

Q1 2007

For the three months
ended March 31, 2007



CANFOR
CORPORATION
2007 FIRST
QUARTER
INTERIM REPORT

1	Message to Shareholders
2	Management's Discussion and Analysis
12	Consolidated Statements of Income and Retained Earnings
13	Consolidated Cash Flow Statements
14	Consolidated Balance Sheets
15	Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Loss
16	Notes to the Consolidated Financial Statements

To Our Shareholders

Canfor Corporation reported a net loss of \$42.7 million for the first quarter of 2007, or \$0.30 per share on a diluted basis. This compares to net income of \$18.9 million for the first quarter of 2006 and net income of \$465.3 million in the fourth quarter of 2006.

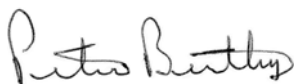
The operating loss of \$57.8 million in the current quarter was a \$3.8 million improvement over the previous quarter, when factoring out the impact of the duty refund recorded in that quarter. However, the operating results were \$96.3 million worse than in the first quarter of 2006, primarily as a result of the sharp decline in lumber and OSB markets, which was only partially offset by significant increases in pulp prices.

The first quarter results reflect the following after-tax items, which had a combined favourable impact of \$7.2 million, or \$0.05 per share:

- \$4.9 million gain on derivative financial instruments
- \$3.9 million foreign exchange gain on long-term debt and temporary investments
- \$1.4 million of additional interest on the duty refund
- \$3.0 million of costs associated with the CEO's remuneration on resignation

The first quarter 2006 results were adversely impacted by \$2.0 million, or \$0.01 per share, resulting from a \$0.8 million foreign exchange loss on long-term debt, a \$1.1 million reversal of the prior year's incentive costs and a \$2.3 million loss from discontinued operations.

Low commodity prices and a 15% export tax, combined with the strengthening Canadian dollar results in some of the most difficult times the industry has experienced. These conditions, combined with the challenges associated with the mountain pine beetle, require a determined focus on cost reduction while we continue to service our valued customers.



Peter J.G. Bentley
Chairman



James A. Shepherd
President and Chief Executive Officer

Canfor Corporation
First Quarter 2007 – Report to Shareholders
Management’s Discussion and Analysis

This interim Management’s Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted Canfor’s performance during the first quarter of 2007 relative to the previous quarter and the last published annual results as at December 31, 2006 and relative to the comparative quarter in 2006. This MD&A should be read in conjunction with the interim consolidated financial statements and accompanying notes as well as the annual MD&A and audited consolidated financial statements and notes, which are included in Canfor’s Annual Report for the year ended December 31, 2006 (available at www.canfor.com).

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

Throughout this discussion, reference is made to EBITDA, which Canfor considers to be an important indicator for identifying trends in the performance of each operating segment and of the Company’s ability to generate funds to meet its debt repayment and capital expenditure requirements. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian generally accepted accounting principles (GAAP). As there is no standardized method of calculating EBITDA, Canfor’s use of the term may not be directly comparable with similarly titled measures used by other companies. A reconciliation of EBITDA to net income reported in accordance with GAAP is included at the end of this MD&A.

Certain prior year comparative information throughout this report has been restated for consistency with the presentation in the current year.

The information in this report is as at May 4, 2007.

All financial references are in millions of Canadian dollars unless otherwise noted.

SUMMARY OF SELECTED RESULTS FOR THE QUARTER

<i>(millions of dollars, except for per share amounts)</i>	Q1 2007	Q4 2006	Q1 2006 ¹
Sales	\$ 850.6	\$ 892.0	\$ 962.7
EBITDA	\$ (10.0)	\$ 703.6	\$ 83.3
EBITDA before duty refund	\$ (10.0)	\$ (14.1)	\$ 83.3
Countervailing and anti-dumping duty refund	\$ -	\$ 717.7	\$ -
Operating income (loss)	\$ (57.8)	\$ 656.1	\$ 38.5
Interest income on duty refund	\$ 2.2	\$ 97.7	\$ -
Foreign exchange gain (loss) on long-term debt and temporary investments	\$ 4.7	\$ (12.0)	\$ (1.0)
Gain on derivative financial instruments	\$ 8.6	\$ -	\$ -
Net income (loss)	\$ (42.7)	\$ 465.3	\$ 18.9
Net income (loss) per share, diluted	\$ (0.30)	\$ 3.26	\$ 0.13
Average Canadian/US exchange rate ²	\$ 0.854	\$ 0.878	\$ 0.866

A net loss of \$42.7 million was recorded in the current quarter, which was a \$41.8 million improvement over the previous quarter when factoring out the after-tax impact of the duty refund and interest. However, the results were \$61.6 million worse than the net earnings in the same period last year, primarily as a result of the decline in lumber and OSB markets, and the backing out of the 49.8% non-controlling interest (\$24.3 million) in Canfor Pulp Limited

¹ Includes the results of New South Companies Inc. from March 6, 2006.

² Source – Bank of Canada (average noon rate for the period)

Partnership (CPLP), following the spinout of the business on July 1, 2006, partially offset by significant increases in pulp prices.

