Q3 2009

For the three months ended September 30, 2009

CANFOR CORPORATION 2009 THIRD QUARTER INTERIM REPORT

To Our Shareholders

Canfor Corporation reported its results for the third quarter of 2009. The ongoing downturn in the U.S. housing market continued to significantly impact Canfor's financial performance in the period; however, further cost reductions, higher pulp sales revenues and a foreign exchange translation gain on US dollar debt limited the Company's net loss for the third quarter of 2009 to $5.2 million ($0.04 per share). These results compared to net income of $10.5 million ($0.07 per share) for the second quarter of 2009, and a net loss of $94.2 million ($0.66 per share) for the third quarter of 2008. For the nine months ended September 30, 2009, the Company's net loss was $53.5 million ($0.38 per share), compared to a net loss of $115.4 million ($0.81 per share) for the comparable period in 2008.

The net loss for the third quarter of 2009 included several items affecting comparability with prior periods, which had an overall positive impact on net income of $27.0 million ($0.19 per share). The most significant of these items was a foreign exchange translation gain on the Company's US dollar denominated debt, net of investments, of $19.6 million ($0.14 per share), as a result of the stronger Canadian dollar. Other items affecting comparability in the quarter included gains on derivative financial instruments, and restructuring, mill closure and severance ("restructuring") costs.

After taking account of all items affecting comparability, the Company's adjusted net loss for the third quarter of 2009 was $32.2 million ($0.23 per share), compared to a similarly adjusted net loss of $17.0 million ($0.12 per share) for the second quarter of 2009 and an adjusted net loss of $1.0 million ($0.01 per share) for the third quarter of 2008. For year-to-date 2009, the adjusted net loss was $127.4 million ($0.89 per share), double the similarly adjusted net loss of $63.5 million ($0.45 per share) for the comparative period in 2008.

U.S. housing starts showed a marginal improvement through the third quarter, but remain at very depressed levels. Western Spruce/Pine/Fir ("SPF") 2x4 lumber prices showed modest gains in the quarter, mostly in response to additional curtailment and concerns over supply disruption, but prices retreated from their August highs towards the end of the quarter. Southern Yellow Pine ("SYP") 2x4 lumber prices declined slightly through the period. Pulp prices continued their upward momentum in the third quarter, driven primarily by historically low global inventory levels and a steady improvement in demand. For Canadian operations, the pricing gains were offset to some extent by the strengthening of the Canadian dollar in the quarter.

The Company's reported EBITDA of $7 million was in line with the amount reported for the second quarter of 2009. However, excluding the impact of inventory accounting adjustments, which significantly skewed the second quarter's results, and restructuring costs, EBITDA for the third quarter of $15 million was up $48 million from the second quarter. This increase reflected higher sales revenues, particularly for pulp products, and lower lumber and pulp unit manufacturing costs, as well as costs in the second quarter related to settling the Company's North Central Plywoods mill fire insurance claim.

Cash conservation efforts continue to be a primary focus. The Company achieved further reductions in working capital, and operating and overhead cash costs, in the quarter, and continues to limit capital spending to essential projects. At the end of the third quarter, the Company had cash of $153 million (unchanged from the previous quarter), and $413 million of undrawn operating lines of credit.

The Company operated at approximately 50% of lumber capacity for the quarter. In addition to indefinitely idling its Radium, Rustad and Vavenby sawmills in June and July, the Company curtailed another 95 million board feet of lumber production, in the form of summer vacation shuts, at its continuing Western SPF and SYP operations in the third quarter. In late July, the Company restarted its Mackenzie sawmill after a 13-month curtailment

Lumber market conditions are expected to remain difficult through the balance of 2009 and into 2010, with the recent surge in the Canadian dollar creating additional challenges for Canadian producers. In addition, the Company announced today that it will be taking curtailments at most of its sawmills over the Christmas period. This decision will reduce Canfor's lumber production by approximately 37 million board feet of SPF lumber.

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

Canfor Corporation
Third Quarter 2009
Management's Discussion and Analysis

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

Throughout this discussion, reference is also made to EBITDA (calculated as operating income before amortization) which Canfor considers to be an important indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Net Loss (calculated as Net Loss less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Analysis of Specific Items Affecting Comparability of Net Loss") and Adjusted Net Loss per Share (calculated as Adjusted Net Loss divided by the weighted average number of shares outstanding during the period). EBITDA, Adjusted Net Loss and Adjusted Net Loss per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian GAAP. As there is no standardized method of calculating these measures, Canfor's EBITDA, Adjusted Net Loss and Adjusted Net Loss per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and Adjusted Net Loss to net income reported in accordance with GAAP are included in this MD&A.

Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; foreign exchange rates; interest rates; changes in law and public policy; the outcome of trade disputes; and opportunities available to or pursued by Canfor.

Certain prior period comparative information throughout this report has been restated for consistency with the presentation in the current period. All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at October 28, 2009.

Forward Looking Statements

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

THIRD QUARTER 2009 EARNINGS OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)	**Q3 2009**	Q2 2009	**YTD 2009**	**Q3 2008**	**YTD 2008**
Sales	**$ 540.9**	$ 541.7	**$ 1,570.8**	$ 668.0	$ 2,022.9
EBITDA	**$ 7.0**	$ 7.3	**$ (70.3)**	$ 55.1	$ 43.3
Operating (loss) income	**$ (31.4)**	$ (31.2)	**$ (186.8)**	$ 12.8	$ (83.9)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ 26.2**	$ 29.1	**$ 42.4**	$ (16.2)	$ (28.3)
Gain (loss) on derivative financial instruments[2]	**$ 17.7**	$ 25.7	**$ 22.1**	$ (38.8)	$ (6.8)
Gain on sale of mill property	**$ -**	$ -	**$ 44.6**	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ (3.0)	**$ (3.0)**	$ -	$ 57.9
Prince George Pulp & Paper mill fire, net	**$ -**	$ -	**$ -**	$ -	$ 8.5
Asset impairments	**$ -**	$ -	**$ -**	$ (70.0)	$ (70.0)
Net income (loss)	**$ (5.2)**	$ 10.5	**$ (53.5)**	$ (94.2)	$ (115.4)
Net income (loss) per share, basic and diluted	**$ (0.04)**	$ 0.07	**$ (0.38)**	$ (0.66)	$ (0.81)
Average exchange rate (US$/CDN$) [3]	**$ 0.912**	$ 0.858	**$ 0.858**	$ 0.960	$ 0.982
U.S. housing starts (million units SAAR) [4]	**0.590**	0.540	**0.553**	0.868	0.981

[1] Certain amounts in prior periods have been reclassified to conform to the presentation in the current period.
[2] Includes gains (losses) from natural gas, diesel, foreign exchange and lumber future derivative financial instruments (see "Unallocated and Other" section for more details).
[3] Source – Bank of Canada (average noon rate for the period).
[4] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").

