Consolidated Financial Statements

December 31, 2008 and 2007

MANAGEMENT'S RESPONSIBILITY

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

Canfor maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

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

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

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

February 19, 2009

"James F. Shepard"	*"Thomas Sitar"*
James F. Shepard President and Chief Executive Officer	Thomas Sitar Vice-President Finance and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Canfor Corporation

We have audited the consolidated balance sheets of Canfor Corporation as at December 31, 2008 and 2007 and the consolidated statements of loss, changes in shareholders' equity and comprehensive loss and cash flows for each of the years in the two year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers LLP"

PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, BC
February 19, 2009

Canfor Corporation
Consolidated Balance Sheets

As at December 31 (millions of dollars)		**2008**		2007
ASSETS				
Current assets				
Cash and cash equivalents	$	**362.4**	$	295.5
Accounts receivable (Note 4)				
Trade		**105.9**		199.5
Other		**93.7**		74.3
Income taxes recoverable		**47.1**		136.7
Future income taxes, net (Note 22)		**31.2**		-
Inventories (Note 5)		**404.9**		472.0
Prepaid expenses		**35.1**		40.8
Total current assets		**1,080.3**		1,218.8
Long-term investments and other (Note 6)		**125.7**		170.4
Property, plant, equipment and timber (Note 7)		**1,798.5**		1,959.4
Goodwill (Note 1)		**85.7**		69.2
Deferred charges (Note 8)		**110.2**		90.0
	$	**3,200.4**	$	3,507.8
LIABILITIES				
Current liabilities				
Operating loans (Note 9)	$	**25.2**	$	-
Accounts payable and accrued liabilities (Note 10)		**322.9**		335.0
Current portion of long-term debt (Note 11)		**168.3**		15.2
Current portion of deferred reforestation obligation (Note 13)		**32.5**		34.4
Future income taxes, net (Note 22)		**-**		19.0
Total current liabilities		**548.9**		403.6
Long-term debt (Note 11)		**428.7**		481.6
Long-term accrued liabilities and obligations (Note 12)		**208.8**		203.5
Future income taxes, net (Note 22)		**242.4**		299.5
Non-controlling interests		**276.8**		302.5
	$	**1,705.6**	$	1,690.7
SHAREHOLDERS' EQUITY				
Share capital (Note 16)	$	**1,124.7**	$	1,124.7
Contributed surplus		**31.9**		31.9
Retained earnings		**316.7**		692.5
Accumulated other comprehensive income (loss)		**21.5**		(32.0)
Total shareholders' equity		**1,494.8**		1,817.1
	$	**3,200.4**	$	3,507.8

Commitments and contingencies (Note 30)
Subsequent events (Note 31)

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

APPROVED BY THE BOARD

"R.L. Cliff" *"J.F. Shepard"*

Director, R.L. Cliff Director, J.F. Shepard

Canfor Corporation
Consolidated Statements of Loss

Years ended December 31 (millions of dollars)		**2008**		2007
Sales	$	**2,611.6**	$	3,275.6
Costs and expenses				
Manufacturing and product costs		**1,953.1**		2,583.6
Freight and other distribution costs		**476.2**		565.0
Export taxes (Note 4)		**55.1**		101.8
Amortization		**171.2**		184.1
Selling and administration costs		**60.6**		72.8
Restructuring, mill closure and severance costs (Note 18)		**53.5**		41.3
		2,769.7		3,548.6
Operating loss		**(158.1)**		(273.0)
Interest expense, net (Note 19)		**(25.4)**		(9.4)
Foreign exchange (loss) gain on translation of long-term debt and investments, net		**(100.3)**		16.2
(Loss) gain on derivative financial instruments (Note 25)		**(88.5)**		16.0
North Central Plywoods mill fire, net (Note 4)		**57.9**		-
Prince George Pulp & Paper mill fire, net (Note 4)		**8.2**		-
Asset impairments (Note 20)		**(169.6)**		(268.0)
Other income (expense), net (Note 21)		**12.7**		(11.1)
Net loss before income taxes and non-controlling interests		**(463.1)**		(529.3)
Income tax recovery (Note 22)		**141.9**		234.1
Non-controlling interests		**(24.0)**		(65.4)
Net loss	$	**(345.2)**	$	(360.6)
Per common share (in dollars) (Note 23)				
Net loss – Basic and Diluted	$	**(2.42)**	$	(2.53)

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

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

As at December 31 (millions of dollars)		2008		2007
Consolidated Statements of Changes in Shareholders' Equity				
Share capital				
Balance at beginning of year (Note 16)	$	**1,124.7**	$	1,124.3
Common shares issued on exercise of stock options (Note 17)		**-**		0.4
Balance at end of year	$	**1,124.7**	$	1,124.7
Contributed surplus				
Balance at beginning and end of year	$	**31.9**	$	31.9
Retained earnings				
Balance at beginning of year	$	**692.5**	$	1,068.5
Implementation of financial instruments standards (Note 2)		**-**		(13.2)
Change in accounting for Canfor Pulp Limited Partnership's pension liability		**-**		(2.2)
Change in accounting for inventories (Note 2)		**(30.6)**		-
Net loss for the year		**(345.2)**		(360.6)
Balance at end of year	$	**316.7**	$	692.5
Accumulated other comprehensive income (loss)				
Balance at beginning of year	$	**(32.0)**	$	-
Implementation of financial instruments standards (Note 2)		**-**		(1.9)
Reclassification of foreign exchange translation adjustment		**-**		3.0
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries		**54.2**		(35.7)
Reclassification to income of (losses) gains on derivative instruments designated as cash flow hedges in prior years		**(0.7)**		2.6
Balance at end of year	$	**21.5**	$	(32.0)
Total shareholders' equity – Balance at end of year	$	**1,494.8**	$	1,817.1
Consolidated Statement of Comprehensive Loss				
Net loss for the year	$	**(345.2)**	$	(360.6)
Other comprehensive income (loss)				
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries		**54.2**		(35.7)
Reclassification to income of (losses) gains on derivative instruments designated as cash flow hedges in prior years		**(0.7)**		2.6
Other comprehensive income (loss)	$	**53.5**	$	(33.1)
Total comprehensive loss	$	**(291.7)**	$	(393.7)

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

Canfor Corporation
Consolidated Cash Flow Statements

Years ended December 31 (millions of dollars)		**2008**		2007
Cash generated from (used in)				
Operating activities				
Net loss for year	$	**(345.2)**	$	(360.6)
Items not affecting cash:				
Amortization		**171.2**		184.1
Income taxes		**(43.5)**		(111.9)
Long-term portion of deferred reforestation		**(2.5)**		(5.3)
North Central Plywoods mill fire, net (Note 4)		**(57.9)**		-
Prince George Pulp & Paper mill fire, net (Note 4)		**(8.2)**		-
Foreign exchange loss (gain) on translation of long-term debt		**115.2**		(92.5)
Loss (gain) on derivative financial instruments (Note 25)		**88.5**		(16.0)
Asset impairments (Note 20)		**169.6**		268.0
Non-controlling interests		**24.0**		65.4
Other		**3.9**		40.6
		115.1		(28.2)
Net proceeds from replacement of derivative financial instruments		**11.0**		-
Salary pension plan contributions		**(15.9)**		(21.7)
Deferred scheduled maintenance spending		**(8.7)**		(4.7)
Net change in non-cash working capital (Note 24)		**56.2**		(428.5)
		157.7		(483.1)
Financing activities				
Proceeds from long-term debt		**-**		0.3
Repayment of long-term debt		**(14.8)**		(99.4)
Increase (decrease) in operating loans (Note 9)		**25.2**		(1.1)
Cash distributions paid to non-controlling interests		**(52.3)**		(74.2)
Other		**(0.5)**		0.1
		(42.4)		(174.3)
Investing activities				
Decrease in temporary investments		**-**		124.5
Reclassification of non-bank asset-backed commercial paper		**-**		(85.9)
Business acquisitions (Note 3)		**(0.8)**		(16.8)
Additions to property, plant, equipment and timber		**(80.2)**		(90.6)
Proceeds from disposal of property, plant and equipment		**5.6**		4.0
Partial proceeds from North Central Plywoods fire claim (Note 4)		**30.0**		-
Partial proceeds from Prince George Pulp & Paper mill fire damage claim (Note 4)		**9.5**		-
Advances to affiliated companies		**(11.5)**		-
Other		**(1.0)**		(6.1)
		(48.4)		(70.9)
Increase (decrease) in cash and cash equivalents		**66.9**		(728.3)
Cash and cash equivalents at beginning of year		**295.5**		1,023.8
Cash and cash equivalents at end of year	$	**362.4**	$	295.5
Cash (payments) receipts in the year				
Interest, net	$	**(26.6)**	$	(25.3)
Income taxes	$	**137.5**	$	(230.5)

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

December 31, 2008 and 2007

1. Significant Accounting Policies

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, hereinafter referred to as "Canfor". Significant subsidiaries include 100% of Canadian Forest Products Ltd., 100% of New South Companies Inc., and 50.2% of Canfor Pulp Limited Partnership ("CPLP"). Investments over which the Company exercises significant influence are accounted for using the equity method, in which the original investment is recorded at cost and is subsequently adjusted for Canfor's share of post acquisition earnings. Joint ventures, which include Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") and Coastal Fibre Limited Partnership ("CFLP") are proportionately consolidated (Note 27). Investments over which Canfor does not exercise significant influence are accounted for using the cost method, in which the original investment is recorded at cost and investment income distributions are recorded in the Consolidated Statements of Loss.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Canfor regularly reviews its estimates and assumptions, however, it is possible that circumstances may arise which cause actual results to differ from management estimates, and these differences could be material.

