



February 22, 2008

## **CANFOR CORPORATION ANNOUNCES FOURTH QUARTER AND 2007 EARNINGS**

Vancouver, B.C. - Canfor Corporation (TSX: CFP) today reported a fourth quarter loss of \$237.0 million (\$1.66 per share). After adjustment for significant items that affect comparability with prior periods the loss was \$69.6 million (\$0.49 per share). These items, all on an after-tax basis, include an asset impairment charge of \$189.1 million, and mill closure and severance costs of \$14.2 million, partially offset by the benefit of corporate income tax rate reductions of \$35.8 million. By comparison, in the fourth quarter of 2006 the Company reported net income of \$465.3 million (\$3.26 per share), which included \$551.2 million after tax of softwood lumber duty refunds. When adjusted for all other items affecting comparability there would have been a quarterly loss of \$54.4 million (\$0.38 per share).

For the year 2007, the Company reported a net loss of \$360.6 million (\$2.53 per share). After adjustment for significant items that affect comparability with the prior year, the loss was \$199.0 million (\$1.40 per share). These items, for the full year, include an asset impairment charge of \$199.2 million, and closure and severance costs of \$27.3 million, partially offset by the corporate income tax rate reduction of \$37.7 million. Net income in 2006 was \$471.8 million (\$3.31 per share) and included the duty refund of \$551.2 million. When adjusted for all other items affecting comparability, there would have been a loss of \$99.1 million (\$0.69 per share).

Declining lumber and panel prices and the high value of the Canadian dollar continued to erode margins resulting in a higher operating loss compared to the third quarter of 2007. In response to continued poor market conditions, in the fourth quarter the company curtailed production by approximately 255 million board feet of lumber and 10 million square feet of panel production. In addition, during the quarter the company announced the indefinite closure of its Chetwynd sawmill and the decision to move from three shifts to two for an indefinite period of time at its Rustad, Clear Lake, Polar, Mackenzie and Vavenby sawmills. The permanent closure of Canfor's Panel and Fibre operation in New Westminster, B.C. was also announced and is in the process of being completed.

"2007 was a difficult year for our industry" said Canfor President and CEO, James Shepard. "The collapse of the U.S. housing market, record low lumber and panel prices and a strong Canadian dollar in combination made for some of the worst market conditions the forest sector has seen in decades," he said. "I wish to assure our shareholders that management remains focused on all our controllable costs. Sustainable improvements are being achieved thanks to the committed efforts by all our employees.

### **Conference Call**

A conference call to discuss the fourth quarter 2007 financial and operating results will be held on Monday, February 25, 2008 at 8:00 am Pacific time. To participate in the call, please dial 416-641-6126 or Toll-Free 1-866-542-4236. For instant replay access until March 28, 2008, please dial 416-695-5800 or Toll-Free 1-800-408-3053 and enter participant pass code 3238962. The conference call will be webcast live and will be available at [www.canfor.com](http://www.canfor.com).

### **Forward Looking Statements**

Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on

management's current expectations and beliefs, and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations, and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

*Canfor is a leading integrated forest products company based in Vancouver, British Columbia (BC) with interests in 32 facilities in BC, Alberta, Quebec, Washington State, and North and South Carolina. The company is the largest producer of softwood lumber in Canada while also producing oriented strand board (OSB), plywood, remanufactured lumber products and specialized wood products. Canfor also owns a 50.2% interest in Canfor Pulp Limited Partnership, which is one of the largest producers of northern softwood kraft pulp in Canada and a leading producer of high performance kraft paper. Canfor shares are traded on the Toronto Stock Exchange under the symbol CFP.*

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## SUMMARY OF SELECTED RESULTS FOR THE QUARTER

(millions of dollars, except for per share amounts)	Q4 2007	Q3 2007	Year 2007	Q4 2006	Year 2006 <sup>1</sup>
Sales	\$ 711.0	\$ 837.4	\$ 3,275.6	\$ 892.0	\$ 3,842.3
EBITDA	\$ (77.5)	\$ (6.5)	\$ (88.9)	\$ 703.6	\$ 817.1
EBITDA before duty refund	\$ (77.5)	\$ (6.5)	\$ (88.9)	\$ (14.1)	\$ 99.4
Countervailing and anti-dumping duty refund	\$ -	\$ -	\$ -	\$ 717.7	\$ 717.7
Operating income (loss)	\$ (124.7)	\$ (52.1)	\$ (273.0)	\$ 656.1	\$ 634.5
Foreign exchange gain (loss) on long-term debt and temporary investments	\$ (4.1)	\$ 9.5	\$ 16.2	\$ (12.0)	\$ 4.7
Gain on derivative financial instruments	\$ 6.2	\$ 8.9	\$ 16.0	\$ -	\$ -
Asset impairments (before tax)	\$ (256.0)	\$ (7.0)	\$ (268.0)	\$ (19.1)	\$ (19.1)
Net income (loss)	\$ (237.0)	\$ (42.1)	\$ (360.6)	\$ 465.3	\$ 471.8
Net income (loss) per share, diluted	\$ (1.66)	\$ (0.30)	\$ (2.53)	\$ 3.26	\$ 3.31
Average US\$/Canadian\$ exchange rate <sup>2</sup>	\$ 1.019	\$ 0.957	\$ 0.930	\$ 0.878	\$ 0.882

A net loss of \$237.0 million was recorded in the fourth quarter of 2007, which was a \$194.9 million decline from the third quarter of 2007, and a \$702.3 million decline from the fourth quarter in 2006. The net loss for this quarter reflects an after-tax asset impairment charge of \$189.1 million, whereas the fourth quarter of 2006 reflects the refund of duties and related interest under the Softwood Lumber Agreement in the amount of \$551.2 million after tax. The EBITDA loss of \$77.5 million in the fourth quarter of 2007 compares with a loss of \$6.5 million in the third quarter, and a loss of \$14.1 million (before duty refunds) in the fourth quarter of 2006. Included in these amounts are restructuring costs of \$21.5 million, \$11.1 million and \$6.5 million respectively. The Canadian dollar strengthened by 6% from the third quarter of 2007, and by 16% from the fourth quarter of 2006. The benchmark SPF lumber price realized in Canadian dollars declined by 17% compared to the third quarter and by 19% when compared to the prior year quarter, and the OSB price realized in Canadian dollars declined by 12% and 14% respectively. These factors were partially offset by the continuing strength of pulp prices, which averaged 2% higher than the third quarter of 2007 and 11% higher than the fourth quarter of 2006.

