

CANFOR CORPORATION

**Consolidated Financial Statements
December 31, 2007 and 2006**

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of Management and have been approved by the Board of Directors. The consolidated financial statements were prepared by Management in accordance with accounting principles generally accepted in Canada and, where necessary, reflect Management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material.

Canfor maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets. The Internal Audit Department performs independent reviews of the accounting records and related procedures. The Internal Audit Department reports its findings and recommendations both to Management and the Audit Committee.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of three Directors who are not employees of the company. The Committee meets periodically throughout the year with Management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee, which recommended their approval by the Board of Directors. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, whose report follows.

February 22, 2008

(signed) James F. Shepard
President and
Chief Executive Officer

(signed) Thomas Sitar
Vice-President Finance and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Canfor Corporation

We have audited the consolidated balance sheets of Canfor Corporation as at December 31, 2007 and December 31, 2006, and the consolidated statements of income, changes in shareholders' equity and comprehensive loss and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and December 31, 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, BC
February 22, 2008

Canfor Corporation Consolidated Statements of Income

Years ended December 31 (millions of dollars)	2007	2006
Sales	\$ 3,275.6	\$ 3,842.3
Costs and expenses		
Manufacturing and product costs	2,583.6	2,949.8
Freight and other distribution costs (Note 1)	565.0	598.3
Export tax, countervailing and anti-dumping duties (Note 16)	101.8	109.8
Amortization	184.1	182.6
Selling and administration costs	72.8	78.5
Restructuring, mill closure and severance costs (Note 17)	41.3	6.5
	3,548.6	3,925.5
Countervailing and anti-dumping duty refund (Note 16)	-	717.7
Operating income (loss) from continuing operations	(273.0)	634.5
Interest income (expense), net (Note 18)	(9.4)	56.2
Foreign exchange gain on long-term debt and investments	16.2	4.7
Gain on derivative financial instruments (Note 24)	16.0	-
Asset impairments (Note 19)	(268.0)	(19.1)
Other expense, net (Note 20)	(11.1)	(10.5)
Net income (loss) from continuing operations before income taxes and non-controlling interests	(529.3)	665.8
Income tax recovery (expense) (Note 21)	234.1	(169.4)
Non-controlling interests (Note 3)	(65.4)	(20.7)
Net income (loss) from continuing operations	(360.6)	475.7
Net loss from discontinued operations (Note 3)	-	(3.9)
Net income (loss)	\$ (360.6)	\$ 471.8
Per common share (in dollars) (Note 22)		
Net income (loss) from continuing operations		
- Basic	\$ (2.53)	\$ 3.34
- Diluted	\$ (2.53)	\$ 3.34
Net income (loss)		
- Basic	\$ (2.53)	\$ 3.31
- Diluted	\$ (2.53)	\$ 3.31

Canfor Corporation Consolidated Cash Flow Statements

Years ended December 31 (millions of dollars)	2007	2006
Cash generated from (used in)		
Operating activities		
Net income (loss) from continuing operations	\$ (360.6)	\$ 475.7
Items not affecting cash:		
Amortization	184.1	182.6
Income taxes	(111.9)	(74.2)
Long-term portion of deferred reforestation	(5.3)	2.3
Employee future benefits	(2.2)	(0.2)
Foreign exchange (gain) loss on long-term debt	(92.5)	11.2
Gain on derivative financial instruments	(16.0)	-
Asset impairments	268.0	19.1
Adjustment to accrued duties (Note 16)	-	46.3
Non-controlling interests	65.4	20.7
Other	14.6	0.8
	(56.4)	684.3
(Increase) decrease in non-cash working capital (Note 23)	(426.1)	455.9
	(482.5)	1,140.2
Financing activities		
Proceeds from long-term debt	0.3	126.7
Repayment of long-term debt	(99.4)	(100.2)
Changes in operating bank loans (Note 8)	(1.1)	(23.0)
Net proceeds on issuance of common shares (Note 13)	0.4	0.3
Cash distributions paid to non-controlling interests (Note 3)	(74.2)	(17.6)
Other	(0.3)	(0.5)
	(174.3)	(14.3)
Investing activities		
Changes in temporary investments	124.5	(119.0)
Changes in long-term investments	(85.9)	-
Business acquisitions (Note 3)	(16.8)	(206.1)
Additions to property, plant, equipment and timber	(90.6)	(107.1)
Proceeds from sale of property, plant and equipment	4.0	2.8
Other	(6.7)	11.8
	(71.5)	(417.6)
Increase (decrease) in cash and cash equivalents from continuing operations	(728.3)	708.3
Increase in cash from discontinued operations (Note 3)	-	16.6
Increase (decrease) in cash and cash equivalents *	(728.3)	724.9
Cash and cash equivalents at beginning of year	1,023.8	298.9
Cash and cash equivalents at end of year	\$ 295.5	\$ 1,023.8
Cash (payments) receipts in the period		
Interest, net (Note 18)	\$ (25.3)	\$ 43.4
Income taxes	(230.5)	(8.0)

* Cash and cash equivalents is comprised of cash and highly liquid investments with maturities of three months or less from the date of acquisition.

Canfor Corporation Consolidated Balance Sheets

As at December 31 (millions of dollars)	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 295.5	\$ 1,023.8
Temporary investments	-	126.0
Accounts receivable – Trade	199.5	223.9
– Other	80.1	72.8
Income taxes recoverable	136.7	-
Inventories (Note 4)	472.0	635.7
Prepaid expenses	35.0	37.7
Total current assets	1,218.8	2,119.9
Long-term investments and other (Note 5)	170.4	115.3
Property, plant, equipment and timber (Note 6)	1,959.4	2,254.9
Goodwill (Note 3)	69.2	81.6
Deferred charges (Note 7)	90.0	91.8
	\$ 3,507.8	\$ 4,663.5
LIABILITIES		
Current liabilities		
Operating bank loans (Note 8)	\$ -	\$ 1.1
Accounts payable and accrued liabilities	335.0	579.0
Current portion of long-term debt (Note 9)	15.2	87.5
Current portion of deferred reforestation obligation (Note 12)	34.4	39.6
Income taxes payable	-	235.4
Future income taxes, net (Note 21)	19.0	5.0
Total current liabilities	403.6	947.6
Long-term debt (Note 9)	481.6	602.8
Long-term accrued liabilities and obligations (Note 10)	203.5	173.3
Future income taxes, net (Note 21)	299.5	415.4
Non-controlling interests (Note 3)	302.5	296.7
	\$ 1,690.7	\$ 2,435.8
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	\$ 1,124.7	\$ 1,124.3
Contributed surplus (Note 3)	31.9	31.9
Retained earnings	692.5	1,068.5
Accumulated other comprehensive income (loss)	(32.0)	3.0
Total shareholders' equity	1,817.1	2,227.7
	\$ 3,507.8	\$ 4,663.5

Commitments and contingencies (Note 29 and Note 16)

Subsequent events (Note 30)

APPROVED BY THE BOARD

Director, R.L. Cliff

Director, J.F. Shepard

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

As at December 31 (millions of dollars)

2007

2006

Consolidated Statements of Changes in Shareholders' Equity

Share capital

Balance at beginning of period	\$ 1,124.3	\$ 1,268.7
Common shares issued on exercise of stock options	0.4	0.3
Return of capital to Canfor shareholders (Note 3)	-	(144.7)
Balance at end of period	\$ 1,124.7	\$ 1,124.3

Contributed surplus

Balance at beginning of period	\$ 31.9	-
Contributed surplus arising from Canfor Pulp Income Fund transaction (Note 3)	-	31.9
Balance at end of period	\$ 31.9	\$ 31.9

Retained earnings

Balance at beginning of period	\$ 1,068.5	\$ 779.5
Implementation of financial instruments standards (Note 2)	(13.2)	-
Change in accounting for CPLP's pension liability	(2.2)	-
Dividend-in-kind of Canfor Pulp Income Fund units (Note 3)	-	(182.8)
Net income (loss)	(360.6)	471.8
Balance at end of period	\$ 692.5	\$ 1,068.5

Accumulated other comprehensive income (loss)

Balance at beginning of period	\$ -	\$ -
Implementation of financial instruments standards (Note 2)	(1.9)	-
Reclassification from foreign exchange translation adjustment	3.0	-
Net change in foreign exchange translation adjustment	(35.7)	-
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods	2.6	-
Balance at end of period	\$ (32.0)	\$ -

Foreign exchange translation adjustment

Balance at beginning of period	\$ 3.0	\$ (1.6)
Reclassification to accumulated other comprehensive income (loss)	(3.0)	-
Unrealized foreign exchange translation gain	-	4.6
Balance at end of period	\$ -	\$ 3.0

Total shareholders' equity

\$ 1,817.1 \$ 2,227.7

Consolidated Statement of Comprehensive Loss

Net loss	\$ (360.6)
Other comprehensive income (loss)	
Exchange translation adjustment on self-sustaining foreign subsidiaries	(35.7)
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods, net of taxes and non-controlling interests	2.6
Other comprehensive loss	\$ (33.1)
Total comprehensive loss	\$ (393.7)

CANFOR CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. Significant Accounting Policies

These consolidated financial statements of Canfor Corporation (the "Company") are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies, hereinafter referred to as "Canfor". Investments over which the Company exercises significant influence are accounted for using the equity method, in which the original investment is recorded at cost and is subsequently adjusted for the Company's share of post acquisition earnings. Joint ventures are proportionately consolidated.

