Q1 2008

For the three months ended March 31, 2008

CANFOR CORPORATION 2008 FIRST QUARTER INTERIM REPORT

To Our Shareholders

Canfor Corporation reported a net loss of $85.4 million ($0.60 per share) for the first quarter of 2008, compared to a net loss of $237.0 million ($1.66 per share) for the fourth quarter of 2007 and a net loss of $42.7 million ($0.30 per share) for the first quarter of 2007.

The loss for the first quarter of 2008 included several significant items that affect comparability with prior periods, including a $42.0 million log inventory devaluation, resulting from a new inventory accounting standard, which impacted net earnings by $29.0 million ($0.20 per share), an after-tax foreign exchange translation loss on long-term debt net of investments of $10.1 million ($0.07 per share), and an income tax recovery of $9.1 million ($0.06 per share) resulting from a reduction in British Columbia corporate income tax rates. Earnings for the fourth quarter of 2007 were significantly impacted by an after-tax asset impairment charge of $189.1 million ($1.33 per share).

After adjusting for significant items that affect comparability with prior periods, the Company's adjusted net loss for the first quarter of 2008 was $60.5 million ($0.42 per share). Comparable adjusted net losses for the fourth and first quarters of 2007 were $69.6 million ($0.49 per share) and $40.7 million ($0.28 per share), respectively.

Results for the first quarter of 2008 reflected the continuation of depressed lumber and panel prices resulting from the ongoing U.S. housing market downturn, the strong Canadian dollar and a 15% export tax on lumber shipments to the U.S. Average SPF lumber prices, measured by 2X4 No.2 & Better, declined a further US$25 per thousand board feet (Mfbm) to US$205 per Mfbm in the quarter, at one point dropping to US$190 per Mfbm. Reflecting the extremely challenging environment, the Company operated at well below capacity at both its lumber and panel operations in the first quarter. Partly offsetting the negative results from the solid wood business was a strong financial performance from the pulp and paper segment, which for the most part reflected improved pulp and paper prices.

Despite the extremely difficult market conditions, the Company continued to make further headway in its efforts to reduce costs during the quarter, reporting both lower log and cash conversion costs compared to the previous quarter.

With little prospect of any meaningful price recovery on the immediate horizon, in early April the Company announced further significant lumber curtailments, equivalent to 600 million board feet on an annualized basis.

Peter J.G. Bentley
Chairman

James F. Shepard
President and Chief Executive Officer

Canfor Corporation
First Quarter 2008
Management's Discussion and Analysis

This interim Management's Discussion and Analysis (MD&A) provides a review of Canfor's financial performance for the quarter ended March 31, 2008 relative to the quarters ended December 31, 2007 and March 31, 2007, and the Company's financial condition. It should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2008 and 2007, as well as the annual MD&A and audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2007 (available at www.canfor.com).

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

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

Certain prior year comparative information throughout this report has been restated for consistency with the presentation in the current year. All financial references are in millions of Canadian dollars unless otherwise noted.

The information in this report is as at May 1, 2008.

FIRST QUARTER 2008 EARNINGS OVERVIEW

Selected Financial Information and Statistics

(millions of dollars, except for per share)	**Q1 2008**	Q4 2007	Q1 2007
Sales	**$ 648.5**	$ 711.0	$ 850.6
EBITDA[1]	**$ (74.0)**	$ (77.5)	$ (10.0)
Operating loss[1]	**$ (117.5)**	$ (124.7)	$ (57.8)
Interest income on duty refund	**$ -**	$ -	$ 2.2
Foreign exchange loss on long-term debt and investments	**$ (12.0)**	$ (4.1)	$ (6.0)
Gain on derivative financial instruments	**$ 6.0**	$ 6.2	$ 8.6
Asset impairments	**$ -**	$ (256.0)	$ (5.0)
Net loss [1]	**$ (85.4)**	$ (237.0)	$ (42.7)
Net loss per share, basic and diluted[1]	**$ (0.60)**	$ (1.66)	$ (0.30)
Average exchange rate (US$/CDN$)[2]	**$ 0.996**	$ 1.019	$ 0.854
U.S. housing starts (million units SAAR) [3]	**1.035**	1.151	1.460