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

Cash and Cash Equivalents

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of three months or less from the date of acquisition, and are valued at cost, which approximates market value. Interest is earned at variable rates dependent on amount, credit quality and term.

Inventories

Inventories of logs, lumber, panels, pulp, kraft paper and chips are valued at the lower of average cost and net realizable value. Prior to January 1, 2008, logs were valued at average cost or the greater of net realizable value and replacement cost if lower than average cost (Note 2). Processing materials and supplies are valued at the lower of average cost and net realizable value.

Property, Plant, Equipment and Timber

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

Assets are amortized over the following estimated productive lives:

Buildings	5 to 50 years
Mobile equipment	5 years
Pulp and kraft paper machinery and equipment	20 years
Sawmill machinery and equipment	5 to 15 years
Plywood machinery and equipment	5 to 15 years
Oriented strand board machinery and equipment	10 to 20 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	5 to 25 years
Timber – renewable licenses	60 years

Amortization of logging and manufacturing assets is calculated on a straight-line basis, based on available operating days, over the useful productive lives of those assets.

Amounts capitalized as timber, which comprise tree farm licenses and timber licenses that are renewable with the Province of British Columbia, are amortized over 60 years, effective January 1, 2008 (2007 – 100 years). Non-renewable licenses are amortized over the period of the license.

Long-lived Assets

Long-lived assets are reviewed for impairment when the occurrence of events or changes in circumstances indicate that the carrying value of the assets may not be recoverable, as measured by comparing their net book value to the estimated future cash flows generated by their use and eventual disposition. Impaired assets are recorded at the lower of carrying amount and fair value, determined principally using discounted future cash flows expected from their use and eventual disposition (see Note 20).

Goodwill

Goodwill is the excess of the purchase price paid for an acquisition of a business over the fair value of the net assets acquired. Goodwill is not amortized but is assessed annually for impairment, or more frequently if events or circumstances indicate that it may be impaired. The fair value of goodwill is estimated in the same manner as goodwill is determined at the time of acquisition. As at December 31, 2008, there were no write-downs to goodwill, all of which is denominated in US dollars.

Deferred Charges

Software development costs relating to major systems are deferred and amortized over periods not longer than five years. Start-up costs for Canfor-LP OSB constructed in 2005 (Note 27) have been amortized over a three year period to December 31, 2008.

Deferred Reforestation Obligation

Forestry legislation in British Columbia requires Canfor to incur the cost of reforestation on its forest, timber and tree farm licenses. Accordingly, Canfor records the fair value of the costs of reforestation in the period in which the timber is cut, with the fair value of the liability determined with reference to the present value of estimated future cash flows using a credit adjusted risk free rate. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the Consolidated Statements of Loss as they occur. These costs are included in manufacturing and product costs.

Environmental Remediation Costs

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

Asset Retirement Obligations

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

Employee Benefit Plans

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

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

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

For hourly employees covered by forest industry union defined benefit pension plans, the expense is equal to its contributions required under the collective agreements.

Revenue Recognition

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

Foreign Currency Translation

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

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

Income Taxes

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

Derivative Financial Instruments

Canfor utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and commodity price risk. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Canfor has chosen to not designate its derivative financial instruments as hedges. Consequently, such derivatives for which hedge accounting is not applied are carried on the Consolidated Balance Sheets at fair value, with changes in (realized and unrealized) fair value being recognized as 'Gain (loss) on derivative financial instruments' in the Consolidated Statements of Loss.

Stock-based Compensation Plans

Canfor has three stock-based compensation plans, as described in Note 17. No stock options have been granted since 2002.

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

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

Major Maintenance Costs

CPLP has adopted the deferral method of accounting for major maintenance costs. Under this method an asset is recorded when expenditures related to major maintenance are incurred. This asset is then amortized over the period to which the maintenance relates. CPLP has presented the related unamortized expenditures in prepaid expenses and long-term investments and other, as appropriate.

2. Changes in Accounting Policies

Current Year

Effective January 1, 2008, Canfor adopted the Canadian Institute of Chartered Accountants' new Handbook Sections: 1535 "Capital Disclosures", 3031 "Inventories", 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". Handbook sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation". These requirements have been incorporated into the audited consolidated financial statements.

(a) Section 1535 - Capital Disclosures

This Section establishes standards for disclosures about an entity's capital and how it is managed. Under this Standard, Canfor is required to disclose qualitative information about its objectives, policies and processes for managing capital, quantitative data about what it regards as capital, whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

(b) Section 3031 - Inventories

This Section replaced Section 3030 – "Inventories" and provides significantly more guidance on the measurement of inventories, with an expanded definition of cost, and the requirement that inventories must be measured at the lower of cost and net realizable value. In addition, the Section sets out additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-downs or reversal of write-downs. In conjunction with Section 3061 "Property Plant and Equipment", it also provides guidance on the classification of major spare parts and stand-by equipment.

On January 1, 2008, Canfor adopted the new recommendations retrospectively, without prior period restatement. As a result of implementing these Standards, inventories decreased by $60.6 million (log inventories by $46.5 million, processing materials and supplies by $14.1 million), property, plant and equipment increased by $14.1 million, future income tax liabilities decreased by $15.9 million and opening retained earnings reduced by $30.6 million.

(c) Section 3862 - Financial Instruments – Disclosures

This Section 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.

(d) Section 3863 – Financial Instruments – Presentation

This Section establishes standards for the presentation of financial instruments and non-financial derivatives.

Prior Year

On January 1, 2007, Canfor adopted Sections 3855, 3861, 3865, "Financial Instruments – Recognition and Measurement", "Financial Instruments – Disclosure and Presentation", "Financial Instruments – Hedges" and Section 1530, "Comprehensive Income". Opening retained earnings were reduced by $13.2 million as a result of the implementation of these new Standards. This amount was comprised of a $14.2 million deferred unrealized foreign exchange loss on long-term debt arising from a previous hedging relationship and $2.8 million of deferred financing costs that were written off, partially offset by a $3.8 million adjustment to the associated liabilities for future income taxes and non-controlling interests.

Future Accounting Policy Changes

In February 2008, the CICA issued a new accounting standard, Handbook Section 3064 – "Goodwill and Intangible Assets". This Section replaces CICA Handbook Section 3062 – "Goodwill and Intangible Assets" and Section 3450 –

"Research and Development Costs", and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new Standard, EIC 27 – "Revenues and Expenditures During the Pre-operating Period" is withdrawn and so various preproduction and start-up costs are required to be expensed as incurred. This Standard will be applicable to Canfor for annual and interim accounting periods beginning on January 1, 2009. Canfor does not expect that this Standard will have a material impact on its consolidated financial statements.

In 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly listed companies to use International Financial Reporting Standards ("IFRS"), replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. From that date onwards, publicly traded companies and certain other publicly accountable enterprises will be required to report under IFRS. Canfor is currently evaluating the impact of these new standards on its consolidated financial statements.

3. Acquisitions

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., 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 lumber. 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)		2007
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

4. Accounts Receivable

Trade Receivables

(millions of dollars)		**2008**		2007
Gross receivables	**$**	**108.9**	$	199.9
Less: Allowance for doubtful accounts		**(3.0)**		(0.4)
	$	**105.9**	$	199.5

Other Receivables

(i) North Central Plywoods Mill Fire

Other receivables include $41.4 million in relation to a fire at Canfor's North Central Plywoods ("NCP") facility in Prince George, British Columbia on May 26, 2008, which completely destroyed the mill. The mill is insured for equivalent replacement value. At the end of the year, Canfor had not reached final settlement with its insurer, and accordingly estimated the insurance property damage amount receivable using preliminary engineering estimates and other information available. By December 31, 2008, Canfor had received advances of $30.0 million from the insurer which were offset against the total estimated property damage and business interruption receivable of $71.4 million. The insurance property damage receivable was estimated on the basis that the insurance proceeds will be applied towards capital improvements at Canfor's other operations.