Use of 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 reported in the financial statements and accompanying notes. The company regularly reviews its estimates and assumptions, however, it is reasonably possible that circumstances may arise which cause actual results to differ from management estimates, and these differences could be material.

Significant areas requiring the use of management estimates are deferred reforestation costs, inventory valuations, amortization rates, valuation of goodwill, long-lived assets, investments, non-bank asset-backed commercial paper ("ABCP") asset retirement obligations, environmental remediation costs and pension and other benefit plan assumptions.

Cash and Cash Equivalents

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of three months or less from the date of acquisition, and are valued at cost, which approximates market value.

Temporary Investments

Temporary investments are highly liquid money market instruments with maturities greater than three months from the date of acquisition, and are valued at cost, which approximates market value.

Valuation of Inventories

Inventories of lumber, panels, pulp and kraft paper are valued at the lower of average cost and net realizable value. Logs and chips are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost. Processing materials and supplies are valued at the lower of average cost and replacement cost. (Note 2)

Property, Plant, Equipment and Timber

Canfor capitalizes the costs of major replacements, extensions and improvements to plant and equipment, together with related interest incurred during the construction period on major projects.

Assets are amortized over the following estimated productive lives:

Buildings	5 to 50 years
Mobile equipment	3 to 20 years
Pulp and kraft paper machinery and equipment	20 years
Sawmill machinery and equipment	5 to 15 years
Oriented strand board machinery and equipment	10 to 20 years
Plywood machinery and equipment	5 to 15 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	3 to 25 years
Other machinery and equipment	2 to 20 years
Timber – renewable licenses	100 years

Amortization of logging and manufacturing assets is calculated on a unit of production basis. Amortization of plant and equipment not employed in logging and manufacturing is calculated on a straight-line basis.

Logging roads are amortized on a basis related to the volume of timber harvested. For those tree farm licenses and timber licenses which are renewable with the Province of British Columbia, amounts capitalized as timber are amortized over the estimated tree growth cycle as volume is harvested. Non-renewable licenses are amortized over the period of the license.

Long-lived Assets

Long-lived assets are reviewed for impairment when the occurrence of events or changes in circumstances indicate that the carrying value of the assets may not be recoverable, as measured by comparing their net book value to the estimated future cash flows generated by their use. Impaired assets are recorded at the lower of carrying amount and fair value, determined principally using discounted future cash flows expected from their use and eventual disposition (Note 19).

Goodwill

Goodwill is the excess of the purchase price paid for an acquisition of a business over the fair value of the net assets acquired. Goodwill is not amortized but is assessed annually for impairment, or more frequently if events or circumstances indicate that it may be impaired. The fair value of goodwill is estimated in the same manner as goodwill is determined at the time of acquisition.

Deferred Charges

Software development costs relating to major systems are deferred and amortized over periods not longer than five years. Start-up costs for the newly constructed oriented strand board mill are being amortized over a period of three years.

Deferred Reforestation Obligation

Canfor accrues the undiscounted cost of the reforestation required under its timber harvest agreements at the time that the timber is harvested. The liability is re-measured at fair value at the end of each fiscal period.

Environmental Remediation Costs

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

Asset Retirement Obligations

In accordance with CICA Handbook Section 3110 "Asset Retirement Obligations", Canfor recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made and a legal obligation exists. The asset retirement costs equal to the fair value of the retirement obligations are capitalized as part of the cost of the related long-lived asset and allocated to amortization expense on a basis consistent with the expected useful life of the related asset. The liability is increased or accreted to full value with the passage of time based on the credit adjusted risk free interest rate with a periodic accretion expense charge to operating income. The liability will be adjusted for revisions to the timing or amount of the original estimate of undiscounted cash flows to discharge the liability.

Employee Benefit Plans

Canfor has various defined benefit and defined contribution plans that provide both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees.

Canfor accrues the costs and related obligations of the defined benefit pension and other retirement benefit plans using the projected benefit actuarial method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) arise from the difference between the actual and expected long-term rates of return on plan assets for a period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees, which is 15 years for both pension and other benefit plans. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. On January 1, 2000, Canfor adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the accounting for pensions and other post employment benefits using the prospective application method. Canfor is amortizing the transitional obligation on a straight-line basis over 15 years, which was the average remaining service period of employees expected to receive benefits under the benefit plan as of January 1, 2000.

Pension expense for the defined contribution plans is based on a percentage of employees' salaries or on a contribution required under collective agreements.

For hourly employees covered by forest industry union defined benefit pension plans, earnings are charged with Canfor's contributions required under the collective agreements.

Revenue Recognition

Canfor's revenues are derived from the following major product lines: lumber, pulp, kraft paper, panel products, chips and raw logs. Revenue is recognized from product sales when persuasive evidence of a sale exists, the sales price is fixed and determinable, when title has transferred and collectibility is reasonably assured. Sales are reported net of discounts and allowances. Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by the company are reported as cost of sales. Lumber export taxes and duties are recorded as a component of costs of sales.

Foreign Currency Translation

The majority of Canfor's sales and long-term debt are denominated in foreign currencies. Foreign currencies are translated into Canadian dollars using the temporal method as follows: monetary assets and liabilities at year-end exchange rates; non-monetary assets and liabilities at historical rates; and revenues and expenses at exchange rates prevailing at the time the transaction occurs. Exchange gains and losses are reflected in income immediately.

Canfor's foreign operations are considered to be self-sustaining and the assets and liabilities are translated using the current rate method. The translation gain or loss is included as a component of shareholders' equity.

Income Taxes

Canfor accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the accounting basis and the tax basis of assets and liabilities. These temporary differences are measured using the current tax rates and laws expected to apply when these differences reverse. Future tax benefits, such as capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in income tax rates is recognized in earnings in the period that the substantive enactment date of the change occurs.

Derivative Financial Instruments

Canfor utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and commodity price risk. For example, from time to time, Canfor purchases foreign exchange forward contracts to hedge anticipated sales to customers in the United States and the related accounts receivable and also enters into swap and futures transactions to reduce its exposure to fluctuating pulp, lumber, natural gas and diesel prices. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Gains and losses on foreign exchange contracts are recognized in other income at the time that the contract is exercised. Gains and losses on natural gas and diesel swaps are recognized as an adjustment to manufacturing costs and gains and losses on pulp swaps and lumber futures contracts are recognized as an adjustment to sales when the contracts are settled.

Stock-based Compensation Plans

Canfor has three stock-based compensation plans, as described in Note 14. No stock options have been granted since 2002.

Cash consideration received from employees when they exercise the options is credited to share capital. Compensation expense is recognized for Canfor's contributions to the Employee Share or Unit Purchase Plans when they are made.

Compensation expense is recognized for Canfor's Deferred Share Unit Plans when the deferred share units are granted, and changes in market value of the underlying shares are reflected in earnings at the end of each period.

2. Changes in Accounting Policies

Effective January 1, 2007:

Financial Instruments

Effective January 1, 2007, Canfor adopted the Canadian Institute of Chartered Accountants' new Handbook Section 3855 "Financial Instruments", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges", and Section 1530 "Comprehensive Income". Section 3855 prescribes when a financial instrument should be recognized on the balance sheet and at what amount. It also specifies how to present financial instrument gains and losses. Section 3865, which is optional, provides alternative treatments to Section 3855 for when qualifying transactions are designated as hedges for accounting purposes. Section 1530 introduces new requirements for situations when certain gains and losses ("other comprehensive income", or "OCI") must be temporarily presented outside of net income in a new Statement of Comprehensive Income (Loss). Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a new category of Shareholders' Equity on the Consolidated Balance Sheet. The adoption of these new standards at January 1, 2007 resulted in adjustments to opening retained earnings and AOCI, as described below. Comparative amounts for prior periods have not been restated.

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the Consolidated Balance Sheets at fair value on initial recognition except for certain related party transactions. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net income. Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the Consolidated Balance Sheets at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in income unless hedge accounting is used, in which case changes in fair value are recorded in OCI.

As a result of adopting these new standards, Canfor has classified its cash and ABCP as held-for-trading and its temporary investments as held-to-maturity. Accounts receivable are classified as loans and receivables. Other long-term investments are classified as available for sale, and notes and other advances are classified as loans and receivables. Bank indebtedness, operating bank loans, accounts payable and accrued charges, and long-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost. Derivative instruments are recorded in the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract.

Canfor has elected not to utilize hedge accounting on its existing derivative financial instruments. As a result, these instruments, which were previously not recognized in the financial statements until they were exercised, were classified as held-for-trading and were measured at fair value through opening AOCI at January 1, 2007. The opening adjustments to AOCI were a reduction of \$3.9 million to record the fair value of hedging relationships existing prior to adopting Section 3855, partially offset by adjustments for future income taxes and non-controlling interests amounting to \$2.0 million, and a credit of \$3.0 million to reclassify the "Foreign Exchange Translation Adjustment" that was previously presented as a separate line item within Shareholders' Equity.

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.

