

# Q3 2007

For the three months  
ended September 30, 2007



CANFOR  
CORPORATION  
2007 THIRD  
QUARTER  
INTERIM REPORT

**Canfor Corporation**  
**Third Quarter 2007**  
**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 third 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](http://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 October 31, 2007.*

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

**SUMMARY OF SELECTED RESULTS FOR THE QUARTER**

(millions of dollars, except for per share amounts)	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>YTD 2007</b>	<b>Q3 2006</b>	<b>YTD 2006<sup>1</sup></b>
Sales	\$ 837.4	\$ 876.6	\$ 2,564.6	\$ 927.7	\$ 2,950.3
EBITDA	\$ (6.5)	\$ 5.1	\$ (11.4)	\$ 3.3	\$ 113.5
Operating loss	\$ (52.1)	\$ (38.4)	\$ (148.3)	\$ (44.8)	\$ (21.6)
Foreign exchange gain (loss) on long-term debt and temporary investments	\$ 9.5	\$ 16.8	\$ 20.3	\$ (6.7)	\$ 16.7
Gain (loss) on derivative financial instruments	\$ 8.9	\$ (7.7)	\$ 9.8	\$ -	\$ -
Net income (loss)	\$ (42.1)	\$ (38.8)	\$ (123.6)	\$ (51.6)	\$ 6.5
Net income (loss) per share, diluted	\$ (0.30)	\$ (0.27)	\$ (0.87)	\$ (0.36)	\$ 0.05
Average Canadian/US exchange rate <sup>2</sup>	\$ 0.957	\$ 0.911	\$ 0.905	\$ 0.892	\$ 0.883

A net loss of \$42.1 million was recorded in the current quarter, which was a \$3.3 million decline from the previous quarter, and \$9.5 million better than in the same quarter in 2006. The net loss for this quarter reflects an increased operating loss relative to the second quarter, which was partially offset by net improvements in non-operating items. These non-operating items include favourable adjustments required in marking to market various financial instruments held by Canfor and net exchange gains recognized on revaluing US dollar denominated debt, temporary investments, cash and accounts receivable, partially offset by a pre-tax charge of \$5.6 million (\$4.6 million after tax)

<sup>1</sup> Includes the results of New South from March 6, 2006

<sup>2</sup> Source – Bank of Canada (average noon rate for the period)

recorded to recognize an estimated decline in the fair value on investments in asset-backed commercial paper (discussed further in the Risks and Uncertainties section under the sub-heading “Long-term investments and other assets”). In the third quarter of 2006 there were exchange losses on debt, which largely explains the reason for the improved net income in the current quarter. In addition, for the third quarter 2006, Canfor’s ownership of the Pulp business was 80% rather than the current level of 50.2% which is reflected in the non-controlling interests adjustment line in the Consolidated Income Statement. The increased operating loss in the current quarter relative to the second quarter is primarily seen in the lumber segment and is partly the result of the negative effect of lumber inventory valuation changes on the respective quarters. A number of items that affect the comparability of the current quarter’s results have been identified and included in the table below.

The 5% strengthening in the Canadian dollar compared to the second quarter of 2007 was the most significant factor impacting Canfor’s results in the third quarter. US dollar prices for SPF lumber improved slightly over the previous quarter, with Random Length 2x4 #2&Btr prices averaging US \$260 per thousand board feet, compared to \$258 in the second quarter. SYP Random Length 2x4 #2 prices averaged US \$273 per thousand board feet, or 6% lower than in the second quarter. US dollar prices averaged 13% and 10% lower, for SPF and SYP respectively, than in the same period last year. OSB prices increased by 13% over the second quarter, averaging US \$177 per thousand square feet in the third quarter, but were 2% lower than in the third quarter of 2006. The plywood market picked up in the third quarter, with prices averaging Cdn \$394 per thousand square feet (3/8" delivered to Toronto), or 10% higher than in the second quarter and 8% higher than in the same quarter last year. NBSK pulp prices remained strong, averaging US \$837 per tonne in the quarter, which was 3% higher than the previous quarter and 11% higher than the same quarter last year.

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

(millions of dollars after tax and non-controlling interests)	
Gain on derivative financial instruments	\$ 6.9
Foreign exchange gain on long-term debt and temporary investments	5.1
Mill closure and severance costs	(7.3)
Impairment to fair value of asset-backed commercial paper	(4.6)
Duty refund adjustment	2.0
Write down of investment	(1.4)
Corporate general income tax adjustments	3.1
<b>Net favourable impact of above items on net income</b>	<b>\$ 3.8</b>
<b>Net favourable impact of above items on earnings per share</b>	<b>\$ 0.03</b>

## OPERATING RESULTS BY BUSINESS SEGMENT

### Lumber

(millions of dollars unless otherwise noted)	Q3 2007	Q2 2007	YTD 2007	Q3 2006	YTD 2006
Sales	\$ 507.2	\$ 528.6	\$ 1,547.4	\$ 593.4	\$ 1,965.8
EBITDA	\$ (50.5)	\$ (27.7)	\$ (124.5)	\$ (44.7)	\$ 14.0
EBITDA margin	(10)%	(5)%	(8)%	(8)%	1%
Operating loss	\$ (75.9)	\$ (51.2)	\$ (201.7)	\$ (71.5)	\$ (60.0)
Average SPF 2x4 #2 & Better lumber price in US \$ <sup>3</sup>	\$ 260	\$ 258	\$ 257	\$ 278	\$ 312
Average SPF price in Cdn \$	\$ 271	\$ 283	\$ 284	\$ 312	\$ 353
Average SYP 2x4 #2 lumber price in US \$ <sup>4</sup>	\$ 273	\$ 292	\$ 281	\$ 304	\$ 373

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

(millions of dollars unless otherwise noted)	Q3 2007	Q2 2007	YTD 2007	Q3 2006	YTD 2006
Average SYP price in Cdn \$	\$ 285	\$ 321	\$ 311	\$ 341	\$ 422
Production – SPF lumber (MMfbm)	1,050.3	1,080.1	3,244.8	1,072.2	3,431.1
Production – SYP lumber (MMfbm)	96.1	100.7	295.9	107.7	249.0
Shipments – Canfor-produced SPF lumber (MMfbm) <sup>5</sup>	1,121.1	1,122.0	3,245.1	1,058.1	3,381.4
Shipments – Canfor-produced SYP lumber (MMfbm)	111.2	126.1	345.4	113.0	277.0
Shipments – wholesale lumber (MMfbm)	69.0	96.4	268.0	244.9	667.3

The Lumber segment reported an operating loss of \$75.9 million in the third quarter of 2007, compared to an operating loss of \$51.2 million in the previous quarter and an operating loss of \$71.5 million in the third quarter of 2006. The increased operating loss compared to the second quarter is mainly attributable to the impact of lower realized Canadian dollar prices, and the relative impact on the two quarters' adjustments required to reduce the carrying value of closing lumber inventories to market value. The adjustment to market at the end of September required an increase in devaluation of \$18 million, whereas the June adjustment was a reduction which resulted in a positive impact on the second quarter results of \$19 million. Also contributing to the operating loss in the current quarter was a \$10.5 million expense for restructuring costs, and partially offsetting this was a favourable adjustment of \$3.0 million to the duty recovery amount previously recognized. In the previous quarter \$4.1 million of restructuring costs were expensed. When compared to the same quarter in 2006, lower realized Canadian dollar prices and shipment volumes were the primary reasons for the higher operating loss, but the impact of this was partially offset by the improved operating performance of several mills that were going through start up last year.