<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)

The following summarizes the significant factors that affect the comparability of the net loss of the fourth quarter and 2007 annual results with prior periods:

(millions of dollars net of non-controlling interests)	Q4 2007 Pre-tax	Q4 2007 After-Tax	Year 2007 Pre-tax	Year 2007 After-Tax
Gain on derivative financial instruments	\$ 5.3	\$ 3.5	\$ 17.6	\$ 11.6
Foreign exchange gain (loss) on long-term debt and temporary investments	(4.3)	(3.5)	7.6	6.5
Dividend income	-	-	5.0	4.1
Duty refund adjustment	-	-	5.2	3.4
Mill closure and severance costs	(21.5)	(14.2)	(41.3)	(27.3)
CEO remuneration on resignation	-	-	(4.6)	(3.0)
Adjustments to incentive costs	2.3	1.5	5.7	3.8
Corporate income tax reductions	35.8	35.8	37.7	37.7
Prior year tax reassessments	0.5	0.5	2.7	2.7
Accrual for environmental liabilities	(2.8)	(1.9)	(2.8)	(1.9)
Asset impairments	(256.0)	(189.1)	(268.0)	(199.2)
<b>Net unfavourable impact of above items on net loss</b>	<b>\$ (240.7)</b>	<b>\$ (167.4)</b>	<b>\$ (235.2)</b>	<b>\$ (161.6)</b>
<b>Net unfavourable impact of above items on loss per share</b>	<b>n/a</b>	<b>\$ (1.17)</b>	<b>n/a</b>	<b>\$ (1.13)</b>

## OPERATING RESULTS BY BUSINESS SEGMENT

### Lumber

(millions of dollars unless otherwise noted)	Q4 2007	Q3 2007	Year 2007	Q4 2006	Year 2006 <sup>1</sup>
Sales	\$ 395.3	\$ 507.2	\$ 1,942.7	\$ 555.7	\$ 2,521.5
EBITDA	\$ (73.9)	\$ (50.5)	\$ (198.4)	\$ 672.2	\$ 686.2
EBITDA before duty refund	\$ (73.9)	\$ (50.5)	\$ (198.4)	\$ (45.5)	\$ (31.5)
EBITDA margin before duty refund	(19)%	(10)%	(10)%	(8)%	(1)%
Operating income (loss)	\$ (99.5)	\$ (75.9)	\$ (301.2)	\$ 645.2	\$ 585.2
Average SPF 2x4 #2 & Better lumber price in US \$ <sup>3</sup>	\$ 230	\$ 260	\$ 250	\$ 245	\$ 295
Average SPF price in Cdn \$	\$ 226	\$ 271	\$ 269	\$ 279	\$ 334
Average SYP 2x4 #2 lumber price in US \$ <sup>4</sup>	\$ 277	\$ 273	\$ 280	\$ 272	\$ 348
Average SYP price in Cdn \$	\$ 272	\$ 285	\$ 301	\$ 310	\$ 395
Production – SPF lumber (MMfbm)	866.8	1,050.3	4,111.6	1,028.7	4,459.8
Production – SYP lumber (MMfbm)	93.3	96.1	389.2	92.4	341.4
Shipments – Canfor-produced SPF lumber (MMfbm) <sup>5</sup>	988.4	1,121.1	4,233.5	1,050.9	4,432.3
Shipments – Canfor-produced SYP lumber (MMfbm) <sup>5</sup>	103.3	111.2	448.7	104.1	381.1
Shipments – wholesale lumber (MMfbm)	57.2	69.0	325.2	197.2	864.5

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

<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.

The Lumber segment reported an operating loss of \$99.5 million in the fourth quarter of 2007, compared to an operating loss of \$75.9 million in the previous quarter, and an operating loss of \$72.5 million in the fourth quarter of 2006, excluding the lumber duty refund of \$717.7 million. The increased fourth quarter operating loss compared to the third quarter is mainly attributable to the impact of lower realized Canadian dollar prices and offset by reductions in inventory in the fourth quarter which impacted adjustments required to reduce the carrying value of closing lumber inventories to market value. The negative impact on operating income from the stronger Canadian dollar was approximately \$11 million when compared to the previous quarter. The adjustment to market at the end of December was less than that required at the end of September and this positively impacted the fourth quarter by \$23 million relative to the third quarter. When compared to the fourth quarter in 2006, lower prices and stronger Canadian dollar were the primary reasons for the higher operating loss. A pre-tax impairment charge of \$90 million was recorded in the fourth quarter of 2007 for those sawmills where the carrying value of assets is not expected to be recoverable from net future cash flows.

#### Operations

Canfor's Canadian and U.S. lumber mills showed operational improvements in the fourth quarter. A 4.7% decrease in log costs over the previous quarter was realized, mainly as a result of stumpage cost reductions. Overall lumber inventories decreased by 114 MMfbm, over the previous quarter due to continued efforts to reduce working capital. Poor lumber markets continued to trigger a number of sawmill operating curtailments, which reduced production by approximately 255 million board feet, compared to market curtailments of approximately 81 million board feet in the third quarter. As a result, SPF production was 16% lower than in the same quarter last year and 17% lower than in the third quarter of 2007.

#### Closure of Chetwynd Sawmill

On December 5, 2007 the company announced that owing to continued poor lumber markets and the high Canadian dollar, it would be closing its Chetwynd sawmill indefinitely once existing log inventories had been utilized and finished products shipped. This was expected to occur in the first quarter of 2008. The mill has an annual capacity of 219 million board feet of production.

#### Acquisition of Darlington Sawmill

On November 30, 2007, Canfor completed the acquisition of the assets of Chesterfield Lumber Company, Inc. in Darlington, South Carolina ("Darlington Mill") at a cost of \$18.8 million including transaction costs. The sawmill has an annual capacity of approximately 140 million board feet of southern yellow pine lumber.

*Markets – see below, following Panels section*

## Panels

(millions of dollars unless otherwise noted)	Q4 2007	Q3 2007	Year 2007	Q4 2006	Year 2006
Sales	\$ 70.5	\$ 73.9	\$ 297.7	\$ 82.3	\$ 367.9
EBITDA	\$ (28.8)	\$ (2.0)	\$ (53.5)	\$ (20.2)	\$ (27.3)
EBITDA margin	(41)%	(3)%	(18)%	(25)%	(7)%
Operating loss	\$ (34.2)	\$ (7.5)	\$ (76.5)	\$ (26.5)	\$ (53.3)
Average plywood price in Cdn \$ <sup>6</sup>	\$ 374	\$ 394	\$ 376	\$ 366	\$ 367
Average OSB price in US \$ <sup>7</sup>	\$ 165	\$ 177	\$ 161	\$ 166	\$ 217
Average OSB price in Cdn \$	\$ 162	\$ 185	\$ 173	\$ 189	\$ 246
Production – plywood (MMsf 3/8")	93.1	89.8	385.0	105.7	439.2
Production – OSB (MMsf 3/8")	167.6	158.8	673.2	184.8	734.4
Shipments – plywood (MMsf 3/8")	90.3	89.5	385.4	109.9	441.5
Shipments – OSB (MMsf 3/8")	166.3	161.8	669.9	184.2	722.6

The panels segment recorded an operating loss of \$34.2 million in the fourth quarter, compared to a loss of \$7.5 million in the previous quarter and a loss of \$26.5 million in the fourth quarter of 2006. The negative impact on operating income from the stronger Canadian dollar was approximately \$1 million when compared to the previous quarter. The fourth quarter of 2007 includes restructuring costs of \$14.4 million related to the permanent closure of the Panel and Fibre operation. Realized Canadian dollar OSB prices declined by 12% compared to the previous quarter. A pre-tax impairment charge of \$141.4 million was recorded in the fourth quarter of 2007 for those panel operations where the carrying value of assets is not expected to be recoverable from net future cash flows.