Effective January 1, 2008:

Log Inventories

In October 2007, the CICA issued Handbook Section 3031 "Inventories". This section, which is effective for year ends beginning on or after January 1, 2008, requires that inventories be measured at the lower of cost and net realizable value. Canfor had previously valued log inventories at "the greater of net realizable value and replacement cost if lower than average cost". On January 1, 2008, Canfor adopted the new recommendations on a prospective basis. In accordance with this change in accounting policy, the opening log inventory as at that date has been devalued by \$46.5 million. The opening retained earnings adjustment resulting from the implementation of this new policy, net of future income taxes, is \$30.6 million and will be reflected in the first quarter of 2008.

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535 "Capital Disclosures", effective for year ends beginning on or after October 1, 2007. The new section establishes standards for disclosures about capital, including the following: a requirement to disclose qualitative information about its objectives, policies and processes for managing capital; a requirement to disclose quantitative data about what it regards as capital; and a requirement to disclose whether an entity has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. Canfor will adopt these requirements in the first quarter of 2008.

Financial Instruments – Disclosures

Section 3862, which is effective for years beginning on or after October 1, 2007, 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. Entities will be required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

This section requires specific disclosures to be made, including the criteria for:

- (i) designating financial assets and liabilities as held for trading;
- (ii) designating financial assets as available-for-sale; and
- (iii) determining when impairment is recorded against the related financial asset or when an allowance account is used.

Canfor will adopt these requirements in the first quarter of 2008.

3. Acquisitions and Divestitures

Acquisition of Darlington Mill

On November 30, 2007, Canfor completed the acquisition of the assets of Chesterfield Lumber Company, Inc., in Darlington, South Carolina ("Darlington mill"), through its wholly owned subsidiary, New South Companies, Inc. (New South), at a cost of US\$18.8 million, including transaction costs. The sawmill has an annual capacity of approximately 140 million board feet of southern yellow pine. The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the fair values of the assets and liabilities assumed on November 30, 2007. The purchase price allocation is summarized as follows:

(CDN millions of dollars)

Net assets acquired at November 30, 2007	
Non-cash working capital	\$ 3.0
Property, plant and equipment	16.5
Other liabilities	(0.7)
Fair value of net assets acquired	\$ 18.8
Less: outstanding payable to seller at December 31, 2007	(2.0)
Acquisition of Darlington mill per cash flow statement	\$ 16.8

Canfor Pulp Income Fund Transaction

On July 1, 2006, Canfor completed the transfer of its Prince George NBSK pulp and paper business (the Pulp Business) to the Canfor Pulp Limited Partnership (CPLP) in exchange for a \$125 million promissory note, 14.254 million Class A Limited Partnership Units and 57.016 million Class B Exchangeable Limited Partnership Units (the Spinout). Canfor exchanged its Class A Limited Partnership Units for an equal number of Units of Canfor Pulp Income Fund (CPIF). Upon the completion of the Spinout, the existing Common Shares of Canfor were cancelled and Canfor shareholders were entitled to receive one New Common Share of Canfor and 0.1 of a Unit of CPIF, with the distribution of the Fund Units being structured as a return of capital on the Canfor Shares (\$144.7 million allocated as a reduction of share capital and \$31.9 million allocated as additional contributed surplus). As a result, on the date of the Spinout Canfor Shareholders owned all of the issued and outstanding New Common Shares and all of the issued and outstanding Fund Units, with the outstanding Fund Units representing a 20% indirect interest in the Pulp Business.

On November 30, 2006, Canfor completed a distribution to its shareholders consisting of an in-kind taxable dividend of 1.49 units of CPIF for every 10 shares of Canfor Corporation held. The value of the dividend was deemed to be \$10.99 per CPIF Unit. The accounting value of the dividend equated to \$182.8 million. Following this dividend, Canfor owned 35.494 million Class B Exchangeable Limited Partnership Units.

Through its interest in CPLP, which is indirectly exchangeable for Fund Units, Canfor owns a 50.2% interest in the Pulp Business. CPLP is managed by Canfor Pulp Holdings Inc. (the general partner) on behalf of the limited partners.

On November 30, 2006, CPLP completed a debt financing by private placement to institutional investors in the US. The financing consists of US \$110 million of unsecured notes (Note 9), which CPLP used to repay the promissory note to Canfor, and an unsecured revolving credit facility.

Canfor and CPLP have entered into a long-term fibre supply agreement under which Canfor will continue to provide CPLP with residual wood chips and hog fuel produced at certain of its sawmills at market prices. CPLP also purchases, at cost, a number of administrative, accounting, legal and management services from Canfor under a partnership services agreement, which can be terminated, in whole or in part, on 12 months notice. CPLP continues to provide marketing services to Canfor, acting as a selling representative on behalf of Howe Sound Limited Partnership and Canfor's Taylor Pulp operation.

CPLP paid distributions of \$148.2 million in 2007 (2006 - \$62.7 million). Distributions paid to Canfor, amounting to \$74.4 million (2006 - \$45.1 million), have been eliminated upon consolidation.

Canfor is continuing to consolidate CPLP in these financial statements, with a provision for non-controlling interests. All intercompany balances and transactions have been eliminated.

Acquisition of New South Companies, Inc.

On March 6, 2006, Canfor completed the acquisition of New South Companies, Inc. (New South) at a cost of US \$181.6 million, net of assumed debt and including transaction costs.

At the time of acquisition, New South operated three sawmills with an annual capacity of 430 million board feet of southern yellow pine, one remanufacturing facility and two lumber treating plants located in North and South Carolina and an international lumber import business. New South also operates a lumber-trucking fleet of 55 trucks on the US East Coast.

The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the fair values of the assets and liabilities assumed on March 6, 2006. The fair values were determined by an independent valuation of the assets acquired.

(CDN millions of dollars)

Net assets acquired at March 6, 2006	
Non-cash working capital	\$ 85.5
Property, plant, equipment and timber	96.3
Goodwill	79.5
Other assets	29.4
Operating loans and long-term debt	(44.6)
Future income taxes, net	(37.5)
Other liabilities	(2.5)
Fair value of net assets acquired	\$ 206.1

New South is financially and operationally self-sustaining and, accordingly, the current rate method is used for the translation of their financial statements to Canadian dollars on consolidation. Under this method, assets and liabilities, including any excess of purchase price over book value arising on acquisition, are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate in effect

during the period. Exchange gains or losses arising from the current rate method of translation are recognized in the Consolidated Statement of Comprehensive Loss.

Discontinued Operations

On March 20, 2006, Canfor completed the transfer of its Englewood logging operation and associated timber licenses (Englewood operations) to a new limited partnership, Coastal Fibre Limited Partnership (CFLP), jointly owned with Oji Paper Canada Ltd., which contributed cash of equal value. In consideration of the transfer Canfor received a partnership interest valued at \$45.0 million, which approximates the book value of the assets transferred. On the same day, CFLP transferred the Englewood operations and cash of \$35.0 million to Western Forest Products Inc. (WFP) in return for a long-term agreement with WFP to supply CFLP with fibre (Note 5), and CFLP will supply this fibre to Howe Sound Pulp and Paper Limited Partnership (HSLP). Canfor's 50% interest in CFLP has been proportionately consolidated and the long-term fibre agreement with WFP, which is valued at \$40.0 million, has been recorded in "long-term investments and other" (Note 5) on the balance sheet, and will be amortized as the fibre is supplied to CFLP.

The following table presents selected financial information related to discontinued operations:

(millions of dollars)	2006		
	Coastal Operations	Sawmills	Total
Sales to external customers	\$ 9.5	\$ -	\$ 9.5
Operating loss before income taxes	\$ (4.3)	\$ -	\$ (4.3)
Loss on disposal before income taxes	(2.8)	-	(2.8)
Income tax recovery	3.2	-	3.2
Net loss	\$ (3.9)	\$ -	\$ (3.9)
Net loss per share - diluted			\$ (0.03)

4. Inventories

(millions of dollars)	2007		2006
Lumber	\$	139.4	\$ 229.7
Logs		105.9	203.4
Pulp		71.2	57.6
Panel products		16.5	19.7
Chips		11.2	6.4
Paper		14.1	11.7
Processing materials and supplies		113.7	107.2
	\$	472.0	\$ 635.7

5. Long-term Investments and Other

(millions of dollars)	2007	2006
Non-bank asset-backed commercial paper (Note 19)	\$ 64.0	\$ -
Long-term fibre agreement (Note 27)	37.1	38.4
Investments	35.0	41.6
Customer agreements	21.1	27.6
Derivative instruments (Note 24)	4.4	-
Mortgage receivable from sale of property	2.9	2.5
Other deposits and loans	5.9	5.2
	\$ 170.4	\$ 115.3

The non-bank asset-backed commercial paper (ABCP) shown above is the estimated fair value of combined investments in asset-backed commercial paper of four different Canadian trusts ("the Trusts") with total original principal amount of US\$81.2 million (CDN\$80.2 million at December 31, 2007) and original maturities between August and September 2007. At the dates the Company acquired these investments they were rated R1 (High) by Dominion Bond Rating Service ("DBRS"), the highest credit rating issued for commercial paper and backed by R1 (High) rated assets and liquidity arrangements.

Since August of 2007, the market for ABCP has experienced significant liquidity problems. The demand for such paper has disappeared following the decline in credit markets and concerns regarding the quality and nature of underlying assets. The Trusts have failed to make payment at maturity and, along with 16 other ABCP conduits, are subject to restructuring under the Pan Canadian Investors Committee for the Third Party Asset Backed Commercial Paper (the "Pan Canadian Investors Committee".)