#### *Acquisition of Chesterfield*

On September 18, 2007 Canfor announced an agreement to purchase the assets of Chesterfield Lumber Company, Inc. located in Darlington, South Carolina, for approximately US \$18 million, subject to working capital adjustments. The annual capacity of the Chesterfield mill is approximately 140 million board feet of southern yellow pine. The transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2007.

#### *Operations*

Canfor's Canadian and US lumber mills showed further operational improvements in the third quarter. A 2% decrease in conversion costs was achieved over the prior quarter, as a result of productivity improvements and a continued focus on spending reductions. In addition, there was an 8% reduction in log costs compared to the previous quarter, primarily the result of reduced stumpage rates. However, the poor lumber market conditions triggered a number of additional curtailments, which reduced capacity by approximately 81 million board feet in the quarter (compared to market curtailments of approximately 72 million board feet in the second quarter). As a result, SPF production was 2% lower than in the same quarter last year and 3% lower than in the second quarter. Further downtime has been announced for the fourth quarter, which is expected to reduce production by approximately 255 million board feet primarily in the fourth quarter.

*Markets – see below, following Panels section*

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

<sup>5</sup> Includes shipments of lumber purchased for remanufacture.

## Panels

(millions of dollars unless otherwise noted)	Q3 2007	Q2 2007	YTD 2007	Q3 2006	YTD 2006
Sales	\$ 73.9	\$ 81.6	\$ 227.2	\$ 85.5	\$ 285.6
EBITDA	\$ (2.0)	\$ (10.2)	\$ (24.7)	\$ (10.4)	\$ (7.1)
EBITDA margin	(3)%	(13)%	(11)%	(12)%	(2)%
Operating loss	\$ (7.5)	\$ (16.3)	\$ (42.3)	\$ (17.3)	\$ (26.8)
Average plywood price in Cdn \$ <sup>6</sup>	\$ 394	\$ 357	\$ 377	\$ 364	\$ 367
Average OSB price in US \$ <sup>7</sup>	\$ 177	\$ 156	\$ 159	\$ 181	\$ 234
Average OSB price in Cdn \$	\$ 185	\$ 171	\$ 176	\$ 203	\$ 265
Production – plywood (MMsf 3/8")	89.8	101.2	291.9	104.0	333.5
Production – OSB (MMsf 3/8")	158.8	166.9	505.6	200.8	549.6
Shipments – plywood (MMsf 3/8")	89.5	118.7	295.1	103.2	331.6
Shipments – OSB (MMsf 3/8")	161.8	168.0	503.6	193.4	538.4

The Panels segment recorded an operating loss of \$7.5 million in the third quarter, compared to a loss of \$16.3 million in the previous quarter and a loss of \$17.3 million in the same quarter in 2006. US dollar quoted OSB prices increased by 13% over the second quarter levels but after exchange is factored in the increase is reduced to 8%. Overall the market for OSB products is still weak and continues to adversely impact the results of the Panels segment. Plywood prices increased by 10% compared to the second quarter and by 8% compared to the same quarter in 2006.

### Operations

Plywood production was 11% lower than the second quarter due mainly to market curtailments taking out 8.5 million square feet, and 14% 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. OSB production decreased by 5% from the previous quarter and 21% compared to the same quarter last year, primarily as a result of the PolarBoard plant moving to a 5-day per week operating schedule as well as third quarter curtailments taking out 14.0 million square feet of production, and a 2 week annual maintenance shutdown, partially offset by increased production at the Peace Valley joint venture, which is continuing through its ramp up to full operating capacity.

### Markets – Lumber and Panels

Demand for solid wood products declined during the third quarter as US housing starts continued to fall. US housing starts were 1.296 million units for the third quarter of 2007<sup>8</sup>, 24% lower than the third quarter of 2006, and down 11% from the second quarter of 2007. The unsold inventory of new homes at the end of September was 523,000 units, representing 8.3 months of supply. The unsold inventory of existing homes at the end of September was 4.4 million units, representing 10 months supply<sup>9</sup>. Canadian new home construction remains strong. Housing starts were 240,100 units<sup>10</sup> for the third quarter, an increase of 9% from the same period a year ago.

Lumber prices fell throughout the third quarter of 2007. The Random Lengths Framing Lumber Composite price (which is the benchmark price used for determining the applicability of export taxes) averaged US \$289 per Mfbm during the third quarter of 2007, 4% below the 2006 third quarter average of US \$300 per Mfbm. The composite price was well below the threshold price of US \$316 per Mfbm required to reduce the export tax rate and as a result, Canfor paid a 15% Export Tax on all U.S. bound lumber shipments for the quarter.

<sup>6</sup> Canadian softwood plywood, per Msf 3/8" basis, delivered to Toronto (Source – C.C. Crowe Publications, Inc.)

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

<sup>8</sup> US Census Bureau (seasonally adjusted annual rate)

<sup>9</sup> National Association of Realtors

<sup>10</sup> Canadian Mortgage Housing Corporation

In Japan, housing starts declined substantially in the third quarter primarily as a result of a revision to the Building Standards Law that took effect on June 20, 2007. This change resulted in the house building permit process becoming more complicated and time-consuming, causing delays in building activity and in getting wood products to the building site. Total Japanese housing starts for the third quarter are estimated to be 838,000 starts, a decrease of 34% from the second quarter starts of 1,267,000. Two by four home construction, also declined by 25% from the second quarter of 2007, and is down 32% from year ago levels<sup>11</sup>. Canfor's lumber shipments to Japan declined by 20% in the third quarter of 2007, compared to the third quarter of 2006.

US panel markets were also affected by the decline in third quarter housing starts. This has put significant pressure on OSB prices in North America. In contrast, Canadian softwood plywood demand was relatively strong because of the high level of housing starts and steady Industrial demand.

#### *Outlook – Lumber and Panel Markets*

Current market demand dynamics are expected to continue. The severely depressed US housing market is expected to continue to negatively impact lumber and panels markets. There have been several sawmill curtailment announcements for the fourth quarter, which should better balance supply with demand.