Market prices for lumber improved slightly over the previous quarter, with SPF Random Length 2x4 #2&Btr prices averaging US \$253 per thousand board feet and SYP Random Length 2x4 #2&Btr prices averaging US \$279 per thousand board feet, or 3% higher than in the fourth quarter. However, US dollar prices averaged 26% and 36% lower, for SPF and SYP respectively, than in the same period last year. OSB prices continued their downward trend, averaging US \$145 per thousand square feet in the first quarter, or 13% and 49% lower than in the previous quarter and in the first quarter of last year, respectively. The plywood market took a slight upward turn, with prices averaging Cdn \$13 per thousand square feet (3/8" delivered to Toronto) higher than the previous quarter, and Cdn \$4 per thousand square feet higher than the same period last year. NBSK pulp prices remained strong, averaging US \$757 per tonne in the quarter, which was 4% higher than the previous quarter and 22% higher than the same quarter last year.

The following summarizes the significant factors that affected the first quarter 2007 after-tax loss:

(millions of dollars after tax)	
Gain on derivative financial instruments as a result of adopting new accounting standards for financial instruments	\$ 4.9
Foreign exchange gain on long-term debt and temporary investments	3.9
Additional interest on countervailing and anti-dumping duty refund	1.4
CEO's remuneration on resignation	(3.0)
Net favourable impact of above items on net income	\$ 7.2
Net favourable impact of above items on earnings per share	\$ 0.05

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

(millions of dollars unless otherwise noted)	Q1 2007	Q4 2006	Q1 2006 ¹
Sales	\$ 511.6	\$ 555.7	\$ 636.3
EBITDA	\$ (46.3)	\$ 672.2	\$ 46.4
EBITDA before duty refund	\$ (46.3)	\$ (45.5)	\$ 46.4
EBITDA margin	(9)%	(8)%	7%
Operating income (loss)	\$ (74.6)	\$ 645.2	\$ 21.8
Average SPF 2x4 #2 & Better lumber price in US \$ ³	\$ 253	\$ 245	\$ 343
Average SPF price in Cdn \$	\$ 296	\$ 279	\$ 396
Average SYP 2x4 #2 lumber price in US \$ ⁴	\$ 279	\$ 272	\$ 435
Average SYP price in Cdn \$	\$ 327	\$ 310	\$ 502
Production – SPF lumber (MMfbm)	1,114.4	1,028.7	1,217.7
Production – SYP lumber (MMfbm)	99.1	92.4	29.9
Shipments – Canfor-produced SPF lumber (MMfbm)	1,002.0	1,050.9	1,125.2
Shipments – Canfor-produced SYP lumber (MMfbm)	108.1	104.1	37.4
Shipments – wholesale lumber (MMfbm)	102.6	197.2	150.0

³ Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)

⁴ Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)

The Lumber segment reported an operating loss of \$74.6 million in the first quarter of 2007, compared to an operating loss of \$72.5 million in the previous quarter (before the \$717.7 million countervailing and antidumping duty refund) and operating income of \$21.8 million in the first quarter of 2006. Price changes and the weakening of the Canadian dollar compared to the fourth quarter of 2006 contributed to a \$16.4 million improvement in earnings over the previous quarter. However, this was more than offset by the relative impact on the two quarters of writing down the carrying value of inventories to market value.

Operations

Canfor's Canadian and US lumber mills showed operational improvements in the first quarter. However, lumber market conditions triggered a number of curtailments, which reduced production by approximately 52 million board feet (compared to market curtailments of approximately 47 million board feet in the fourth quarter). SPF production was 8% lower than in the same quarter last year as a result of the curtailments, but an improvement in productivity drove an 8% increase in production over the fourth quarter. Production of SYP increased 7% over the previous quarter and by 231% over the same quarter last year due to the timing of the acquisition of New South on March 6, 2006. Despite ongoing issues with log quality in BC, lumber recovery, productivity and cash conversion costs have improved and the level of prime grades was maintained.

The Houston bark-fired energy system project was successfully completed in April.

The strike action by the Canadian National (CN) Railway's United Transportation Union membership in February resulted in a lack of railcars at certain mills and reload centres, which, along with a lack of equipment to move export tonnage out of the export facility, contributed to an inventory build up of approximately 20% in the quarter.

Markets – see below, following Panels section

Panels

(millions of dollars unless otherwise noted)	Q1 2007	Q4 2006	Q1 2006
Sales	\$ 71.7	\$ 82.3	\$ 99.3
EBITDA	\$ (12.5)	\$ (20.2)	\$ 6.9
EBITDA margin	(17)%	(25)%	7%
Operating income (loss)	\$ (18.5)	\$ (26.5)	\$ 1.1
Average plywood price in Cdn \$ ⁵	\$ 379	\$ 366	\$ 375
Average OSB price in US \$ ⁶	\$ 145	\$ 166	\$ 285
Average OSB price in Cdn \$	\$ 170	\$ 189	\$ 329
Production – plywood (MMsf 3/8")	100.9	105.7	114.0
Production – OSB (MMsf 3/8")	179.9	184.8	172.7
Shipments – plywood (MMsf 3/8")	86.9	109.9	110.3
Shipments – OSB (MMsf 3/8")	173.8	184.2	157.2

The Panels segment recorded an operating loss of \$18.5 million in the first quarter, compared to a loss of \$26.5 million in the previous quarter, which included \$2.4 million of asset impairment and severance costs, and income of \$1.1 million in the same quarter in 2006. Weak OSB markets continue to adversely impact the results of the Panels segment.

⁵ Canadian softwood plywood, per Msf 3/8" basis, delivered to Toronto (Source – C.C. Crowe Publications, Inc.)

⁶ Oriented strand board, per Msf 7/16" North Central (Source – Random Lengths Publications, Inc.)

Operations

Plywood production was 5% lower than the previous quarter and 11% lower than the same period last year, due primarily to the Tackama facility moving from a 7-day to a 5-day per week operating schedule at the beginning of 2007.