On December 23, 2007, the Pan Canadian Investors Committee announced an agreement in principle to restructure the ABCP issued by 20 trusts, including the Trusts. Under the proposal, holders of ABCP will exchange their paper for floating rate notes that have maturities based on the maturities of the assets underlying the ABCP. The notes are to be designed so that all available cash flow in the trusts will be paid to note holders.

The fair value of the ABCP was determined based on the management's judgment using available information and expectation of the assumptions market participants would use in pricing such ABCP as at the balance sheet date. Canfor reviewed information provided by the Pan Canadian Investors Committee and DBRS including current investment ratings, composition and valuation estimates of underlying assets; the estimate of the extent of leverage in the Trusts; the progress of the restructuring efforts, and general economic conditions in considering the fair value of this investment. In estimating fair value, Canfor used a valuation approach based on high likelihood of successful restructuring of the investment. It is estimated that of the US\$81.2 million of ABCP which Canfor has invested:

- US\$14.1 million is represented by traditional securitized assets that will, on restructuring, be replaced with long-term floating rate notes that are expected to receive a AAA rating from two investment rating agencies;
- US\$21.1 million is represented by a combination of synthetic and traditional securitized assets and collateralized debt obligations that will, on restructuring, be pooled with similar assets from other trusts and be replaced with a senior and subordinated floating rate notes. The senior note is expected to receive a AAA rating from two investment rating agencies while the subordinated note is not expected to be rated;
- US\$8.5 million is represented by assets that have exposure to US sub-prime assets or home equity loan mortgages that will, on restructuring, be replaced with long-term floating rate notes that may or may not be rated;
- US\$37.5 million is represented by assets of the Ironstone Trust that has a rating of AAA by DBRS, reaffirmed on January 9, 2008. On restructuring, the assets will be replaced with a long-term floating rate note that may or may not be rated.

Based on this assessment of fair value as at December 31, 2007, Canfor recorded in income an impairment loss of \$16.2 million related to these investments in 2007, representing 20% of the face value.

It is possible that further information will become available on the actual composition of the referenced assets. A change in the estimate of the composition of the referenced assets would effect the valuation. In addition, if sales of the restructured senior or subordinated notes occur in the future, these sales might represent observable market transactions that could appropriately be used to determine the fair value of the investment.

6. Property, Plant, Equipment and Timber

(millions of dollars)	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 34.6	\$ -	\$ 34.6	\$ 38.4	\$ -	\$ 38.4
Pulp and kraft paper mills	1,303.1	719.4	583.7	1,272.6	676.9	595.7
Sawmills, plywood and oriented strand board plants	1,175.6	557.9	617.7	1,226.3	465.2	761.1
Logging buildings and equipment	9.2	0.5	8.7	13.3	0.7	12.6
Logging roads and bridges	131.1	108.6	22.5	153.8	104.9	48.9
Other equipment and facilities	35.3	15.5	19.8	33.1	13.1	20.0
Timber	742.8	70.4	672.4	839.7	61.5	778.2
	\$ 3,431.7	\$ 1,472.3	\$ 1,959.4	\$ 3,577.2	\$ 1,322.3	\$ 2,254.9

Included in the above are assets under construction in the amount of \$10.0 million (2006 – \$41.3 million), which are not being amortized.

7. Deferred Charges

(millions of dollars)	2007	2006
Prepaid pension benefits (Note 15)	\$ 83.4	\$ 65.1
Deferred unrealized foreign exchange loss on long-term debt (Note 2)	-	14.2
Software development costs	4.3	6.7
Deferred start-up costs (Note 27)	1.6	3.4
Other	0.7	2.4
	\$ 90.0	\$ 91.8

Deferred charges expensed during the year amounted to \$16.1 million (2006 – \$34.5 million), including pension benefits of \$12.7 million (2006 – \$15.8 million), software development costs of \$1.6 million (2006 – \$2.2 million), deferred start-up costs of \$1.8 million (2006 – \$5.2 million) and foreign exchange losses of \$nil recognized on the repayment of US dollar long-term debt (2006 – \$11.3 million).

8. Operating Bank Loans

At December 31, 2007, Canfor had \$409.0 million of bank operating lines available (2006 – \$451.0 million), of which \$40.1 million were reserved for several standby letters of credit (2006 - \$53.9 million).

9. Long-term Debt

Summary of Long-term Debt

(millions of dollars)	2007	2006
Privately placed senior notes		
Canfor Corporation		
US \$ - million (2006 – US \$31.3 million), interest at 8.24%, repayable in 4 equal annual instalments commencing September 1, 2004	\$ -	\$ 36.4
US \$ - million (2006 – US \$10 million), interest at 6.82%, repayable in 5 equal semi-annual installments commencing April 1, 2005	-	11.7
US \$ - million (2006 – US \$33 million), interest at 7.74%, repayable March 1, 2007	-	38.5
US \$15 million, interest at 7.88%, repayable March 1, 2008	14.8	17.5
US \$45 million, interest at 7.98%, repayable March 1, 2009	44.5	52.4
US \$97 million, interest at 8.03%, repayable in 3 equal annual installments commencing March 1, 2009	95.9	113.0
US \$60 million, interest at 5.66%, repayable April 1, 2009	59.3	69.9
US \$50 million, interest at 6.18%, repayable April 1, 2011	49.4	58.3
US \$50 million, interest at 6.33%, repayable February 2, 2012	49.4	58.3
US \$75 million, interest at 5.42%, repayable April 1, 2013	74.1	87.4
Canfor Pulp Limited Partnership		
US \$110 million, interest at 6.41%, repayable November 30, 2013	108.7	128.2
Revolving facilities, bearing interest at various fixed and floating rates with various maturity dates	-	17.9
Other long-term obligations	0.7	0.8
	496.8	690.3
Less current portion	15.2	87.5
	\$ 481.6	\$ 602.8

Fair Value of Total Long-term Debt

The fair value of total long-term debt at December 31, 2007 was \$502.2 million (2006 – \$700.2 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.

Scheduled Long-term Debt Repayments

Long-term debt repayments for the next five years are as follows:

(millions of dollars)	
2008	\$ 15.2
2009	136.1
2010	31.9
2011	81.4
2012	49.4
Thereafter	182.8
	<hr/>
	\$ 496.8

10. Long-term Accrued Liabilities and Obligations

(millions of dollars)	2007	2006
Deferred reforestation obligation (Note 12)	\$ 65.6	\$ 70.9
Accrued pension obligations (Note 15)	19.1	15.6
Accrued pension bridge benefit obligations (Note 15)	7.9	7.1
Post-employment benefits (Note 15)	87.0	75.1
Asset retirement obligations (Note 11)	11.1	-
Other long-term liabilities	12.8	4.6
	<hr/>	
	\$ 203.5	\$ 173.3

11. Asset Retirement Obligations

(millions of dollars)	2007	2006
Balance, beginning of year	\$ -	\$ -
Accrued obligation – ash pond	2.4	-
Accrued obligation – landfills	11.0	-
Accretion expense	0.1	-
Current spending	(0.3)	-
Balance, end of year	<hr/>	
	\$ 13.2	-
Less current portion	(2.1)	\$ -
Long term portion (Note 10)	<hr/>	
	\$ 11.1	

In 2007, Canfor recognized asset retirement obligations in respect of landfill closure costs. This reflects new information on all sites as to the estimated timing of closure and closure alternatives. The obligations represent estimates of future payments of \$24.5 million, which have been discounted at rates of 5.8% to 8.8%. Payments relating to landfill closure costs are expected to occur at periods ranging from 5 to 25 years with an estimated fair value of \$11.1 million, and the amount is included in long-term liabilities.

In 2007 an environmental containment liability was identified at the Intercon pulp mill site arising from the normal operation of the ash pond. As a result, Canfor has recorded an obligation based on the fair value of the containment estimate of \$2.4 million, with a corresponding capital addition to the related asset. The ash pond was decommissioned and remediation work commenced in the fourth quarter. The current estimated fair value was reduced by \$0.3 million to \$2.1 million after current year spending on remediation.

Canfor has certain assets that have indeterminable useful lives and, therefore, there is an indeterminable settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these

assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. Once the useful life of these assets becomes determinable and an estimate of the closure costs can be made, an asset retirement obligation will be recorded.

It is reasonably possible, that changes in future conditions in the near term could require a material change in the recognized amount of the asset retirement obligations.

12. Deferred Reforestation Obligation

The Company's reforestation obligation and expense are as follows:

(millions of dollars)	2007		2006	
Reforestation obligation – beginning of year	\$	110.5	\$	111.0
Expense for the year		29.4		39.9
Less: paid during the year		(39.9)		(40.4)
Reforestation obligation – end of year	\$	100.0	\$	110.5
Current	\$	34.4	\$	39.6
Long-term (Note 10)		65.6		70.9
	\$	100.0	\$	110.5

The total undiscounted amount of the estimated cash flows required to settle the obligation at December 31, 2007 was \$112.1 million (2006 – \$122.0 million) with payments spread over 17 years. The estimated cash flows have been adjusted for inflation and discounted using credit-adjusted risk-free rates ranging from 4% to 7%.