#### **Pulp and Paper<sup>12</sup>**

(millions of dollars unless otherwise noted)	<b>Q3 2007</b>	Q2 2007	<b>YTD 2007</b>	Q3 2006	YTD 2006
Sales	\$ 256.3	\$ 266.4	\$ 790.0	\$ 248.8	\$ 698.9
EBITDA	\$ 49.7	\$ 52.2	\$ 162.8	\$ 65.1	\$ 127.9
EBITDA margin	19%	20%	21%	26%	18%
Operating income	\$ 36.1	\$ 39.6	\$ 124.3	\$ 52.1	\$ 91.8
Average pulp price – US \$ <sup>13</sup>	\$ 837	\$ 810	\$ 812	\$ 757	\$ 705
Average price in Cdn \$	\$ 875	\$ 889	\$ 897	\$ 849	\$ 798
Production – pulp (000 mt)	317.1	308.8	931.3	308.4	899.0
Production – paper (000 mt)	33.0	33.9	98.5	32.0	95.2
Shipments – Canfor-produced pulp (000 mt)	307.0	309.3	920.6	307.7	914.1
<i>Marketed on behalf of HSLP<sup>14</sup> (000 mt)</i>	89.4	102.5	273.3	101.1	288.6
Shipments – paper (000 mt)	30.8	35.9	97.1	32.5	91.8

The Pulp and Paper segment reported operating income of \$36.1 million in the third quarter of 2007, which was \$3.5 million lower than the previous quarter, and \$16.0 million lower than in the same quarter last year. When compared to the prior quarter, the impact of the strengthening Canadian dollar and higher fibre costs was partially offset by improved NBSK list prices and improved mill operating performance. Fibre costs increased 4% over the prior quarter as the higher cost whole log chip volume increased to 15% from 2% of the total delivered volume over the prior quarter. When compared to the same period in the prior year, fibre costs increased by 48% due to the impact of whole log chipping and a 4% increase in Canadian dollar pulp sales returns which directly impact residual chip prices.

<sup>11</sup> Japan Ministry of Land, Infrastructure and Transport

<sup>12</sup> Includes the Taylor Pulp Mill and 100% of Canfor Pulp Limited Partnership (CPLP), which is being consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both northern bleached softwood kraft (NBSK) and bleached chemi-thermo mechanical pulp (BCTMP).

<sup>13</sup> Per tonne, delivered price to USA (RISI World Pulp Monthly, table #5)

<sup>14</sup> Howe Sound Pulp and Paper Limited Partnership

### *Operations*

NBSK production during the third quarter was 8,300 tonnes higher than the second quarter and 8,700 tonnes higher than the third quarter of 2006. The only scheduled maintenance downtime taken during the quarter was at the Prince George pulp and paper mill. Production tonnes lost in the quarter as a result of the downtime were approximately 4,500 tonnes less than the prior quarter. The increase in production over the prior year quarter was attributable to a 4% improvement in mill operating rates in 2007.

Kraft paper production during the third quarter was down by 900 tonnes over the prior quarter and up 1,000 tonnes when compared to the same period in 2006. Scheduled maintenance downtime commenced at the end of the quarter representing approximately 1,900 tonnes of lost production with no maintenance downtime taken during the second quarter of 2007. Offsetting the impact of scheduled maintenance downtime in the quarter were continued performance improvements of the paper machine representing 3% over the prior quarter and 8% when compared to the same period in 2006.

Howe Sound Limited Partnership, which Canfor does not consolidate in its results, reported EBITDA of negative \$3.5 million in the third quarter and positive \$7.1 million for the year to date. EBITDA declined by \$10.5 million compared to the previous quarter due to the effects of the Coastal BC Forestry workers strike that commenced in July with the resultant fibre cost increases and production curtailments being taken on the Newsprint line, and the effects of the stronger Canadian dollar on revenues. In addition, a lightning strike in the quarter caused downtime at the mill. Production and shipment volumes in the third quarter were lower than the previous quarter as a result. The Coastal BC Forestry workers strike has now been resolved with workers back on the job on October 22, 2007.

### *Markets*

Market conditions continued to be generally favourable to producers during the third quarter of 2007. According to the Pulp and Paper Products Council (PPPC), producers' softwood kraft market pulp inventories ended August at 27 days of supply, slightly above the 24 days of supply at the end of the second quarter. The slower demand period normally experienced during the summer months caused a slight increase in producers' inventories. Generally a supply of 30 days is considered a level indicative of a well balanced market.

The printing and writing paper sector, which is the largest customer sector for Canfor Pulp, has seen flat to slightly lower demand this year through August, versus the same period of 2006. PPPC statistics covering the majority of our markets indicate demand was down 1.0% through August. However by grade, coated mechanical paper demand, a large consumer of Canfor Pulp products, was up by 1.8%. Most of the demand drop was in coated and uncoated wood free papers, which is not a target sector for Canfor.

There are several factors that affect short and long term supply that are helping to keep the pulp market buoyant. Among these are escalating fibre costs, particularly in Canada and in Scandinavian countries, which are straining the viability of high cost pulp mills, the weakening US dollar against both the Euro and the Canadian dollar which has the effect of reducing producer revenues and the coastal woodworkers strike in British Columbia.

NBSK pulp prices for delivery to the U.S.A are currently at US\$850 per tonne, and to Northern Europe are at US \$830 per tonne. At the end of the second quarter, these prices were US \$830 and US \$800 per tonne respectively. The third quarter of 2006 started with prices at US \$750 in the U.S.A and US \$710 in Europe and ended at US \$770 and US \$730 respectively.

Kraft paper markets were relatively flat in the third quarter as the impact of the slow down in North American housing starts was offset by strong global demand. On the supply side approximately 170,000 tonnes of global kraft paper capacity has been shut primarily due to high fibre costs.

### Outlook – Pulp Markets

Management expects pulp prices to remain within a narrow range over the balance of 2007 and 2008. The escalating value of the Canadian dollar and the Euro, compared to the US dollar, are expected to motivate pulp producers in these countries to try to push prices higher. However, paper demand growth has weakened, and papermakers are struggling to remain profitable. Further, there is new hardwood pulp capacity entering the market from the southern hemisphere. This could cause some price slippage in hardwood pulp markets, which could also put pressure on substitution of hardwood pulp for softwood pulp.

### Non-Segmented Items

(millions of dollars)	Q3 2007	Q2 2007	YTD 2007	Q3 2006	YTD 2006
Corporate costs	\$ (4.8)	\$ (10.5)	\$ (28.6)	\$ (8.1)	\$ (26.6)
Net interest expense	\$ (2.4)	\$ (3.3)	\$ (5.1)	\$ (10.8)	\$ (32.4)
Foreign exchange gain (loss) on long-term debt and temporary investments	\$ 9.5	\$ 16.8	\$ 20.3	\$ (6.7)	\$ 16.7
Gain (loss) on derivative financial instruments	\$ 8.9	\$ (7.7)	\$ 9.8	\$ -	\$ -
Equity income and other income (expense), net	\$ (16.3)	\$ (13.7)	\$ (19.8)	\$ (6.2)	\$ (8.8)

#### Corporate Costs

Corporate costs, at \$4.8 million were \$5.7 million lower than in the previous quarter, primarily due to the inclusion of \$4.6 million of severance costs in the prior quarter, incurred as a result of implementing a cost-reduction program. Corporate costs in the third quarter of 2006 were higher than normal because of consulting, insurance and other costs.