Weak market conditions for OSB prompted 17 days of downtime at the PolarBoard plant in the quarter, as well as a move from a 7-day to a 5-day per week operating schedule in March. Four weeks of market downtime were taken at PolarBoard in the fourth quarter. Total OSB production was 3% lower than in the previous quarter as a result of the curtailments and reduced operating schedule at PolarBoard, and 4% higher than the same period last year as a result of increases in production at Peace Valley as the plant continues through its ramp-up.

Markets – Lumber and Panels

The reduced US demand for solid wood products during the last quarter of 2006 continued into the first quarter of 2007 and is a direct result of the current state of the US housing industry. US housing starts were 1.474 million units⁷ for the first quarter of 2007, down 31% compared with the first quarter of 2006. Inventories of new homes continued to rise during the quarter and are being impacted by defaults in the sub-prime mortgage market. Canadian housing starts were 218,467 units⁸ for the first quarter, down 8.8% from the same period in 2006.

Partly offsetting the reduction in new home construction, repair and remodeling demand continued to be strong during the first quarter of 2007.

Lumber

Lumber prices maintained their low level during the first quarter of 2007. The Random Lengths Framing Lumber Composite price that determines the export tax level payable by Canadian producers averaged US \$287 per thousand board feet during the first quarter of 2007, which was 24% below the 2006 first quarter average. This average was well below the US \$315 threshold Composite price that results in Canfor paying a 15% export tax on all US bound shipments for the quarter.

Panels

OSB prices have also been affected by the reduction in new home construction and increases in supply. As considerable new capacity has come on stream during the past 12 months, buyers are only covering their immediate needs. The price of OSB 7/16" delivered to North Central averaged US \$145 per thousand square feet, compared with the 2006 first quarter price of US \$285 per thousand square feet. Canadian softwood plywood prices fared better during the first quarter, as the average price was Cdn \$379 per thousand square feet 3/8" delivered to Toronto. This price was slightly higher than the 2006 first quarter price of Cdn \$375 per thousand square feet.

Outlook – Lumber and Panel Markets

The immediate outlook for solid wood products is not optimistic. New home construction in the US is expected to remain at current low levels for at least the next several months. The supply of both construction lumber and OSB is plentiful and prices are expected to remain subdued. On the positive side, Canadian plywood markets have responded to the continued strength of Canadian new home construction and repair and remodeling markets, and prices have not declined as they have with other products. Plywood is expected to remain stable into the second half of 2007.

⁷ US Census Bureau (seasonally adjusted annual rate)

⁸ Canada Mortgage and Housing Corporation (seasonally adjusted annual rate)

Pulp and Paper⁹

(millions of dollars unless otherwise noted)	Q1 2007	Q4 2006	Q1 2006
Sales	\$ 267.3	\$ 254.0	\$ 227.1
EBITDA	\$ 60.9	\$ 62.8	\$ 34.6
EBITDA margin	23%	25%	15%
Operating income	\$ 48.6	\$ 50.1	\$ 22.4
Average pulp price – US \$ ¹⁰	\$ 757	\$ 730	\$ 618
Average price in Cdn \$	\$ 886	\$ 831	\$ 714
Production – pulp (000 mt)	305.4	310.8	318.1
Production – paper (000 mt)	31.6	33.9	33.1
Shipments – Canfor-produced pulp (000 mt)	304.3	292.0	313.3
<i>Marketed on behalf of HSLP¹¹ (000 mt)</i>	81.4	86.0	88.6
Shipments – paper (000 mt)	30.4	33.4	31.1

The Pulp and Paper segment reported operating income of \$48.6 million in the first quarter of 2007, which was down by \$1.5 million from the previous quarter but \$26.2 million higher than in the same quarter last year. When compared to the fourth quarter, the benefits of improved NBSK prices, a weaker Canadian dollar and higher sales volumes were partially offset by higher fibre costs and lower production volumes. Higher fibre costs were due to increases in the NBSK prices to which they are tied and also due to reduced residual chip supply as a result of lower production from sawmills in the BC Interior. When compared to the prior year, the benefit of a 25% increase in the Canadian dollar realized price was partially offset by lower sales volumes and higher fibre costs.

Operations

NBSK pulp production during the first quarter was 4,800 tonnes below the fourth quarter of 2006 and 7,500 tonnes lower than the first quarter of 2006. The decrease was primarily the result of scheduled maintenance downtime, which totalled approximately 8,500 tonnes of lost production when compared to the fourth quarter and the first quarter last year, which had no maintenance downtime.

The Taylor BCTMP mill's production was 1% lower than the previous quarter and 10% lower than in the same quarter last year, primarily due to fibre quality and mechanical issues.

Paper production during the first quarter was down by 2,300 tonnes over the prior quarter and 1,500 tonnes when compared to the same period in 2006, as a result of a planned maintenance outage taken in the current quarter, with no maintenance downtime taken in the comparative periods.

Howe Sound Limited Partnership, which Canfor does not consolidate in its results, earned EBITDA of \$3.6 million in the first quarter, or \$4.0 million more than in the same period last year and \$10.5 million less than in the fourth quarter. The benefit of higher pulp prices were more than offset by higher fibre costs, lower shipment volumes as a result of late vessels, and the impact of the kraft mill's annual maintenance shutdown in the first quarter.

Deliveries to customers during the first quarter were disrupted by the effects of the CN rail strike and the resulting congestion at the Port of Vancouver. NBSK pulp shipments during the quarter were approximately 6,000 tonnes below production due to these delivery disruptions.