## Operations

Fourth quarter plywood production was 4% higher than in the previous quarter due primarily to third quarter curtailments of approximately 8.5 million square feet, and 12% 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. Oriented Strand Board (OSB) production increased by 6% from the previous quarter and decreased 9% compared to the same quarter last year, primarily as a result of the PolarBoard plant moving to a 5-day per week operating schedule, partially offset by increased production at the Peace Valley OSB joint venture, which is continuing through its ramp up to full operational capacity.

### Panel and Fibre Mill

On November 9, 2007 the company announced the permanent closure of its Panel & Fibre mill. The mill, located in New Westminster, BC manufactured specialty products including hardwood panels, erosion control wood mulch and baled fibre.

### PolarBoard and Tackama Mills

On January 18, 2008 the company announced that due to a high Canadian dollar and record low OSB prices, it will close indefinitely its PolarBoard OSB and Tackama plywood mills in Fort Nelson, BC once existing log inventories are utilized and finished products shipped. This is expected to occur in April 2008 for the Tackama mill and during the summer of 2008 for the PolarBoard operation. The Tackama mill has an annual capacity of 270 million square feet (3/8" basis) of plywood and the PolarBoard mill has an annual capacity of 640 million square feet (3/8" basis) of OSB production.

<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.)

## **Markets - Lumber and Panels**

Demand for solid wood products in the U.S. continued to decline during the fourth quarter of 2007. U.S. housing starts averaged 1.151 million units (SAAR)<sup>8</sup> for the fourth quarter, down 26% compared with an average of 1.55 million units for the fourth quarter in 2006. Inventories of existing and new homes continued to grow, restricting new home construction. Canadian housing starts averaged 214,000 units (SAAR)<sup>9</sup> for the fourth quarter, a slight decline from the 224,500 units constructed during the same period in 2006.

Repair and remodeling expenditures (R&R) in the U.S. have declined only slightly as a result of existing home sales trending downwards. In Canada, R&R activity remained strong throughout 2007. Canfor's lumber shipments to North American Home Center customers were lower in the fourth quarter of 2007, compared with the fourth quarter of 2006, as a result of Canfor's reduced lumber production and lower demand.

### *Lumber*

Lumber prices remained low throughout the fourth quarter of 2007. Announced sawmill curtailments and extended Christmas shutdowns were not enough to balance lumber supply with actual demand. The average fourth quarter price for Random Length SPF 2x4 #2& Btr. was US\$230 per Mfbm<sup>10</sup>, down 6% from the 2006 fourth quarter average price of US\$245 per Mfbm. The average fourth quarter price for SYP 2x4 #2 was US\$277 per Mfbm for 2007, a slight increase from the US\$272 per Mfbm recorded the previous year's fourth quarter. The Random Lengths Framing Lumber Composite price that determines the export tax level payable by Canadian producers, averaged US\$264 per Mfbm during the fourth quarter of 2007. This was 6% below the 2006 fourth quarter average of US\$280. Canfor continued to pay a 15% export tax on all U.S. bound shipments.

Offshore markets were relatively strong during the fourth quarter. Canfor's total shipments offshore increased by 16% in the fourth quarter of 2007 compared to the same quarter in 2006. While shipments to Japan were up from the previous year, shipments to China were much higher in 2007 than in the same period of 2006. Housing starts in Japan continued to decrease in the fourth quarter in 2007 and were an average of 0.955 million units (SAAR)<sup>11</sup>, a decrease of 27% from the 2006 fourth quarter average of 1.310 million units (SAAR). However, 2x4 housing starts in Japan were 31,345 units for the quarter, an increase of 84% from the fourth quarter total in 2006. After severe declines of building permits earlier in the year because of a change in the review process, permit registrations increased in the fourth quarter which bodes well for housing starts during the first part of 2008.

### *Panels*

OSB prices were US\$165 per thousand square feet of 7/16" delivered to North Central<sup>12</sup> for the fourth quarter of 2007, almost unchanged from the fourth quarter of the previous year. OSB prices steadily decreased throughout the quarter to end at US\$148 per thousand square feet. Canadian softwood plywood prices were still relatively strong with a fourth quarter average of \$378 per thousand square feet 3/8" delivered Toronto<sup>13</sup>. This was up by 3% over the 2006 fourth quarter price of \$367 per thousand square feet. However plywood pricing decreased steadily throughout the quarter reflecting the usual seasonal demand decline in Canada.

### *Outlook – Lumber and Panel Markets*

The lumber market is off to a very slow start in early 2008 reflecting abundant supply for a seasonally weaker demand time. Lumber and panel demand may improve as the severe winter weather currently affecting the market abates. However, there are still very high inventories of new and used homes on the market which will limit new house construction. An increase in U.S. housing starts is not expected until at least the second half of 2008. Repair and remodeling expenditures are expected to decline further because of falling housing prices and the increasing

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<sup>8</sup> US Census Bureau

<sup>9</sup> CMHC, Seasonally Adjusted Annual Rate (SAAR)

<sup>10</sup> Random Lengths

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

<sup>12</sup> Random Lengths

<sup>13</sup> RISI Crows Panel Report

likelihood of a U.S. recession. The Canadian market will likely remain relatively robust during the first half of the year.