[1] EBITDA and Operating loss for the first quarter of 2008 include a log inventory devaluation charge of $42.0 million resulting from the Company's adoption of a new inventory accounting standard, effective January 1, 2008. The related impact on the Net loss for Quarter 1, 2008 was $29.0 million, or $0.20 per share.
[2] Source – Bank of Canada (average noon rate for the period)
[3] Source – U.S. Census Bureau, seasonally adjusted annual rate (SAAR)

Overview

Net Earnings

The Company recorded a net loss of $85.4 million ($0.60 per share) for the first quarter of 2008, an improvement of $151.6 million ($1.06 per share) compared to the fourth quarter of 2007, and $42.7 million ($0.30 per share) higher than the loss reported for the first quarter of 2007. Earnings for the fourth quarter of 2007 were significantly impacted by an after-tax asset impairment charge of $189.1 million ($1.33 per share). After adjusting for all significant items affecting comparability with prior periods, the Company's adjusted net loss was $60.5 million ($0.42 per share) for the first quarter of 2008, an improvement of $9.1 million ($0.07 per share) compared to the fourth quarter of 2007, and $19.8 million ($0.14 per share) higher than the adjusted net loss for the first quarter of 2007.

The results for the first quarter of 2008 reflect the Company's prospective adoption of CICA Handbook Section 3031, *Inventories* on January 1, 2008. The new standard requires logs to be valued at the lower of cost or net realizable value (previously the Company had valued logs at the higher of net realizable value and replacement cost, if lower than average cost). Log inventory devaluations in the first quarter reduced operating earnings by $42.0 million, and net earnings by $29.0 million ($0.20 per share). The devaluations resulted from applying lower recovery-to-log net realizable values (arising principally from weaker lumber prices) to increased log inventories. Log inventories are seasonally highest at the end of the first quarter, in preparation for the spring break-up when no deliveries of logs are possible.

Analysis of Specific Items Affecting Comparability of Net Earnings

	Q1 2008		Q4 2007		Q1 2007	
After-tax impact, net of non-controlling interests (in millions of dollars, except per share amounts)	**$**	**$/Share**	$	$/Share	$	$/Share
Net loss, as reported	**$ (85.4)**	**$ (0.60)**	$ (237.0)	$ (1.66)	$ (42.7)	$ (0.30)
Gain on derivative financial instruments	**(4.1)**	**(0.03)**	(3.5)	(0.02)	(4.9)	(0.03)
New inventory accounting standard	**29.0**	**0.20**	-	-	-	-
Foreign exchange loss on long-term debt and investments	**10.1**	**0.07**	3.5	0.02	5.3	0.04
Duty refund adjustment	**-**	**-**	-	-	(1.4)	(0.01)
Net property damage insurance gain	**(3.6)**	**(0.03)**	-	-	-	-
Restructuring, mill closure and severance costs	**2.6**	**0.02**	14.2	0.10	-	-
CEO remuneration on resignation	**-**	**-**	-	-	3.0	0.02
Adjustments to incentive costs	**-**	**-**	(1.5)	(0.01)	-	-
Corporate income tax rate reductions	**(9.1)**	**(0.06)**	(35.8)	(0.25)	-	-
Prior year tax reassessments	**-**	**-**	(0.5)	(0.00)	-	-
Accrual for environmental liabilities	**-**	**-**	1.9	0.01	-	-
Asset impairments	**-**	**-**	189.1	1.33	4.1	0.03
Dividend income	**-**	**-**	-	-	(4.1)	(0.03)
Net impact of above items	**$ 24.9**	**$ 0.18**	$ 167.4	$ 1.17	$ 2.0	$ 0.02
Net loss, as adjusted	**$ (60.5)**	**$ (0.42)**	$ (69.6)	$ (0.49)	$ (40.7)	$ (0.28)

EBITDA

The following table reconciles the Company's net loss, as reported in accordance with GAAP, to EBITDA:

(millions of dollars)	**Q1 2008**	Q4 2007	Q1 2007
Net loss, as reported	**$ (85.4)**	$ (237.0)	$ (42.7)
Add (subtract):			
Non-controlling interests	**22.0**	6.1	24.3
Income tax recovery	**(55.7)**	(155.3)	(26.0)
Other (income) expense	**(1.3)**	3.5	(15.3)
Gain on derivative financial instruments	**(6.0)**	(6.2)	(8.6)
Asset impairments	-	256.0	5.0
Foreign exchange loss on long-term debt and investments	**12.0**	4.1	6.0
Net property damage insurance gain	**(8.5)**	-	-
Interest (income) expense	**5.3**	4.3	(0.6)
Equity (income) loss of affiliated companies	**0.1**	(0.2)	0.1
Amortization	**43.5**	47.2	47.8
EBITDA, as reported	**$ (74.0)**	$ (77.5)	$ (10.0)
Restructuring, mill closure and severance costs	**3.8**	21.5	-
EBITDA, as adjusted	**$ (70.2)**	$ (56.0)	$ (10.0)

EBITDA was negative $74.0 million for the first quarter of 2008, an improvement of $3.5 million compared to the fourth quarter of 2007, but down $64.0 million compared to the first quarter of 2007. After adjusting for items affecting comparability with prior periods, EBITDA for the first quarter of 2008 was down $14.2 million compared to the fourth quarter of 2007, and down $60.2 million compared to the first quarter of 2007. The decrease in adjusted EBITDA relative to the fourth quarter of 2007 reflected lower lumber and panel market prices and the recorded log inventory devaluation charge, which more than offset higher earnings reported by the pulp and paper business, and an improved sales mix and cost improvements recorded by the lumber business in the period.

The depressed U.S. housing market continued to have a major indirect impact on the financial performance of the solid wood businesses. Seasonally adjusted annualized U.S. housing starts fell to a 17-year low in the quarter, 1.035 million units, which was 29% lower than for the same quarter in 2007. March seasonally adjusted annualized housing starts were 947,000 units.

Total shipment volumes of wood products were down 10% compared to the previous quarter, and 15% versus the first quarter of 2007. Average SPF lumber and Oriented Strand Board (OSB) prices continued to slide, with SPF 2x4 No.2 & Better prices at one point in the quarter falling to US$190 per thousand board feet (Mfbm), and 7/16" North Central OSB prices dropping to a low of US$130 per thousand square feet in late February. Pulp prices continued to trend upwards, with listed U.S. NBSK prices averaging US$880 per tonne in the quarter. Paper sales realizations also improved in the quarter. The average value of the Canadian dollar compared to the U.S. dollar weakened slightly relative to the fourth quarter of 2007 (down 2%), but was still 17% higher than for the first quarter of 2007.

Due to the continued falling demand and poor pricing for softwood lumber, and no indications of a market recovery in the near future, in April the Company announced a reduction in its production volume through shortened work weeks and reduced shifts. The reduced operating configuration represents a reduction in the Company's annualized lumber production of approximately 600 million board feet.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Overview

The Lumber segment reported an operating loss of $118.8 million for the first quarter of 2008, compared to losses of $99.5 million and $74.6 million recorded for the fourth and first quarters of 2007, respectively. The higher operating loss for the first quarter of 2008 relative to the fourth quarter of 2007 reflected lower average prices and a significant devaluation of log inventories, partly offset by cost improvements, a higher-value sales mix and lower restructuring costs.

After adjusting for restructuring costs, EBITDA was down $25.5 million compared to the previous quarter, reflecting the factors noted above. Compared to the first quarter of 2007, adjusted EBITDA was down $46.0 million, primarily due to a significantly stronger Canadian dollar, weaker prices and the current period's log inventory devaluation charge.