⁹ Includes the Taylor Pulp Mill and 100% of Canfor Pulp Limited Partnership (CPLP), which is being consolidated in Canfor's operating results.

¹⁰ Per tonne, Northern Europe delivered price (RISI World Pulp Monthly, table #5)

¹¹ Howe Sound Pulp and Paper Limited Partnership

Markets

The first quarter of 2007 was stronger for the chemical market pulp industry than typically experienced during the winter. Inventories for softwood market pulp remain at levels similar to those at the end of 2006, and, with demand for northern softwood kraft pulp holding steady and the supply side constricted in recent years, prices have been increasing in all markets.

Outlook – Pulp Markets

It is anticipated that market conditions will continue to be strong to balanced for the rest of 2007. The announced price increases are indications of the tight market conditions as both consumer and producer inventory levels are currently at low levels. Notwithstanding the strong softwood pulp market, hardwood pulp supply is growing in South America and pricing differentials between hardwood and softwood pulps have increased to more than US \$100 per tonne in some regions, leading to concern that some hardwood pulp substitution for softwood pulp could occur, potentially putting pressure on softwood pulp prices in all markets.

Non-Segmented Items

(millions of dollars)	Q1 2007	Q4 2006	Q1 2006
Corporate costs	\$ (13.3)	\$ (12.7)	\$ (6.8)
Net interest income (expense)	\$ 0.6	\$ 88.6	\$ (9.8)
Foreign exchange gain (loss) on long-term debt and temporary investments	\$ 4.7	\$ (12.0)	\$ (1.0)
Gain on derivative financial instruments	\$ 8.6	\$ -	\$ -
Equity and other income (expense)	\$ (0.5)	\$ (20.8)	\$ 0.9

Corporate Costs

Corporate costs, at \$13.3 million, were \$0.6 million higher than in the previous quarter and \$6.5 million higher than in the same quarter last year. A \$4.6 million pre-tax charge for the CEO's remuneration on resignation, including \$1.9 million of pension costs, was recorded in the current period. The fourth quarter 2006 costs included severance and lease costs of \$2.9 million.

Net Interest Income (Expense)

Net interest income of \$0.6 million in the quarter was comprised of \$11.3 million of interest income on short-term investments and cash and \$2.2 million of additional interest income on the countervailing and anti-dumping duty refund, which was almost entirely offset by \$12.9 million of interest on long and short-term debt. The previous quarter's interest income of \$88.6 million included \$97.7 million of interest on the duty refund and \$3.6 million of other interest income, partially offset by \$12.7 million of interest on long and short-term debt. The first quarter 2006 interest expense of \$9.8 million was comprised of \$12.5 million of interest on long and short-term debt, partially offset by \$2.7 million of interest income on short-term investments and cash.

Gain on derivative financial instruments

On January 1, 2007, Canfor adopted the Canadian Institute of Chartered Accountants' new standards for financial instruments, comprehensive income and hedging. Canfor elected not to apply hedge accounting to its derivative financial instruments that were outstanding at December 31, 2006. As a result, these derivatives, which were previously not recorded in the financial statements until they were exercised, were recorded at their fair value on January 1, 2007 as an adjustment to opening "Accumulated Other Comprehensive Income". The derivatives were marked to market at March 31, 2007, resulting in a gain of \$8.6 million, or \$4.9 million after tax and non-controlling interests, being recorded in income in the first quarter.

Equity and Other Income (Expense)

Equity and other expenses in the first quarter were comprised of \$0.1 million of losses from equity investees and \$0.4 million of other expenses, compared to the fourth quarter expense of \$20.8 million which included equity losses of \$0.9 million and a \$19.1 million write down of an equity investment. The first quarter 2006 income of \$0.9 million included equity income of \$0.6 million.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	Q1 2007	Q4 2006	Q1 2006
Ratio of current assets to current liabilities	3.1 : 1	2.2 : 1	2.0 : 1
Ratio of net debt to capitalization ¹²	6%	(26)%	26 %
Increase (decrease) in cash and cash equivalents	\$ (585.8)	\$ 1,008.5	\$ (316.9)
from:			
Operating activities	\$ (563.0)	\$ 1,101.9	\$ (139.2)
Financing activities	\$ (61.6)	\$ 63.5	\$ 27.4
Investing activities	\$ 38.8	\$ (156.9)	\$ (221.7)
Discontinued operations	\$ -	\$ -	\$ 16.6

Changes in Financial Position

Operating activities consumed \$563.0 million of cash in the first quarter of 2007, compared to \$139.2 million consumed in the same period last year, and \$1,101.9 million generated in the fourth quarter, which included US \$921.5 million of duty refund (gross) and interest. In addition to the lower earnings, a \$166.3 million increase in inventories, a \$206.3 million income tax instalment and the payment of the special export charge of US \$164.0 million to the Canadian government, which had been accrued in the prior quarter as a result of the implementation of the softwood lumber agreement, were the main factors in the decrease in cash from operations in the first quarter. The increase in inventories was primarily due to the seasonal build up of log inventories.

Financing activities consumed \$61.6 million of cash in the first quarter of 2007, mainly as a result of long-term debt repayments of \$41.6 million and \$22.7 million of distributions paid by CPLP to non-controlling interests. In the previous quarter, \$125.7 million of proceeds from new long-term debt obtained by CPLP were partially offset by \$48.1 million of long-term debt and operating loan repayments and \$14.2 million of distributions paid by CPLP to non-controlling interests. In the first quarter of 2006, \$61.9 million of proceeds from operating bank loans and \$1.0 million from long-term debt were partially offset by long-term debt repayments of \$35.5 million.