## Pulp and Paper<sup>14</sup>

(millions of dollars unless otherwise noted)	Q4 2007	Q3 2007	Year 2007	Q4 2006	Year 2006
Sales	\$ 245.2	\$ 256.3	\$ 1,035.2	\$ 254.0	\$ 952.9
EBITDA	\$ 27.7	\$ 49.7	\$ 190.5	\$ 62.8	\$ 190.7
EBITDA margin	11%	19%	18%	25%	20%
Operating income	\$ 12.9	\$ 36.1	\$ 137.2	\$ 50.1	\$ 141.9
Average NBSK pulp price – US \$ <sup>15</sup>	\$ 857	\$ 837	\$ 823	\$ 770	\$ 721
Average NBSK price in Cdn \$	\$ 841	\$ 875	\$ 885	\$ 877	\$ 818
Production – pulp (000 mt)	313.2	317.1	1,244.5	310.8	1,209.8
Production – paper (000 mt)	33.1	33.0	131.6	33.9	129.1
Shipments – Canfor-produced pulp (000 mt)	308.3	307.0	1,228.9	292.0	1,206.1
<i>Marketed on behalf of HSLP<sup>16</sup> (000 mt)</i>	93.3	89.4	366.6	86.0	374.0
Shipments – paper (000 mt)	32.4	30.8	129.5	33.4	128.3

Operating income in the Pulp and Paper segment decreased by \$23.2 million from the third quarter, and was \$37.2 million lower than in the fourth quarter of 2006.

When compared to the prior quarter, the negative impact of the stronger Canadian dollar, higher spending on manufacturing costs and lower shipments were only partially offset by improved U.S. dollar NBSK list prices. The negative impact on operating income from the stronger Canadian dollar was approximately \$10 million when compared to the previous quarter. The increase in manufacturing costs was mainly due to higher energy costs as a result of seasonal increase from winter natural gas usage and cost and timing of spending on maintenance. Fibre costs remained flat quarter over quarter as improvements in whole log chipping operations were realized offsetting an increase in whole log chip deliveries to 21% of total supply from 15% in the previous quarter. Shipment volumes of NBSK market pulp decreased slightly from the previous quarter and were consistent with the reduced production. The fourth quarter 2007 results are lower than those in the same period a year ago, due to the impact of the stronger Canadian dollar and higher fibre costs, which were partially offset by increases in NBSK pulp list prices. The impact of the stronger Canadian dollar was approximately \$24 million when compared to the same period last year. Fibre costs increased 23% when compared to the fourth quarter of 2006 and were mainly attributable to a higher percentage of whole log chipping to mitigate the impact on residual chip supply from continued sawmill downtime in the interior of British Columbia. Offsetting the stronger Canadian dollar and increased fibre costs over the fourth quarter of 2006 were increased NBSK pulp list prices of approximately 11%.

## Operations

NBSK production during the fourth quarter was 4,300 tonnes below the third quarter of 2007 and 2,300 tonnes below the fourth quarter of 2006. Total downtime taken during the fourth quarter of 2007 was twelve days compared to ten days in the third quarter and two days in the fourth quarter of 2006. Production tonnes lost in the quarter as a result of the downtime were approximately 1,700 tonnes more than the fourth quarter of 2006. The decrease in production over the fourth quarter of 2006 was due to no scheduled maintenance downtime in that period.

<sup>14</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>15</sup> Per tonne, delivered price to USA (RISI World Pulp Monthly, table #5)

<sup>16</sup> Howe Sound Pulp and Paper Limited Partnership

Howe Sound Limited Partnership, which Canfor does not consolidate in its results, also benefited from the improvement in pulp markets, incurring negative EBITDA of \$5.5 million in the fourth quarter and \$1.7 million for the year.

## Markets

Market conditions during the fourth quarter of 2007 remained strong. The Pulp and Paper Products Council (PPPC) reported market pulp inventories (World 19 Producers) ended November at 29 days of supply for all grades. Softwood kraft market pulp inventories were at 27 days of supply, one day above where softwood inventories stood at the end of the previous quarter. Generally, 30 days inventory is considered representative of a balanced market.

### Outlook – Pulp and Paper Markets

The demand and price for market pulp are expected to remain strong through the first half of 2008. The seasonal decline in demand in the December to February period is typically followed by a surge in demand in the spring. The U.S. election and the summer Olympics in China are expected to bolster demand for pulp throughout much of 2008. Furthermore, the supply of market pulp is curtailed each spring as mills in the northern hemisphere shut down for annual maintenance. Combined, these market dynamics are expected to keep the pulp market balanced and allow for flat or slightly higher prices over the first half of the year. Kraft paper price increases in the offshore markets and to a lesser extent the North American markets are anticipated. A US\$50 per tonne increase is expected to be fully implemented by the end of the first quarter. Continued supply and demand balance for both white and brown kraft paper grades leads to a favourable outlook for 2008.

## Non-Segmented Items

(millions of dollars)	Q4 2007	Q3 2007	Year 2007	Q4 2006	Year 2006
Corporate costs	\$ (3.9)	\$ (4.8)	\$ (32.5)	\$ (12.7)	\$ (39.3)
Net interest income (expense)	\$ (4.3)	\$ (2.4)	\$ (9.4)	\$ 88.6	\$ 56.2
Foreign exchange gain (loss) on long-term debt and temporary investments	\$ (4.1)	\$ 9.5	\$ 16.2	\$ (12.0)	\$ 4.7
Gain on derivative financial instruments	\$ 6.2	\$ 8.9	\$ 16.0	\$ -	\$ -
Asset impairments	\$ (256.0)	\$ (7.0)	\$ (268.0)	\$ (19.1)	\$ (19.1)
Other income (expense), net	\$ (3.5)	\$ (9.2)	\$ (11.2)	\$ (0.8)	\$ (10.3)

### Corporate Costs

Corporate costs, at \$3.9 million, were \$0.9 million lower than in the previous quarter reflecting elimination of incentive compensation accruals and were \$8.8 million lower than the fourth quarter of 2006, which included additional severance costs related to the integration of Slocan and Canfor, and incentive compensation costs.

### Net Interest Expense

Net interest expense of \$4.3 million in the quarter was comprised of \$9.8 million of interest on long and short-term debt, partially offset by \$5.5 million of interest income on short-term investments. The net expense was higher than the \$2.4 million in the third quarter due to reduced cash balances. Net interest income of \$88.6 million in the fourth quarter of 2006 includes \$97.7 million of interest on the duty refund under the Softwood Lumber Agreement.

### 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 December 31, 2007, resulting in a gain of \$6.2 million being recorded in the fourth quarter and \$16.0 million for the year.

#### Asset Impairments

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

#### Capital Assets

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

The first step in this process was to determine for each operation whether projected undiscounted net future cash flows from operations exceeded the net carrying amount of the assets as of the assessment date. For those operations where an impairment was indicated, the second step was to calculate fair values using discounted net future cash flows expected from their use and eventual disposition.