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

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

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	**Q3 2009**	Q2 2009	**YTD 2009**	**Q3 2008**	**YTD 2008**
Net income (loss), as reported	**$ (5.2)**	$ 10.5	**$ (53.5)**	$ (94.2)	$ (115.4)
Restructuring, mill closure and severance costs	**$ 5.3**	$ 7.5	**$ 17.0**	$ 3.6	$ 28.5
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (19.6)**	$ (19.7)	**$ (30.2)**	$ 11.3	$ 20.0
(Gain) loss on derivative financial instruments	**$ (12.7)**	$ (17.3)	**$ (17.6)**	$ 21.4	$ 4.2
Gain on sale of mill property	**$ -**	$ -	**$ (37.8)**	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ 2.0	**$ 2.0**	$ -	$ (45.0)
Prince George Pulp & Paper mill fire, net	**$ -**	$ -	**$ -**	$ -	$ (3.6)
Asset impairments	**$ -**	$ -	**$ -**	$ 56.9	$ 56.9
Corporate income tax rate reductions	**$ -**	$ -	**$ (7.3)**	$ -	$ (9.1)
Net impact of above items	**$ (27.0)**	$ (27.5)	**$ (73.9)**	$ 93.2	$ 51.9
Adjusted net income (loss)	**$ (32.2)**	$ (17.0)	**$ (127.4)**	$ (1.0)	$ (63.5)
Net income (loss) per share (EPS), as reported	**$ (0.04)**	$ 0.07	**$ (0.38)**	$ (0.66)	$ (0.81)
Net impact of above items per share	**$ (0.19)**	$ (0.19)	**$ (0.51)**	$ 0.65	$ 0.36
Adjusted net income (loss) per share	**$ (0.23)**	$ (0.12)	**$ (0.89)**	$ (0.01)	$ (0.45)

EBITDA

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

(millions of dollars)	Q3 2009	Q2 2009	YTD 2009	Q3 2008	YTD 2008
Net income (loss), as reported	**$ (5.2)**	$ 10.5	**$ (53.5)**	$ (94.2)	$ (115.4)
Add (subtract):					
Amortization	**$ 38.4**	$ 38.5	**$ 116.5**	$ 42.2	$ 127.2
Interest expense, net	**$ 6.9**	$ 7.0	**$ 22.2**	$ 6.7	$ 17.7
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (26.2)**	$ (29.1)	**$ (42.4)**	$ 16.2	$ 28.3
(Gain) loss on derivative financial instruments	**$ (17.7)**	$ (25.7)	**$ (22.1)**	$ 38.8	$ 6.8
Gain on sale of mill property	**$ -**	$ -	**$ (44.6)**	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ 3.0	**$ 3.0**	$ -	$ (57.9)
Prince George Pulp & Paper mill fire, net	**$ -**	$ -	**$ -**	$ -	$ (8.5)
Asset impairments	**$ -**	$ -	**$ -**	$ 70.0	$ 70.0
Other expense (income)	**$ 8.7**	$ 2.5	**$ 8.7**	$ (0.1)	$ 0.2
Income tax (recovery) expense	**$ (7.2)**	$ (1.0)	**$ (57.9)**	$ (30.0)	$ (61.7)
Non-controlling interests	**$ 9.3**	$ 1.6	**$ (0.2)**	$ 5.4	$ 36.6
EBITDA, as reported	**$ 7.0**	$ 7.3	**$ (70.3)**	$ 55.1	$ 43.3
Included in above:					
Restructuring, mill closure and severance costs	**$ 6.2**	$ 11.4	**$ 24.0**	$ 5.4	$ 43.2
Negative (positive) impact of inventory write-downs[5]	**$ 1.7**	$ (52.2)	**$ (20.7)**	$ 3.5	$ (46.0)
EBITDA excluding impact of inventory write-downs and restructuring	**$ 14.9**	$ (33.5)	**$ (67.0)**	$ 64.0	$ 40.5

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

The prolonged downturn in the U.S. housing market continued to weigh heavily on Canfor's results in the third quarter of 2009 with U.S. housing starts showing only a marginal improvement from the record lows seen in the second quarter. In the Pulp segment, demand for printing and writing papers, the largest consuming segment of market pulp, showed a modest increase, but was still down over 14% from 2008 levels on a year-to-date basis.

Average prices across all solid wood and pulp products were higher compared to the second quarter, but were well off the levels of the corresponding quarter of 2008. Prices for most solid wood products faltered towards the end of the third quarter, but NBSK pulp prices remained firm and further increases of US$30 per tonne were announced for October.

The benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr lumber price averaged US$191[6] per thousand board feet ("Mfbm") in the third quarter, up US$17 from the previous quarter, but was down US$72, or 27%, from the third quarter of 2008. The average benchmark Southern Yellow Pine ("SYP") 2x4 #2 price in the third quarter was US$230 per Mfbm, down slightly from the previous quarter, and US$59 per Mfbm, or 20%, lower than for the corresponding quarter of 2008. The northern bleached softwood kraft ("NBSK") pulp list price for U.S. delivery climbed US$88 per tonne to US$733 per tonne in the third quarter, but was still US$147 per tonne, or 17%, lower than the third quarter of 2008. The value of the Canadian dollar relative to its U.S. counterpart increased 6% to 91 cents in the third quarter compared to the previous quarter, and offset much of the improvement in US dollar prices. Compared to the same quarter of 2008, the Canadian dollar was down 5 cents, or 5%.

[6] Random Lengths Publications, Inc.

The Company's lumber operations operated at approximately 50% of capacity in the third quarter of 2009, with lumber shipments and production reflecting the indefinite idling of the Company's Radium, Rustad and Vavenby sawmills in June and July, and the curtailment of another 95 million board feet at its continuing Western SPF and SYP operations, in the form of summer vacation shuts. In late July, the Company restarted its Mackenzie sawmill after a 13-month curtailment.

The Company reported EBITDA of $7.0 million for the third quarter of 2009, which was unchanged from the previous quarter. Excluding the impact of restructuring, mill closure and severance ("restructuring") costs and inventory accounting adjustments, EBITDA for the third quarter was up $48.4 million compared to the second quarter, as improved pulp and Western SPF lumber prices and lower operational and overhead costs (including reduced natural gas costs) more than offset the impact of the 6% higher Canadian dollar. The second quarter's operating results reflected higher costs related to the indefinite idling of the Radium, Rustad and Vavenby operations and the Company's settlement of its North Central Plywoods ("NCP") mill fire insurance claim in April.

Compared to the same quarter in 2008, reported EBITDA was down by $48.1 million, reflecting to a large extent significantly lower solid wood and pulp demand and prices, partly offset by reduced unit manufacturing costs across all businesses and a 5% lower Canadian dollar.

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

- A foreign exchange translation gain on the Company's US dollar denominated debt, net of investments, of $19.6 million ($0.14 per share), as a result of the stronger Canadian dollar. Year-to-date, the gain is $30.2 million ($0.21 per share).
- Gains recorded on derivative financial instruments totaling $12.7 million ($0.09 per share), principally reflecting an increase in the value of the Canadian dollar relative to the US dollar in the third quarter. The year-to-date net gain is $17.6 million ($0.12 per share).

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics - Lumber

(millions of dollars unless otherwise noted)	**Q3 2009**	Q2 2009	**YTD 2009**	**Q3 2008**	**YTD 2008**
Sales	**$ 301.1**	$ 299.2	**$ 877.6**	$ 378.8	$ 1,126.6
Operating income (loss)	**$ (36.3)**	$ (12.0)	**$ (140.6)**	$ (8.2)	$ (104.2)
EBITDA, as reported	**$ (14.6)**	$ 10.6	**$ (72.8)**	$ 15.3	$ (31.4)
Restructuring, mill closure and severance costs	**$ 4.5**	$ 9.6	**$ 16.6**	$ 3.1	$ 15.0
Negative (positive) impact of inventory write-downs	**$ 2.5**	$ (43.1)	**$ (16.3)**	$ 6.6	$ (29.4)
EBITDA excluding impact of inventory write-downs and restructuring	**$ (7.6)**	$ (22.9)	**$ (72.5)**	$ 25.0	$ (45.8)
Average SPF 2x4 #2&Btr lumber price in US$[7]	**$ 191**	$ 174	**$ 173**	$ 263	$ 233
Average SPF price in Cdn$	**$ 209**	$ 203	**$ 202**	$ 274	$ 237
Average SYP 2x4 #2 lumber price in US$[8]	**$ 230**	$ 236	**$ 234**	$ 289	$ 289
Average SYP price in Cdn$	**$ 252**	$ 275	**$ 273**	$ 301	$ 295
Production – SPF lumber (MMfbm)	**613.9**	759.3	**2,075.1**	747.1	2,507.8
Production – SYP lumber (MMfbm)	**70.5**	58.6	**191.5**	99.6	310.0
Shipments – SPF lumber (MMfbm) [9]	**714.7**	764.5	**2,164.1**	755.9	2,553.9
Shipments – SYP lumber (MMfbm) [9]	**66.0**	69.1	**201.8**	110.3	346.5
Shipments – wholesale lumber (MMfbm)	**56.1**	50.1	**145.2**	39.8	135.3

[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, including lumber purchased for remanufacture.