Based on estimated insurance proceeds, net of an aggregate policy deductible and costs related to the fire, Canfor recorded a pre-tax gain of $57.9 million. The estimates are subject to adjustments in future periods.

(ii) Prince George Pulp and Paper Mill Fire

Other receivables include $7.2 million in relation to a fire at CPLP's Prince George Pulp & Paper mill in January 2008, which destroyed the chip screening and in-feed system. CPLP recorded a related pre-tax gain on disposal of capital assets of $8.2 million. In connection with claims arising from the fire, CPLP recorded the following receivables during 2008:

- a property damage insurance receivable of $12.2 million, net of a $3.3 million policy deductible; and
- a business interruption insurance receivable of $19.1 million, net of a $1.0 million policy deductible, plus a $3.0 million receivable for the temporary chip in-feed system costs.

By December 31, 2008, CPLP had received total advances of $27.1 million in connection with these claims, of which $15.9 million related to the business interruption claim, and $11.2 million to property damage. Of the latter amount, $9.5 million has been classified as an investing activity in the Consolidated Cash Flow Statements; the balance of

$1.7 million represents demolition costs. Subsequent to December 31, 2008, a further $2.7 million has been received as partial payment against the accrued insurance receivable.

(iii) Export Tax Receivable, Net

As at December 31, 2008, Canfor had a net export tax receivable of $3.3 million (2007 – payable of $5.2 million) as a result of a Third Country Adjustment export tax refund of $10.8 million related to the quarters ended December 31, 2007 and March 31, 2008. This refund was based on information received from the Canada Revenue Agency in December 2008.

5. Inventories

(millions of dollars)		**2008**		2007
Logs (Note 2)	**$**	**49.1**	$	105.9
Lumber		**118.7**		139.4
Pulp		**97.2**		71.2
Paper		**20.7**		14.1
Panel products		**1.5**		16.5
Residual fibre		**25.3**		11.2
Processing materials and supplies (Note 2)		**92.4**		113.7
	$	**404.9**	$	472.0

The above inventory balances are stated after inventory write-downs from cost to net realizable value, which reflect historically low prices for solid wood products in both years.

As a result of Canfor's implementation of Section 3031 – "Inventories" (Note 2), inventories on January 1, 2008 were decreased by $60.6 million (log inventories by $46.5 million and processing materials and supplies by $14.1 million).

Canfor's 2008 opening inventories, on which write-downs totaling $71.9 million were recorded ($25.4 million at December 31, 2007, plus the $46.5 million opening 2008 log inventories write-down adjustment), were consumed during 2008. Canfor's lower inventory write-downs of $46.2 million at December 31, 2008 resulted primarily from reduced costs and lower log volumes at year-end. As a result, the inventory write-downs at December 31, 2008 were $25.7 million less than at December 31, 2007.

The following table provides a breakdown of the inventory write-downs:

(millions of dollars)		**2008**		2007
Logs (Note 2)	**$**	**16.2**	$	-
Lumber		**27.5**		23.9
Pulp		**2.1**		0.2
Panel products		**0.2**		1.3
Residual fibre		**0.2**		-
	$	**46.2**	$	25.4

6. Long-term Investments and Other

(millions of dollars)		**2008**		2007
Non-bank asset-backed commercial paper (Note 20)	**$**	**69.3**	$	64.0
Coastal Fibre Limited Partnership long-term fibre agreement (Note 20)		**-**		37.1
Other investments		**28.9**		35.0
Customer agreements		**22.9**		21.1
Derivative financial instruments		**-**		4.4
Other deposits, loans and advances		**4.6**		8.8
	$	**125.7**	$	170.4

The non-bank asset-backed commercial paper of $69.3 million (US$56.6 million) is measured at the estimated fair value of Canfor's combined investments in asset-backed commercial paper of four different Canadian trusts with total original principal amount of US$81.2 million and original maturities between August and September 2007.

7. Property, Plant, Equipment and Timber

(millions of dollars)	**2008** Cost	**2008** Accumulated Amortization and Impairments	**2008** Net Book Value	2007 Cost	2007 Accumulated Amortization and Impairments	2007 Net Book Value
Land	**$ 45.2**	**$ 4.8**	**$ 40.4**	$ 39.2	$ 4.6	$ 34.6
Pulp and kraft paper mills	**1,323.6**	**751.9**	**571.7**	1,303.1	719.4	583.7
Sawmills, plywood and oriented strand board plants	**1,289.4**	**756.2**	**533.2**	1,283.8	666.1	617.7
Logging buildings and equipment	**12.4**	**4.8**	**7.6**	12.7	4.0	8.7
Logging roads and bridges	**150.1**	**140.3**	**9.8**	150.0	127.5	22.5
Other equipment and facilities	**28.5**	**15.0**	**13.5**	35.5	15.7	19.8
Timber	**838.8**	**216.5**	**622.3**	838.8	166.4	672.4
	$ 3,688.0	**$ 1,889.5**	**$ 1,798.5**	$ 3,663.1	$ 1,703.7	$ 1,959.4

Included in the above costs are assets under construction in the amount of $11.0 million in 2008 (2007 – $10.0 million), which were not amortized.

8. Deferred Charges

(millions of dollars)	**2008**	2007
Prepaid pension benefits (Note 14)	**$ 104.7**	$ 83.1
Software development costs	**3.0**	4.3
Other	**2.5**	2.6
	$ 110.2	$ 90.0

Deferred charges expensed during the year amounted to $4.7 million (2007 – $16.1 million).

9. Operating Loans

At December 31, 2008, Canfor had $430.0 million of unsecured operating lines available (2007 – $409.0 million), of which $25.2 million was drawn down (2007 – nil) and $41.4 million was reserved for several standby letters of credit (2007 – $40.1 million).

Canfor Corporation's available operating line at December 31, 2008 was $355.0 million (2007 – $325.0 million) of which $17.3 million (2007 - $12.7 million) was reserved for several standby letters of credit, the majority of which relates to unregistered pension plans. Interest is payable at floating rates based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with Canfor's net debt to total capitalization ratio. The operating loan expires in June 2011.

CPLP's available operating line at December 31, 2008 was $75.0 million (2007 – $75.0 million) of which $25.2 million was drawn down (2007 – nil) and $24.1 million (2007 – $27.4 million) was reserved for a standby letter of credit issued to BC Hydro in connection with a 15 year electrical cogeneration agreement. Interest is payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation and amortization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The operating loan expires in November 2009.

10. Accounts Payable and Accrued Liabilities

(millions of dollars)		**2008**		2007
Trade payables	**$**	**113.2**	$	144.9
Accrued payroll and related liabilities		**73.8**		74.0
Derivative financial instruments		**67.5**		3.4
Restructuring, mill closure and severance costs		**19.5**		29.3
Interest payable		**11.5**		12.9
Other		**37.4**		70.5
	$	**322.9**	$	335.0

11. Long-term Debt

Canfor has the following long-term debt, all of which is unsecured:

Summary of Long-term Debt

(millions of dollars)		**2008**		2007
Privately placed senior notes				
Canfor Corporation				
US $15 million, interest at 7.88%, repayable March 1, 2008	**$**	**-**	$	14.8
US $45 million, interest at 7.98%, repayable March 1, 2009		**55.1**		44.5
US $97 million, interest at 8.03%, repayable in 3 equal annual installments commencing March 1, 2009		**118.8**		95.9
US $60 million, interest at 5.66%, repayable April 1, 2009		**73.5**		59.3
US $50 million, interest at 6.18%, repayable April 1, 2011		**61.2**		49.4
US $50 million, interest at 6.33%, repayable February 2, 2012		**61.2**		49.4
US $75 million, interest at 5.42%, repayable April 1, 2013		**91.9**		74.1
Canfor Pulp Limited Partnership				
US $110 million, interest at 6.41%, repayable November 30, 2013		**134.7**		108.7
Other long-term obligations		**0.6**		0.7
		597.0		496.8
Less: current portion		**(168.3)**		(15.2)
Long-term portion	**$**	**428.7**	$	481.6

Fair Value of Total Long-term Debt

The fair value of total long-term debt at December 31, 2008 was $578.1 million (2007 – $502.2 million). The fair value was determined using prevailing market rates for long-term debt with similar characteristics and risk profiles.