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

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

#### Non-Bank Asset-Backed Commercial Paper

The non-bank asset-backed commercial paper (ABCP) of \$64.0 million, after an impairment charge of \$16.2 million, is the estimated fair value of combined investments in asset-backed commercial paper of four different Canadian trusts ("the Trusts") with total original principal amount of US\$81.2 million (CDN\$80.2 million at December 31, 2007) and original maturities between August and September 2007. At the dates the Company acquired these investments they were rated R1 (High) by Dominion Bond Rating Service ("DBRS"), the highest credit rating issued for commercial paper and backed by R1 (High) rated assets and liquidity arrangements.

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

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

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

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

Based on this assessment of fair value as at December 31, 2007, Canfor recorded in income an impairment loss of \$16.2 million related to these investments in 2007, representing 20% of the face value, of which \$5.6 million was recorded in the third quarter, and \$10.6 million in the fourth quarter.

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

### **Changes in Financial Position**

Cash of \$25.8 million was used in financing activities in the quarter, including cash distributions of \$15.6 million to non-controlling interests of CPLP.

Capital expenditures of \$27.5 million were made in the quarter, in addition to the purchase of a sawmill in Darlington, South Carolina for \$16.8 million (\$18.8 million less \$2.0 million unpaid at December 31, 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)	Q4 2007	Q3 2007	Year 2007	Q4 2006	Year 2006
<b>Net income (loss) from continuing operations</b>	<b>\$ (237.0)</b>	<b>\$ (42.1)</b>	<b>\$ (360.6)</b>	<b>\$ 466.9</b>	<b>\$ 475.7</b>
Add (subtract):					
Non-controlling interests	6.1	16.9	65.4	12.3	20.7
Income tax (recovery) expense	(155.3)	(27.2)	(234.1)	232.7	169.4
Other (income) expenses	3.3	9.3	11.1	1.7	10.5
Asset impairments	256.0	7.0	268.0	19.1	19.1
(Gain) loss on derivative financial instruments	(6.2)	(8.9)	(16.0)	-	-
Foreign exchange (gain) loss on long-term debt and temporary investments	4.1	(9.5)	(16.2)	12.0	(4.7)
Interest expense (net)	4.3	2.4	9.4	(88.6)	(56.2)
Amortization	47.2	45.6	184.1	47.5	182.6
<b>EBITDA (operating income (loss) before amortization)</b>	<b>(77.5)</b>	<b>(6.5)</b>	<b>(88.9)</b>	<b>703.6</b>	<b>817.1</b>
Countervailing and anti-dumping duty refund	-	-	-	(717.7)	(717.7)
<b>EBITDA excluding duty refund</b>	<b>\$ (77.5)</b>	<b>\$ (6.5)</b>	<b>\$ (88.9)</b>	<b>\$ (14.1)</b>	<b>\$ 99.4</b>

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

(millions of dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
<b>Sales</b>	\$ 711.0	\$ 892.0	\$ 3,275.6	\$ 3,842.3
<b>Costs and expenses</b>				
Manufacturing and product costs	610.5	710.1	2,583.6	2,949.8
Freight and other distribution costs	127.5	146.8	565.0	598.3
Export tax, countervailing and anti-dumping duties	17.4	23.2	101.8	109.8
Amortization	47.2	47.5	184.1	182.6
Selling and administration costs	11.6	19.5	72.8	78.5
Restructuring, mill closure and severance costs (Note 4)	21.5	6.5	41.3	6.5
	835.7	953.6	3,548.6	3,925.5
Countervailing and anti-dumping duty refund	-	717.7	-	717.7
<b>Operating income (loss) from continuing operations</b>	<b>(124.7)</b>	656.1	<b>(273.0)</b>	634.5
Equity income (loss) of affiliated companies	0.2	(0.9)	0.1	(0.2)
Interest income (expense), net	(4.3)	88.6	(9.4)	56.2
Foreign exchange gain (loss) on long-term debt and investments	(4.1)	(12.0)	16.2	4.7
Gain on derivative financial instruments (Note 6)	6.2	-	16.0	-
Asset impairments (Note 11)	(256.0)	(19.1)	(268.0)	(19.1)
Other expense, net	(3.5)	(0.8)	(11.2)	(10.3)
Net income (loss) from continuing operations before income taxes and non-controlling interests	(386.2)	711.9	(529.3)	665.8
Income tax recovery (expense) (Note 7)	155.3	(232.7)	234.1	(169.4)
Non-controlling interests	(6.1)	(12.3)	(65.4)	(20.7)
<b>Net income (loss) from continuing operations</b>	<b>(237.0)</b>	466.9	<b>(360.6)</b>	475.7
Net loss from discontinued operations	-	(1.6)	-	(3.9)
<b>Net income (loss)</b>	<b>\$ (237.0)</b>	\$ 465.3	<b>\$ (360.6)</b>	\$ 471.8
<b>Per common share</b> (in dollars) (Note 8)				
Net income (loss) from continuing operations				
Basic	\$ (1.66)	\$ 3.28	\$ (2.53)	\$ 3.34
Diluted	(1.66)	3.27	(2.53)	3.34
Net income (loss)				
Basic	\$ (1.66)	\$ 3.26	\$ (2.53)	\$ 3.31
Diluted	(1.66)	3.26	(2.53)	3.31

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 December 31,		12 months ended December 31,	
	2007	2006	2007	2006
<b>Cash generated from (used in)</b>				
<b>Operating activities</b>				
Net income (loss) from continuing operations	\$ (237.0)	\$ 466.9	\$ (360.6)	\$ 475.7
Items not affecting cash:				
Amortization	47.2	47.5	184.1	182.6
Income taxes	(109.1)	(4.4)	(111.9)	(74.2)
Long-term portion of deferred reforestation	(2.9)	5.3	(5.3)	2.3
Employee future benefits	1.1	(9.7)	(2.2)	(0.2)
Foreign exchange (gain) loss on long-term debt	(4.1)	27.9	(92.5)	11.2
Gain on derivative financial instruments	(6.2)	-	(16.0)	-
Asset impairments	256.0	19.1	268.0	19.1
Adjustment to accrued duties	-	44.4	-	46.3
Non-controlling interests	6.1	12.3	65.4	20.7
Other	7.9	3.9	14.6	0.8
(Increase) decrease in non-cash working capital (Note 9)	(7.3)	488.7	(426.1)	455.9
	<b>(48.3)</b>	1,101.9	<b>(482.5)</b>	1,140.2
<b>Financing activities</b>				
Proceeds from long-term debt	-	125.7	0.3	126.7
Repayment of long-term debt	(8.3)	(15.8)	(99.4)	(100.2)
Changes in operating bank loans	(1.8)	(32.3)	(1.1)	(23.0)
Net proceeds on issuance of common shares	-	-	0.4	0.3
Cash distributions paid to non-controlling interests	(15.6)	(14.2)	(74.2)	(17.6)
Other	(0.1)	0.1	(0.3)	(0.5)
	<b>(25.8)</b>	63.5	<b>(174.3)</b>	(14.3)
<b>Investing activities</b>				
Changes in temporary investments	-	(126.0)	124.5	(119.0)
Changes in long-term investments	-	-	(85.9)	-
Business acquisitions (Note 14)	(16.8)	-	(16.8)	(206.1)
Additions to property, plant, equipment and timber	(27.5)	(33.7)	(90.6)	(107.1)
Proceeds from sale of property, plant and equipment	1.2	0.2	4.0	2.8
Other	8.9	2.6	(6.7)	11.8
	<b>(34.2)</b>	(156.9)	<b>(71.5)</b>	(417.6)
Increase (decrease) in cash and cash equivalents from continuing operations	<b>(108.3)</b>	1,008.5	<b>(728.3)</b>	708.3
Increase in cash from discontinued operations	-	-	-	16.6
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(108.3)</b>	1,008.5	<b>(728.3)</b>	724.9
<b>Cash and cash equivalents at beginning of period</b>	<b>403.8</b>	15.3	<b>1,023.8</b>	298.9
<b>Cash and cash equivalents at end of period</b>	<b>\$ 295.5</b>	\$ 1,023.8	<b>\$ 295.5</b>	\$ 1,023.8
<b>Cash (payments) receipts in the period</b>				
Interest, net	\$ (14.1)	\$ 78.6	\$ (25.3)	\$ 43.4
Income taxes	\$ 0.9	\$ (1.5)	\$ (230.5)	\$ (8.0)