#### Net Interest Expense

Net interest expense of \$2.4 million in the quarter was comprised of \$10.3 million of interest on long and short-term debt, partially offset by \$7.9 million of interest income on short-term investments. Net interest expense of \$3.3 million in the previous quarter was comprised of \$11.1 million of interest expense on long and short-term debt and \$7.8 million of interest income on short-term investments. Net interest expense of \$10.8 million in the third quarter of 2006 was comprised of \$11.9 million of interest on long and short-term debt, partially offset by interest income of \$1.1 million.

#### 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 revalued to fair market value at September 30, 2007, resulting in a gain of \$8.9 million being recorded in the third quarter income statement (year to date – gain of \$9.8 million).

#### Equity Income and Other Income (Expense), Net

Equity income and other expenses aggregated to an expense of \$16.3 million in the third quarter, which was comprised of \$9.2 million of foreign exchange translation losses on cash, trade receivables and payables resulting from the continued strengthening of the Canadian dollar, an impairment provision against investments in asset backed commercial paper of \$5.6 million, a \$1.4 million write down of an impaired investment and a \$0.1 million loss from equity investees. The second quarter's net equity and other expenses of \$13.7 million was comprised of \$13.8 million of foreign exchange translation losses, net of \$0.1 million of equity income, while the third quarter 2006 net expense of \$6.2 million was primarily comprised of costs associated with the initial organization of CPLP, and equity losses of \$0.4 million.

## LIQUIDITY AND CAPITAL RESOURCES

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

(millions of dollars)	Q3 2007	Q2 2007	YTD 2007	Q3 2006	YTD 2006
Ratio of current assets to current liabilities			3.1 : 1		2.0 : 1
Ratio of net debt to capitalization <sup>15</sup>			5%		23%
Increase (decrease) in cash and cash equivalents	\$ (60.2)	\$ 26.0	\$ (620.0)	\$ 16.2	\$ (283.6)
from:					
Operating activities	\$ 102.7	\$ 19.8	\$ (439.2)	\$ 78.8	\$ 38.3
Financing activities	\$ (56.2)	\$ (30.7)	\$ (148.5)	\$ (40.1)	\$ (77.8)
Investing activities	\$ (106.7)	\$ 36.9	\$ (32.3)	\$ (22.5)	\$ (260.7)
Discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ 16.6

Operating activities generated \$102.7 million of cash in the third quarter of 2007, compared to \$19.8 million generated in the previous quarter and \$78.8 million generated in the third quarter of 2006. The improvement in cash flow from operations over the previous quarter is mainly due to the reduction in working capital in the third quarter, primarily inventories.

Financing activities consumed \$56.2 million of cash in the third quarter of 2007 as a result of long-term debt repayments of \$37.8 million and \$19.6 million of distributions paid by CPLP to non-controlling interests. In the previous quarter, \$11.7 million of long-term debt repayments were made and \$16.3 million of distributions were paid by CPLP to non-controlling interests, and net operating bank loan repayments of \$2.7 million. Cash used for financing activities of \$40.1 million in the third quarter of 2006 was comprised primarily of \$36.2 million of long-term debt repayments and \$3.4 million of distributions paid by CPLP to non-controlling interests.

The \$106.7 million of cash used in investing activities in the third quarter mostly resulted from the reclassification of temporary investments to long-term investments of \$85.9 million (US \$81.2 million), and capital expenditures of \$23.7 million. The reclassification and impairment of these investments is addressed under the following Risks and Uncertainties section. In the previous quarter, \$61.7 million of temporary investments were redeemed and \$23.5 million of capital expenditures were made. In the third quarter of 2006, \$34.0 million of capital expenditures were made, partially offset by an \$11.4 million financial incentive payment received from BC Hydro for the Prince George Pulp Mill's co-generation project.

At September 30, 2007, Canfor had \$451.8 million of bank operating lines of credit available, of which \$1.8 million was drawn down and an additional \$43.4 million was reserved for several standby letters of credit.

### 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.

#### *Howe Sound Limited Partnership (Howe Sound)*

BC's unionized Coastal logging and sawmill workers commenced strike action at midnight, Friday July 20<sup>th</sup>. The strike action has exacerbated fibre cost inflation and availability issues on the Coast. Howe Sound relies on wood chips supplied by Coastal sawmills. In the third quarter, Howe Sound partially curtailed its operations in response to these issues. On October 21, 2007, an agreement was reached when union workers approved a new contract which ended the 13 week strike.

At September 30<sup>th</sup>, 2007, Canfor had unsecured receivable balances outstanding with Howe Sound of \$15.5 million.

<sup>15</sup> Net debt (total debt less cash and temporary investments) divided by net debt plus shareholders' equity.

### *Surge Export 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 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. Under current market conditions the use of actual consumption rather than expected consumption would reduce the surge trigger volume and so increase the likelihood of surge applying. 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 will hear both sides and then plan to hold a hearing before the end of the year. The panel plans to issue its decision, which cannot be appealed, by the end of the first quarter 2008. Although the Government of Canada is committed to defending its position, there is some potential that Canfor will have an additional cumulative export tax liability to September 30, 2007 of approximately \$16 million.

### *Long-term Investments and Other Assets*

The increase in long-term investments and other assets in the third quarter primarily relates to \$75.3 million (US \$75.6 million) of investments held by Canfor in asset-backed commercial paper (ABCP). The fair value of these investments was determined using the probability weighted approach based upon expected cash flows. At present there is uncertainty with respect to the liquidity of these investments. Dominion Bond Rating Service continues to rate the investments as R-1 high, the most creditworthy category, but this is under review. The investments are currently subject to a standstill agreement until December 14, 2007, in which the issuers of the commercial paper are not paying interest. Canfor expects to receive proposals from the issuers of the asset-backed commercial paper in due course with respect to the applicable interest rate and repayment terms, or the potential conversion of the investments into other investments. The valuation by Canfor resulted in a reduction of \$5.6 million to the estimated fair value of the investments, and Canfor has concluded that the most probable outcome is that these investments will not be repaid within a year and has accordingly reclassified the \$75.3 million from cash and cash equivalents to long-term investments and other assets. Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further change in the value of the Company's investment in ABCP which would impact the Company's earnings.