13. Share Capital

Authorized
10,000,000 preferred shares, with a par value of \$25 each
1,000,000,000 common shares without par value

(millions of dollars)	2007		2006	
	Number of Shares	Amount	Number of Shares	Amount
Common shares, beginning of year	142,548,812	\$ 1,124.3	142,510,395	\$ 1,268.7
Stock options exercised (Note 14)	40,500	0.4	38,417	0.3
Cancellation of existing common shares (Note 3)	-	-	(142,540,058)	(1,268.9)
Issuance of new common shares (Note 3)	-	-	142,540,058	1,268.9
Return of capital to Canfor shareholders (Note 3)	-	-	-	(144.7)
Common shares, end of year	142,589,312	\$ 1,124.7	142,548,812	\$ 1,124.3

14. Stock-based Compensation

The Company has three stock-based compensation plans, which are described below.

Stock Option Performance Plan

The Company has a stock option performance plan pursuant to which stock options were granted to selected officers and senior managers. No new stock options were granted in 2007 or 2006. The stock option performance plan provided for the issuance of up to a maximum of 5.8 million common shares at an exercise price equal to the market

price of the Company's common shares on the date of grant. However, there are various criteria that limit the amount of options exercisable during each option year within the option period. A summary of the status of the plan as of December 31, 2007 and 2006, and changes during the years ending on those dates is presented below:

	2007		2006	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at the beginning of year	261,969	\$ 9.29	300,386	\$ 9.28
Exercised	(40,500)	8.82	(38,417)	9.19
Cancelled	(7,668)	9.12	-	-
Outstanding at the end of the year	213,801	\$ 9.39	261,969	\$ 9.29

The following table summarizes information about stock options outstanding at December 31, 2007:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$8.30	63,800	3.08	\$ 8.30	63,800	\$ 8.30
\$9.80 to \$11.80	150,001	4.08	9.86	150,001	9.86
	213,801		\$ 9.39	213,801	\$ 9.39

Employee Share and Unit Purchase Plans

The Company has a share purchase plan, which is available to all employees, other than CPLP employees. Purchases of common shares under this plan occur on the open market. Under the plan the employees can purchase up to 10% of their base salary or wage. Up to June 2007, the Company matched 30% of the first 5% of the amount contributed by the employee and paid the share purchase plan brokerage fees.

CPLP has a unit purchase plan, which is available to all CPLP employees. Purchases of Canfor Pulp Income Fund units under this plan occur on the open market. Under the plan the employees can purchase up to 10% of their base salary or wage. CPLP matches 30% of the first 5% of the amount contributed by the employee and pays the unit purchase plan brokerage fees.

In 2007, contributions of \$1.1 million were made towards the purchase of Canfor's common shares or the units of Canfor Pulp Income Fund, under the terms of the plans (2006 – \$1.8 million).

Deferred Share Unit Plans

On January 1, 2002, the Company implemented a Deferred Share Unit Plan for non-employee directors of the Company. A Deferred Share Unit (DSU) is a right granted to a non-employee director to receive one common share of the Company, purchased on the open market, or the cash equivalent, on a deferred payment basis. The maximum number of DSU's outstanding under the plan is 1,000,000, and currently each non-employee director is entitled to 2,500 DSU's per year. The value of the DSU's, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSU's on each payment date. The DSU's may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity. The value of the outstanding DSU's at December 31, 2007 was \$0.7 million (2006 – \$1.0 million).

In addition, effective May 4, 2007, the Company implemented a CEO's Deferred Share Unit Plan (the "CEO Plan") for the Company's CEO. Pursuant to the terms of the plan, the CEO receives his annual salary in DSU units, which are allocated on a monthly basis. The value of the DSU's when redeemed will be equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSU's on each payment date. The DSU's under the CEO Plan may only be redeemed on the date the CEO ceases, for whatever reason, to be employed by the Company. The value of the outstanding CEO DSU's at December 31, 2007 was \$0.3 million.

15. Employee Future Benefits

Canfor has several funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and certain hourly employees. The defined benefit plans are based on years of service and final average salary. Canfor's other post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for 2007 were \$61.2 million (2006 – \$64.2 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans, and cash contributed to its forest industry union defined benefit plans.

Defined Benefit Plans

Canfor measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30th of each year. In 2007, Canfor had seven registered defined benefit plans, for which actuarial valuations are performed every three years. The most recent actuarial valuation for funding purposes of Canfor's single largest pension plan was on December 31, 2006.

Information about Canfor's defined benefit plans, in aggregate, is as follows:

Defined Benefit Plan Assets

	2007		2006	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
(millions of dollars)				
Fair market value of plan assets				
Beginning of year	\$ 517.8	\$ -	\$ 491.4	\$ -
Actual gain on plan assets	45.1	-	34.9	-
Canfor contributions	43.3	3.3	25.0	3.2
Employee contributions	1.4	-	1.9	-
Benefit payments	(36.5)	(3.3)	(34.3)	(3.2)
Settlement of Taylor sawmill plan	-	-	(1.1)	-
End of year	\$ 571.1	\$ -	\$ 517.8	\$ -

	Percentage of Plan Assets	
	2007	2006
Plan assets consist of the following		
Equity securities	64 %	61 %
Debt securities	33 %	34 %
Real estate	2 %	2 %
Other	1 %	3 %
	100 %	100 %

Defined Benefit Plan Obligations

	2007		2006	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation				
Beginning of year	\$ 581.4	\$ 139.2	\$ 574.4	\$ 133.4
Current service cost	16.3	3.5	19.2	3.6
Interest cost	30.2	7.4	29.8	7.1
Employee contributions	1.4	-	1.9	-
Benefit payments	(36.5)	(3.3)	(35.4)	(3.2)
Plan amendments	-	-	0.6	-
Special termination benefits	2.1	-	-	-
Actuarial loss (gain)	(24.7)	(0.1)	(9.1)	(1.7)
End of year	\$ 570.2	\$ 146.7	\$ 581.4	\$ 139.2

Reconciliation of the Funded Status of the Benefit Plans to the Amounts Recorded in the Financial Statements

	2007		2006	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets	\$ 571.1	\$ -	\$ 517.8	\$ -
Accrued benefit obligation	(570.2)	(146.7)	(581.4)	(139.2)
Funded status of plans – surplus (deficit)	0.9	(146.7)	(63.6)	(139.2)
Employer contributions after measurement date	5.2	0.8	16.1	0.8
Unamortized transitional amount	(21.2)	15.9	(24.9)	17.9
Unamortized past service costs	3.4	1.3	3.7	1.4
Unamortized net actuarial loss	78.2	41.7	120.1	44.0
Accrued benefit asset (liability)	66.5	(87.0)	51.4	(75.1)
Valuation allowance	(2.5)	-	(2.2)	-
Accrued benefit asset (liability), net of valuation allowance	\$ 64.0	\$ (87.0)	\$ 49.2	\$ (75.1)
The accrued benefit asset (liability) is included in the Company's balance sheet as follows:				
Deferred charges (Note 7)	\$ 83.1	\$ -	\$ 64.8	\$ -
Long-term accrued liabilities and obligations (Note 10)	(19.1)	(87.0)	(15.6)	(75.1)
	\$ 64.0	\$ (87.0)	\$ 49.2	\$ (75.1)

Excluded from the tables above are amounts relating to a defined benefit pension plan of New South Companies, Inc., which was curtailed in 2003. The accrued benefit asset at December 31, 2007 was \$0.3 million.

Included in the above pension and other benefit provisions and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

(millions of dollars)	2007		2006	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets	\$ 67.9	\$ -	\$ 483.3	\$ -
Accrued benefit obligation	(97.0)	(146.7)	(556.3)	(139.2)
Funded status - plan deficit	\$ (29.1)	\$ (146.7)	\$ (73.0)	\$ (139.2)

Of the \$29.1 million of pension plan deficit noted above, \$27.1 million relates to unregistered plans for which funding is not required (2006 – \$22.7 million). \$9.5 million of the unregistered pension liabilities are secured by a letter of credit (2006 - \$9.1 million).

“Other benefit plans” are not funded, except to the extent that expenditures are incurred.