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

(millions of dollars, unaudited)	As at December 31, 2007	As at December 31, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 295.5	\$ 1,023.8
Temporary investments	-	126.0
Accounts receivable		
Trade	199.5	223.9
Other	80.1	72.8
Income taxes recoverable	136.7	-
Inventories	472.0	635.7
Prepaid expenses	35.0	37.7
<b>Total current assets</b>	<b>1,218.8</b>	<b>2,119.9</b>
<b>Long-term investments and other (Note 12)</b>	<b>170.4</b>	<b>115.3</b>
<b>Property, plant, equipment and timber</b>	<b>1,959.4</b>	<b>2,254.9</b>
<b>Goodwill</b>	<b>69.2</b>	<b>81.6</b>
<b>Deferred charges</b>	<b>90.0</b>	<b>91.8</b>
	<b>\$ 3,507.8</b>	<b>\$ 4,663.5</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Operating bank loans	\$ -	\$ 1.1
Accounts payable and accrued liabilities	335.0	579.0
Current portion of long-term debt	15.2	87.5
Current portion of deferred reforestation obligation	34.4	39.6
Income taxes payable	-	235.4
Future income taxes, net	19.0	5.0
<b>Total current liabilities</b>	<b>403.6</b>	<b>947.6</b>
<b>Long-term debt (Note 2)</b>	<b>481.6</b>	<b>602.8</b>
<b>Long-term accrued liabilities and obligations (Note 3)</b>	<b>203.5</b>	<b>173.3</b>
<b>Future income taxes, net</b>	<b>299.5</b>	<b>415.4</b>
<b>Non-controlling interests</b>	<b>302.5</b>	<b>296.7</b>
	<b>\$ 1,690.7</b>	<b>\$ 2,435.8</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital – 142,589,312 common shares outstanding	\$ 1,124.7	\$ 1,124.3
Contributed surplus	31.9	31.9
Retained earnings	692.5	1,068.5
Accumulated other comprehensive income (loss)	(32.0)	3.0
	<b>\$ 1,817.1</b>	<b>\$ 2,227.7</b>
	<b>\$ 3,507.8</b>	<b>\$ 4,663.5</b>

**Contingency (Note 13)**

**Subsequent Events (Note 15)**

APPROVED BY THE BOARD

Director, R.L. Cliff

Director, J.F. Shepard

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

(millions of dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
<b>Consolidated Statements of Changes in Shareholders' Equity</b>				
<b>Share capital</b>				
Balance at beginning of period	\$ 1,124.7	\$ 1,124.3	\$ 1,124.3	\$ 1,268.7
Common shares issued on exercise of stock options	-	-	0.4	0.3
Return of capital to Canfor shareholders	-	-	-	(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	\$ 30.0	\$ 31.9	\$ -
Contributed surplus arising from Canfor Pulp Income Fund	-	1.9	-	31.9
Balance at end of period	\$ 31.9	\$ 31.9	\$ 31.9	\$ 31.9
<b>Retained earnings</b>				
Balance at beginning of period	\$ 929.5	\$ 786.0	\$ 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)	-
Dividend-in-kind of Canfor Pulp Income Fund units	-	(182.8)	-	(182.8)
Net income (loss)	(237.0)	465.3	(360.6)	471.8
Balance at end of period	\$ 692.5	\$ 1,068.5	\$ 692.5	\$ 1,068.5
<b>Accumulated other comprehensive income (loss)</b>				
Balance at beginning of period	\$ (30.1)	\$ -	\$ -	\$ -
Implementation of financial instruments standards (Note 1)	-	-	(1.9)	-
Reclassification from foreign exchange translation adjustment	-	-	3.0	-
Net change in foreign exchange translation adjustment	(1.9)	-	(35.7)	-
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods	-	-	2.6	-
Balance at end of period	\$ (32.0)	\$ -	\$ (32.0)	\$ -
<b>Foreign exchange translation adjustment</b>				
Balance at beginning of period	\$ -	\$ (7.1)	\$ 3.0	\$ (1.6)
Reclassification to accumulated other comprehensive income (loss)	-	-	(3.0)	-
Unrealized foreign exchange translation gain	-	10.1	-	4.6
Balance at end of period	\$ -	\$ 3.0	\$ -	\$ 3.0
<b>Total shareholders' equity</b>	<b>\$ 1,817.1</b>	<b>\$ 2,227.7</b>	<b>\$ 1,817.1</b>	<b>\$ 2,227.7</b>
<b>Consolidated Statement of Comprehensive Loss</b>				
Net loss	\$ (237.0)		\$ (360.6)	
Other comprehensive income (loss)				
Exchange translation adjustment on self-sustaining foreign subsidiaries	(1.9)		(35.7)	
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods, net of taxes and non-controlling interests	-		2.6	
Other comprehensive loss	(1.9)		(33.1)	
<b>Total comprehensive loss</b>	<b>\$ (238.9)</b>		<b>\$ (393.7)</b>	

## Notes to the Consolidated Interim Financial Statements

(unaudited, millions of dollars unless otherwise noted)

### 1. Significant Accounting Policies and Changes in Accounting Policies

#### 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.

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. Therefore, the quarterly results are not necessarily indicative of results to be expected for an entire year.

