Court of Justice a comprehensive arrangement pursuant to the Companies' Creditors Arrangement Act to restructure the affected trusts. The final restructuring plan was approved on January 12, 2009 and completed on January 21, 2009.

At December 31, 2008, an additional impairment of $10.2 million (US$8.4 million) was recorded on the ABCP based on the estimated fair value at year end, which took into account information available to the Company related to its specific holdings of ABCP, and assumed a high likelihood of success for the ABCP restructuring plan. The book value at December 31, 2008 reflected the impact of a weaker Canadian dollar on the US dollar denominated ABCP. No changes to fair value resulted from the completion of the restructuring plan after year-end 2008.

Other

For the fourth quarter of 2008, other asset impairments of $12.2 million were recognized for certain other investments and spare parts inventory at indefinitely idled operations.

9. Income Taxes

	3 months ended December 31,		12 months ended December 31,	
(millions of dollars)	**2008**	2007	**2008**	2007
Current	**$ 18.1**	$ 64.2	**$ 47.9**	$ 140.8
Future	**62.1**	91.1	**94.0**	93.3
	$ 80.2	$ 155.3	**$ 141.9**	$ 234.1

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

	3 months ended December 31,		12 months ended December 31,	
(millions of dollars)	**2008**	2007	**2008**	2007
Income tax recovery at statutory tax rate	**$ 100.1**	$ 131.7	**$ 143.6**	$ 180.5
Add (deduct):				
Non-controlling interests	**(3.9)**	2.1	**7.4**	22.3
Change in corporate income tax rates	**-**	19.6	**9.1**	21.5
Entities with different income tax rates and other tax adjustments	**0.9**	6.6	**4.4**	12.4
Tax recovery at rates other than statutory rate	**0.9**	-	**3.5**	-
Permanent difference from capital gains and losses and other non-deductible items	**(17.8)**	(4.7)	**(26.1)**	(2.6)
Income tax recovery	**$ 80.2**	$ 155.3	**$ 141.9**	$ 234.1

10. Net Loss Per Share

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

	3 months ended December 31,		12 months ended December 31,	
	2008	2007	**2008**	2007
Weighted average number of common shares	**142,589,312**	142,589,312	**142,589,312**	142,576,271
Incremental shares from potential exercise of options [a]	**-**	3,350	**1,778**	41,254
Diluted number of common shares [a]	**142,589,312**	142,589,312	**142,589,312**	142,576,271

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

11. Net Change in Non-Cash Working Capital

	3 months ended December 31,		12 months ended December 31,	
(millions of dollars)	**2008**	2007	**2008**	2007
Accounts receivable	**$ 81.0**	$ 34.4	**$ 78.1**	$ 38.0
Income taxes recoverable/payable	**(18.1)**	(63.7)	**89.6**	(371.9)
Future income taxes, net	**(22.5)**	17.6	**(49.9)**	14.0
Inventories	**13.9**	45.9	**2.9**	166.8
Prepaid expenses	**14.8**	11.3	**(0.1)**	1.9
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	**(58.8)**	(55.2)	**(64.4)**	(277.3)
	$ 10.3	$ (9.7)	**$ 56.2**	$ (428.5)

12. Financial Instruments

All financial instruments and derivatives are measured at fair value on initial recognition except for certain related party transactions. Unless otherwise stated, book value approximates fair value.

Classification of Financial Instruments

The Company has classified its cash and cash equivalents and ABCP as held-for-trading. Accounts receivable are classified as loans and receivables. Operating loans, accounts payable and accrued liabilities, and long-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost. Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract.

The Company reviews all assets, including financial instruments, for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Financial Risk Management

The Company 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.

The Company'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 of the Company.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company 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. The cash and cash equivalents balance at December 31, 2008 is $362.4 million.

The Company utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 50% of the outstanding trade receivables are covered by credit insurance. The Company's trade receivable balance at December 31, 2008 is $105.9 million, net of an allowance for doubtful accounts of $3.0 million. At December 31, 2008 approximately 98% of the trade accounts balance was within the Company's established credit terms.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to meet its financial obligations on a current basis. The Company manages liquidity risk through regular cash-flow forecasting in conjunction with an adequate committed operating bank loan facility.