Canfor’s expense for company-sponsored benefit plans is as follows:

(millions of dollars)	2007			2006		
	Incurring in Year	Matching Adjustments	Recognized in Year	Incurring in Year	Matching Adjustments	Recognized in Year
Pension Benefit Plans						
Current service cost, net of employee contributions	\$ 16.3	\$ -	\$ 16.3	\$ 19.2	\$ -	\$ 19.2
Interest cost	30.2	-	30.2	29.8	-	29.8
Return on plan assets	(45.1)	9.7	(35.4)	(34.9)	1.7	(33.2)
Actuarial loss (gain)	(24.7)	32.0	7.3	(9.1)	15.0	5.9
Special termination benefits	2.1	-	2.1	-	-	-
Settlement/Curtailment loss	-	-	-	0.1	-	0.1
Plan amendments	-	0.4	0.4	0.6	(0.2)	0.4
Valuation allowance provided against accrued benefit asset	-	0.3	0.3	-	0.3	0.3
Amortization of transitional obligation (asset)	-	(3.7)	(3.7)	-	(3.7)	(3.7)
	\$ (21.2)	\$ 38.7	\$ 17.5	\$ 5.7	\$ 13.1	\$ 18.8
Other Benefit Plans						
Current service cost, net of employee contributions	\$ 3.5	\$ -	\$ 3.5	\$ 3.6	\$ -	\$ 3.6
Interest cost	7.4	-	7.4	7.1	-	7.1
Actuarial loss (gain)	(0.1)	2.3	2.2	(1.7)	4.2	2.5
Plan amendments	-	0.1	0.1	-	0.1	0.1
Amortization of transitional obligation (asset)	-	2.0	2.0	-	2.0	2.0
	\$ 10.8	\$ 4.4	\$ 15.2	\$ 9.0	\$ 6.3	\$ 15.3

Note: Matching adjustments are accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

Canfor also provides pension bridge benefits to certain eligible former employees. At December 31, 2007, the actuarially determined obligation for these benefits was \$17.7 million (2006 – \$18.3 million). The accrued benefit liability for these benefits, included in "long-term accrued liabilities and obligations" (Note 10) on the balance sheet at December 31, 2007, was \$7.9 million (2006 – \$7.1 million) and the related expense recognized in the current year was \$2.0 million (2006 – \$1.3 million).

Significant assumptions

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

(weighted average assumptions)	2007		2006	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation as of December 31:				
Discount rate	5.6 %	5.5 %	5.25 %	5.25 %
Rate of compensation increase	3.0 %	n/a	3.0 %	3.0 %
Benefit costs for year ended December 31:				
Discount rate	5.25 %	5.25 %	5.25 %	5.25 %
Expected long-term rate of return on plan assets	7.0 %	n/a	7.0 %	n/a
Rate of compensation increase	3.0 %	n/a	3.0 %	3.0 %

Assumed health care cost trend rates

(weighted average assumptions)	2007	2006
Initial health care cost trend rate	5.62%	5.87%
Ultimate health care trend rate	4.27%	4.27%
Year ultimate rate is reached	2011	2011

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2007:

	1% Increase	1% Decrease
Accrued benefit obligation	\$ 26.3	\$ (21.0)
Total of service and interest cost	\$ 2.7	\$ (2.0)

Defined contribution and other plans

The total cost recognized in 2007 for Canfor's defined contribution plans was \$1.6 million (2006 – \$3.2 million).

Canfor contributes to various forest industry union defined benefit pension plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the cost recognized for defined contribution plans above, amounted to \$22.8 million in 2007 (2006 – \$24.6 million).

16. Export Tax, Countervailing (CVD) and Anti-dumping (ADD) Duties

Effective October 12, 2006, the governments of Canada and the United States implemented an agreement for the settlement of the softwood lumber dispute, which began in May 2002. The Softwood Lumber Agreement (SLA), which received formal approval by the Canadian Parliament on December 14, 2006, has a term of seven years and provides for an extension of two years. Either government can give notice to terminate the SLA after 23 months, but there is an additional 12-month notice period before the agreement can be terminated.

Under the terms of the SLA, effective October 12, 2006, the US Department of Commerce revoked all existing ADD and CVD orders on softwood lumber shipped to the US from Canada. Approximately 81% of deposits paid, together with accumulated interest, were to be returned to Canadian lumber producers. The remaining 19% (US \$1 billion) was to be retained by the US government for distribution to the US forest industry petitioners and for use in funding "meritorious activities" such as disaster relief, the promotion of sustainable forestry management and low income housing. Approximately US \$40 million will be utilized for a joint US/Canada committee designed to strengthen and build the North American lumber market.

In the fourth quarter of 2006, the full amount of the duty deposits was refunded by the US government, with the US \$1 billion repayable by the Canadian producers as a special assessment to be collected by the Canadian government. At December 31, 2006, Canfor had accrued \$187.7 million (US \$164.0 million) for this assessment. The full amount of the special assessment was paid in 2007.

In 2006, Canfor recorded into income a duty refund of \$717.7 million and interest income of \$97.7 million. This refund amount is net of the special assessment and includes the reversal of the cumulative additional CVD accrued in excess of the cash deposits and the cumulative additional ADD deposits in excess of the calculated expense, which were \$64.4 million and \$108.8 million, respectively, at September 30, 2006.

Lumber Export Tax

The SLA requires that, effective October 12, 2006, an export tax on lumber shipped to the US be collected by the government of Canada and returned to the province of origin of the lumber. The Province of BC had the right to choose between an export charge only (Option A) or a lower export charge with a quota (Option B) for each of the BC Coast and BC Interior regions. The Province of BC chose Option A for both the BC Coast and the BC Interior and will have the opportunity to change options on January 1, 2010 and January 1, 2013.

The export tax rate is determined monthly, based on the "Random Lengths Framing Lumber Composite Price" as follows: 15% tax at a composite price of US \$315 or under; 10% at US \$316-\$335; 5% at US \$336-\$355 and nil when the price is over US \$355. Export taxes of \$99.9 million were paid in 2007 (2006 - \$22.4 million).

The SLA also includes a "Surge Mechanism", which increases the export tax rate for the month by 50% when the monthly volume of exports from a region exceeds a certain "Trigger Volume" as defined in the SLA. The US Coalition for Fair Lumber Imports has alleged that the US consumption figures that are used in calculating the allowable exports in a month, should not be the estimated or expected consumption but should be the actual consumption based on a 12-month rolling average. Canada maintains that the US is wrongly interpreting the point at which the surge clause is triggered. Under the terms of the agreement, the US has requested binding arbitration and the issue is now before the London Court of International Arbitration. Three European panelists held a hearing in December 2007. The panel plans to issue its decision, which cannot be appealed, during the first quarter of 2008. Although the Government of Canada is committed to defending its position, the outcome is not determinable. If the decision is unfavorable to the Canadian position, Canfor's additional cumulative export tax liability to December 31, 2007 would be approximately \$16 million.

17. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with indefinite or permanent closures of facilities expected to be completed in 2008, as well as staff reductions. These costs amounted to \$41.3 million for 2007 (2006 - \$6.5 million).

On November 9, 2007 the Company announced that it was permanently closing its Panel & Fibre mill effective January 8, 2008, after fibre inventories had been utilized and mill equipment decommissioned. Included in the costs above are losses on disposal of equipment of \$6.2 million related to the closure of the Panel and Fibre mill.

The following table provides a reconciliation of the restructuring, mill closure and other severance costs for the years ended December 31:

(millions of dollars)	2007		2006	
Accrued liability at beginning of year	\$	4.9	\$	9.7
Accrued in the period *		41.3		6.5
Less: non-cash items		(2.0)		(3.5)
Payments in the period		(8.4)		(7.8)
Accrued liability at end of year	\$	35.8	\$	4.9
<i>* reported in the following segments:</i>				
Lumber	\$	21.7	\$	1.3
Panels		14.4		2.3
Corporate and Other		5.2		2.9
	\$	41.3	\$	6.5

18. Interest Income (Expense)

(millions of dollars)

	2007			2006		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Total interest cost	\$ (37.8)	\$ (6.3)	\$ (44.1)	\$ (40.6)	\$ (9.2)	\$ (49.8)
Less: Interest income – duty refund (Note 16)	-	2.2	2.2	-	97.7	97.7
Interest income – temporary investments and other	0.1	32.4	32.5	0.2	8.1	8.3
	\$ (37.7)	\$ 28.3	\$ (9.4)	\$ (40.4)	\$ 96.6	\$ 56.2

19. Asset Impairments and Measurement Uncertainty

(millions of dollars)

(millions of dollars)	2007		2006	
Capital assets	\$	231.4	\$	-
Non-bank asset backed commercial paper (ABCP) (Note 5)		16.2		-
Other		20.4		19.1
Total asset impairments	\$	268.0	\$	19.1

Capital Assets

Canfor reviews the carrying values of its long-lived assets on a regular basis as events or changes in circumstances may warrant. Where the carrying value of assets is not expected to be recoverable from future cash flows, they are written down to fair value. In view of the ongoing operating losses and expected market conditions, including exchange rates going forward, a review of the carrying value of all its sawmills and panelboard operations and various other assets was undertaken.

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 Canfor's long-lived assets generally include key assumptions related to forecast prices and exchange rates over the next ten years. Other significant assumptions are the estimated useful life of the long-lived assets, and the impacts of both the Softwood Lumber Agreement with the United States and the Mountain Pine Beetle epidemic. Price forecasts beyond 2008 were determined with reference to Resource Information Systems, Inc. (RISI) publications, and forecast exchange rates were based on forecasts from various recognized authorities. Given the importance of the US\$/Cdn\$ exchange rate in Canfor's business, where most sales are denominated in U.S. 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 used in determining impairments to be recorded.

As a result of its assessment, Canfor recognized asset write-downs of \$231.4 million related to property, plant, equipment and timber, of which \$90.0 million related to assets in the Lumber segment, and \$141.4 million to the Panels segment.

Other

As at December 31, 2007, an impairment charge of \$14.0 million was recorded to reflect the risk of non-collection of unsecured amounts recorded in Accounts receivable - other. In addition, Canfor recognized a write-down of \$5.0 million for its investment in Lakeland Mills and Winton Global Lumber (2006 - \$19.1 million).

It is possible, that changes in future conditions in the near term could require a material change in the recognized amount of the asset impairment charges for both capital assets and other, as disclosed above.