### *Long-lived Assets*

Canfor reviews the carrying value of its long-lived assets on a regular basis and as events or changes in circumstances may warrant. In the light of current economic developments and, specifically, developments in the markets for its products and exchange rates, Canfor is presently reviewing the carrying value of these assets. Although no decision has been made by Canfor in this regard, if current market conditions continue, or deteriorate further, in a manner adverse to Canfor and its products, there is a risk that such deterioration could give rise to an impairment charge against Canfor's long-lived assets and therefore impact Canfor's future earnings.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
<b>Sales and Income</b> (millions of dollars)								
Sales	\$ 837.4	\$ 876.6	\$ 850.6	\$ 892.0	\$ 927.7	\$1,059.9	\$ 962.7	\$ 853.8
Operating income (loss)	\$ (52.1)	\$ (38.4)	\$ (57.8)	\$ 656.1	\$ (44.8)	\$ (15.3)	\$ 38.5	\$ (14.7)
Net income (loss) from continuing operations	\$ (42.1)	\$ (38.8)	\$ (42.7)	\$ 466.9	\$ (51.6)	\$ 39.2	\$ 21.2	\$ (10.6)
Net income (loss)	\$ (42.1)	\$ (38.8)	\$ (42.7)	\$ 465.3	\$ (51.6)	\$ 39.2	\$ 18.9	\$ (12.3)
<b>Per common share</b> (dollars)								
<b>Net income (loss) from continuing operations</b>								
Basic	\$ (0.30)	\$ (0.27)	\$ (0.30)	\$ 3.28	\$ (0.36)	\$ 0.28	\$ 0.15	\$ (0.07)
Diluted	\$ (0.30)	\$ (0.27)	\$ (0.30)	\$ 3.27	\$ (0.36)	\$ 0.28	\$ 0.15	\$ (0.07)
<b>Net income (loss)</b>								
Basic and diluted	\$ (0.30)	\$ (0.27)	\$ (0.30)	\$ 3.26	\$ (0.36)	\$ 0.28	\$ 0.13	\$ (0.09)
<b>Statistics</b>								
Lumber shipments (MMfbm)	1,301	1,345	1,213	1,352	1,416	1,597	1,313	1,176
Plywood shipments (MMsf 3/8")	90	119	87	110	103	118	110	98
OSB shipments (MMsf 3/8")	162	168	174	184	193	188	157	118
Pulp shipments (000 mt)	307	309	304	292	308	293	313	312
<b>Average exchange rate (Cdn\$/US\$)</b>								
	\$ 0.957	\$ 0.911	\$ 0.854	\$ 0.878	\$ 0.892	\$ 0.891	\$ 0.866	\$ 0.852
<b>Average Western SPF 2x4 #2&amp;Btr lumber price (US \$)</b>								
	\$ 260	\$ 258	\$ 253	\$ 245	\$ 278	\$ 316	\$ 343	\$ 328
<b>Average SYP (East) 2x4 #2 lumber price (US \$)</b>								
	\$ 273	\$ 292	\$ 279	\$ 272	\$ 304	\$ 380	\$ 435	\$ 439
<b>Average plywood price—Toronto (Cdn \$)</b>								
	\$ 394	\$ 357	\$ 379	\$ 366	\$ 364	\$ 360	\$ 375	\$ 387
<b>Average OSB price—North Central (US \$)</b>								
	\$ 177	\$ 156	\$ 145	\$ 166	\$ 181	\$ 238	\$ 285	\$ 317
<b>Average NBSK pulp list price delivered to the USA (US \$)</b>								
	\$ 837	\$ 810	\$ 790	\$ 770	\$ 757	\$ 705	\$ 653	\$ 638

In addition to exposure to changes in product prices and foreign exchange, 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, which as indicated in the lumber operations commentary, has adversely impacted Canfor's production during 2007. 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.

Following the spinout of the Pulp Business on July 1, 2006, Canfor is continuing to consolidate 100% of the earnings from CPLP (Canfor Pulp Limited Partnership). However, the 20% non-controlling interest is removed from 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)	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Foreign exchange gain (loss) on long-term debt and temporary investments	\$ 5.1	\$ 10.2	\$ (5.3)	\$ (9.9)	\$ (5.6)	\$ 20.2	\$ (0.8)	\$ (3.8)
Gain (loss) on derivative financial instruments	6.9	(3.7)	4.9	-	-	-	-	-
Duty refund and interest <sup>16</sup>	2.0	-	1.4	551.2	-	-	-	-
Mill closure and severance costs	(7.3)	(5.8)	-	(4.3)	-	-	-	-
CEO remuneration on resignation	-	-	(3.0)	-	-	-	-	-
Gain (loss) on timber take back	-	-	-	-	-	-	-	2.7
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	-	2.3	-	-	-	-	1.1	(2.6)
Write down of equity and other investments	(1.4)	-	-	(16.2)	-	-	-	-
Distribution from Seaboard General Partnership arising from asset sales	-	-	-	-	-	-	-	8.9
Corporate income tax rate reductions	0.9	1.0	-	-	-	43.9	-	-
Impairment to fair value of asset-backed commercial paper	(4.6)	-	-	-	-	-	-	-
Prior year tax reassessments and other tax adjustments	2.2	-	-	0.5	-	(1.0)	-	-
Net income (loss) from discontinued operations	-	-	-	(1.6)	-	-	(2.3)	(1.7)
Net favourable (unfavourable) impact on quarterly earnings	\$ 3.8	\$ 4.0	\$ (2.0)	\$519.7	\$ (8.7)	\$ 61.9	\$ (2.0)	\$ 3.5

## OUTSTANDING SHARES

At October 31, 2007, there were 142,589,267 common shares outstanding.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending September 30, 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.

<sup>16</sup> The refund of \$717.7 million (\$486.8 million after-tax) was included in the Lumber segment's operating income in the fourth quarter of 2006 and the interest income of \$97.7 million (\$64.4 million after-tax) is offset against the interest expense line on the income statement. Additional interest of \$2.0 million (\$1.4 million after-tax) was received in the first quarter of 2007, and a correction was made to the duty refund amount in the third quarter of 2007.