Overview

EBITDA for the Lumber segment was negative $14.6 million for the third quarter of 2009, an adverse movement of $25.2 million compared to the second quarter of 2009, and $29.9 million lower than the $15.3 million reported for the third quarter of 2008. For September year-to-date, EBITDA for the Lumber segment was negative $72.8 million, an adverse movement of $41.4 million compared to the same period in 2008.

Shipments and production in the third quarter were well down from those of the previous quarter and the same period of 2008, reflecting significantly weaker product demand and resulting higher curtailment.

EBITDA for the second quarter of 2009 included a significant positive impact from inventory write-down adjustments, principally as a result of the drawdown of log inventories after the Company's seasonal build in the first quarter. Excluding the impact of inventory write-down adjustments and restructuring costs, EBITDA in the current quarter was up $15.3 million, due largely to higher Western SPF sales values (particularly wide-dimension lumber) and lower unit manufacturing costs, which more than offset the appreciation of the Canadian dollar. US dollar prices for SYP 2x4 #2 lumber were down slightly over the same period, although moderate price gains were recorded for wider dimensions. Cash unit manufacturing costs were down marginally compared to the previous quarter despite additional curtailments.

The decrease in EBITDA, excluding the impact of inventory write-down adjustments and restructuring costs, of $32.6 million, when compared to the third quarter of 2008, was primarily attributable to significantly lower US dollar prices across most Western SPF and SYP products and grades, which outweighed a 6% decline in unit manufacturing costs and a 5% decrease in the value of the Canadian dollar over the same period. Western SPF 2x4 #2&Btr and SYP 2x4 #2 US dollar prices were down 27% and 20%, respectively, and significant decreases were also seen for most other dimensions and grades.

Restructuring costs in the third quarter of 2009 were down $5.1 million compared to the previous quarter, principally reflecting the decision in the second quarter to indefinitely idle three sawmills.

Markets

Demand for softwood lumber showed marginal improvement during the third quarter of 2009 compared to the second quarter, in part explained by the U.S. federal government's $8,000 tax credit for first-time homebuyers. Despite this improvement, housing starts were still much lower than during the third quarter of 2008. Compared to the same period last year, total housing starts decreased by 32% and single family starts fell by 17%.

Canadian housing starts improved slightly in the third quarter of 2009 to an average 148,000 units SAAR[10]. This is an increase of 20,000 units SAAR, or 15%, compared to the previous quarter, and down 60,000 units SAAR, or 29%, compared to the third quarter of 2008.

Offshore lumber demand in the third quarter was buoyed by increased demand from China, with that market leading all export shipments. Shipments to Japan were stable, reflecting steady demand.

Sales

Lumber sales revenues for the third quarter of 2009 were $301.1 million, substantially unchanged from the second quarter of 2009, but were down $77.7 million, or 21%, compared to the third quarter of 2008.

SPF and SYP lumber prices were up for most grades compared to the prior quarter, reflecting tighter supply. Prices for wide-dimension lumber, in particular, moved up sharply from those in the second quarter. However, compared to the same quarter a year ago, prices for most grades were well down, reflecting the significant fall-off in demand over the past year. The average price of Western SPF 2x4 #2&Btr increased by US$17 per Mfbm, or 10%, compared to the previous quarter, but was down US$72 per Mfbm, or 27%, compared to the third quarter of 2008. Average prices for SYP 2x4 #2 were down US$6 compared to the second quarter at US$230, and were down US$59, or 20%, compared to the third quarter of 2008. Canadian dollar sales realizations were negatively impacted by a 6% increase in the value of the Canadian dollar compared to the previous quarter, but benefited from a 5% decrease in the dollar compared to the same quarter a year ago.

The Random Lengths Framing Lumber Composite price averaged US$237 per Mfbm for the third quarter of 2009, up US$28, or 13%, compared to the previous quarter, but remained well below the trigger price of US$315 per Mfbm required to reduce the export tax rate on all U.S. bound shipments below the current rate of 15%.

Shipments for the third quarter of 2009 were 837 million board feet, down 47 million board feet, or 5%, compared to the previous quarter, reflecting lower production and targeted reductions in finished product inventories. Compared to the third quarter of 2008, shipments were down 69 million board feet, or 8%.

Total residual fibre revenue compared to the previous quarter reflected the lower production in the current quarter. Compared to the same quarter of 2008, revenue was down sharply due to the combination of reduced operating rates and weaker pulp and lumber prices in the current period.

Operations

Lumber production of 684 million board feet for the third quarter of 2009 reflected the previously noted curtailments, and was 134 million board feet, or 16%, lower than the prior quarter, and 162 million board feet, or 19%, lower than production for the same quarter in 2008.

Overall, the Company's unit manufacturing (log and conversion) costs were down slightly compared to the previous quarter as continued cost reduction efforts and lower market stumpage rates offset the impact on unit fixed costs of lower production levels. Compared to the third quarter of 2008, unit manufacturing costs were down 6%, reflecting lower log costs, operational and overhead cost savings, as well as lower energy prices.

Restructuring costs in the current quarter amounted to $4.5 million, compared to $9.6 million for the second quarter of 2009, and $3.1 million for the third quarter of 2008. The higher costs in the second quarter reflected the Company's decision to indefinitely idle three sawmills.

[10] CMHC

Pulp and Paper[11]

Selected Financial Information and Statistics – Pulp and Paper

(millions of dollars unless otherwise noted)	Q3 2009	Q2 2009	YTD 2009	Q3 2008	YTD 2008
Sales	**$ 227.2**	$ 232.4	**$ 664.9**	$ 253.2	$ 746.5
Operating income (loss) [12]	**$ 13.0**	$ (6.8)	**$ (11.1)**	$ 31.5	$ 79.0
EBITDA[12]	**$ 25.9**	$ 5.7	**$ 26.6**	$ 45.1	$ 116.7
Average pulp price delivered to U.S. – US$[13]	**$ 733**	$ 645	**$ 684**	$ 880	$ 880
Average price in Cdn$	**$ 804**	$ 752	**$ 797**	$ 917	$ 896
Production – pulp (000 mt)	**315.6**	299.1	**884.7**	307.8	868.5
Production – paper (000 mt)	**33.6**	30.7	**92.7**	35.9	102.5
Shipments – Canfor-produced pulp (000 mt)	**307.1**	344.4	**928.1**	284.0	852.4
Pulp marketed on behalf of HSLP (000 mt)[14]	**101.9**	81.9	**254.7**	86.0	260.5
Shipments – paper (000 mt)	**37.4**	34.3	**96.9**	31.7	100.5

[11] 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").
[12] Earnings for Q3 2009 include a positive impact from inventory write-down adjustments of $0.7 million, compared to a positive impact in Q2 2009 of $5.5 million and no impact in Q3 2008.
[13] Per tonne, NBSK pulp list price delivered to U.S. (RISI).
[14] Howe Sound Pulp and Paper Limited Partnership pulp mill.

Overview

EBITDA in the Pulp and Paper segment in the third quarter of 2009 was up $20.2 million compared to the previous quarter. The improvement resulted principally from higher NBSK and BCTMP prices (reflecting tight supply and a modest improvement in demand) and, to a lesser extent, lower fibre and chemical costs. These factors more than offset the stronger Canadian dollar and higher freight costs in the current quarter, as well as positive inventory write-down adjustments and a $3.5 million business interruption insurance receivable recorded by Canfor Pulp Limited Partnership ("CPLP") in the second quarter.