20. Other Expense

(millions of dollars)	2007	2006
Equity income (loss) of affiliated companies	\$ 0.1	\$ (0.2)
Foreign exchange on translation of working capital	(14.1)	-
Dividend income	5.0	-
Other expense	(2.1)	(10.3)
	\$ (11.1)	\$ (10.5)

21. Income Taxes

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities are as follows:

(millions of dollars)	2007		2006	
	Current	Long-term	Current	Long-term
Future income tax assets				
Accruals not currently deductible	\$ 18.1	\$ 24.1	\$ 14.2	\$ 24.9
Post employment benefits	-	25.8	-	25.7
Countervailing duty liability	-	-	0.9	-
Other	0.4	4.8	0.6	2.8
	\$ 18.5	\$ 54.7	\$ 15.7	\$ 53.4
Future income tax liabilities				
Depreciable capital assets	\$ -	\$ (298.4)	\$ -	\$ (415.6)
Deferred pension and other costs	-	(28.0)	-	(30.8)
Income from limited partnerships	(21.8)	-	(20.3)	-
Other	(15.7)	(27.8)	(0.4)	(22.4)
	\$ (37.5)	\$ (354.2)	\$ (20.7)	\$ (468.8)
Future income taxes, net	\$ (19.0)	\$ (299.5)	\$ (5.0)	\$ (415.4)

The components of income tax recovery (expense) are as follows:

(millions of dollars)	2007	2006
Current	\$ 140.8	\$ (231.5)
Future	93.3	47.9
Tax on equity earnings	-	0.1
	234.1	(183.5)
Amortization of deferred credit on utilization of acquired tax losses	-	14.1
	\$ 234.1	\$ (169.4)

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

(millions of dollars)	2007	2006
Net income (loss) from continuing operations before income taxes and non-controlling interests	\$ (529.3)	\$ 665.8
Income tax recovery (expense) at statutory tax rate	\$ 180.5	\$ (227.0)
Add (deduct):		
Non-controlling interests	22.3	7.1
Change in corporate income tax rates	21.5	41.9
Entities with different income tax rates and other tax adjustments	12.4	(2.4)
Permanent difference from capital gains and losses and other non-deductible items	(2.6)	(3.1)
Amortization of deferred credit on utilization of acquired tax losses	-	14.1
Income tax recovery (expense)	\$ 234.1	\$ (169.4)

22. Earnings Per Share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net earnings 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.

	2007	2006
Weighted average number of common shares	142,576,271	142,536,619
Incremental shares from potential exercise of stock options	41,254	63,301
Diluted number of common shares	142,617,525	142,599,920

23. Changes in Non-Cash Working Capital

(millions of dollars)	2007	2006
Accounts receivable	\$ 38.0	\$ 33.3
Inventories	166.8	28.8
Prepaid expenses	1.9	-
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	(274.9)	161.7
Income taxes	(371.9)	203.2
Future income taxes, net	14.0	28.9
Net (increase) decrease in non-cash working capital	\$ (426.1)	\$ 455.9

24. Financial Instruments

The following table summarizes the gain on derivative financial instruments for the year ended December 31, 2007:

(millions of dollars)	2007
Foreign exchange	\$ 14.3
Natural gas	(4.0)
Diesel fuel	9.1
Lumber	0.7
Pulp	1.0
	\$ 21.1
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods ^a	(5.1)
Gain on derivative financial instruments	\$ 16.0

^a prior to adjustments for non-controlling interests and future income taxes

The following table summarizes the fair market value of Canfor's financial instruments included in the balance sheet at December 31:

(millions of dollars)	2007	2006
Foreign exchange	\$ 14.3	\$ -
Natural gas	(5.7)	(1.7)
Diesel fuel	7.9	(1.2)
Lumber	0.7	-
Pulp	-	(1.0)
	\$ 17.2	\$ (3.9)

Currency Risk

A significant portion of Canfor's income from operations is generated from sales denominated in US dollars. In conjunction with commodity price risk management, Canfor enters into foreign exchange option and forward contracts from time to time.

	2007		2006	
	Notional Amount	Average Rate	Notional Amount	Average Rate
US dollars (millions)				
<i>0-12 months</i>				
US Dollar Collars	\$ 404.0	\$ 1.00 - \$ 1.1275	\$ -	\$ -
US Dollar Forward Contracts	\$ 8.7	\$ 0.9981	\$ 5.1	\$ 1.1631
<i>13 - 24 months</i>				
US Dollar Collars	\$ 64.0	\$ 1.00 - \$ 1.1206	\$ -	\$ -

Commodity Price Risk

Canfor uses a variety of financial instruments to reduce its exposure to risks associated with fluctuations in energy costs, lumber and pulp prices.

	2007		2006	
	Notional Amount	Average Price	Notional Amount	Average Price
Natural Gas (gigajoules – millions)				
Floating to Fixed Swap				
<i>0 – 12 Months</i>	4.8	\$ 7.25	3.8	\$ 7.32
<i>13 – 36 Months</i>	5.3	\$ 7.61	3.6	\$ 7.29
Diesel (gallons – millions)				
Floating to Fixed Swap				
<i>0 – 12 Months</i>	9.8	\$ 1.97	9.0	\$ 2.17
<i>13 – 36 Months</i>	3.5	\$ 1.82	-	\$ -
Lumber (Fbm – millions)				
Future Contract				
<i>0-12 months</i>	34.1	\$ 281.62	-	\$ -
NBSK Pulp ('000 Tonnes)				
Floating to Fixed Swap				
<i>0-12 Months</i>	-	-	7.5	\$ 897.28

Credit Risk

Canfor does not have a significant concentration of credit risk as no one individual customer accounts for 10% or more of total company sales. Canfor reviews the credit history of all new customers before extending credit and also performs regular reviews of the credit performance of existing customers. Canfor may require payment guarantees, such as letters of credit, or obtains credit insurance coverage.

Interest Rate Risk

Canfor is exposed to interest rate risk arising from fluctuations in interest rates on its cash, cash equivalents, and short-term investments. The Company has considered, but does not use, derivative instruments to reduce its exposure to interest rate risk.

25. Related Party Transactions

Transactions with related parties occur at fair market value, unless otherwise noted below.

Canfor has the following related party transactions with Howe Sound Pulp and Paper Limited Partnership (HSLP):

- Canfor, through CPLP, markets the pulp production of HSLP (Note 26) for which it receives commissions under the terms of its agency sales agreement.
- Canfor and Oji, the partners of HSLP, and HSLP have a prepayment agreement whereby the partners prepay HSLP in advance of the due date for receivables for pulp marketed, or to be marketed, and collected on their behalf. At December 31, 2007, Canfor has a prepayment balance of \$36.0 million to HSLP (2006 - \$27.9 million). Canfor charges a market rate of interest to HSLP for the period paid in advance and the prepayment is covered by the assignment of current or future accounts receivable. The agreement provides for Oji to prepay up to a maximum amount of \$60 million and Canfor to a maximum of \$50 million, which is used as short-term operating funds by HSLP. In addition, Canfor has granted extended credit terms to HSLP up to a maximum of \$10 million.
- As part of the HSLP debt restructuring (Note 30), Canfor advanced additional funds to HSLP in 2007 of \$7.3 million.
- Canfor purchases pulp logs for resale to HSLP at Canfor's cost, to meet HSLP's future requirements.
- Canfor sawmills sold chips to HSLP in 2006.
- Canfor provides management, fibre supply and other services to HSLP at cost.

(millions of dollars)	2007		2006	
	Transaction Amount	Balance Outstanding	Transaction Amount	Balance Outstanding
Transactions with HSLP:				
Commission earned from marketing of HSLP pulp	\$ 2.9	\$ 0.4	\$ 3.4	\$ 0.2
Interest earned from the HSLP prepayment agreement	2.8	3.2	2.3	0.6
Chips purchased for resale to HSLP	7.9	7.9	8.7	6.7
Commission earned for purchase and resale of chips	0.1	0.3	0.2	0.2
Pulp logs purchased for resale to HSLP	18.8	7.4	9.6	10.2
Sawmill sales of chips to HSLP	-	-	4.7	-
Management, fibre supply and other service fee	0.6	0.4	1.0	0.7
	\$ 33.1	\$ 19.6	\$ 29.9	\$ 18.6
Balances with HSLP:				
HSLP prepayment program		36.0		27.9
Advances to HSLP for the debt restructuring		7.3		-
Trade payable to HSLP for the collection of receivables		(35.0)		(23.1)
Other		(1.8)		(0.4)
Net balance receivable from HSLP (Note 30)		\$ 26.1		\$ 23.0

Under the long-term fibre agreement with Western Forest Products Inc. (Note 3), CFLP purchases chips for resale to HSLP at CFLP's cost, which amounted to \$15.8 million in 2007 (2006 - \$17.4 million). There was a balance outstanding of \$15.8 million at December 31, 2007 (2006 - \$13.4 million). CFLP charges HSLP a commission for this service, which amounted to \$0.2 million in 2007 (2006 - \$0.3 million). There was a balance outstanding of \$0.5 million at December 31, 2007 (2006 - \$0.3 million). These amounts have been proportionately consolidated in Canfor's financial statements.