## 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)	<b>Q3 2007</b>	Q2 2007	<b>YTD 2007</b>	Q3 2006	YTD 2006
<b>Net income (loss) from continuing operations</b>	<b>\$ (42.1)</b>	\$ (38.8)	<b>\$ (123.6)</b>	\$ (51.6)	\$ 8.8
Add (subtract):					
Non-controlling interests	<b>16.9</b>	18.1	<b>59.3</b>	8.4	8.4
Income tax recovery	<b>(27.2)</b>	(25.6)	<b>(78.8)</b>	(25.3)	(63.3)
Other expenses	<b>16.2</b>	13.8	<b>19.7</b>	5.8	9.5
(Gain) loss on derivative financial instruments	<b>(8.9)</b>	7.7	<b>(9.8)</b>	-	-
Foreign exchange (gain) loss on long-term debt and temporary investments	<b>(9.5)</b>	(16.8)	<b>(20.3)</b>	6.7	(16.7)
Interest expense (net)	<b>2.4</b>	3.3	<b>5.1</b>	10.8	32.4
Equity (income) loss of affiliated companies	<b>0.1</b>	(0.1)	<b>0.1</b>	0.4	(0.7)
Amortization	<b>45.6</b>	43.5	<b>136.9</b>	48.1	135.1
<b>EBITDA (operating income (loss) before amortization)</b>	<b>\$ (6.5)</b>	\$ 5.1	<b>\$ (11.4)</b>	\$ 3.3	\$ 113.5

**Canfor Corporation**  
**Consolidated Income Statements**

(millions of dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2007	2006	2007	2006
<b>Sales</b>	\$ 837.4	\$ 927.7	\$ 2,564.6	\$ 2,950.3
<b>Costs and expenses</b>				
Manufacturing and product costs	649.0	743.7	1,973.1	2,239.7
Freight and other distribution costs	141.5	135.7	437.5	451.5
Export tax / countervailing and anti-dumping duties	26.5	24.3	84.4	86.6
Amortization	45.6	48.1	136.9	135.1
Selling and administration costs	15.8	20.7	61.2	59.0
Restructuring costs (Note 4)	11.1	-	19.8	-
	<b>889.5</b>	972.5	<b>2,712.9</b>	2,971.9
<b>Operating loss from continuing operations</b>	<b>(52.1)</b>	(44.8)	<b>(148.3)</b>	(21.6)
Equity income (loss) of affiliated companies	(0.1)	(0.4)	(0.1)	0.7
Interest expense, net	(2.4)	(10.8)	(5.1)	(32.4)
Foreign exchange gain (loss) on long-term debt and temporary investments	9.5	(6.7)	20.3	16.7
Gain on derivative financial instruments (Note 6)	8.9	-	9.8	-
Other expense	(16.2)	(5.8)	(19.7)	(9.5)
Net loss from continuing operations before income taxes	(52.4)	(68.5)	(143.1)	(46.1)
Income tax recovery (Note 7)	27.2	25.3	78.8	63.3
Non-controlling interests	(16.9)	(8.4)	(59.3)	(8.4)
<b>Net income (loss) from continuing operations</b>	<b>(42.1)</b>	(51.6)	<b>(123.6)</b>	8.8
Net loss from discontinued operations	-	-	-	(2.3)
<b>Net income (loss)</b>	<b>\$ (42.1)</b>	\$ (51.6)	<b>\$ (123.6)</b>	\$ 6.5
<b>Per common share</b> (in dollars) (Note 8)				
Net income (loss) from continuing operations				
Basic & diluted	\$ (0.30)	\$ (0.36)	\$ (0.87)	\$ 0.06
Net income (loss)				
Basic & diluted	\$ (0.30)	\$ (0.36)	\$ (0.87)	\$ 0.05

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

**Canfor Corporation**  
**Consolidated Cash Flow Statements**

(millions of dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2007	2006	2007	2006
<b>Cash generated from (used in)</b>				
<b>Operating activities</b>				
Net income (loss) from continuing operations	\$ (42.1)	\$ (51.6)	\$ (123.6)	\$ 8.8
Items not affecting cash:				
Amortization	45.6	48.1	136.9	135.1
Income taxes	1.8	(24.8)	(8.0)	(66.2)
Long-term portion of deferred reforestation	(8.2)	(13.9)	(2.4)	(3.0)
Employee future benefits	0.1	1.9	(3.3)	9.5
Foreign exchange (gain) loss on long-term debt	(34.1)	6.7	(88.4)	(16.7)
Gain on derivative financial instruments	(8.9)	-	(9.8)	-
Non-controlling interests	16.9	8.4	59.3	8.4
Other	10.7	(0.1)	13.7	(1.2)
Changes in non-cash working capital (Note 9)	120.9	104.1	(413.6)	(36.4)
	<b>102.7</b>	<b>78.8</b>	<b>(439.2)</b>	<b>38.3</b>
<b>Financing activities</b>				
Proceeds from long-term debt	0.3	-	0.3	1.0
Repayment of long-term debt	(37.8)	(36.2)	(91.1)	(84.4)
Changes in operating bank loans	0.8	(0.3)	0.7	9.3
Cash distributions paid to non-controlling interests	(19.6)	(3.4)	(58.6)	(3.4)
Other	0.1	(0.2)	0.2	(0.3)
	<b>(56.2)</b>	<b>(40.1)</b>	<b>(148.5)</b>	<b>(77.8)</b>
<b>Investing activities</b>				
Changes in temporary investments	9.1	-	124.5	7.0
Changes in asset-backed commercial paper (Note 11)	(85.9)	-	(85.9)	-
Acquisition of New South Companies, Inc.	-	-	-	(206.1)
Property, plant, equipment and timber	(23.7)	(34.0)	(63.1)	(73.4)
Electrical co-generation incentive payments	-	11.4	-	11.4
Proceeds from sale of property, plant and equipment	2.2	0.8	2.8	2.6
Other	(8.4)	(0.7)	(10.6)	(2.2)
	<b>(106.7)</b>	<b>(22.5)</b>	<b>(32.3)</b>	<b>(260.7)</b>
Increase (decrease) in cash and cash equivalents from continuing operations	(60.2)	16.2	(620.0)	(300.2)
Increase in cash from discontinued operations	-	-	-	16.6
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(60.2)</b>	<b>16.2</b>	<b>(620.0)</b>	<b>(283.6)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>464.0</b>	<b>(0.9)</b>	<b>1,023.8</b>	<b>298.9</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 403.8</b>	<b>\$ 15.3</b>	<b>\$ 403.8</b>	<b>\$ 15.3</b>
<b>Cash payments (recoveries) in the period</b>				
Interest, net	\$ 2.0	\$ 13.3	\$ 8.2	\$ 35.2
Income taxes	\$ (11.6)	\$ (0.2)	\$ 231.4	\$ 6.5