Compared to the same quarter of 2008, EBITDA was down $19.2 million primarily as a result of significantly lower NBSK pulp and BCTMP US dollar prices and a higher percentage of sales of lower margin business (including non-contract business and the tissue segment), which more than offset a weaker Canadian dollar, and lower fibre, chemical and energy costs in the current period.

Markets

A significant number of pulp mills remained idled during the third quarter of 2009, either indefinitely or permanently, which kept supply constrained, resulting in further reductions in producer inventory stocks. Consumption levels have been steadily improving since earlier in the year. Although preliminary Pulp and Paper Products Council statistics indicate that global demand for printing and writing papers was down 14% on a 2009 year-to-date basis, there has been steady improvement in monthly demand since the end of the first quarter of 2009.

The steady improvement in consumption and continued reduction of supply has resulted in lower pulp inventories. At the end of September 2009, World 20 producers of bleached softwood pulp inventories stood at 22 days of supply[15]. By comparison, September 2008 inventories stood at 36 days of supply. Market conditions are considered balanced when inventories fall in the 27-30 days of supply range.

North American kraft paper demand showed signs of improvement in the third quarter of 2009 compared to the previous two quarters as customer inventory destocking appeared to have been largely completed.

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

Sales

Shipments of Canfor-produced pulp in the third quarter of 2009 were down 37,000 tonnes, or 11%, from the previous quarter, mostly due to inventory drawdowns and high volumes sold into China in the second quarter, and up 23,000 tonnes, or 8%, compared to the third quarter of 2008, due primarily to increased volume into Europe and Asia.

The improved market conditions resulted in the successful implementation of price increases in every month of the third quarter of 2009. Average NBSK market pulp list prices for U.S. delivery in the third quarter were US$733 per tonne, up US$88, or 14%, from the previous quarter. Prices ended the quarter at US$770 per tonne. Solid price gains were also seen in European and Asian markets, with NBSK list prices in Europe increasing to US$740 per tonne in September and prices to China rising to US$650 per tonne by quarter end. BCTMP prices also moved up through the quarter in response to the improved market conditions. The pricing gains were partly eroded by the stronger Canadian dollar.

Compared to the third quarter of 2008, the current quarter's sales realizations reflected a 17% decline in NBSK list prices for U.S. delivery and increased sales of lower margin business, partly offset by a 5% decrease in the value of the Canadian dollar over the same period.

Operations

Pulp production for the third quarter of 2009 was 316,000 tonnes, up 17,000 tonnes, or 6%, from the previous quarter due primarily to fewer scheduled maintenance outages and less market downtime. Pulp production was also up slightly compared to the third quarter of 2008.

Unit manufacturing costs for the third quarter of 2009 were down compared to the previous quarter, reflecting the higher production volumes and reduced maintenance spending as a result of no scheduled maintenance downtime in the third quarter, as well as lower fibre and chemical costs. The lower fibre costs resulted principally from a reduction in higher-cost whole log chipping. Unit manufacturing costs were also down compared to the corresponding quarter of 2008, with lower fibre, energy and overhead costs being the primary contributing factors. The lower fibre costs reflected lower market prices for sawmill residual and whole log chips.

Inventory write-down movements had minimal impact on operating results for the third quarters of 2009 and 2008; However, the second quarter of 2009's results were positively impacted by $5.5 million due primarily to reduced inventory levels and improving pulp prices at the end of June, relative to March.

Unallocated and Other Items

(millions of dollars)	Q3 2009	Q2 2009	YTD 2009	Q3 2008	YTD 2008
Operating loss of Panels operations[16]	**$ (3.8)**	$ (6.3)	**$ (19.5)**	$ (3.4)	$ (41.7)
Corporate costs	**$ (4.3)**	$ (6.1)	**$ (15.6)**	$ (7.1)	$ (17.0)
Interest expense, net	**$ (6.9)**	$ (7.0)	**$ (22.2)**	$ (6.7)	$ (17.7)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ 26.2**	$ 29.1	**$ 42.4**	$ (16.2)	$ (28.3)
Gain (loss) on derivative financial instruments	**$ 17.7**	$ 25.7	**$ 22.1**	$ (38.8)	$ (6.8)
Gain on sale of mill property	**$ -**	$ -	**$ 44.6**	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ (3.0)	**$ (3.0)**	$ -	$ 57.9
Prince George Pulp & Paper mill fire, net	**$ -**	$ -	**$ -**	$ -	$ 8.5
Asset impairments	**$ -**	$ -	**$ -**	$ (70.0)	$ (70.0)
Other income (expense), net	**$ (8.7)**	$ (2.5)	**$ (8.7)**	$ 0.1	$ (0.2)

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

Results of the Panels operations in the third quarter of 2009 continued to reflect weak OSB market conditions and the ongoing costs of indefinitely idling the Tackama and PolarBoard plants. The operating loss for the third quarter of 2009 was $3.8 million, a positive variance of $2.5 million compared to the previous quarter. The second quarter's results included a $5.8 million charge related to the NCP claim settlement in that quarter, which more than offset positive inventory write-down movements, principally related to spring break-up, over the same period. The improvement in the third quarter operating results also reflected higher US dollar prices and productivity gains, which more than offset the impact of the stronger Canadian dollar.

Corporate costs were $4.3 million in the third quarter of 2009, down $1.8 million compared to the second quarter of 2009 and down $2.8 million compared to the third quarter of 2008. The lower costs for the most part reflected cost reduction initiatives (including related severance costs recorded in the previous quarter) and, compared to the third quarter of 2008, the elimination of short term incentive compensation in 2009.

Net interest expense of $6.9 million in the third quarter of 2009 was substantially unchanged from the comparable quarters. Compared to the third quarter of 2008, savings from lower debt levels in the current quarter were mostly offset by the impact of the weaker Canadian dollar on interest arising on US dollar denominated debt, as well as lower interest income on reduced cash balances.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt, net of investments, for the third quarter of 2009 of $26.2 million. This resulted from a 7.3 cent, or 8%, increase in the value of the Canadian 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 third quarter of 2009, the Company recorded a net gain of $17.7 million related to its derivative instruments, which was due principally to the stronger Canadian dollar. The following table summarizes the gain (loss) on derivative financial instruments for the comparable periods.

Gain (loss) on derivative financial instruments:	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	2009	2008	2009	2008
Foreign exchange collars and forward contracts	**$ 16.8**	$ (9.4)	**$ 33.3**	$ (20.6)
Natural gas swaps	**$ (1.5)**	$ (25.3)	**$ (14.5)**	$ 5.8
Diesel options and swaps	**$ 0.2**	$ (3.5)	**$ 1.2**	$ 8.0
Lumber futures	**$ 2.2**	$ (0.6)	**$ 2.1**	$ -
	$ 17.7	$ (38.8)	**$ 22.1**	$ (6.8)

Other expense, net of $8.7 million was primarily attributable to foreign exchange losses on working capital as a result of the 8% increase in the Canadian dollar over the quarter.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	Q3 2009	Q2 2009	YTD 2009	Q3 2008	YTD 2008
Increase (decrease) in cash and cash equivalents	**$ (0.1)**	$ (2.4)	**$ (209.7)**	$ 36.6	$ 38.7
Operating activities	**$ 33.3**	$ 38.9	**$ (54.8)**	$ 65.3	$ 136.4
Financing activities	**$ (16.1)**	$ (79.2)	**$ (205.7)**	$ (14.0)	$ (50.5)
Investing activities	**$ (15.9)**	$ 37.7	**$ 51.8**	$ (15.8)	$ (48.3)
Foreign exchange gains on cash and cash equivalents of self-sustaining operations	**$ (1.4)**	$ 0.2	**$ (1.0)**	$ 1.1	$ 1.1
Ratio of current assets to current liabilities			**2.4 : 1**		2.3 : 1
Ratio of net debt to capitalization			**14%**		10%

Changes in Financial Position

Operating activities generated cash of $33.3 million in the third quarter of 2009, down $5.6 million compared to the previous quarter. Higher cash earnings in the current quarter were offset by higher working capital reductions in the second quarter that included the seasonal drawdown of log inventories and an income tax refund. Compared to the third quarter of 2008, cash generated from operating activities was down $32.0 million and reflected the weaker market conditions.