#### Changes in Accounting Policies

##### *Financial Instruments*

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

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

As a result of adopting these new standards, Canfor has classified its cash and non-bank asset-backed commercial paper ("ABCP") as held-for-trading and its temporary investments as held-to-maturity. Accounts receivable are classified as loans and receivables. Other long-term investments are classified as available for sale, and notes and other advances are classified as loans and receivables. Bank indebtedness, operating bank loans, accounts payable and accrued charges, and long-term debt, including interest payable, are classified as other liabilities, all of which are

measured at amortized cost. Derivative instruments are recorded in the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract.

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

Opening retained earnings 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.

#### *Log Inventories*

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

#### *Capital Disclosures*

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

#### *Financial Instruments – Disclosures*

Section 3862, which is effective for years beginning on or after October 1, 2007, requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Entities will be required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

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

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

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

## 2. Operating Bank Loan and Long-Term Debt

At December 31, 2007, Canfor had \$409.0 million of bank operating lines available, of which \$40.1 million were reserved for several standby letters of credit.

At December 31, 2007, the fair value of Canfor's long-term debt, which was measured at its amortized cost of \$496.8 million, was \$502.2 million. The fair value of long-term debt was determined based on prevailing market rates for long-term debt with similar characteristics and risk profiles.

## 3. Long-term Accrued Liabilities and Obligations

	December 31, 2007	December 31, 2006
Deferred reforestation obligation	\$ 65.6	\$ 70.9
Accrued pension obligations	19.1	15.6
Accrued pension bridge benefit obligations	7.9	7.1
Post employment benefits	87.0	75.1
Asset retirement obligations	11.1	-
Other long-term liabilities	12.8	4.6
	<b>\$ 203.5</b>	<b>\$ 173.3</b>

## 4. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with indefinite or permanent closures of facilities, as well as staff reductions, as follows:

	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
Accrued liability at beginning of period	\$ 19.6	\$ 4.0	\$ 4.9	\$ 9.7
Accrued in the period *	21.5	6.5	41.3	6.5
Less: non-cash items	(1.7)	(3.5)	(2.0)	(3.5)
Payments in the period	(3.6)	(2.1)	(8.4)	(7.8)
Accrued liability at end of period	<b>\$ 35.8</b>	<b>\$ 4.9</b>	<b>\$ 35.8</b>	<b>\$ 4.9</b>
* reported in the following segments				
Lumber	\$ 7.0	\$ 1.3	\$ 21.7	\$ 1.3
Panels	14.4	2.3	14.4	2.3
Corporate and Other	0.1	2.9	5.2	2.9
	<b>\$ 21.5</b>	<b>\$ 6.5</b>	<b>\$ 41.3</b>	<b>\$ 6.5</b>

## 5. Employee Future Benefits

Canfor's total benefit costs were as follows:

	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
Defined benefit pension plans	\$ 4.4	\$ 4.8	\$ 17.5	\$ 18.8
Other employee future benefit plans	4.3	4.2	17.2	16.6
Defined contribution pension plans and 401(k) plans	0.2	0.9	1.6	3.2
Contributions to forest industry union plans	4.6	5.9	22.8	24.6
	<b>\$ 13.5</b>	<b>\$ 15.8</b>	<b>\$ 59.1</b>	<b>\$ 63.2</b>

At December 31, 2007, Canfor had recorded a prepaid pension benefit of \$83.1 million in Deferred Charges. 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 December 31, 2007, the fair value of outstanding commodity and exchange contracts was \$17.2 million. The fair value of these contracts was determined based on prevailing market rates for instruments with similar characteristics.

The gain of \$6.2 million recorded in the fourth quarter was comprised of the change in the fair value of derivative financial instruments in the period of \$6.1 million and the reclassification, from accumulated other comprehensive income, of unrealized gains of \$0.1 million on derivatives formerly designated as cash flow hedges that were exercised in the current period.

## 7. Income Tax Recovery (Expense)

	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
Current	\$ 64.3	\$ (230.4)	\$ 140.8	\$ (231.5)
Future	91.1	(16.7)	93.3	47.9
Tax on equity earnings	(0.1)	0.3	-	0.1
	<b>\$ 155.3</b>	<b>\$ (246.8)</b>	<b>\$ 234.1</b>	<b>\$ (183.5)</b>
Amortization of deferred credit on utilization of acquired tax losses	\$ -	\$ 14.1	\$ -	\$ 14.1
	<b>\$ 155.3</b>	<b>\$ (232.7)</b>	<b>\$ 234.1</b>	<b>\$ (169.4)</b>

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

	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
Income tax recovery (expense) at statutory tax rate	\$ 131.7	\$ (242.7)	\$ 180.5	\$ (227.0)
Add (deduct):				
Non-controlling interests	2.1	4.2	22.3	7.1
Change in corporate income tax rates	19.6	(0.5)	21.5	41.9
Entities with different income tax rates and other tax adjustments	6.6	(1.8)	12.4	(2.4)
Permanent difference from capital gains and losses and other non-deductible items	(4.7)	(6.0)	(2.6)	(3.1)
Amortization of deferred credit on utilization of acquired tax losses	-	14.1	-	14.1
Income tax recovery (expense)	\$ 155.3	\$ (232.7)	\$ 234.1	\$ (169.4)

## 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 December 31,		12 months ended December 31,	
	2007	2006	2007	2006
Weighted average number of common shares	142,589,312	142,546,801	142,576,271	142,536,619
Incremental shares from potential exercise of stock options	3,350	33,606	41,254	63,301
Diluted number of common shares	142,592,662	142,580,407	142,617,525	142,599,920

## 9. Changes in Non-Cash Working Capital

	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
Accounts receivable	\$ 34.4	\$ 43.9	\$ 38.0	\$ 33.3
Inventories	45.9	(6.8)	166.8	28.8
Prepaid expenses	11.3	13.8	1.9	-
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	(52.8)	202.2	(274.9)	161.7
Income taxes	(63.7)	210.8	(371.9)	203.2
Future income taxes, net	17.6	24.8	14.0	28.9
Net (increase) decrease in non-cash working capital	\$ (7.3)	\$ 488.7	\$ (426.1)	\$ 455.9

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

	Lumber <sup>(b)</sup>	Panels	Pulp & Paper <sup>(d)</sup>	Corporate & Other	Consolidated
<b>3 months ended December 31, 2007</b>					
Sales to external customers	\$ 395.3	70.5	245.2	-	\$ 711.0
Sales to other segments <sup>(c)</sup>	\$ 22.4	1.4	-	-	\$ 23.8
Operating income (loss)	\$ (99.5)	(34.2)	12.9	(3.9)	\$ (124.7)
Amortization	\$ 25.6	5.4	14.8	1.4	\$ 47.2
Capital expenditures	\$ 5.7	10.0	11.3	0.5	\$ 27.5