Scheduled Long-term Debt Repayments and Interest Payments

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

(millions of dollars)		Debt Repayments		Interest Payments
2009	$	168.3	$	33.5
2010		40.1		26.0
2011		100.8		21.0
2012		61.2		15.6
2013		226.6		10.4
	$	597.0	$	106.5

12. Long-term Accrued Liabilities and Obligations

(millions of dollars)		**2008**		2007
Deferred reforestation obligation (Note 13)	**$**	**63.1**	$	65.6
Accrued pension obligations (Note 14)		**20.0**		19.1
Accrued pension bridge benefit obligations (Note 14)		**8.7**		7.9
Other post-employment benefits (Note 14)		**98.3**		87.0
Asset retirement obligations (Note 15)		**4.7**		11.1
Other		**14.0**		12.8
	$	**208.8**	$	203.5

13. Deferred Reforestation Obligation

Canfor's reforestation obligation and expense are as follows:

(millions of dollars)		**2008**		2007
Reforestation obligation – beginning of year	**$**	**100.0**	$	110.5
Expense on current portion		**30.1**		30.9
Accretion expense		**3.6**		3.3
Changes in estimated future reforestation expenditures		**(8.5)**		(4.8)
Paid during the year		**(29.6)**		(39.9)
Reforestation obligation – end of year	**$**	**95.6**	$	100.0
Less: current portion		**(32.5)**		(34.4)
Long-term portion (Note 12)	**$**	**63.1**	$	65.6

The total undiscounted amount of the estimated cash flows required to settle the obligation at December 31, 2008 was $105.7 million (2007 – $112.1 million) with payments spread over 18 years. The estimated cash flows have been adjusted for inflation and discounted using credit-adjusted risk-free rates ranging from 4% to 7%.

14. Employee Future Benefits

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

Total cash payments for employee future benefits for 2008 were $50.3 million (2007 – $61.2 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans, and cash contributed to its forest industry union defined benefit plans.

Defined Benefit Plans

Canfor measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30 of each year. In 2008, Canfor had seven registered defined benefit plans, for which actuarial valuations are performed every three years. The most recent actuarial valuation for funding purposes of Canfor's single largest pension plan was as of December 31, 2006, and the next required plan valuation is currently scheduled for December 31, 2009.

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

Defined Benefit Plan Assets

(millions of dollars)	**2008** Pension Benefit Plans	**2008** Other Benefit Plans	2007 Pension Benefit Plans	2007 Other Benefit Plans
Fair market value of plan assets				
Beginning of year	**$ 571.1**	**$ -**	$ 517.8	$ -
Actual (loss) gain on plan assets	**(76.5)**	**-**	45.1	-
Canfor contributions	**22.3**	**3.4**	43.3	3.3
Employee contributions	**1.1**	**-**	1.4	-
Benefit payments	**(38.7)**	**(3.4)**	(36.5)	(3.3)
Settlement of Taylor sawmill plan	**(2.5)**	**-**	-	-
End of year	**$ 476.8**	**$ -**	$ 571.1	$ -

Plan assets consist of the following:	**2008**	2007
Asset Category	Percentage of Plan Assets	
Equity securities	**61 %**	64 %
Debt securities	**38 %**	33 %
Real estate	**0 %**	2 %
Other	**1 %**	1 %
	100 %	100 %

Defined Benefit Plan Obligations

(millions of dollars)	**2008** Pension Benefit Plans	**2008** Other Benefit Plans	2007 Pension Benefit Plans	2007 Other Benefit Plans
Accrued benefit obligation				
Beginning of year	**$ 570.2**	**$ 146.7**	$ 581.4	$ 139.2
Current service cost	**13.3**	**2.6**	16.3	3.5
Interest cost	**31.2**	**8.1**	30.2	7.4
Employee contributions	**1.1**	**-**	1.4	-
Benefit payments	**(38.7)**	**(3.4)**	(36.5)	(3.3)
Settlement of Taylor sawmill plan	**(2.5)**	**-**	-	-
Special termination benefits	**-**	**-**	2.1	-
Actuarial gain	**(64.0)**	**(50.4)**	(24.7)	(0.1)
End of year	**$ 510.6**	**$ 103.6**	$ 570.2	$ 146.7

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

	2008		2007	
(millions of dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets	**$ 476.8**	**$ -**	$ 571.1	$ -
Accrued benefit obligation	**(510.6)**	**(103.6)**	(570.2)	(146.7)
Funded status of plans – surplus (deficit)	**(33.8)**	**(103.6)**	0.9	(146.7)
Employer contributions after measurement date	**7.2**	**1.1**	5.2	0.8
Unamortized transitional amount	**(17.5)**	**13.9**	(21.2)	15.9
Unamortized past service costs	**3.0**	**1.2**	3.4	1.3
Unamortized net actuarial loss (gain)	**128.6**	**(10.9)**	78.2	41.7
Accrued benefit asset (liability)	**87.5**	**(98.3)**	66.5	(87.0)
Valuation allowance	**(2.8)**	**-**	(2.5)	-
Accrued benefit asset (liability), net of valuation allowance	**$ 84.7**	**$ (98.3)**	$ 64.0	$ (87.0)
The accrued benefit asset (liability) is included in Canfor's balance sheet as follows:				
Deferred charges (Note 8)	**$ 104.7**	**$ -**	$ 83.1	$ -
Long-term accrued liabilities and obligations (Note 12)	**(20.0)**	**(98.3)**	(19.1)	(87.0)
	$ 84.7	**$ (98.3)**	$ 64.0	$ (87.0)

Excluded from the above tables are amounts relating to a defined benefit pension plan of New South Companies, Inc., which was curtailed in 2003. The accrued benefit asset at December 31, 2008 was $0.3 million (2007 – $0.3 million).

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

	2008		2007	
(millions of dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets	**$ 395.2**	**$ -**	$ 67.9	$ -
Accrued benefit obligation	**(440.2)**	**(103.6)**	(97.0)	(146.7)
Funded status - plan deficit	**$ (45.0)**	**$ (103.6)**	$ (29.1)	$ (146.7)

Of the $45.0 million of pension plan deficit at December 31, 2008, $25.1 million relates to unregistered plans for which funding is not required (2007 – $27.1 million). Unregistered pension liabilities at December 31, 2008 include $12.7 million (2007 - $9.5 million), which are secured by a letter of credit.

"Other benefit plans" are not funded, except when expenditures are incurred.

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

(millions of dollars)	**2008** Incurred in Year	Matching Adjustments [a]	Recognized in Year	2007 Incurred In Year	Matching Adjustments [a]	Recognized in Year
Pension Benefit Plans						
Current service cost	**$ 13.3**	**$ -**	**$ 13.3**	$ 16.3	$ -	$ 16.3
Interest cost	**31.2**	**-**	**31.2**	30.2	-	30.2
Loss (return) on plan assets	**76.5**	**(117.4)**	**(40.9)**	(45.1)	9.7	(35.4)
Actuarial (gain) loss	**(64.0)**	**67.0**	**3.0**	(24.7)	32.0	7.3
Special termination benefits	**-**	**-**	**-**	2.1	-	2.1
Settlement/Curtailment loss	**0.3**	**-**	**0.3**	-	-	-
Plan amendments	**-**	**0.4**	**0.4**	-	0.4	0.4
Valuation allowance provided against accrued benefit asset	**-**	**0.3**	**0.3**	-	0.3	0.3
Amortization of transitional asset	**-**	**(3.7)**	**(3.7)**	-	(3.7)	(3.7)
	$ 57.3	**$ (53.4)**	**$ 3.9**	$ (21.2)	$ 38.7	$ 17.5
Other Benefit Plans						
Current service cost	**$ 2.6**	**$ -**	**$ 2.6**	$ 3.5	$ -	$ 3.5
Interest cost	**8.1**	**-**	**8.1**	7.4	-	7.4
Actuarial loss (gain)	**(50.4)**	**52.6**	**2.2**	(0.1)	2.3	2.2
Plan amendments	**-**	**0.1**	**0.1**	-	0.1	0.1
Amortization of transitional obligation	**-**	**2.0**	**2.0**	-	2.0	2.0
	$ (39.7)	**$ 54.7**	**$ 15.0**	$ 10.8	$ 4.4	$ 15.2

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

Canfor also provides pension bridge benefits to certain eligible former employees. At December 31, 2008, the actuarially determined obligation for those benefits was $15.4 million (2007 – $17.7 million). The accrued benefit liability for those benefits at December 31, 2008 was $8.7 million (2007 – $7.9 million) (Note 12) and the related expense recognized in 2008 was $2.2 million (2007 – $2.0 million).