Financing activities used cash of $16.1 million in the third quarter of 2009, principally reflecting the repayment of operating loans by CPLP. Cash distributions paid to non-controlling interests were $1.6 million, substantially unchanged from the second quarter, but down from $12.7 million paid in the same quarter of 2008 as a result of significantly reduced CPLP distributions.

Investing activities in the third quarter of 2009 used cash of $15.9 million. Included within this amount was capital spending of $22.4 million, which included the completion of various capital projects in the period. Also included in investing activities were proceeds from the partial redemption of the Company's investment in asset-backed commercial paper ("ABCP") of $3.9 million, and net proceeds from the disposal of property, plant and equipment of $1.8 million.

Changes in Equity

In addition to the $5.2 million net loss for the quarter which was debited to retained earnings, other comprehensive income decreased by $10.5 million, substantially due to the impact of the stronger Canadian dollar on the translation of the Company's foreign subsidiaries.

Liquidity and Financial Requirements

At September 30, 2009, the Company, on a consolidated basis, had cash and cash equivalents of $152.7 million and $447.7 million of bank operating lines of credit, of which $34.6 million was reserved for several standby lines of credit. Included within the operating lines of credit is a new $40 million bank credit facility for CPLP completed on September 30, 2009. In addition, CPLP arranged a $25 million letter of credit facility, subject to completion of legal documentation. These new facilities replace CPLP's previous operating credit facility of $75 million.

The Company's net debt to capitalization ratio at the end of third quarter was 14%.

Long-term debt repayments totaling $175.5 million (US$137.3 million) were made by the Company in the first half of 2009.

As at September 30, 2009 the Company was in compliance with the covenants relating to its operating lines of credit and long term debt, and expects to remain so for the foreseeable future.

B.C. Interior Labour Negotiations Update

The contract between the Company's B.C. Interior manufacturing operations and the United Steelworkers Union ("USW") expired on July 1, 2009. At that time the Company exchanged proposals with the USW regarding a new labour agreement.

Green Transformation Program

On October 9, 2009, the Canadian federal government announced the allocation of credits from a billion dollar Pulp and Paper Green Transformation Program (the "Program", which was originally announced on June 17, 2009). The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the program end date of March 31, 2012. CPLP was allocated $122.2 million from this Program, and has identified and will be submitting a number of projects for Program approval which are expected to provide economic and environmental benefits to CPLP's operations.

Howe Sound Pulp and Paper Limited Partnership ("HSPP"), in which the Company holds an investment, was allocated $45.5 million under the Program. HSPP's results are not reflected in the Company's consolidated financial statements.

OUTLOOK

Lumber

Demand for lumber is expected to soften during the traditionally slower fourth quarter, and this may cause prices to drift lower until the expected seasonal industry shutdowns in December. The repair and renovation sector is expected to remain relatively stable as many homeowners renovate their existing homes, rather than buy new ones. New and existing home inventories are projected to continue to decrease but at a much slower pace than the third quarter. In Canada, lumber consumption is expected to level off through the remainder of the year. Offshore shipments are expected to continue to trend higher during the fourth quarter, buoyed by demand from both China and Japan.

Pulp and Paper

The outlook for the balance of 2009, and the first quarter of 2010, is for a continued positive pricing environment. Inventory levels held by producers and customers are low. With the supply/demand balance in the favour of producers, there is potential for further price increases. There is some downside risk as higher global prices may allow idled mills to restart to the extent that pricing increases are not diminished by a strengthening Canadian dollar. Overall, projected demand levels and low inventory levels suggest a balanced to tight market into the first quarter of 2010.

OUTSTANDING SHARES

At October 28, 2009, there were 142,589,297 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans and asset retirement obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

CHANGES IN ACCOUNTING POLICIES

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

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

Project Structure

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

Process and Timing

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

Any changes required to systems and controls (including information technology systems) are being identified as the project progresses. The implementation of any significant changes to systems and controls, as well as related training, is currently scheduled to take place before the end of 2009.

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

Progress to Date

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Sales and income (millions of dollars)								
Sales	**$ 540.9**	$ 541.7	$ 488.2	$ 588.7	$ 668.0	$ 706.4	$ 648.5	$ 711.0
Operating (loss) income	**$ (31.4)**	$ (31.2)	$ (124.2)	$ (74.2)	$ 12.8	$ 20.8	$ (117.5)	$ (124.7)
Net income (loss)	**$ (5.2)**	$ 10.5	$ (58.8)	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)	$ (237.0)
Per common share (dollars)								
Net income (loss) – basic and diluted	**$ (0.04)**	$ 0.07	$ (0.41)	$ (1.61)	$ (0.66)	$ 0.45	$ (0.60)	$ (1.66)
Statistics								
Lumber shipments (MMfbm)	**837**	884	791	956	906	1,107	1,023	1,149
OSB shipments (MMsf 3/8")	**69**	61	30	56	91	153	164	166
Pulp shipments (000 mt)	**307**	344	277	236	284	289	279	308
Average exchange rate – US$/Cdn$	**$ 0.912**	$ 0.858	$ 0.803	$ 0.825	$ 0.960	$ 0.990	$ 0.996	$ 1.019
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 191**	$ 174	$ 155	$ 190	$ 263	$ 230	$ 205	$ 230
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 230**	$ 236	$ 235	$ 258	$ 289	$ 294	$ 285	$ 277
Average OSB price – North Central (US$)	**$ 178**	$ 145	$ 154	$ 172	$ 202	$ 174	$ 138	$ 165
Average NBSK pulp list price delivered to U.S. (US$)	**$ 733**	$ 645	$ 673	$ 787	$ 880	$ 880	$ 880	$ 857

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

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

After-tax impact, net of non-controlling interests

(millions of dollars, except for per share amounts)	**Q3 2009**	**Q2 2009**	**Q1 2009**	**Q4 2008**	**Q3 2008**	**Q2 2008**	**Q1 2008**	**Q4 2007**
Net income (loss), as reported	**$ (5.2)**	$ 10.5	$ (58.8)	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)	$ (237.0)
Export tax refund	**$ -**	$ -	$ -	$ (7.1)	$ -	$ -	$ -	$ -
Restructuring, mill closure and severance costs	**$ 5.3**	$ 7.5	$ 4.2	$ 6.8	$ 3.6	$ 22.3	$ 2.6	$ 14.2
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (19.6)**	$ (19.7)	$ 9.1	$ 52.2	$ 11.3	$ -	$ 8.7	$ 3.5
(Gain) loss on derivative financial instruments	**$ (12.7)**	$ (17.3)	$ 12.4	$ 50.3	$ 21.4	$ (14.5)	$ (2.7)	$ (3.5)
Gain on sale of mill property	**$ -**	$ -	$ (37.8)	$ -	$ -	$ -	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ 2.0	$ -	$ -	$ -	$ (45.0)	$ -	$ -
Prince George Pulp & Paper mill fire, net	**$ -**	$ -	$ -	$ 0.2	$ -	$ -	$ (3.6)	$ -
Asset impairments	**$ -**	$ -	$ -	$ 74.1	$ 56.9	$ -	$ -	$ 189.1
Corporate income tax rate reductions	**$ -**	$ -	$ (7.3)	$ -	$ -	$ -	$ (9.1)	$ (35.8)
Other items	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ (0.1)
Net impact of above items	**$ (27.0)**	$ (27.5)	$ (19.4)	$ 176.5	$ 93.2	$ (37.2)	$ (4.1)	$ 167.4
Net (loss) income, as adjusted	**$ (32.2)**	$ (17.0)	$ (78.2)	$ (53.3)	$ (1.0)	$ 27.0	$ (89.5)	$ (69.6)
Net (loss) income per share (EPS), as reported	**$ (0.04)**	$ 0.07	$ (0.41)	$ (1.61)	$ (0.66)	$ 0.45	$ (0.60)	$ (1.66)
Net impact of above items per share	**$ (0.19)**	$ (0.19)	$ (0.14)	$ 1.24	$ 0.65	$ (0.26)	$ (0.03)	$ 1.17
Net (loss) income per share, as adjusted	**$ (0.23)**	$ (0.12)	$ (0.55)	$ (0.37)	$ (0.01)	$ 0.19	$ (0.63)	$ (0.49)