3 months ended December 31, 2006

Sales to external customers	\$ 555.7	82.3	254.0	-	\$ 892.0
Sales to other segments <sup>(c)</sup>	\$ 24.7	1.1	-	-	\$ 25.8
Operating income (loss)	\$ 645.2	(26.5)	50.1	(12.7)	\$ 656.1
Amortization	\$ 27.0	6.3	12.7	1.5	\$ 47.5
Capital expenditures	\$ 24.6	3.1	5.2	0.8	\$ 33.7

12 months ended December 31, 2007

Sales to external customers	\$ 1,942.7	297.7	1,035.2	-	\$ 3,275.6
Sales to other segments <sup>(c)</sup>	\$ 111.2	5.0	-	-	\$ 116.2
Operating income (loss)	\$ (301.2)	(76.5)	137.2	(32.5)	\$ (273.0)
Amortization	\$ 102.8	23.0	53.3	5.0	\$ 184.1
Capital expenditures	\$ 47.6	15.7	24.2	3.1	\$ 90.6
Identifiable assets <sup>(e)</sup>	\$ 1,537.4	335.1	937.1	698.2	\$ 3,507.8

12 months ended December 31, 2006

Sales to external customers	\$ 2,521.5	367.9	952.9	-	\$ 3,842.3
Sales to other segments <sup>(c)</sup>	\$ 82.9	3.7	-	-	\$ 86.6
Operating income (loss)	\$ 585.2	(53.3)	141.9	(39.3)	\$ 634.5
Amortization	\$ 101.0	26.0	48.8	6.8	\$ 182.6
Capital expenditures	\$ 76.9	11.0	18.2	1.0	\$ 107.1
Identifiable assets <sup>(e)</sup>	\$ 1,987.4	444.6	920.8	1,310.7	\$ 4,663.5

(a) Operations are presented by product line.

(b) Sales for the quarter include sales of Canfor-produced lumber of \$326.6 million (2006 – \$417.6 million) and \$1,631.8 million for the year-to-date (2006 – \$1,964.2 million).

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

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

(e) Identifiable assets are presented net of an impairment charge of \$268.0 million (2006 - \$19.1 million), of which \$90.0 million relates to the Lumber segment, \$141.4 million to the Panels segment and \$36.6 million to Corporate and Other (2006 - \$19.1 million). The identifiable assets of the Lumber segment also include goodwill of \$69.2 million (2006 – \$81.6 million), which resulted from the acquisition of New South Companies Inc. in March 2006.

## Geographic Information

	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
Sales by location of customer				
Canada	\$ 149.3	\$ 153.2	\$ 615.6	\$ 590.3
United States	366.0	557.6	1,855.0	2,536.7
Europe	50.0	48.2	190.3	172.5
Far East and Other	145.7	133.0	614.7	542.8
	<b>\$ 711.0</b>	<b>\$ 892.0</b>	<b>\$ 3,275.6</b>	<b>\$ 3,842.3</b>
Capital assets and goodwill by location				
Canada			\$ 1,868.9	\$ 2,162.0
United States			180.0	201.4
Far East and Other			0.8	0.7
			<b>\$ 2,049.7</b>	<b>\$ 2,364.1</b>

## 11. Asset Impairments and Measurement Uncertainty

	3 months ended December 31,		12 months ended December 31,	
	2007	2006	2007	2006
Capital assets	\$ 231.4	\$ -	\$ 231.4	\$ -
Non-bank asset backed commercial paper (ABCP) (Note 12)	10.6	-	16.2	-
Other	14.0	19.1	20.4	19.1
	<b>\$ 256.0</b>	<b>\$ 19.1</b>	<b>\$ 268.0</b>	<b>\$ 19.1</b>

### Capital Assets

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

The first step in this process was to determine for each operation whether projected undiscounted net future cash flows from operations exceeded the net carrying amount of the assets as of the assessment date. For those operations where an impairment was indicated, the second step was to calculate fair values using discounted net future cash flows expected from their use and eventual disposition.

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

As a result of its assessment, Canfor recognized asset write-downs of \$231.4 million related to property, plant, equipment and timber in the fourth quarter of 2007, of which \$90.0 million related to assets in the Lumber segment, and \$141.4 million to the Panels segment.

## *Other*

In the fourth quarter of 2007, an impairment charge of \$14.0 million was recorded to reflect the risk of non-collection of unsecured amounts recorded in Accounts receivable – other.

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

## **12. Long-term investments and other**

Long-term investments and other includes \$64.0 million for non-bank asset-backed commercial paper (ABCP). The ABCP is the estimated fair value of combined investments in asset-backed commercial paper of four different Canadian trusts (“the Trusts”) with total original principal amount of US \$81.2 million (CDN \$80.2 million at December 31, 2007) and original maturities between August and September 2007. At the dates the Company acquired these investments they were rated R1 (High) by Dominion Bond Rating Service (“DBRS”), the highest credit rating issued for commercial paper and backed by R1 (High) rated assets and liquidity arrangements.

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

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

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

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

Based on this assessment of fair value as at December 31, 2007, Canfor recognized in income an impairment loss of \$16.2 million related to these investments in 2007, representing 20% of the face value (\$5.6 million in the third quarter and \$10.6 million in the fourth quarter).

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

### 13. 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 held a hearing in December 2007. The panel plans to issue its decision, which cannot be appealed, during the first quarter of 2008. Although the Government of Canada is committed to defending its position, the outcome is not determinable. If the decision is unfavorable to the Canadian position, the additional cumulative export tax liability to December 31, 2007 would be approximately \$16 million.

### 14. Acquisition of Darlington Mill

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

(CDN millions of dollars)

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

### 15. Subsequent Events

#### *HSLP Debt Restructuring*

On February 5, 2008, HSLP restructured its term debt pursuant to an agreement among HSLP, Canfor, Oji and a consortium of Japanese banks ("the Banks"). The restructuring resulted in a portion of the outstanding debt being

subordinated for repayment after June 30, 2013. The remaining debt and \$33.3 million owed to Canfor is due to be repaid prior to June 30, 2013 from the free cash flow of HSLP.

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

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

#### *Mill Closures*

On January 18, 2008 the company announced that due to a high Canadian dollar and record low oriented strand board (OSB) prices, it will close indefinitely its PolarBoard OSB and Tackama plywood mills in Fort Nelson BC, once existing log inventories are utilized and finished products shipped. This is expected to occur in April 2008 for the Tackama mill and during the summer of 2008 for the PolarBoard operation.

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