Significant assumptions

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

(weighted average assumptions)	**2008** Pension Benefit Plans	Other Benefit Plans	2007 Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation as of December 31:				
Discount rate	**6.60%**	**6.70%**	5.60%	5.50%
Rate of compensation increase	**3.00%**	**n/a**	3.00%	n/a
Benefit costs for year ended December 31:				
Discount rate	**5.60%**	**5.50%**	5.25%	5.25%
Expected long-term rate of return on plan assets	**7.50%**	**n/a**	7.00%	n/a
Rate of compensation increase	**3.00%**	**n/a**	3.00%	n/a

Assumed health care cost trend rates

(weighted average assumptions)	**2008**	2007
Initial health care cost trend rate	**5.83%**	5.62%
Ultimate health care trend rate	**4.40%**	4.27%
Year ultimate rate is reached	**2014**	2011

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one percentage-point change in assumed health care cost trend rates would have the following effects for 2008:

	1% Increase	**1% Decrease**
Accrued benefit obligation	**$ 16.7**	**$ (13.6)**
Total of service and interest cost	**$ 2.3**	**$ (1.8)**

Defined contribution and other plans

The total cost recognized in 2008 for Canfor's defined contribution plans was $3.6 million (2007 – $1.6 million).

Canfor contributes to various forest industry union defined benefit pension plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the cost recognized for defined contribution plans above, amounted to $17.4 million in 2008 (2007 – $20.9 million).

15. Asset Retirement Obligations

(millions of dollars)		**2008**		2007
Balance, beginning of year	**$**	**13.2**	$	-
Accrued obligation		**-**		13.4
Accretion expense		**0.4**		0.1
Paid during the year		**(1.2)**		(0.3)
Gain on settlement		**(0.9)**		-
Change in estimate		**(6.8)**		-
Balance, end of year	**$**	**4.7**	$	13.2
Less: current portion		**-**		(2.1)
Long-term portion (Note 12)	**$**	**4.7**	$	11.1

In 2008, CPLP completed remediation of an ash pond at its Intercontinental pulp mill. In 2007, CPLP recorded an obligation based on the fair value of the containment estimate of $2.4 million, with a corresponding capital addition to the related asset. The final costs to remediate the ash pond were $1.5 million and as a result, CPLP recognized a gain of $0.9 million on settlement of the ash pond, which is included in 'Other Income' on the 2008 Consolidated Statement of Loss.

Following a review in 2008 of the useful lives and landfill closure costs, CPLP reduced its asset retirement obligations and the related asset by $6.8 million. CPLP's obligations as at December 31, 2008 reflect estimated undiscounted future payments of $20.3 million. The future payments relating to landfill closure costs are discounted at 5.8% and 6.3% and are expected to occur at periods ranging from 32 to 40 years.

Canfor has certain assets that have indeterminable useful lives and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. Once the useful life of these assets becomes determinable and an estimate of fair value can be made, an asset retirement obligation will be recorded.

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

16. Share Capital

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

(millions of dollars)	**2008** Number of Shares		**2008** Amount	2007 Number of Shares		2007 Amount
Common shares, beginning of year	**142,589,312**	**$**	**1,124.7**	142,548,812	$	1,124.3
Stock options exercised (Note 17)	**-**		**-**	40,500		0.4
Common shares, end of year	**142,589,312**	**$**	**1,124.7**	142,589,312	$	1,124.7

17. Stock-based Compensation

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

Stock Option Performance Plan

The Company has a stock option performance plan pursuant to which stock options were granted to selected officers and senior managers. No new stock options were granted in 2008 or 2007. The stock option performance plan provided for the issuance of up to a maximum of 5.8 million common shares at an exercise price equal to the market price of the Company's common shares on the date of grant. However, there are various criteria that limit the amount of options exercisable during each option year within the option period. The options are for a term of ten years and vest equally over three years. All options have fully vested. A summary of the status of the plan as of December 31, 2008 and 2007, and changes during the years ending on those dates, is presented below:

	2008 Number of Shares		**2008** Weighted Average Exercise Price	2007 Number of Shares		2007 Weighted Average Exercise Price
Outstanding at the beginning of year	**213,801**	**$**	**9.39**	261,969	$	9.29
Exercised	**-**		**-**	(40,500)		8.82
Expired	**(13,333)**		**10.18**	(7,668)		9.12
Outstanding at the end of the year	**200,468**	**$**	**9.34**	213,801	$	9.39

The following table summarizes information about stock options outstanding at December 31, 2008:

	Options outstanding				Options exercisable		
Range of exercise prices	Number of Options Outstanding	Weighted Average Remaining Life (years)		Weighted Average Exercise Price	Number of Options Exercisable		Weighted Average Exercise Price
$8.30	63,800	2.1	$	8.30	63,800	$	8.30
$9.80 to $11.80	136,668	3.1		9.82	136,668		9.82
	200,468	2.8	$	9.34	200,468	$	9.34

Employee Share and Unit Purchase Plans

The Company has a share purchase plan, which is available to all employees, other than CPLP employees. Purchases of common shares under this plan occur on the open market. Under the plan, employees can purchase up to 10% of their base salary or wage. Up to June 2007, the Company matched 30% of the first 5% of the amount contributed by the employee and paid the plan's brokerage fees. Since July 2007, the Company has not made any contributions towards the purchase of its shares under the plan (2007 - $0.6 million).

CPLP has a unit purchase plan, which is available to all CPLP employees. Purchases of Canfor Pulp Income Fund units under this plan occur on the open market. Under the plan the employees can purchase up to 10% of their base salary or wage. CPLP matches 30% of the first 5% of the amount contributed by the employee and pays the plan's brokerage fees. In 2008, CPLP made contributions of $0.6 million towards the purchase of the units of Canfor Pulp Income Fund under the plan (2007 - $0.5 million).

Deferred Share Unit Plans

On January 1, 2002, the Company implemented a Deferred Share Unit Plan for non-employee directors of the Company. A Deferred Share Unit ("DSU") is a right granted to a non-employee director to receive one common share of the Company, purchased on the open market, or the cash equivalent, on a deferred payment basis. The maximum number of DSUs outstanding under the plan is 1,000,000, and currently each non-employee director is entitled to 2,500 DSUs per year. The value of the DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity. The value of the outstanding DSUs at December 31, 2008 was $0.7 million (2007 – $0.7 million).

In May 2007, the Company implemented a Deferred Share Unit Plan for the Company's CEO (the "CEO Plan"). Pursuant to the terms of the plan, the CEO receives his annual salary in DSU units, which are allocated on a monthly basis. The value of the DSUs when redeemed will be equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs under the CEO Plan may only be redeemed on the date the CEO ceases, for whatever reason, to be employed by the Company. The value of the outstanding CEO DSUs at December 31, 2008 was $0.7 million (2007 – $0.3 million).

18. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with the indefinite or permanent closures of facilities and staff reductions. The expense for the year ended December 31, 2008 amounted to $53.5 million (2007 - $41.3 million) and substantially resulted from the indefinite closures of the Mackenzie sawmill and PolarBoard and Tackama panel operations, as well as the permanent closure of the NCP plywood operation following a fire that destroyed the plant (Note 4(i)).

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

(millions of dollars)	**2008**	2007
Lumber	**$ 18.7**	$ 21.7
Panels	**34.5**	14.4
Corporate and Other	**0.3**	5.2
	$ 53.5	$ 41.3

The following table provides a reconciliation of the restructuring, mill closure and severance liability for the 2007 and 2008 years:

(millions of dollars)		**2008**		2007
Accrued liability at beginning of year	**$**	**29.8**	$	4.9
Costs in the period [a]		**39.8**		33.3
Paid during the year		**(46.3)**		(8.4)
Accrued liability at end of year	**$**	**23.3**	$	29.8

[a] Excluding non-cash expenses, which include provisions for capital asset and inventory write-downs resulting from indefinite and permanent mill closures, in both years

19. Interest Income (Expense)

(millions of dollars)		**2008**		2007
Interest expense	**$**	**(38.7)**	$	(44.1)
Less: Interest income		**13.3**		34.7
Interest expense, net	**$**	**(25.4)**	$	(9.4)

Interest expense, net is comprised of:

(millions of dollars)		**2008**		2007
Short-term interest income, net	**$**	**9.5**	$	28.3
Long-term interest expense, net		**(34.9)**		(37.7)
Interest expense, net	**$**	**(25.4)**	$	(9.4)

For the year ended December 31, 2008, short-term interest income, net is comprised of interest income of $13.2 million on cash and cash equivalents (2007 – $34.6 million), less interest expense of $3.7 million on loans and letter of credit charges (2007 – $6.3 million). The 2008 long-term interest expense, net is comprised of interest expense of $35.0 million on long-term debt (2007 – $37.8 million), less interest income of $0.1 million on long-term advances (2007 – $0.1 million).