The \$38.8 million of cash generated by investing activities in the first quarter of 2007 was mainly from the redemption of temporary investments of \$55.0 million, partially offset by \$18.3 million of capital expenditures. In the fourth quarter, temporary investments increased by \$126.0 million and capital expenditures of \$33.7 million were made. In the first quarter of 2006, \$206.1 million of cash was utilized for the acquisition of New South and \$15.0 million was utilized for capital expenditures.

Liquidity and Financial Requirements

At March 31, 2007, Canfor had \$453.5 million of bank operating lines of credit available, of which \$3.7 million was drawn down and an additional \$54.2 million was reserved for several standby letters of credit.

¹² Net debt (total debt less cash and temporary investments) divided by net debt plus shareholders' equity.

RISKS AND UNCERTAINTIES

A comprehensive discussion of Risks and Uncertainties was included in the Company's 2006 Annual Report. An update of that discussion is included below.

Surge Tax

The Softwood Lumber Agreement (SLA), which was implemented in the fourth quarter of 2006, includes a surge mechanism that increases the export tax 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 lumber exports from the Interior of British Columbia exceeded the trigger volume in January and March. Canada maintains that the US is wrongly interpreting the point at which the surge clause is triggered. Consultations between Canadian and US government officials took place on April 19th, without a resolution being reached. The US can request binding arbitration that would be heard by panelists from non-involved countries. Although the Government of Canada is committed to a robust defense, there is some potential that Canfor will have an additional export tax liability of approximately \$8 million for the period under dispute. The arbitration, if it occurs, would likely not be complete until early 2008.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Sales and Income (millions of dollars)								
Sales	\$ 850.6	\$ 892.0	\$ 927.7	\$ 1,059.9	\$ 962.7	\$ 853.8	\$ 934.1	\$ 1,035.7
Operating income (loss)	\$ (57.8)	\$ 656.1	\$ (44.8)	\$ (15.3)	\$ 38.5	\$ (14.7)	\$ (5.8)	\$ 66.0
Net income (loss) from continuing operations	\$ (42.7)	\$ 466.9	\$ (51.6)	\$ 39.2	\$ 21.2	\$ (10.6)	\$ 20.7	\$ 28.2
Net income (loss)	\$ (42.7)	\$ 465.3	\$ (51.6)	\$ 39.2	\$ 18.9	\$ (12.3)	\$ 17.4	\$ 25.3
Per common share (dollars)								
Net income (loss) from continuing operations								
Basic	\$ (0.30)	\$ 3.28	\$ (0.36)	\$ 0.28	\$ 0.15	\$ (0.07)	\$ 0.14	\$ 0.20
Diluted	\$ (0.30)	\$ 3.27	\$ (0.36)	\$ 0.28	\$ 0.15	\$ (0.07)	\$ 0.14	\$ 0.20
Net income (loss)								
Basic and diluted	\$ (0.30)	\$ 3.26	\$ (0.36)	\$ 0.28	\$ 0.13	\$ (0.09)	\$ 0.12	\$ 0.18
Statistics								
Lumber shipments (MMfbm)	1,213	1,352	1,416	1,597	1,313	1,176	1,334	1,393
Plywood shipments (MMsf 3/8")	87	110	103	118	110	98	124	107
OSB shipments (MMsf 3/8")	174	184	193	188	157	118	132	117
Pulp shipments (000 mt)	304	292	308	293	313	312	310	299
Average exchange rate (Cdn\$/US\$)	\$ 0.854	\$ 0.878	\$ 0.892	\$ 0.891	\$ 0.866	\$ 0.852	\$ 0.832	\$ 0.804
Average Western SPF 2x4 #2&Btr lumber price (US \$)	\$ 253	\$ 245	\$ 278	\$ 316	\$ 343	\$ 328	\$ 327	\$ 365
Average SYP (East) 2x4 #2 lumber price (US \$)	\$ 279	\$ 272	\$ 304	\$ 380	\$ 435	\$ 439	\$ 457	\$ 458
Average plywood price—Toronto (Cdn \$)	\$ 379	\$ 366	\$ 364	\$ 360	\$ 375	\$ 387	\$ 362	\$ 361
Average OSB price—North Central (US \$)	\$ 145	\$ 166	\$ 181	\$ 238	\$ 285	\$ 317	\$ 291	\$ 305
Average NBSK pulp list price delivered to Northern Europe (US \$)	\$ 757	\$ 730	\$ 710	\$ 665	\$ 618	\$ 600	\$ 587	\$ 613

In addition to exposure to foreign exchange and changes in product prices, 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, plywood and OSB plants, and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber and panel products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions. In the first quarter of 2007, strike action at CN resulted in shortages in railcar supply, which had an adverse impact on shipment volumes in the quarter. A container truckers' strike at the Port of Vancouver impacted offshore shipments in the third quarter of 2005.

Following the spinout of the Pulp Business on July 1, 2006, Canfor is continuing to consolidate 100% of the earnings from CPLP, however, the 20% non-controlling interest is reversed on the income statement beginning in the third quarter of 2006, and a further 29.8% at the end of November, 2006, which affects comparability of net income of prior periods. The results from the New South operations, which were acquired in March 2006, also impact the comparability of the quarterly results.