Canfor Corporation
Consolidated Balance Sheets

(millions of dollars, unaudited)		**As at September 30, 2009**		As at December 31, 2008
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**152.7**	$	362.4
Accounts receivable				
Trade		**150.0**		105.9
Other		**15.0**		93.7
Income taxes recoverable		**36.0**		47.1
Future income taxes, net		**13.6**		31.2
Inventories (Note 2)		**323.0**		404.9
Prepaid expenses		**35.8**		35.1
Total current assets		**726.1**		1,080.3
Long-term investments and other (Note 3)		**96.6**		125.7
Property, plant, equipment and timber		**1,717.3**		1,798.5
Goodwill		**76.4**		85.7
Deferred charges		**115.5**		110.2
	$	**2,731.9**	$	3,200.4
LIABILIITES				
Current Liabilities				
Operating loans (Note 4(a))	**$**	**0.2**	$	25.2
Accounts payable and accrued liabilities		**230.1**		322.9
Current portion of long-term debt (Note 4(b))		**34.9**		168.3
Current portion of deferred reforestation obligation		**32.2**		32.5
Total current liabilities		**297.4**		548.9
Long-term debt (Note 4(b))		**341.6**		428.7
Long-term accrued liabilities and obligations (Note 5)		**204.5**		208.8
Future income taxes, net		**204.2**		242.4
Non-controlling interests		**271.3**		276.8
	$	**1,319.0**	$	1,705.6
SHAREHOLDERS' EQUITY				
Share capital – 142,589,297 common shares outstanding	**$**	**1,124.7**	$	1,124.7
Contributed surplus		**31.9**		31.9
Retained earnings		**263.2**		316.7
Accumulated other comprehensive income		**(6.9)**		21.5
	$	**1,412.9**	$	1,494.8
	$	**2,731.9**	$	3,200.4

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, J.F. Shepard

Canfor Corporation
Consolidated Statements of Income (Loss)

(millions of dollars, unaudited)	3 months ended September 30, 2009	3 months ended September 30, 2008	9 months ended September 30, 2009	9 months ended September 30, 2008
Sales	**$ 540.9**	$ 668.0	**$ 1,570.8**	$ 2,022.9
Costs and expenses				
Manufacturing and product costs	**399.0**	459.2	**1,228.0**	1,480.6
Freight and other distribution costs	**101.0**	114.3	**306.2**	359.1
Export taxes	**13.3**	17.5	**37.5**	49.1
Amortization	**38.4**	42.2	**116.5**	127.2
Selling and administration costs	**14.4**	16.6	**45.4**	47.6
Restructuring, mill closure and severance costs (Note 6)	**6.2**	5.4	**24.0**	43.2
	572.3	655.2	**1,757.6**	2,106.8
Operating income (loss)	**(31.4)**	12.8	**(186.8)**	(83.9)
Interest expense, net	**(6.9)**	(6.7)	**(22.2)**	(17.7)
Foreign exchange gain (loss) on long-term debt and investments, net	**26.2**	(16.2)	**42.4**	(28.3)
Gain (loss) on derivative financial instruments (Note 13)	**17.7**	(38.8)	**22.1**	(6.8)
Gain on sale of mill property (Note 7)	**-**	-	**44.6**	-
North Central Plywoods mill fire, net (Note 8)	**-**	-	**(3.0)**	57.9
Prince George Pulp and Paper mill fire, net	**-**	-	**-**	8.5
Asset impairments	**-**	(70.0)	**-**	(70.0)
Other income (expense), net	**(8.7)**	0.1	**(8.7)**	(0.2)
Net income (loss) before income taxes and non-controlling interests	**(3.1)**	(118.8)	**(111.6)**	(140.5)
Income tax recovery (expense) (Note 10)	**7.2**	30.0	**57.9**	61.7
Non-controlling interests	**(9.3)**	(5.4)	**0.2**	(36.6)
Net income (loss)	**$ (5.2)**	(94.2)	**(53.5)**	(115.4)
Per common share (in dollars) (Note 11)				
Net income (loss) – Basic and Diluted	**$ (0.04)**	$ (0.66)	**$ (0.38)**	$ (0.81)

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

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

(millions of dollars, unaudited)	3 months ended September 30, 2009	3 months ended September 30, 2008	9 months ended September 30, 2009	9 months ended September 30, 2008
Consolidated Statements of Changes in Shareholders' Equity				
Share capital				
Balance at beginning and end of period	**$ 1,124.7**	$ 1,124.7	**$ 1,124.7**	$ 1,124.7
Contributed surplus				
Balance at beginning and end of period	**$ 31.9**	$ 31.9	**$ 31.9**	$ 31.9
Retained earnings				
Balance at beginning of period	**$ 268.4**	$ 640.7	**$ 316.7**	$ 692.5
Change in accounting for inventories	**-**	-	**-**	(30.6)
Net income (loss) for the period	**(5.2)**	(94.2)	**(53.5)**	(115.4)
Balance at end of period	**$ 263.2**	$ 546.5	**$ 263.2**	$ 546.5
Accumulated other comprehensive income (loss)				
Balance at beginning of period	**$ 3.6**	$ (27.0)	**$ 21.5**	$ (32.0)
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**(10.5)**	5.1	**(28.5)**	10.5
Reclassification to income of losses on derivative instruments designated as cash flow hedges in prior periods	**-**	(0.3)	**0.1**	(0.7)
Balance at end of period	**$ (6.9)**	$ (22.2)	**$ (6.9)**	$ (22.2)
Total shareholders' equity – Balance at end of period	**$ 1,412.9**	$ 1,680.9	**$ 1,412.9**	$ 1,680.9
Consolidated Statement of Comprehensive Income (Loss)				
Net income (loss) for the period	**$ (5.2)**	$ (94.2)	**$ (53.5)**	$ (115.4)
Other comprehensive income (loss)				
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**(10.5)**	5.1	**(28.5)**	10.5
Reclassification to income of losses on derivative instruments designated as cash flow hedges in prior periods	**-**	(0.3)	**0.1**	(0.7)
Other comprehensive income (loss)	**(10.5)**	4.8	**(28.4)**	9.8
Total comprehensive income (loss)	**$ (15.7)**	$ (89.4)	**$ (81.9)**	$ (105.6)