20. Asset Impairments

(millions of dollars)		**2008**		2007
Capital assets	**$**	**77.2**	$	231.4
Assets related to Howe Sound Pulp and Paper Limited Partnership and Coastal Fibre Limited Partnership		**70.0**		14.0
Non-bank asset-backed commercial paper (Note 6)		**10.2**		16.2
Other		**12.2**		6.4
	$	**169.6**	$	268.0

Capital Assets

Canfor reviews the carrying values of its long-lived assets on a regular basis as events or changes in circumstances may warrant. Where the carrying value of assets is not expected to be recoverable from future cash flows, they are written down to fair value. A review of the carrying values of Canfor's sawmill and panelboard operations and various other assets was undertaken in 2007 and 2008 as a result of operating losses in both years and the difficult market conditions.

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

Estimates of future cash flows used to test the recoverability of Canfor's long-lived assets generally include key assumptions related to forecast prices and exchange rates. Other significant assumptions are the estimated useful life of the long-lived assets, and the impacts of both the Softwood Lumber Agreement with the U.S. and the Mountain Pine Beetle epidemic. Price forecasts beyond 2009 were determined with reference to Resource Information Systems, Inc. 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 US 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 of these was used in determining the impairments to be recorded.

As a result of its review, Canfor recorded a capital asset impairment charge of $77.2 million (2007 – $231.4 million).

Assets related to Howe Sound Pulp and Paper Limited Partnership and Coastal Fibre Limited Partnership

For the year ended December 31, 2008, an asset impairment charge of $70.0 million (2007 – $14.0 million) was recorded for assets related to Howe Sound Pulp and Paper Limited Partnership ("HSLP"), which reflects fair value based on estimated future cash flows. Canfor's investments include a 50% interest in Coastal Fibre Limited Partnership ("CFLP"), an entity which supplies chips and logs and related services to HSLP. The impairment reflects the deterioration of BC Coastal pulp, paper and fibre market conditions (Notes 26 and 27).

Non-Bank Asset-Backed Commercial Paper

Since August 2007, there has been no active market for non-bank asset-backed commercial paper ("ABCP"). Canfor's funds are invested in the ABCP of four different Canadian trusts, which failed to make payment at maturity and, along with 16 other ABCP conduits, were subject to restructuring under the Pan-Canadian Investors Committee for Third Party structured Asset-Backed Commercial Paper ("the Pan-Canadian Investors Committee"). On March 17, 2008 the Pan-Canadian Investors Committee filed with the Ontario Superior Court of Justice a comprehensive arrangement pursuant to the Companies' Creditors Arrangement Act to restructure the affected trusts. The final restructuring plan was approved on January 12, 2009 and completed on January 21, 2009.

At December, 31, 2008 an additional impairment of $10.2 million (US$8.4 million) was recorded on the ABCP based on the estimated fair value at year end, which took into account information available to Canfor related to its specific holdings of ABCP, and assumed a high likelihood of success for the ABCP restructuring plan. The book value at December 31, 2008 reflected the impact of a weaker Canadian dollar on the US dollar denominated ABCP. No changes to fair value resulted from the completion of the restructuring plan after year-end 2008.

Other

For the year ended December 31, 2008, other asset impairments of $12.2 million were recognized for certain other investments and spare parts inventory at indefinitely idled operations.

21. Other Income (Expense)

(millions of dollars)		**2008**		2007
Foreign exchange gain (loss) on translation of working capital	**$**	**17.3**	$	(14.1)
Dividend income		**-**		5.0
Other, net		**(4.6)**		(2.0)
	$	**12.7**	$	(11.1)

22. Income Taxes

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

(millions of dollars)	**2008** Current	**2008** Long-term	2007 Current	2007 Long-term
Future income tax assets				
Accruals not currently deductible	**$ 23.2**	**$ 22.9**	$ 23.7	$ 24.1
Derivative financial instruments	**21.2**	**1.0**	-	-
Non-capital loss carryforwards	**-**	**18.4**	-	7.3
Investments	**0.2**	**2.5**	-	3.4
Post employment benefits	**-**	**27.5**	-	25.8
Other	**0.2**	**8.4**	0.4	1.4
	$ 44.8	**$ 80.7**	$ 24.1	$ 62.0
Future income tax liabilities				
Depreciable capital assets	**$ -**	**$ (270.8)**	$ -	$ (305.7)
Deferred pension and other costs	**-**	**(33.2)**	-	(28.0)
Unrealized foreign exchange gains on debt	**-**	**(7.1)**	-	(23.8)
Income from limited partnerships	**(13.2)**	**-**	(21.8)	-
Derivative financial instruments	**-**	**-**	(5.6)	(0.9)
Other	**(0.4)**	**(12.0)**	(15.7)	(3.1)
	$ (13.6)	**$ (323.1)**	$ (43.1)	$ (361.5)
Future income taxes, net	**$ 31.2**	**$ (242.4)**	$ (19.0)	$ (299.5)

The components of income tax recovery are as follows:

(millions of dollars)	**2008**	2007
Current	**$ 47.9**	$ 140.8
Future	**94.0**	93.3
	$ 141.9	$ 234.1

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

(millions of dollars)	**2008**	2007
Net loss before income taxes and non-controlling interests	**$ (463.1)**	$ (529.3)
Income tax recovery at statutory tax rate	**$ 143.6**	$ 180.5
Add (deduct):		
Non-controlling interests	**7.4**	22.3
Change in corporate income tax rates	**9.1**	21.5
Entities with different income tax rates and other tax adjustments	**4.4**	12.4
Tax recovery at rates other than statutory rate	**3.5**	-
Permanent difference from capital gains and losses and other non-deductible items	**(26.1)**	(2.6)
Income tax recovery	**$ 141.9**	$ 234.1

23. Net Loss Per Share

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

	2008	2007
Weighted average number of common shares	**142,589,312**	142,576,271
Incremental shares from potential exercise of stock options [a]	**1,778**	41,254
Diluted number of common shares [a]	**142,589,312**	142,576,271

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

24. Net Change in Non-Cash Working Capital

(millions of dollars)		**2008**		2007
Accounts receivable	**$**	**78.1**	$	38.0
Income taxes recoverable/payable		**89.6**		(371.9)
Future income taxes, net		**(49.9)**		14.0
Inventories		**2.9**		166.8
Prepaid expenses		**(0.1)**		1.9
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation		**(64.4)**		(277.3)
	$	**56.2**	$	(428.5)

25. Financial Instruments

All financial instruments and derivatives are measured at fair value on initial recognition except for certain related party transactions. Unless otherwise stated, book value approximates fair value.

Classification of Financial Instruments

Canfor has classified its cash and cash equivalents and ABCP as held-for-trading. Accounts receivable are classified as loans and receivables. Operating loans, accounts payable and accrued liabilities, and long-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost. Derivative instruments are recorded 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 reviews all assets, including financial instruments, for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Financial Risk Management

Canfor is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

Canfor's Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of Canfor.

(a) Credit risk:

Credit risk is the risk of financial loss to Canfor if a customer or third party to a derivative instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable and long-term investments and other. Cash and cash equivalents includes cash held through major Canadian and international financial institutions and temporary investments with an original maturity date of three months or less. The cash and cash equivalents balance at December 31, 2008 is $362.4 million.

Canfor utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 50% of the outstanding trade receivables are covered by credit insurance. Canfor's trade receivable balance at December 31, 2008 is $105.9 million, net of an allowance for doubtful accounts of $3.0 million. At December 31, 2008, approximately 98% of the trade accounts balance was within Canfor's established credit terms.

(b) Liquidity risk:

Liquidity risk is the risk that Canfor will be unable to meet its financial obligations on a current basis. Canfor manages liquidity risk through regular cash-flow forecasting in conjunction with an adequate committed operating loan facility.

At December 31, 2008, Canfor has operating loans of $25.2 million, accounts payable and accrued liabilities of $322.9 million and current debt obligations of $168.3 million (US$137.3 million), all of which fall due for payment within one year of the balance sheet date.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency and commodity prices.

(i) Interest Rate risk:

Canfor is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Canfor's cash and cash equivalents include term deposits with original maturity dates of three months or less.

Changes in the market interest rates do not have a significant impact on Canfor's results of operations due to the short-term nature of the respective financial assets and obligations and because all long-term debt is based on fixed rates of interest.

Canfor currently does not use derivative instruments to reduce its exposure to interest rate risk.

(ii) Currency risk:

Canfor is exposed to foreign exchange risk primarily related to the US dollar, as Canfor's products are sold principally in US dollars and all long-term debt is denominated in US dollars. In addition, Canfor holds financial assets and liabilities primarily related to New South Companies Inc. based in South Carolina, in US dollars.

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $1.2 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable); (ii) loss (gain) of approximately $0.8 million in relation to the ABCP denominated in US dollars at year end; (iii) gain (loss) of approximately $6.4 million in relation to long-term debt denominated in US dollars at year end 2008.