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

(millions of dollars, after tax)	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Foreign exchange gain (loss) on long-term debt and temporary investments	\$ 3.9	\$ (9.9)	\$ (5.6)	\$ 20.2	\$ (0.8)	\$ (3.8)	\$ 24.7	\$ (9.7)
Gain on derivative financial instruments	4.9	-	-	-	-	-	-	-
Duty refund and interest ¹³	1.4	551.2	-	-	-	-	-	-
Mill closure and severance costs	-	(4.3)	-	-	-	-	(2.5)	(1.7)
CEO remuneration on resignation	(3.0)	-	-	-	-	-	-	-
Loss on timber take back	-	-	-	-	-	2.7	(8.9)	-
Insurance deductible on fire at PolarBoard OSB plant	-	-	-	(1.4)	-	-	-	-
Corporate development costs related to segregation of pulp and paper business	-	-	-	(2.4)	-	-	-	-
Spinout costs incurred directly by CPLP	-	-	(3.1)	-	-	-	-	-
Change in accounting practice for pulp maintenance costs	-	-	-	2.6	-	-	-	-
Adjustment to prior period's incentive costs	-	-	-	-	1.1	(2.6)	-	-
Write down of equity and other investments	-	(16.2)	-	-	-	-	-	-
Distribution from Seaboard General Partnership arising from asset sales	-	-	-	-	-	8.9	-	-
Corporate income tax rate reductions	-	-	-	43.9	-	-	21.0	-
Prior year tax reassessments and other tax adjustments	-	0.5	-	(1.0)	-	-	-	-
Net income (loss) from discontinued operations	-	(1.6)	-	-	(2.3)	(1.7)	(3.3)	(2.9)
Net favourable (unfavourable) impact on quarterly earnings	\$ 7.2	\$ 519.7	\$ (8.7)	\$ 61.9	\$ (2.0)	\$ 3.5	\$ 31.0	\$ (14.3)

¹³ The refund of \$717.7 million was included in the Lumber segment's operating income in the fourth quarter of 2006 and the interest income of \$97.7 million is offset against the interest expense line on the income statement. Additional interest of \$2.2 million was received in the first quarter of 2007.

OUTSTANDING SHARES

At May 4, 2007, there were 142,563,767 common shares outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending March 31, 2007, 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.

EBITDA RECONCILIATION

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

(millions of dollars, except for per share amounts)	Q1 2007	Q4 2006	Q1 2006
Net income (loss) from continuing operations	\$ (42.7)	\$ 466.9	\$ 21.2
Add (subtract):			
Non-controlling interests	24.3	12.3	-
Income tax (recovery) expense	(26.0)	232.7	7.4
Other (income) expense	0.4	19.9	(0.3)
Gain on derivative financial instruments	(8.6)	-	-
Foreign exchange (gain) loss on long-term debt and temporary investments	(4.7)	12.0	1.0
Interest (income) expense	(0.6)	(88.6)	9.8
Equity (income) loss of affiliated companies	0.1	0.9	(0.6)
Amortization	47.8	47.5	44.8
EBITDA (operating income before amortization)	\$ (10.0)	\$ 703.6	\$ 83.3
Countervailing and anti-dumping duty refund	-	(717.7)	-
EBITDA excluding duty refund	\$ (10.0)	\$ (14.1)	\$ 83.3

Consolidated Income Statements

(millions of dollars, unaudited)	3 months ended March 31,	
	2007	2006
Sales	\$ 850.6	\$ 962.7
Costs and expenses		
Manufacturing and product costs	662.1	681.4
Freight and other distribution costs	143.3	152.4
Export tax / countervailing and anti-dumping duties	28.7	30.2
Amortization	47.8	44.8
Selling and administration costs	26.5	15.4
	908.4	924.2
Operating income (loss) from continuing operations	(57.8)	38.5
Equity income (loss) of affiliated companies	(0.1)	0.6
Interest income (expense)	0.6	(9.8)
Foreign exchange gain (loss) on long-term debt and temporary investments	4.7	(1.0)
Gain on derivative financial instruments (Note 5)	8.6	-
Other income (expense)	(0.4)	0.3
Net income (loss) from continuing operations before income taxes	(44.4)	28.6
Income tax recovery (expense) (Note 6)	26.0	(7.4)
Non-controlling interests	(24.3)	-
Net income (loss) from continuing operations	(42.7)	21.2
Net loss from discontinued operations	-	(2.3)
Net income (loss)	\$ (42.7)	\$ 18.9
Per common share (in dollars) (Note 7)		
Net income (loss) from continuing operations		
Basic & Diluted	\$ (0.30)	\$ 0.15
Net income (loss)		
Basic & Diluted	\$ (0.30)	\$ 0.13

The accompanying notes are an integral part of these interim financial statements.

Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended March 31,	
	2007	2006
Cash generated from (used in)		
Operating activities		
Net income (loss) from continuing operations	\$ (42.7)	\$ 21.2
Items not affecting cash:		
Amortization	47.8	44.8
Income taxes	(12.8)	(0.2)
Long-term portion of deferred reforestation	16.4	21.8
Employee future benefits	(2.2)	3.9
Foreign exchange (gain) loss on long-term debt	(6.5)	1.0
Gain on derivative financial instruments	(8.6)	-
Non-controlling interests	24.3	-
Other	1.2	(3.7)
Changes in non-cash working capital	(579.9)	(228.0)
	(563.0)	(139.2)
Financing activities		
Proceeds from long-term debt	-	1.0
Repayment of long-term debt	(41.6)	(35.5)
Changes in operating bank loans	2.6	61.9
Cash distributions paid to non-controlling interests	(22.7)	-
Other	0.1	-
	(61.6)	27.4
Investing activities		
Changes in temporary investments	55.0	2.3
Acquisition of New South Companies, Inc.	-	(206.1)
Property, plant, equipment and timber	(18.3)	(15.0)
Proceeds from sale of property, plant and equipment	0.5	0.6
Other	1.6	(3.5)
	38.8	(221.7)
Decrease in cash and cash equivalents from continuing operations	(585.8)	(333.5)
Increase in cash from discontinued operations	-	16.6
Decrease in cash and cash equivalents	(585.8)	(316.9)
Cash and cash equivalents at beginning of period	1,023.8	298.9
Cash and cash equivalents at end of period	\$ 438.0	\$ (18.0)
Changes in non-cash working capital		
Accounts receivable	\$ (35.6)	\$ (31.0)
Income taxes	(206.1)	(0.8)
Future income taxes	(14.6)	-
Inventories	(166.3)	(252.9)
Prepaid expenses	0.2	11.5
Accounts payable, accrued liabilities and current portion of deferred reforestation	(157.5)	45.2
	\$ (579.9)	\$ (228.0)
Cash payments in the period		
Interest, net	\$ 2.6	\$ 19.2
Income taxes	\$ 206.3	\$ 4.5

Consolidated Balance Sheets

(millions of dollars)	As at March 31, 2007	As at December 31, 2006
	(unaudited)	(audited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 438.0	\$ 1,023.8
Temporary investments	70.2	126.0
Accounts receivable		
Trade	260.4	223.9
Other	70.9	72.8
Future income taxes	17.9	15.7
Inventories	802.0	635.7
Prepaid expenses	36.6	37.7
Total current assets	1,696.0	2,135.6
Long-term investments and other assets	115.0	115.3
Property, plant, equipment and timber	2,225.3	2,254.9
Goodwill	80.7	81.6
Deferred charges	83.5	91.8
	\$ 4,200.5	\$ 4,679.2
LIABILITIES		
Current Liabilities		
Operating bank loans	\$ 3.7	\$ 1.1
Accounts payable and accrued liabilities	408.0	579.0
Current portion of long-term debt	65.8	87.5
Current portion of deferred reforestation	39.7	39.6
Income taxes payable	29.3	235.4
Future income taxes	6.1	20.7
Total current liabilities	552.6	963.3
Long-term debt (Note 2)	576.6	602.8
Other accruals and provisions (Note 3)	195.5	173.3
Future income taxes, net	400.5	415.4
Non-controlling interests	308.3	296.7
	\$ 2,033.5	\$ 2,451.5
SHAREHOLDERS' EQUITY		
Share capital – 142,563,767 common shares outstanding	1,124.5	1,124.3
Contributed surplus	31.9	31.9
Retained earnings	1,010.4	1,068.5
Accumulated other comprehensive income	0.2	3.0
	\$ 2,167.0	\$ 2,227.7
	\$ 4,200.5	\$ 4,679.2

APPROVED BY THE BOARD



Director, R.L. Cliff



Director, J.A. Shepherd

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Loss

(millions of dollars, unaudited)	3 months ended March 31,	
	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	0.2	0.2
Balance at end of period	\$ 1,124.5	\$ 1,268.9
Contributed surplus		
Balance at beginning of period	\$ 31.9	\$ -
Balance at end of period	\$ 31.9	\$ -
Retained earnings		
Balance at beginning of period	\$ 1,068.5	\$ 779.5
Implementation of financial instruments standards (Note 1)	(13.2)	-
Change in accounting for CPLP's pension liability (Note 4)	(2.2)	-
Net income (loss)	(42.7)	18.9
Balance at end of period	\$ 1,010.4	\$ 798.4
Accumulated other comprehensive income		
Balance at beginning of period	\$ -	
Implementation of financial instruments standards (Note 1)	(1.9)	
Reclassification from foreign exchange translation adjustment	3.0	
Net change in foreign exchange translation adjustment	(2.6)	
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods	1.7	
Balance at end of period	\$ 0.2	
Foreign exchange translation adjustment		
Balance at beginning of period	\$ 3.0	\$ (1.6)
Reclassification to accumulated other comprehensive income	(3.0)	-
Unrealized foreign exchange translation gain	-	3.5
Balance at end of period	\$ -	\$ 1.9
Shareholders' equity at end of period	\$ 2,167.0	\$ 2,069.2
Consolidated Statement of Comprehensive Loss		
Net loss	\$ (42.7)	
Other comprehensive income (loss)		
Exchange translation adjustment on self-sustaining foreign subsidiaries	(2.6)	
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods, net of taxes and non-controlling interests	1.7	
Other comprehensive loss	(0.9)	
Total comprehensive loss	\$ (43.6)	

Notes to the Consolidated Interim Financial Statements

(unaudited, millions of dollars unless otherwise noted)

1. Significant Accounting Policies and Change in Accounting Policy

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, 2006. These interim financial statements follow the same accounting policies and methods of computation as used in the 2006 consolidated financial statements, except as noted below.

Change in Accounting Policy

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 Sheet 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 Sheet 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 as held-for-trading and its temporary investments as held-to-maturity. Accounts receivable are classified as loans and receivables. 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 to not 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 was 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.

2. Bank Indebtedness and Long-Term Debt

At March 31, 2007, Canfor had \$453.5 million of bank operating lines of credit available, of which \$3.7 million was drawn down and an additional \$54.2 million was reserved for several standby letters of credit.