At December 31, 2008, the Company has operating loans of $25.2 million, accounts payable and accrued liabilities of $322.9 million and current debt obligations of $168.3 million (US$137.3 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:

The Company is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. The Company'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 the Company'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.

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

(ii) Currency risk:

The Company is exposed to foreign exchange risk primarily related to the US dollar, as the Company's products are sold principally in US dollars and all long-term debt is denominated in US dollars. In addition, the Company 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. The majority 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.

(iii) Energy Price risk:

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

The exposure is 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, the Company uses heating oil contracts to hedge its exposure.

(iv) Commodity Price risk:

The Company is exposed to commodity price risk related to sale of lumber, pulp, paper and oriented strand board. From time to time, the Company 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 Instruments

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices and energy costs. At December 31, 2008, the fair value of outstanding commodity and exchange financial instruments was a net liability of $69.3 million (2007 – net asset of $17.2 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three months ended and years ended December 31, 2008 and 2007:

	3 months ended December 31,		12 months ended December 31,	
(millions of dollars)	**2008**	2007	**2008**	2007
Foreign exchange collars and contracts	**$ (65.6)**	$ (0.1)	**$ (86.1)**	$ 14.3
Natural gas swaps	**(4.8)**	3.3	**1.0**	(9.1)
Diesel options and swaps	**(11.3)**	3.0	**(3.4)**	9.1
Commodity futures	**-**	-	**-**	1.7
	$ (81.7)	$ 6.2	**$ (88.5)**	$ 16.0

The following table summarizes the fair market value of the derivative financial instruments included in the balance sheet at December 31, 2008 and 2007:

(millions of dollars)	**As at December 31, 2008**	As at December 31, 2007
Foreign exchange collars and contracts	**$ (53.2)**	$ 15.0
Natural gas swaps	**(6.5)**	(5.7)
Diesel options and swaps	**(9.6)**	7.9
	(69.3)	17.2
Less: current portion	**(67.5)**	14.4
Long-term portion	**$ (1.8)**	$ 2.8

13. Segmented Information [a]

Business Segment Information

(millions of dollars)		Lumber [b]	Panels	Pulp & Paper [d]	Corporate & Other	Elimination Adjustment		Consolidated
3 months ended December 31, 2008								
Sales to external customers	**$**	**363.9**	**20.5**	**204.3**	**-**	**-**	**$**	**588.7**
Sales to other segments [c]	**$**	**22.7**	**0.4**	**-**	**-**	**(23.1)**	**$**	**-**
Operating loss	**$**	**(50.8)**	**(15.2)**	**(2.2)**	**(6.0)**	**-**	**$**	**(74.2)**
Amortization	**$**	**26.8**	**4.3**	**11.1**	**1.8**	**-**	**$**	**44.0**
Capital expenditures	**$**	**8.8**	**0.1**	**13.0**	**-**	**-**	**$**	**21.9**
3 months ended December 31, 2007								
Sales to external customers	$	395.3	70.5	245.2	-	-	$	711.0
Sales to other segments [c]	$	22.4	1.4	-	-	(23.8)	$	-
Operating income (loss)	$	(99.5)	(34.2)	12.9	(3.9)	-	$	(124.7)
Amortization	$	25.6	5.4	14.8	1.4	-	$	47.2
Capital expenditures	$	5.7	10.0	11.3	0.5	-	$	27.5
12 months ended December 31, 2008								
Sales to external customers	**$**	**1,490.5**	**170.3**	**950.8**	**-**	**-**	**$**	**2,611.6**
Sales to other segments [c]	**$**	**96.0**	**3.6**	**-**	**-**	**(99.6)**	**$**	**-**
Operating income (loss)	**$**	**(155.0)**	**(56.9)**	**76.8**	**(23.0)**	**-**	**$**	**(158.1)**
Amortization	**$**	**99.5**	**16.1**	**48.8**	**6.8**	**-**	**$**	**171.2**
Capital expenditures	**$**	**39.5**	**0.8**	**39.9**	**-**	**-**	**$**	**80.2**
Identifiable assets [e]	**$**	**1,434.4**	**248.2**	**906.6**	**611.2**	**-**	**$**	**3,200.4**
12 months ended December 31, 2007								
Sales to external customers	$	1,942.7	297.7	1,035.2	-	-	$	3,275.6
Sales to other segments [c]	$	111.2	5.0	-	-	(116.2)	$	-
Operating income (loss)	$	(301.2)	(76.5)	137.2	(32.5)	-	$	(273.0)
Amortization	$	102.8	23.0	53.3	5.0	-	$	184.1
Capital expenditures	$	47.6	15.7	24.2	3.1	-	$	90.6
Identifiable assets [e]	$	1,537.4	335.1	937.1	698.2	-	$	3,507.8

(a) Operations are presented by product line.