Canfor purchases chips and lumber from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in both of which Canfor has an equity investment. During 2007, Canfor purchased \$11.5 million in chips and \$8.7 million in lumber (2006 - \$8.6 million and \$9.4 million respectively). There was a balance outstanding at December 31, 2007 of \$0.6 million (2006 - \$1.5 million). Under the terms of a marketing agreement with these mills, Canfor earned commission income of \$0.3 million on lumber sales in 2007 (2006 - \$0.3 million).

During 2007, Kyahwood Forest Products Ltd., in which Canfor has an interest, provided remanufacturing services to Canfor in the amount of \$4.2 million (2006 - \$5.1 million). There was no balance outstanding at December 31, 2007 (2006 - \$0.1 million).

Shipping services provided by Seaboard International Shipping Company, which is owned by the Seaboard General Partnership, in which Canfor has an interest, amounted to \$5.3 million in 2007 (2006 - \$3.6 million). There was a balance outstanding at December 31, 2007 of \$0.3 million (2006 - \$0.1 million).

Louisiana-Pacific Canada Ltd. performs the sales and receivable function for Peace Valley OSB. In 2007, Louisiana-Pacific Canada Ltd. sold \$112.9 million of Peace Valley OSB inventory (2006 - \$113.8 million). Louisiana-Pacific Canada Ltd. charges a fee for this service, which amounted to \$1.8 million in 2007 (2006 - \$1.6 million). There was a net balance owing to Louisiana-Pacific Canada Ltd. of \$0.1 million at December 31, 2007 (2006 - net receivable \$0.8 million). These amounts have been proportionately consolidated in Canfor's financial statements.

26. Howe Sound Pulp and Paper Limited Partnership (HSLP)

On March 10, 2001, Canfor and Oji Paper Co., Ltd. (Oji), its co-venturer in the Howe Sound Pulp and Paper Limited (Howe Sound) joint venture, transferred the business of Howe Sound into a limited partnership, HSLP. HSLP continues to be jointly owned by Canfor and Oji and continues to carry on the existing operations of Howe Sound.

As part of the reorganization, Howe Sound was amalgamated with Canadian Forest Products Ltd. (CFP), Canfor's principal operating subsidiary, and approximately \$643 million of tax losses of Howe Sound became available to reduce the future taxable income of CFP. As a result of the reorganization, CFP recorded a future income tax asset and a deferred credit, which were both drawn down to nil at December 31, 2006.

Canfor wrote off its investment in the joint venture in 1998 and no longer reflects its share of the joint venture's assets, liabilities, cash flows, and results in its earnings. Canfor's method of accounting for its interest in HSLP did not change as a result of the reorganization.

While Canfor does not reflect HSLP results in its earnings, it is required to include its share of the limited partner's income or loss, within the limits imposed by the Income Tax Act (Canada), in the calculation of taxable income. There was no impact on Canfor's future income tax recovery in 2007. Any income tax expense incurred by Canfor will be reimbursed by HSLP.

27. Joint Ventures

During 2007, Canfor made capital contributions of \$5.5 million to the Canfor-LP OSB Limited Partnership, which is jointly owned with Louisiana-Pacific Canada Ltd. (2006 – \$10.0 million), and which owns the oriented strand board (OSB) mill, operating as Peace Valley OSB. The mill commenced production in December 2005. Canfor has agreed to supply 330,000 cubic metres of timber annually to the joint venture out of its existing timber tenure in the area.

The following balances, representing Canfor's 50% ownership interests in Canfor-LP OSB and CFLP (Note 3), have been proportionately consolidated in Canfor's consolidated financial statements:

(millions of dollars)	2007			2006		
	Canfor-LP OSB	CFLP	Total	Canfor-LP OSB	CFLP	Total
Income Statement						
Sales	\$ 56.0	\$ 1.4	\$ 57.4	\$ 56.1	\$ 1.8	\$ 57.9
Costs and expenses	(78.6)	(1.4)	(80.0)	(71.4)	(1.6)	(73.0)
Net income (loss)	\$ (22.6)	\$ -	\$ (22.6)	\$ (15.3)	\$ 0.2	\$ (15.1)
Cash Flow Statement						
Cash used in operating activities	\$ (6.4)	\$ (0.2)	\$ (6.6)	\$ (7.3)	\$ (4.8)	\$ (12.1)
Cash used in investing activities	2.8	-	2.8	5.2	5.0	10.2
Increase (decrease) in net cash from continuing operations	\$ (3.6)	\$ (0.2)	\$ (3.8)	\$ (2.1)	\$ 0.2	\$ (1.9)
Balance Sheet						
Cash	\$ 3.2	\$ -	\$ 3.2	\$ 6.7	\$ 0.2	\$ 6.9
Other current assets	2.4	8.3	10.7	7.0	7.0	14.0
Property, plant and equipment	115.4	-	115.4	122.8	-	122.8
Deferred costs (Note 7)	2.5	-	2.5	5.4	-	5.4
Long-term fibre agreement (Notes 3 and 5)	-	37.1	37.1	-	38.4	38.4
Accounts payable and accrued liabilities	(4.0)	(0.3)	(4.3)	(5.3)	(0.4)	(5.7)
Net assets	\$ 119.5	\$ 45.1	\$ 164.6	\$ 136.6	\$ 45.2	\$ 181.8

28. Segmented Information ^a

(millions of dollars)	Lumber ^d	Panels	Pulp & Paper	Corporate & Other	Consolidated
Year ended December 31, 2007					
Sales to external customers ^b	\$ 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) ^f	\$ (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
Year ended December 31, 2006					
Sales to external customers ^b	\$ 2,521.5	367.9	952.9	-	\$ 3,842.3
Sales to other segments ^c	\$ 82.9	3.7	-	-	\$ 86.6
Operating income (loss)	\$ 585.2	(53.3)	141.9	(39.3)	\$ 634.5
Amortization	\$ 101.0	26.0	48.8	6.8	\$ 182.6
Capital expenditures	\$ 76.9	11.0	18.2	1.0	\$ 107.1
Identifiable assets ^e	\$ 1,987.4	444.6	920.8	1,310.7	\$ 4,663.5

- Operations are presented by product lines.
- No single customer accounted for 10% or more of the Company's total sales.
- Sales to other segments are accounted for at prices that approximate market value.
- Sales include sales of Canfor produced lumber of \$1,631.8 million (2006 – \$1,964.2 million).
- Identifiable assets are presented net of an impairment charge of \$268.0 million (2006 – \$19.1 million), of which \$90.0 million relates to the Lumber segment, \$141.4 million to the Panels segment and \$36.6 million to Corporate and Other (2006 – \$19.1 million). The identifiable assets of the Lumber segment also include goodwill of \$69.2 million, which resulted from the acquisition of New South Companies Inc. in March 2006 (Note 3).
- The 2006 figure includes the countervailing and anti-dumping duty refund of \$717.7 million, recorded in the Lumber segment (Note 16).

Geographic Information

	2007	2006
Sales by location of customer		
Canada	\$ 615.6	\$ 590.3
United States	1,855.0	2,536.7
Europe	190.3	172.5
Far East and Other	614.7	542.8
	\$ 3,275.6	\$ 3,842.3
Capital assets and goodwill by location		
Canada	\$ 1,868.9	\$ 2,162.0
United States	180.0	201.4
Far East and Other	0.8	0.7
	\$ 2,049.7	\$ 2,364.1

29. Commitments and Contingencies

The company has committed to the following operating leases for property, plant and equipment. As at December 31, 2007, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)

2008	\$	27.1
2009		18.7
2010		10.6
2011		4.4
2012		2.3
Thereafter		1.7
<hr/>		
Total minimum lease payments	\$	64.8

Canfor's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. is pledged as security for the bank debt of those mills.

30. Subsequent Events

HSLP Debt Restructuring

On February 5, 2008, HSLP restructured its term debt pursuant to an agreement among HSLP, Canfor, Oji and a consortium of Japanese banks ("the Banks"). The restructuring resulted in a portion of the outstanding debt being subordinated for repayment after June 30, 2013. The remaining debt and \$33.3 million owed to Canfor is due to be repaid prior to June 30, 2013 from the free cash flow of HSLP.

As a consequence of the restructuring, Canfor contributed additional funds to HSLP in 2007 of \$7.3 million and a further \$11.5 million on closing ("the New Funds"). These funds are secured by the assets of HSLP, subject to other security granted to the Banks and Oji. The repayment of the New Funds has priority to all other repayments, except a minimum debt repayment, from the annual free cash flow of HSLP.

At December 31, 2007, Canfor had an unsecured receivables balance outstanding with HSLP of \$26.1 million.

Mill Closures

On January 18, 2008 the Company announced that due to a high Canadian dollar and record low oriented strand board (OSB) prices, it would close indefinitely its PolarBoard OSB and Tackama plywood mills in Fort Nelson BC, once existing log inventories are utilized and finished products shipped. This was expected to occur in April 2008 for the Tackama mill and during the summer of 2008 for the PolarBoard operation. However, on February 22, 2008, based on a number of cost reduction initiatives undertaken by the mill employees, logging contractors and the provincial government, the Company reconsidered its closure decision regarding the Tackama mill and recommenced winter logging activities.

31. Comparative Figures

Certain 2006 figures have been reclassified to conform to the current year's presentation.