At March 31, 2007, the fair value of Canfor's long-term debt, which was measured at its amortized cost of \$642.5 million, was \$655.7 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.

3. Other Accruals and Provisions

	March 31, 2007	December 31, 2006
Deferred reforestation	\$ 87.3	\$ 70.9
Accrued pension obligations	25.2	22.7
Post employment benefits	78.1	75.1
Other long-term liabilities	4.9	4.6
Total other accruals and provisions	\$ 195.5	\$ 173.3

4. Employee Future Benefits

Canfor's total benefit costs were as follows:

	3 months ended March 31,	
	2007	2006
Defined benefit pension plans	\$ 3.8	\$ 4.6
Other employee future benefit plans	4.3	4.1
Defined contribution pension plans and 401(k) plans	0.9	0.7
Contributions to forest industry union plans	6.5	6.6
	\$ 15.5	\$ 16.0

At December 31, 2006, Canfor had recorded a prepaid pension benefit of \$64.8 million. In the current period, an actuarial calculation was performed to identify and segregate the pension asset applicable to Canfor Pulp Limited Partnership (CPLP). At December 31, 2006, CPLP had accounted for their employee future benefit plans as a multi-employer plan, and adopted defined-benefit accounting in the current period on a retroactive basis, without restatement. As a result, Canfor recorded an opening adjustment of \$2.2 million to retained earnings to reflect the non-controlling interest, net of tax, applicable to CPLP's opening adjustment to equity.

5. Gain on Derivative Financial Instruments

Canfor uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber and pulp prices and energy costs. At March 31, 2007, the fair value of outstanding derivative commodity contracts was \$8.2 million. The fair value of these contracts was determined based on prevailing market rates for instruments with similar characteristics.

The gain of \$8.6 million recorded in the first quarter was comprised of the change in the fair value of derivative financial instruments in the period of \$12.1 million less the reclassification, from accumulated other comprehensive income, of unrealized losses of \$3.5 million on derivatives formerly designated as cash flow hedges that were exercised in the current period.

6. Income Tax Recovery (Expense)

	3 months ended March 31,	
	2007	2006
Current	\$ 0.2	\$ (6.0)
Future	25.8	(5.3)
Tax on equity earnings	-	(0.2)
	26.0	(11.5)
Amortization of deferred credit on utilization of acquired tax losses	-	4.1
	\$ 26.0	\$ (7.4)

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

	3 months ended March 31,	
	2007	2006
Income tax recovery (expense) at statutory tax rate	\$ 15.2	\$ (9.8)
Large corporation tax	-	(0.9)
Amortization of deferred credit on utilization of acquired tax losses	-	4.1
Permanent difference from capital gains and losses	0.9	(0.2)
Non-controlling interests	8.3	-
Other permanent differences and adjustments	1.6	(0.6)
Income tax recovery (expense)	\$ 26.0	\$ (7.4)

7. 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.

	3 months ended March 31,	
	2007	2006
Weighted average number of common shares	142,560,656	142,518,073
Incremental shares from stock options	49,078	88,203
Diluted number of common shares	142,609,734	142,606,276

8. Segmented Information ^(a)

	Lumber ^(b)	Panels	Pulp & Paper ^(d)	Corporate & Other	Consolidated
3 months ended March 31, 2007					
Sales to external customers	\$ 511.6	71.7	267.3	-	\$ 850.6
Sales to other segments ^(c)	\$ 28.9	0.9	-	-	\$ 29.8
Operating income (loss)	\$ (74.6)	(18.5)	48.6	(13.3)	\$ (57.8)
Amortization	\$ 28.3	6.0	12.3	1.2	\$ 47.8
Capital expenditures	\$ 12.2	2.6	3.2	0.3	\$ 18.3
Identifiable assets ^(e)	\$ 1,974.2	368.1	969.6	888.6	\$ 4,200.5
3 months ended March 31, 2006					
Sales to external customers	\$ 636.3	99.3	227.1	-	\$ 962.7
Sales to other segments ^(c)	\$ 16.6	0.7	-	-	\$ 17.3
Operating income (loss)	\$ 21.8	1.1	22.4	(6.8)	\$ 38.5
Amortization	\$ 24.6	5.8	12.2	2.2	\$ 44.8
Capital expenditures	\$ 8.7	2.6	3.8	(0.1)	\$ 15.0
Identifiable assets ^(e)	\$ 2,249.8	388.4	885.9	544.0	\$ 4,068.1

(a) Operations are presented by product line.

(b) Sales for the quarter include sales of Canfor-produced lumber of \$419.5 million (2006 – \$519.8 million).

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

(d) Includes 100% of Canfor Pulp Limited Partnership and the Taylor Pulp Mill, which was excluded from the spinout of the pulp and paper business in 2006.

(e) Identifiable assets of the Lumber segment include goodwill of \$80.7 million (2006 – \$83.5 million), which resulted from the acquisition of New South Companies Inc. in March 2006.

Geographic Information

	3 months ended March 31,	
	2007	2006
Sales by location of customer		
Canada	\$ 144.4	\$ 146.1
United States	515.0	637.7
Europe	45.1	40.0
Far East and Other	146.1	138.9
	\$ 850.6	\$ 962.7
Capital assets, goodwill and other intangible assets by location		
Canada	\$ 2,136.2	\$ 2,183.0
United States	195.6	216.7
Europe	0.1	0.1
Far East and Other	0.7	0.1
	\$ 2,332.6	\$ 2,399.9

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



www.canfor.com