(b) Sales for the fourth quarter include sales of Canfor-produced lumber of $298.0 million (three months ended December 31, 2007 – $326.6 million) and $1,214.3 million for the year-to-date (year ended December 31, 2007 – $1,631.8 million).

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

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

(e) Identifiable assets for the fourth quarter of 2008 are presented net of an impairment charge of $99.6 million (three months ended December 31, 2007 – $256.0 million), of which $2.2 million relates to the Lumber segment (three months ended December 31, 2007 – $159.2 million), $81.2 million relates to the Panels segment (three months ended December 31, 2007 – $72.2 million) and $16.2 million relates to the Corporate and Other segment (three months ended December 31, 2007 – $24.6 million). Identifiable assets for the year ended December 31, 2008 are presented net of an impairment charge of $169.6 million (2007 – $268.0 million), of which $2.2 million relates to the Lumber segment (2007 - $90.0 million), $81.2 million to the Panels segment (2007 - $141.4 million) and $86.2 million to Corporate and Other (2007 – $36.6 million).

Geographic Information

(millions of dollars)	3 months ended December 31, **2008**	3 months ended December 31, 2007	12 months ended December 31, **2008**	12 months ended December 31, 2007
Sales by location of customer				
Canada	**$ 109.3**	$ 149.3	**$ 505.3**	$ 615.6
United States	**317.6**	366.0	**1,378.3**	1,855.0
Europe	**37.3**	50.0	**174.5**	190.3
Far East and Other	**124.5**	145.7	**553.5**	614.7
	$ 588.7	$ 711.0	**$ 2,611.6**	$ 3,275.6

(millions of dollars)	**As at December 31, 2008**	As at December 31, 2007
Capital assets and goodwill by location		
Canada	**$ 1,697.9**	$ 1,868.9
United States	**186.1**	159.5
Far East and Other	**0.2**	0.2
	$ 1,884.2	$ 2,028.6

14. Capital Disclosures

The Company's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensures adequate liquidity to maintain and develop the business throughout the commodity price cycle.

The Company's capital is comprised of net debt and shareholders' equity:

(millions of dollars)	**As at December 31, 2008**	As at December 31, 2007
Total debt (including operating loans)	**$ 622.2**	$ 496.8
Less: Cash and cash equivalents	**(362.4)**	(295.5)
Net debt	**259.8**	201.3
Total shareholders' equity	**1,494.8**	1,817.1
	$ 1,754.6	$ 2,018.4

The Company has certain financial covenants in 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.

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

The Company's strategy is to ensure it remains in compliance with all of its existing covenants, so as to ensure continuous access to capital, and management reviews results and forecasts to monitor the Company's compliance. The Company was in compliance with all its debt covenants for the three and twelve months ended December 31, 2008 and 2007.

15. Subsequent Events

New Operating Loans

On January 30, 2009, the Company entered into two new operating loan facilities in the amounts of US$16.7 million ("Facility A") and US$43.7 million ("Facility B"). Facility A expires in January 2012, with the option of four one-year extensions, and is non-recourse to the Company under normal circumstances, except for US$6.7 million. Facility B expires in January 2011, with the option of five one-year extensions, and is non-recourse to the Company under normal circumstances. Both facilities can be drawn in Canadian or US dollars and interest is payable at floating rates based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus or minus a margin. The ABCP assets of the Company have been pledged as security to support these credit facilities.

Sale of Panel and Fibre Mill Property

On February 13, 2009, the Company completed the sale of a property located at New Westminster, British Columbia, for gross proceeds of $47.5 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 transaction will result in a pre-tax gain of approximately $44 million.

16. Comparative Figures

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