**Canfor Corporation**  
**Consolidated Balance Sheets**

(millions of dollars)	As at September 30, 2007	As at December 31, 2006
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 403.8	\$ 1,023.8
Temporary investments	-	126.0
Accounts receivable		
Trade	235.2	223.9
Other	63.1	72.8
Income taxes recoverable	72.9	-
Future income taxes	20.9	15.7
Inventories	514.8	635.7
Prepaid expenses	46.2	37.7
Total current assets	1,356.9	2,135.6
<b>Long-term investments and other assets</b> (Note 11)	193.7	115.3
<b>Property, plant, equipment and timber</b>	2,183.5	2,254.9
<b>Goodwill</b>	69.7	81.6
<b>Deferred charges</b>	89.8	91.8
	<b>\$ 3,893.6</b>	<b>\$ 4,679.2</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Operating bank loans	\$ 1.8	\$ 1.1
Accounts payable and accrued liabilities	353.4	579.0
Current portion of long-term debt	15.8	87.5
Current portion of deferred reforestation	38.7	39.6
Income taxes payable	-	235.4
Future income taxes	22.3	20.7
Total current liabilities	432.0	963.3
<b>Long-term debt</b> (Note 2)	493.3	602.8
<b>Other accruals and provisions</b> (Note 3)	197.1	173.3
<b>Future income taxes, net</b>	408.8	415.4
<b>Non-controlling interests</b>	306.4	296.7
	<b>\$ 1,837.6</b>	<b>\$ 2,451.5</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital – 142,582,267 common shares outstanding	\$ 1,124.7	\$ 1,124.3
Contributed surplus	31.9	31.9
Retained earnings	929.5	1,068.5
Accumulated other comprehensive income (loss)	(30.1)	3.0
	<b>\$ 2,056.0</b>	<b>\$ 2,227.7</b>
	<b>\$ 3,893.6</b>	<b>\$ 4,679.2</b>

**Contingency** (Note 12)

APPROVED BY THE BOARD



Director, R.L. Cliff



Director, J.F. Shepard

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

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars, unaudited)	2007	2006	2007	2006
<b>Consolidated Statements of Changes in Shareholders' Equity</b>				
<b>Share capital</b>				
Balance at beginning of period	\$ 1,124.6	\$ 1,268.9	\$ 1,124.3	\$ 1,268.7
Common shares issued on exercise of stock options	0.1	0.1	0.4	0.3
Return of capital to Canfor shareholders	-	(144.7)	-	(144.7)
Balance at end of period	\$ 1,124.7	\$ 1,124.3	\$ 1,124.7	\$ 1,124.3
<b>Contributed surplus</b>				
Balance at beginning of period	\$ 31.9	\$ -	\$ 31.9	\$ -
Contributed surplus arising from pulp income fund transaction	-	30.0	-	30.0
Balance at end of period	\$ 31.9	\$ 30.0	\$ 31.9	\$ 30.0
<b>Retained earnings</b>				
Balance at beginning of period	\$ 971.6	\$ 837.6	\$ 1,068.5	\$ 779.5
Implementation of financial instruments standards (Note 1)	-	-	(13.2)	-
Change in accounting for CPLP's pension liability (Note 5)	-	-	(2.2)	-
Net income (loss)	(42.1)	(51.6)	(123.6)	6.5
Balance at end of period	\$ 929.5	\$ 786.0	\$ 929.5	\$ 786.0
<b>Accumulated other comprehensive income (loss)</b>				
Balance at beginning of period	\$ (17.1)		\$ -	
Implementation of financial instruments standards (Note 1)	-		(1.9)	
Reclassification from foreign exchange translation adjustment	-		3.0	
Net change in foreign exchange translation adjustment	(13.4)		(33.8)	
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods	0.4		2.6	
Balance at end of period	\$ (30.1)		\$ (30.1)	
<b>Foreign exchange translation adjustment</b>				
Balance at beginning of period	\$ -	\$ (7.9)	\$ 3.0	\$ (1.6)
Reclassification to accumulated other comprehensive income (loss)	-	-	(3.0)	-
Unrealized foreign exchange translation gain	-	0.8	-	(5.5)
Balance at end of period	\$ -	\$ (7.1)	\$ -	\$ (7.1)
<b>Shareholders' equity at end of period</b>	<b>\$ 2,056.0</b>	<b>\$ 1,933.2</b>	<b>\$ 2,056.0</b>	<b>\$ 1,933.2</b>
<b>Consolidated Statement of Comprehensive Loss</b>				
Net loss	\$ (42.1)		\$ (123.6)	
Other comprehensive income (loss)				
Exchange translation adjustment on self-sustaining foreign subsidiaries	(13.4)		(33.8)	
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods, net of taxes and non-controlling interests	0.4		2.6	
Other comprehensive loss	(13.0)		(31.2)	
<b>Total comprehensive loss</b>	<b>\$ (55.1)</b>		<b>\$ (154.8)</b>	

## 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 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 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 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 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 September 30, 2007, Canfor had \$451.8 million of bank operating lines of credit available, of which \$1.8 million was drawn down and an additional \$43.4 million was reserved for several standby letters of credit.

At September 30, 2007, the fair value of Canfor's long-term debt, which was measured at its amortized cost of \$509.1 million, was \$526.4 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

	September 30, 2007	December 31, 2006
Deferred reforestation	\$ 68.6	\$ 70.9
Accrued pension obligations	26.6	22.7
Post employment benefits	84.3	75.1
Other long-term liabilities	17.6	4.6
<b>Total other accruals and provisions</b>	<b>\$ 197.1</b>	<b>\$ 173.3</b>

## 4. Restructuring Costs

Restructuring costs of \$11.1 million, primarily comprised of mill closure and severance costs, were recorded in the third quarter of 2007, \$10.5 million in the Lumber segment and \$0.6 million in Corporate and Other.

## 5. Employee Future Benefits

Canfor's total benefit costs were as follows:

	3 months ended September 30,		9 months ended September 30,	
	2007	2006	2007	2006
Defined benefit pension plans	\$ 3.8	\$ 4.7	\$ 11.5	\$ 13.9
Other employee future benefit plans	4.4	4.1	12.9	12.4
Defined contribution pension plans and 401(k) plans	0.9	0.7	2.9	2.3
Contributions to forest industry union plans	5.6	5.7	18.2	18.7
	<b>\$ 14.7</b>	<b>\$ 15.2</b>	<b>\$ 45.5</b>	<b>\$ 47.3</b>

At December 31, 2006, Canfor had recorded a prepaid pension benefit of \$64.8 million. In the first quarter of 2007, 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.

## 6. 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 prices and energy costs. At September 30, 2007, the fair value of outstanding commodity and exchange contracts was \$11.1 million. The fair value of these contracts was determined based on prevailing market rates for instruments with similar characteristics.

The gain of \$8.9 million recorded in the third quarter was comprised of the change in the fair value of derivative financial instruments in the period of \$9.6 million and the reclassification, from accumulated other comprehensive income, of unrealized losses of \$0.7 million on derivatives formerly designated as cash flow hedges that were exercised in the current period.