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

Canfor Corporation
Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended September 30, 2009	3 months ended September 30, 2008	9 months ended September 30, 2009	9 months ended September 30, 2008
Cash generated from (used in)				
Operating activities				
Net income (loss) for the period	**$ (5.2)**	$ (94.2)	**$ (53.5)**	$ (115.4)
Items not affecting cash				
Amortization	**38.4**	42.2	**116.5**	127.2
Future income taxes	**(3.3)**	(12.8)	**(21.1)**	(31.8)
Long-term portion of deferred reforestation	**(7.9)**	(10.2)	**(8.1)**	(9.7)
Gain on sale of mill property (Note 7)	**-**	-	**(44.6)**	-
North Central Plywoods mill fire, net (Note 8)	**-**	-	**3.0**	(57.9)
Prince George Pulp & Paper mill fire, net	**-**	-	**-**	(8.5)
Foreign exchange (gain) loss on long-term debt and investments, net	**(26.2)**	16.2	**(42.4)**	28.3
Unrealized (gain) loss on derivative financial instruments	**(22.6)**	40.2	**(60.9)**	14.9
Asset impairments	**-**	70.0	**-**	70.0
Non-controlling interests	**9.3**	5.4	**(0.2)**	36.6
Other, net	**1.9**	11.4	**8.2**	15.6
Net proceeds from replacement of derivative financial instruments	**-**	-	**-**	11.0
Salary pension plan contributions	**(3.8)**	(4.1)	**(12.3)**	(8.7)
Deferred scheduled maintenance spending	**(0.8)**	(0.3)	**(3.4)**	(7.2)
Net change in non-cash working capital (Note 12)	**53.5**	1.5	**64.0**	72.0
	33.3	65.3	**(54.8)**	136.4
Financing activities				
Repayment of long-term debt	**-**	-	**(175.5)**	(14.8)
(Decrease) increase in operating bank loans	**(15.7)**	(1.2)	**(25.0)**	4.1
Cash distributions paid to non-controlling interests	**(1.6)**	(12.7)	**(6.3)**	(39.5)
Other	**1.2**	(0.1)	**1.1**	(0.3)
	(16.1)	(14.0)	**(205.7)**	(50.5)
Investing activities				
Additions to property, plant, equipment and timber	**(22.4)**	(22.4)	**(48.7)**	(58.3)
Proceeds from disposal of property, plant and equipment	**1.8**	(2.4)	**48.8**	4.3
Proceeds from North Central Plywoods mill fire claim (Note 8)	**-**	10.0	**33.3**	10.0
Proceeds from Prince George Pulp & Paper mill fire claim	**-**	-	**-**	8.0
Advances to affiliated companies	**-**	-	**-**	(11.5)
Interest received for restructuring period of asset-backed commercial paper (Note 3)	**-**	-	**4.5**	-
Proceeds from redemption of asset-backed commercial paper (Note 3)	**3.9**	-	**14.3**	-
Other	**0.8**	(1.0)	**(0.4)**	(0.8)
	(15.9)	(15.8)	**51.8**	(48.3)
Foreign exchange gain on cash and cash equivalents	**(1.4)**	1.1	**(1.0)**	1.1
(Decrease) increase in cash and cash equivalents	**(0.1)**	36.6	**(209.7)**	38.7
Cash and cash equivalents at beginning of period	**152.8**	297.6	**362.4**	295.5
Cash and cash equivalents at end of period	**$ 152.7**	$ 334.2	**$ 152.7**	$ 334.2
Cash payments (receipts) in the period				
Interest, net	**$ 6.6**	$ 6.1	**$ 22.0**	$ 18.7
Income taxes	**$ 0.1**	$ (12.1)	**$ (48.2)**	$ (135.7)

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

Notes to the Consolidated Interim Financial Statements

(unaudited, in millions of dollars unless otherwise noted)

1. Significant Accounting Policies and Changes in Accounting Policies

(a) Basis of Presentation

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

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for solid wood products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

(b) Changes in Accounting Policies

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

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

2. Inventories

(millions of dollars)	**As at September 30, 2009**	As at December 31, 2008
Logs	**30.0**	49.1
Lumber	**102.9**	118.7
Pulp	**65.3**	97.2
Paper	**15.6**	20.7
Panel products	**0.7**	1.5
Residual fibre	**22.4**	25.3
Processing materials and supplies	**86.1**	92.4
	323.0	404.9

The above inventory balances are stated after inventory write-downs from cost to net realizable value, which reflect historically low prices for most products at both reporting dates. Inventory write-downs at September 30, 2009 totaled $26.2 million (December 31, 2008 – $46.2 million).

3. Long-Term Investments and Other

(millions of dollars)	**As at September 30, 2009**	As at December 31, 2008
Non-bank asset-backed commercial paper	**43.5**	69.3
Other investments	**28.8**	28.9
Customer agreements	**18.2**	22.9
Other deposits, loans and advances	**6.1**	4.6
	96.6	125.7

In the first half of 2009, the Company received interest related to its non-bank asset-backed commercial paper ("ABCP") of $4.5 million (US$3.6 million). During the second and third quarters of 2009, the Company also received proceeds of $14.3 million (US$12.4 million) from the partial redemption of its ABCP. The interest and partial redemption proceeds were recorded as reductions to the carrying value of the ABCP, all of which is denominated in U.S. dollars. Effective July 1, 2009, all interest received is being credited to the income statement (Q3 - $0.1 million). The balance of the movement in the ABCP between December 31, 2008 and September 30, 2009 reflects the impact of the stronger Canadian dollar over the period.

4. Operating Loans and Long-Term Debt

(a) Operating Loans

On a consolidated basis, at September 30, 2009, the Company had $447.7 million of unsecured operating loan facilities (December 31, 2008 – $432.0 million), of which $0.2 million was drawn down (December 31, 2008 – $25.2 million) and an additional $34.6 million was reserved for several standby letters of credit (December 31, 2008 – $41.4 million).

The Company's operating loan facilities include two facilities currently in the amounts of US$13.1 million ("Facility A") and US$34.9 million ("Facility B") at September 30, 2009, which were negotiated in the first quarter of 2009. Facility A expires in January 2012, with the option of four one-year extensions, and is non-recourse to the Company under normal circumstances, except for an amount of US$6.7 million. Facility B expires in January 2011, with the option of five one-year extensions, and is non-recourse to the Company under normal circumstances. The ABCP assets of the Company have been pledged as security to support these credit facilities.

The Company's bank operating lines, excluding Canfor Pulp Limited Partnership ("CPLP"), were $407.7 million (December 31, 2008 - $357.0 million) of which $0.2 million was drawn down (December 31, 2008 – nil) and $18.1 million (December 31, 2008 – $17.3 million) was reserved for several standby letters of credit, the majority of which relates to unregistered pension plans. Except for Facility A and Facility B, interest is payable at floating rates based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio. Facility A and Facility B have similar terms, except that their interest rate is plus or minus a margin. Other than Facility A and Facility B, substantially all of the bank operating lines expire in June 2011.

On September 30, 2009, CPLP completed a new $40 million bank credit facility with a maturity date of November 30, 2011. In addition, CPLP has arranged a $25 million letter of credit facility, subject to completion of legal documentation. These replace CPLP's previous operating credit facility of $75 million which was scheduled to mature on November 30, 2009. On September 30, 2009, utilization of the new facility consisted of $16.5 million of standby letters of credit issued to BC Hydro. The general terms and conditions of the new facility are similar to the previous bank facility, with interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin.

As at September 30, 2009, the Company was in compliance with all covenants relating to its operating lines of credit.

(b) Long-Term Debt

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

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

At September 30, 2009, the fair value of the Company's long-term debt, which was measured at its amortized cost of $376.5 million, was $384.8 million. The fair value of long-term debt was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

5. Long-term Accrued Liabilities and Obligations

(millions of dollars)	**As at September 30, 2009**	As at December 31, 2008
Deferred reforestation obligation	**55.0**	63.1
Accrued pension obligations	**20.3**	20.0
Accrued pension bridge benefit obligations	**9.0**	8.7
Other post-employment benefits	**102.6**	98.3
Asset retirement obligations	**4.8**	4.7
Other	**12.8**	14.0
	204.5	208.8

6. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with the indefinite or permanent closures of facilities and staff reductions. The expense for the third quarter of 2009 amounted to $6.2 million and resulted principally from ongoing costs related to the Company's indefinitely-idled operations.