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses and the US dollar denominated debt. The majority of the remaining exposure is covered by option contracts (foreign exchange collars) that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars.

Canfor had the following foreign exchange derivatives at December 31, 2008 and 2007:

	2008		2007	
	Notional Amount	**Average Rate**	Notional Amount	Average Rate
US dollars	(millions of US dollars)	(per dollar)	(millions of US dollars)	(per dollar)
0-12 months				
US Dollar Collars	**$ 397.0**	**$ 0.9800 - $ 1.1328**	$ 404.0	$ 1.00 - $ 1.1275
US Dollar Forward Contracts	**$ 95.8**	**$ 1.1963 - $ 1.2618**	$ 8.7	$ 0.9981
13 - 24 months				
US Dollar Collars	**-**	**-**	$ 64.0	$ 1.00 - $ 1.1206

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax gain (loss) of approximately $5 million in relation to the foreign exchange collars and forward contracts held at year end.

(iii) Energy Price risk:

Canfor is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The exposure is hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. In the case of diesel, Canfor uses heating oil contracts to hedge its exposure.

Canfor had the following energy derivatives at December 31, 2008 and 2007:

	2008		2007	
	Notional Amount	**Average Price**	Notional Amount	Average Price
Natural Gas	(millions of gigajoules)	(dollars per gigajoule)	(millions of gigajoules)	(dollars per gigajoule)
Floating to Fixed Swap				
0 – 12 Months	**4.2**	**$ 7.58**	4.8	$ 7.25
13 – 36 Months	**2.7**	**$ 7.76**	5.3	$ 7.61
Diesel	(millions of gallons)	(dollars per gallon)	(millions of gallons)	(dollars per gallon)
Floating to Fixed Swap				
0 – 12 Months	**5.3**	**$ 2.76**	9.8	$ 1.97
13 – 36 Months	**1.2**	**$ 2.70**	3.5	$ 1.82
Call Option				
0 – 12 Months	**3.0**	**$ 3.55**	-	-

An increase (decrease) in the market price of natural gas of $0.10 per gigajoule would result in a pre-tax gain (loss) of approximately $0.7 million in relation to the natural gas swaps held at year end.

An increase (decrease) in the market price of diesel of $0.10 per gallon would result in a pre-tax gain (loss) of approximately $0.7 million in relation to the diesel swaps held at year end.

(iv) Commodity Price risk:

Canfor is exposed to commodity price risk related to sale of lumber, pulp, paper, and oriented strand board. From time to time, Canfor enters into futures contracts on the Chicago Mercantile Exchange for lumber and forward contracts direct with customers for pulp. Under the Price Risk Management Controls Policy, up to 15% of lumber sales and 5% of pulp sales may be sold in this way.

Canfor had no futures contracts at December 31, 2008.

	2008		2007	
	Notional Amount	**Average Price**	Notional Amount	Average Price
Lumber	(Fbm)	(dollars per Fbm)	(Fbm)	(dollars per Fbm)
Future Contracts				
0 – 12 months	**-**	**-**	34.1	$ 281.62

Derivative 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, 2008, the fair value of outstanding commodity and exchange financial instruments was a net liability of $69.3 million (2007 – net asset of $17.2 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2008 and 2007:

(millions of dollars)	**2008**	2007
Foreign exchange collars and forward contracts	**$ (86.1)**	$ **14.3**
Natural gas swaps	**(0.4)**	**(4.0)**
Diesel options and swaps	**(3.4)**	**9.1**
Commodity futures	**-**	**1.7**
	$ (89.9)	$ **21.1**
Reclassification to income of gains (losses) on derivatives designated as cash flow hedges in prior periods [a]	**1.4**	**(5.1)**
(Loss) gain on derivative financial instruments	**$ (88.5)**	$ **16.0**

[a] Net of taxes and non-controlling interests

The following table summarizes the fair market value of the derivative financial instruments included in the balance sheet at December 31, 2008 and 2007:

(millions of dollars)	**2008**	2007
Foreign exchange collars and forward contracts	**$ (53.2)**	$ 15.0
Natural gas swaps	**(6.5)**	(5.7)
Diesel options and swaps	**(9.6)**	7.9
	(69.3)	17.2
Less: current portion	**(67.5)**	14.4
Long-term portion	**$ (1.8)**	$ 2.8

26. Related Party Transactions

Canfor undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on the same terms as those accorded to unrelated third parties, except where noted otherwise.

Howe Sound Pulp and Paper Limited Partnership

Howe Sound Pulp and Paper Limited Partnership ("HSLP") is jointly owned by Canfor and Oji Paper Co. Ltd. ("Oji") and operates a kraft pulp and newsprint mill at Port Mellon, British Columbia. Canfor has the following related party transactions with HSLP:

(a) Under a long-term fibre agreement with Western Forest Products Inc., CFLP purchases chips and logs for resale to HSLP at CFLP's cost. In 2008, these purchases totaled $18.5 million and $21.8 million respectively (2007 - $15.8 million, $18.8 million) and the balance receivable at December 31, 2008 was $19.1 million

(2007 - $15.8 million). CFLP charges HSLP a commission for this service, which amounted to $0.3 million in 2008 (2007 - $0.2 million). There was a balance receivable of $0.8 million at December 31, 2008 (2007 - $0.5 million). These amounts have been proportionately consolidated in Canfor's financial statements.

(b) Canfor and Oji, the partners of HSLP, and HSLP have a prepayment agreement whereby the partners prepay HSLP in advance of the due date for receivables for pulp marketed, or to be marketed, and collected on their behalf. Canfor charges a market rate of interest to HSLP for the period paid in advance and the prepayment is partially covered by the assignment of current or future accounts receivable. The agreement provides for Oji to prepay up to a maximum amount of $60.0 million and Canfor to a maximum of $50.0 million, which is used as short-term operating funds by HSLP. In addition, Canfor has granted extended credit terms to HSLP up to a maximum of $10.0 million. Canfor, through CPLP, markets the pulp production of HSLP for which it receives commissions under the terms of its agency sales agreement. Canfor provides management, fibre supply and other services to HSLP at cost. At December 31, 2008, Canfor has a balance of $31.4 million owing from HSLP (2007 - $32.8 million).

(c) As a consequence of a debt restructuring agreement among HSLP, Canfor, Oji and a consortium of Japanese banks (the "Banks") in February 2008, Canfor contributed additional funds to HSLP of $18.8 million, which were still outstanding at year end. These funds are secured by the assets of HSLP, subject to other security granted to the Banks and Oji. The repayment of these funds has priority over all other repayments, except a minimum bank debt repayment, from the annual free cash flow of HSLP.

The transactions with HSLP in 2008 and 2007 are summarized below:

(millions of dollars)		**2008**		2007
Chips purchased for resale to HSLP	**$**	**9.3**	$	7.9
Pulp logs purchased for resale to HSLP		**10.9**		9.4
Interest		**3.1**		2.8
Commission earned from marketing of HSLP pulp		**2.6**		2.9
Other		**0.3**		0.7
	$	**26.2**	$	23.7

As at December 31, 2008, Canfor has recorded a net amount receivable from HSLP of $11.3 million (2007 - $26.1 million).

Other Related Parties

Canfor purchases chips and lumber from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which Canfor has a 33.3% interest. In 2008, Canfor purchased $6.0 million in chips and $1.5 million in lumber (2007 – $11.5 million and $8.7 million respectively). The balance outstanding at December 31, 2008 was $0.2 million (2007 – $0.6 million).

Kyahwood Forest Products Ltd. ("Kyahwood"), in which Canfor had an interest until April 2008 when it disposed of its investment, provided remanufacturing services to Canfor totaling $4.2 million in 2007. There were no transactions in 2008.

In 2008, shipping services provided by Seaboard International Shipping Company ("SeaBoard"), in which Canfor has a 20% interest, amounted to $3.4 million (2007 - $5.3 million). There was no balance outstanding at December 31, 2008 (2007 – $0.3 million). On December 29, 2008 Canfor received a loan of $2.9 million from the Seaboard General Partnership, which owns Seaboard, by way of a demand, non-interest bearing promissory note payable on or before January 2, 2009. On January 2, 2009, Seaboard General Partnership declared an income distribution to its partners of which Canfor's share was $2.9 million. The distribution was received by way of offset against the non-interest bearing promissory note of the same amount.