## 7. Income Tax Recovery

	3 months ended September 30,		9 months ended September 30,	
	2007	2006	2007	2006
Current	\$ 37.4	\$ 1.3	\$ 77.8	\$ (1.1)
Future	(10.3)	23.8	0.9	64.6
Tax on equity earnings	0.1	0.2	0.1	(0.2)
	<b>\$ 27.2</b>	<b>\$ 25.3</b>	<b>\$ 78.8</b>	<b>\$ 63.3</b>

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

	3 months ended September 30,		9 months ended September 30,	
	2007	2006	2007	2006
Income tax recovery at statutory tax rate	\$ 17.8	\$ 23.4	\$ 48.8	\$ 15.7
Permanent difference from capital gains and losses	(0.1)	(1.1)	2.1	2.9
Non-controlling interests	5.7	2.9	20.2	2.9
Change in federal general corporate income tax rate	0.9	-	1.9	42.4
Other permanent differences and adjustments	2.9	0.1	5.8	(0.6)
Income tax recovery	<b>\$ 27.2</b>	<b>\$ 25.3</b>	<b>\$ 78.8</b>	<b>\$ 63.3</b>

## 8. 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 September 30,		9 months ended September 30,	
	2007	2006	2007	2006
Weighted average number of common shares	142,583,682	142,541,176	142,571,876	142,533,188
Incremental shares from stock options	53,905	49,920	53,889	73,199
Diluted number of common shares	<b>142,637,587</b>	<b>142,591,096</b>	<b>142,625,765</b>	<b>142,606,387</b>

## 9. Changes in Non-Cash Working Capital

	3 months ended September 30,		9 months ended September 30,	
	2007	2006	2007	2006
Accounts receivable	\$ 29.2	\$ (10.5)	\$ 3.6	\$ (10.6)
Income taxes	(25.5)	(0.8)	(308.2)	(7.1)
Future income taxes	6.8	-	1.6	-
Inventories	70.5	40.0	120.9	35.6
Prepaid expenses	4.0	16.0	(9.4)	(13.8)
Accounts payable, accrued liabilities and current portion of deferred reforestation	35.9	59.4	(222.1)	(40.5)
	\$ 120.9	\$ 104.1	\$ (413.6)	\$ (36.4)

## 10. Segmented Information <sup>(a)</sup>

	Lumber <sup>(b)</sup>	Panels	Pulp & Paper <sup>(d)</sup>	Corporate & Other	Consolidated
<b>3 months ended September 30, 2007</b>					
Sales to external customers	\$ 507.2	73.9	256.3	-	\$ 837.4
Sales to other segments <sup>(c)</sup>	\$ 30.0	1.5	-	-	\$ 31.5
Operating income (loss)	\$ (75.9)	(7.5)	36.1	(4.8)	\$ (52.1)
Amortization	\$ 25.4	5.5	13.6	1.1	\$ 45.6
Capital expenditures	\$ 14.7	1.8	16.1	1.6	\$ 34.2
<b>3 months ended September 30, 2006</b>					
Sales to external customers	\$ 593.4	85.5	248.8	-	\$ 927.7
Sales to other segments <sup>(c)</sup>	\$ 19.6	1.0	-	-	\$ 20.6
Operating income (loss)	\$ (71.5)	(17.3)	52.1	(8.1)	\$ (44.8)
Amortization	\$ 26.8	6.9	13.0	1.4	\$ 48.1
Capital expenditures	\$ 24.5	3.4	6.0	0.1	\$ 34.0
<b>9 months ended September 30, 2007</b>					
Sales to external customers	\$ 1,547.4	227.2	790.0	-	\$ 2,564.6
Sales to other segments <sup>(c)</sup>	\$ 88.8	3.6	-	-	\$ 92.4
Operating income (loss)	\$ (201.7)	(42.3)	124.3	(28.6)	\$ (148.3)
Amortization	\$ 77.2	17.6	38.5	3.6	\$ 136.9
Capital expenditures	\$ 41.3	5.3	26.8	2.6	\$ 76.0
Identifiable assets <sup>(e)</sup>	\$ 1,650.9	323.2	976.7	942.8	\$ 3,893.6
<b>9 months ended September 30, 2006</b>					
Sales to external customers	\$ 1,965.8	285.6	698.9	-	\$ 2,950.3
Sales to other segments <sup>(c)</sup>	\$ 58.2	2.6	-	-	\$ 60.8
Operating income (loss)	\$ (60.0)	(26.8)	91.8	(26.6)	\$ (21.6)
Amortization	\$ 74.0	19.7	36.1	5.3	\$ 135.1
Capital expenditures	\$ 56.9	7.9	14.7	(6.1)	\$ 73.4
Identifiable assets <sup>(e)</sup>	\$ 1,958.0	346.5	932.4	476.6	\$ 3,713.5

- (a) Operations are presented by product line.
- (b) Sales for the quarter include sales of Canfor-produced lumber of \$430.8 million (2006 – \$461.2 million) and \$1,305.2 million for the year-to-date (2006 – \$1,546.6 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 \$69.7 million (2006 – \$79.1 million), which resulted from the acquisition of New South Companies Inc. in March 2006.

### Geographic Information

	3 months ended September 30,		9 months ended September 30,	
	2007	2006	2007	2006
Sales by location of customer				
Canada	\$ 165.5	\$ 147.0	\$ 466.3	\$ 437.1
United States	466.3	596.0	1,489.0	1,979.1
Europe	52.6	40.4	140.3	124.3
Far East and Other	153.0	144.3	469.0	409.8
	<b>\$ 837.4</b>	<b>\$ 927.7</b>	<b>\$ 2,564.6</b>	<b>\$ 2,950.3</b>
Capital assets, goodwill and other intangible assets by location				
Canada			\$ 2,106.5	\$ 2,162.2
United States			167.7	198.4
Europe			-	0.1
Far East and Other			0.7	0.1
			<b>\$ 2,274.9</b>	<b>\$ 2,360.8</b>

### 11. Long-term Investments and Other Assets

The increase in long-term investments and other assets in the third quarter primarily relates to the reclassification of investments held by Canfor in asset-backed commercial paper (ABCP). The fair value of these investments was determined using the probability weighted approach based upon expected cash flows. At present there is uncertainty with respect to the liquidity of these investments. Dominion Bond Rating Service continues to rate the investments as R-1 high, the most creditworthy category, but this is under review. The investments are currently subject to a standstill agreement until December 14, 2007, in which the issuers of the commercial paper are not paying interest. Canfor expects to receive proposals from the issuers of the asset-backed commercial paper in due course with respect to the applicable interest rate and repayment terms, or the potential conversion of the investments into other investments. The valuation by Canfor resulted in a reduction of \$5.6 million to the estimated fair value of the investments, and Canfor has concluded that the most probable outcome is that these investments will not be repaid within a year and has accordingly reclassified the written down value of \$75.3 million from cash and cash equivalents to long-term investments and other assets. Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further change in the value of the Company's investment in ABCP which would impact the Company's earnings.

### 12. Contingency

#### *Surge Export 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 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 are expected to hold 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, there is some potential that Canfor will have an additional cumulative tax liability to September 30, 2007 of approximately \$16 million.

### **13. Acquisition**

On September 18, 2007 Canfor announced an agreement to purchase the assets of Chesterfield Lumber Company, Inc located in Darlington, South Carolina, for approximately US\$ 18 million, subject to working capital adjustments. The annual capacity of the Chesterfield mill is approximately 140 million board feet of southern yellow pine. The transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2007.

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



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