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

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Lumber	**$ 4.5**	$ 3.1	**$ 16.6**	$ 15.0
Unallocated and other	**1.7**	2.3	**7.4**	28.2
	$ 6.2	$ 5.4	**$ 24.0**	$ 43.2

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

(millions of dollars)	**As at September 30, 2009**	As at December 31, 2008
Accrued liability at beginning of period	**23.3**	29.8
Costs in the period [a]	**24.4**	39.8
Paid during the period	**(25.1)**	(46.3)
Accrued liability at end of period	**22.6**	23.3

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

7. Sale of Mill Property

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

8. Settlement of North Central Plywoods Mill Fire Insurance Claim

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

9. Employee Future Benefits Expense

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Defined benefit pension plans	**$ 3.5**	$ 0.8	**$ 10.5**	$ 2.4
Other employee future benefit plans	**3.0**	4.3	**8.9**	12.8
Defined contribution pension plans and 401(k) plans	**0.9**	0.9	**2.7**	2.6
Contributions to forest industry union plans	**3.4**	4.2	**11.0**	14.6
	$ 10.8	$ 10.2	**$ 33.1**	$ 32.4

10. Income Taxes

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Current	**$ 3.9**	$ 17.2	**$ 36.8**	$ 29.9
Future	**3.3**	12.8	**21.1**	31.8
Income tax recovery	**$ 7.2**	$ 30.0	**$ 57.9**	$ 61.7

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

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Income tax recovery (expense) at statutory rate	**$ 0.9**	$ 36.8	**$ 33.5**	$ 43.5
Add (deduct):				
Non-controlling interests	**2.8**	1.6	**(0.1)**	11.3
Change in corporate income tax rates	**-**	-	**7.3**	9.1
Entities with different income tax rates and other tax adjustments	**0.9**	1.8	**3.2**	3.5
Tax recovery (expense) at rates other than statutory rate	**(0.6)**	2.2	**2.5**	2.6
Permanent difference from capital gains and losses and other non-deductible items	**3.2**	(12.4)	**11.5**	(8.3)
Income tax recovery (expense)	**$ 7.2**	$ 30.0	**$ 57.9**	$ 61.7

11. Net Income (Loss) Per Share

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

	3 months ended September 30,		9 months ended September 30,	
	2009	2008	**2009**	2008
Weighted average number of common shares	**142,589,297**	142,589,297	**142,589,297**	142,589,297
Incremental shares from potential exercise of options [a]	**-**	3,419	**-**	2,371
Diluted number of common shares [a]	**142,589,297**	142,589,297	**142,589,297**	142,589,297

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

12. Net Change in Non-Cash Working Capital

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Accounts receivable	**$ 14.1**	$ (2.8)	**$ (11.1)**	$ 15.5
Income taxes recoverable	**(4.2)**	(4.8)	**11.1**	107.6
Inventories	**18.6**	(1.4)	**78.8**	(11.0)
Prepaid expenses	**3.8**	4.3	**(1.4)**	(16.0)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	**21.2**	6.2	**(13.4)**	(24.1)
Net (increase) decrease in working capital	**$ 53.5**	$ 1.5	**$ 64.0**	$ 72.0

13. Derivative Financial Instruments

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices and energy costs. At September 30, 2009, the fair value of derivative financial instruments was a net liability of $11.3 million (December 31, 2008 – net liability of $69.3 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

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

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2009**	2008	**2009**	2008
Foreign exchange collars and forward contracts	**$ 16.8**	$ (9.4)	**$ 33.3**	$ (20.6)
Natural gas swaps	**(1.5)**	(25.3)	**(14.5)**	5.8
Diesel options and swaps	**0.2**	(3.5)	**1.2**	8.0
Lumber futures	**2.2**	(0.6)	**2.1**	-
	$ 17.7	$ (38.8)	**$ 22.1**	$ (6.8)

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

(millions of dollars)	**As at September 30, 2009**	As at December 31, 2008
Foreign exchange collars and forward contracts	**(0.5)**	(53.2)
Natural gas swaps	**(8.5)**	(6.5)
Diesel options and swaps	**(2.5)**	(9.6)
Lumber futures	**0.2**	-
	(11.3)	(69.3)
Less: current portion	**(8.7)**	(65.4)
Long-term portion	**(2.6)**	(3.9)

14. Segmented Information [a]

Business Segment Information

(millions of dollars)		Lumber [b]	Pulp & Paper [d]	Unallocated & Other [e]	Elimination Adjustment		Consolidated
3 months ended September 30, 2009							
Sales to external customers	**$**	**301.1**	**227.2**	**12.6**	**-**	**$**	**540.9**
Sales to other segments [c]	**$**	**15.5**	**-**	**-**	**(15.5)**	**$**	**-**
Operating (loss) income	**$**	**(36.3)**	**13.0**	**(8.1)**	**-**	**$**	**(31.4)**
Amortization	**$**	**21.7**	**12.9**	**3.8**	**-**	**$**	**38.4**
Capital expenditures	**$**	**15.8**	**6.5**	**0.1**	**-**	**$**	**22.4**
3 months ended September 30, 2008							
Sales to external customers	$	378.8	253.2	36.0	-	$	668.0
Sales to other segments [c]	$	22.7	-	0.5	(23.2)	$	-
Operating income (loss)	$	(8.2)	31.5	(10.5)	-	$	12.8
Amortization	$	23.4	13.6	5.2	-	$	42.2
Capital expenditures	$	14.1	7.8	0.3	-	$	22.2
9 months ended September 30, 2009							
Sales to external customers	**$**	**877.6**	**664.9**	**28.3**	**-**	**$**	**1,570.8**
Sales to other segments [c]	**$**	**47.7**	**-**	**0.1**	**(47.8)**	**$**	**-**
Operating loss	**$**	**(140.6)**	**(11.1)**	**(35.1)**	**-**	**$**	**(186.8)**
Amortization	**$**	**67.8**	**37.7**	**11.0**	**-**	**$**	**116.5**
Capital expenditures	**$**	**33.5**	**15.0**	**0.2**	**-**	**$**	**48.7**
Identifiable assets	**$**	**1,326.2**	**885.6**	**520.1**	**-**	**$**	**2,731.9**
9 months ended September 30, 2008							
Sales to external customers	$	1,126.6	746.5	149.8	-	$	2,022.9
Sales to other segments [c]	$	73.3	-	3.2	(76.5)	$	-
Operating income (loss)	$	(104.2)	79.0	(58.7)	-	$	(83.9)
Amortization	$	72.7	37.7	16.8	-	$	127.2
Capital expenditures	$	30.7	26.9	0.7	-	$	58.3
Identifiable assets	$	1,510.7	941.5	869.2	-	$	3,321.4

(a) Operations are presented by product line.

(b) Sales for the third quarter include sales of Canfor-produced lumber of $235.5 million (three months ended September 30, 2008 – $300.8 million) and $695.2 million for the year-to-date (nine months ended September 30, 2008 – $916.4 million).

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

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

(e) Effective January 1, 2009, the operating results, capital expenditures and identifiable assets of the Company's panels business are no longer reported separately as an operating segment. With the exception of the Peace Valley OSB Limited Partnership, of which the Company owns a 50% share, all panel operations are currently indefinitely idled. Operating results, capital expenditures and identifiable assets of the panels business are now included in the Unallocated & Other segment. Sales of panels for the third quarter were $12.6 million (three months ended September 30, 2008 - $36.0 million) and $28.3 million for the year-to-date (nine months ended September 30, 2008 – $149.8 million).

Geographic Information

(millions of dollars)	3 months ended September 30, 2009	2008	9 months ended September 30, 2009	2008
Sales by location of customer				
Canada	**$ 89.2**	$ 132.9	**$ 251.2**	$ 395.9
United States	**260.0**	341.5	**780.9**	1,060.7
Europe	**43.0**	40.9	**116.0**	137.2
Far East and Other	**148.7**	152.7	**422.7**	429.1
	$ 540.9	$ 668.0	**$ 1,570.8**	$ 2,022.9

(millions of dollars)	**As at September 30, 2009**	As at December 31, 2008
Capital assets and goodwill by location		
Canada	**1,632.1**	1,697.9
United States	**161.5**	186.1
Far East and Other	**0.1**	0.2
	1,793.7	1,884.2

15. Subsequent Event

On October 9, 2009 the Canadian federal government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the "Program", which was originally announced on June 17, 2009). The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the program end date of March 31, 2012. CPLP has been allocated $122.2 million from this Program.

16. Comparative Figures

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