Louisiana-Pacific Canada Ltd. performs the sales and receivable functions for Peace Valley OSB, an oriented strand board mill located in Fort St. John, British Columbia (Note 27). In 2008, Louisiana-Pacific Canada Ltd. sold $110.7 million of Peace Valley OSB inventory (2007 - $112.9 million). Louisiana-Pacific Canada Ltd. charges a fee for this service, which amounted to $3.1 million in 2008 (2007 - $1.8 million). There was a net payable to Louisiana-Pacific Canada Ltd. of $0.1 million at December 31, 2008 (2007 – $0.1 million). These amounts have been proportionately consolidated in Canfor's financial statements.

27. Joint Ventures

Canfor-Louisiana Pacific OSB Limited Partnership

Canfor and Louisiana-Pacific Canada Ltd. jointly own Peace Valley OSB ("Canfor-LP OSB"), a limited partnership. Canfor has agreed to supply 330,000 cubic metres of timber annually to the joint venture from its existing timber tenure in the area where the mill is located. During 2008, Canfor made capital contributions of $3.5 million to Canfor-LP OSB (2007 - $5.5 million).

Coastal Fibre Limited Partnership

In March 2006, Canfor completed the transfer of its Englewood logging operation and associated timber licenses ("Englewood operations") to a new limited partnership, Coastal Fibre Limited Partnership ("CFLP"), jointly owned with Oji Paper Canada Ltd., which contributed cash of equal value. In consideration of the transfer Canfor received a partnership interest valued at $45.0 million, which approximated the book value of the assets transferred. On the same day, CFLP transferred the Englewood operations and cash of $35.0 million to Western Forest Products Inc. ("WFP") in return for a long-term agreement with WFP to supply CFLP with fibre, and CFLP will supply this fibre to HSLP.

The following balances, which represent Canfor's 50% ownership interests in Canfor-LP OSB and CFLP, have been proportionately consolidated in Canfor's consolidated financial statements:

	2008			2007		
(millions of dollars)	**Canfor-LP OSB**	**CFLP**	**Total**	Canfor- LP OSB	CFLP	Total
Balance Sheet						
Cash	**$ 2.8**	**$ 0.1**	**$ 2.9**	**$** 3.2	$ -	$ 3.2
Other current assets	**3.0**	**0.1**	**3.1**	2.4	8.3	10.7
Property, plant and equipment	**106.5**	**-**	**106.5**	115.4	-	115.4
Deferred costs	**-**	**-**	**-**	1.6	-	1.6
Long-term fibre agreement (Notes 6, 20)	**-**	**-**	**-**	-	37.1	37.1
Accounts payable and accrued liabilities	**(3.6)**	**(0.2)**	**(3.8)**	(4.0)	(0.3)	(4.3)
Net assets	**$ 108.7**	**$ -**	**$ 108.7**	**$** 118.6	$ 45.1	$ 163.7
Statement of Loss						
Sales	**$ 54.8**	**$ 1.7**	**$ 56.5**	**$** 56.0	$ 1.4	$ 57.4
Costs and expenses	**(69.1)**	**(1.7)**	**(70.8)**	(78.6)	(1.4)	(80.0)
Net loss	**$ (14.3)**	**$ -**	**$ (14.3)**	**$** (22.6)	$ -	$ (22.6)
Cash Flow Statement						
Cash (used in) from operating activities	**$ (3.5)**	**$ 0.1**	**$ (3.4)**	**$** (6.4)	$ (0.2)	$ (6.6)
Cash from investing activities	**3.1**	**-**	**3.1**	2.8	-	2.8
(Decrease) increase in net cash	**$ (0.4)**	**$ 0.1**	**$ (0.3)**	**$** (3.6)	$ (0.2)	$ (3.8)

28. Segmented Information [a]

(millions of dollars)	Lumber [d]	Panels	Pulp & Paper	Corporate & Other	Elimination Adjustment	Consolidated
Year ended December 31, 2008						
Sales to external customers [b]	**$ 1,490.5**	**170.3**	**950.8**	**-**	**-**	**$ 2,611.6**
Sales to other segments [c]	**$ 96.0**	**3.6**	**-**	**-**	**(99.6)**	**$ -**
Operating (loss) income	**$ (155.0)**	**(56.9)**	**76.8**	**(23.0)**	**-**	**$ (158.1)**
Amortization	**$ 99.5**	**16.1**	**48.8**	**6.8**	**-**	**$ 171.2**
Capital expenditures	**$ 39.5**	**0.8**	**39.9**	**-**	**-**	**$ 80.2**
Identifiable assets [e]	**$ 1,434.4**	**248.2**	**906.6**	**611.2**	**-**	**$ 3,200.4**
Year ended December 31, 2007						
Sales to external customers [b]	$ 1,942.7	297.7	1,035.2	-	-	$ 3,275.6
Sales to other segments [c]	$ 111.2	5.0	-	-	(116.2)	$ -
Operating (loss) income	$ (301.2)	(76.5)	137.2	(32.5)	-	$ (273.0)
Amortization	$ 102.8	23.0	53.3	5.0	-	$ 184.1
Capital expenditures	$ 47.6	15.7	24.2	3.1	-	$ 90.6
Identifiable assets [e]	$ 1,537.4	335.1	937.1	698.2	-	$ 3,507.8

a. Operations are presented by product lines.

b. No single customer accounted for 10% or more of Canfor's total sales in 2008 and 2007.

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

d. Sales include sales of Canfor-produced lumber of $1,214.3 million in 2008 (2007 – $1,631.8 million).

e. Identifiable assets are presented net of an impairment charge of $169.6 million (2007 – $268.0 million), of which $2.2 million relates to the Lumber segment (2007 - $90.0 million), $81.2 million to the Panels segment (2007 - $141.4 million) and $86.2 million to Corporate and Other (2007 – $36.6 million).

Geographic Information

(millions of dollars)	2008	2007
Sales by location of customer		
Canada	**$ 505.3**	$ 615.6
United States	**1,378.3**	1,855.0
Europe	**174.5**	190.3
Far East and Other	**553.5**	614.7
	$ 2,611.6	$ 3,275.6
Capital assets and goodwill by location		
Canada	**$ 1,697.9**	$ 1,868.9
United States	**186.1**	159.5
Far East and Other	**0.2**	0.2
	$ 1,884.2	$ 2,028.6

29. Capital Disclosures

Canfor's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensures adequate liquidity to maintain and develop the business throughout the commodity price cycle.

Canfor's capital is comprised of net debt and shareholders' equity:

(millions of dollars)	2008	2007
Total debt (including operating loans)	**$ 622.2**	$ 496.8
Less: Cash and cash equivalents	**(362.4)**	(295.5)
Net debt	**259.8**	201.3
Total shareholders' equity	**1,494.8**	1,817.1
	$ 1,754.6	$ 2,018.4

The Company has certain financial covenants in its debt obligations that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on total shareholders' equity. The net debt to total capitalization is calculated by dividing total debt, less cash and cash equivalents, by shareholders' equity plus total debt less cash and cash equivalents. Debt obligations are held by various entities within the Canfor group and the individual debt agreements specify the entities within the group that are to be included in the covenant calculations.

Separately, CPLP has leverage and interest coverage ratios calculated by reference to operating earnings before interest, taxes, depreciation and amortization.

Canfor's strategy is to ensure it remains in compliance with all of its existing covenants, so as to ensure continuous access to capital, and management reviews results and forecasts to monitor Canfor's compliance. Canfor was in compliance with all its debt covenants for the years ended December 31, 2008 and 2007.

30. Commitments and Contingencies

Operating Lease Commitments

Canfor has committed to operating leases for property, plant and equipment. As at December 31, 2008, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)	
2009	$ 22.4
2010	13.8
2011	6.6
2012	4.7
2013	2.7
Thereafter	1.8
Total minimum lease payments	$ 52.0

Letters of Credit

Canfor and CPLP have several letters of credit which are summarized in Note 9, Operating Loans.

31. Subsequent Events

New Operating Loans

On January 30, 2009, Canfor entered into two new operating loan facilities in the amounts of US$16.7 million ("Facility A") and US$43.7 million ("Facility B"). Facility A expires in January 2012, with the option of four one-year extensions, and is non-recourse to Canfor under normal circumstances, except for US$6.7 million. Facility B expires in January 2011, with the option of five one-year extensions, and is non-recourse to Canfor under normal circumstances. Both facilities can be drawn in Canadian or US dollars and interest is payable at floating rates based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus or minus a margin. The ABCP assets of Canfor have been pledged as security to support these credit facilities.

Sale of Panel and Fibre Mill Property

On February 13, 2009, Canfor completed the sale of a property located at New Westminster, British Columbia, for gross proceeds of $47.5 million. The property was the site of Canfor's former Panel and Fibre operation, which was permanently closed at the beginning of 2008. The transaction will result in a pre-tax gain of approximately $44 million.

32. Comparative Figures

Certain 2007 figures have been reclassified to conform to the current year's presentation.