Selected Financial Information and Statistics

(millions of dollars unless otherwise noted)	**Q1 2008**	Q4 2007	Q1 2007
Sales	**$ 352.5**	$ 395.3	$ 511.6
EBITDA[4]	**$ (93.0)**	$ (73.9)	$ (46.3)
Adjusted EBITDA	**$ (92.3)**	$ (66.8)	$ (46.3)
EBITDA margin[4]	**(26)%**	(17)%	(9)%
Adjusted EBITDA margin	**(26)%**	(19)%	(9)%
Operating income (loss)	**$ (118.8)**	$ (99.5)	$ (74.6)
Average SPF 2x4 #2 & Better lumber price in US$[5]	**$ 205**	$ 230	$ 253
Average SPF price in Cdn$	**$ 206**	$ 226	$ 296
Average SYP 2x4 #2 lumber price in US$[6]	**$ 285**	$ 277	$ 279
Average SYP price in Cdn$	**$ 286**	$ 272	$ 327
Production – SPF lumber (MMfbm)	**883.7**	866.8	1,114.4
Production – SYP lumber (MMfbm)	**106.0**	93.3	99.1
Shipments – Canfor-produced SPF lumber (MMfbm)[7]	**862.7**	988.4	1,002.0
Shipments – Canfor-produced SYP lumber (MMfbm)[7]	**110.3**	103.3	108.1
Shipments – wholesale lumber (MMfbm)	**49.5**	57.2	102.6

4 EBITDA for the first quarter of 2008 includes a log inventory devaluation charge of $38.1 million, resulting from the Company's adoption of a new inventory accounting standard.
5 Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
6 Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
7 Includes shipments of lumber purchased for remanufacture

Markets

Demand for wood products in the U.S. remained very low through the first quarter of 2008. U.S. housing starts were down 116,000 units (SAAR)[8], or 10%, compared to the previous quarter, and 425,000 units, or 29%, compared to the first quarter of 2007. The overall decline in housing starts resulted from a significant reduction in single family starts, which was partially offset by a modest increase in multi-family units. Inventories of unsold new and existing homes remained at high levels (10 months) through the quarter, as a result of slower sales. Repair and remodeling expenditures continued to decrease in the quarter, albeit at a slower pace than new home construction.

In contrast to the U.S., Canadian housing starts were strong for the first quarter of 2008, averaging 246,000 units (SAAR)[9], up 15% versus the previous quarter, and 9% versus the first quarter of 2007. Offshore markets were flat during the first quarter of 2008, with housing starts in Japan continuing to decrease following changes to the building standards code during 2007.

Sales

Sales for the first quarter of 2008 were down $42.8 million, or 11%, compared to the fourth quarter of 2007, and down $159.1 million, or 31%, compared to the first quarter of 2007.

The average price for SPF 2X4 No.2 & Better declined US$25 per Mfbm, or 11%, from the fourth quarter of 2007, and was down US$48 per Mfbm, or 19%, compared to the first quarter of 2007. U.S. prices for Southern Yellow Pine (SYP) lumber, measured by 2x4 No.2 & Better, fared a little better, recording slight gains over both comparative periods.

Shipments for the first quarter of 2008 reflected the worsening market conditions, and were down 126 million board feet, or 11%, compared to the previous quarter when the Company significantly reduced its lumber inventories, and 190 million board feet, or 16%, compared to the first quarter of 2007. Lower shipments to Japan and Europe in the quarter were largely offset by increased sales volumes to South East Asia and the Middle East. Overall, the Company had a higher-value sales mix in comparison to the fourth and first quarters of 2007.

Residual chip sales were slightly higher than for the previous quarter, for the most part reflecting a modest increase in volumes related to improved productivity. Compared to the first quarter of 2007, residual chip sales were well down, largely due to significantly lower operating rates which more than offset improved prices received from pulp producers.

The Canadian dollar came off its recent highs in the quarter but was still significantly stronger compared to the same time last year. Compared to the first quarter of 2007, the higher Canadian dollar negatively impacted operating earnings by over $30 million.

The Random Lengths Framing Lumber Composite price averaged US$247 per Mfbm for the first quarter of 2008, resulting in the export tax on all U.S. bound shipments remaining at 15% through the quarter.

Operations

Lumber production was below 1 billion board feet for the second consecutive quarter. Further sawmill productivity gains and a full quarter's production at the Darlington, South Carolina sawmill (acquired on November 30, 2007) more than offset lower production resulting from shift reductions and curtailments at a number of mills. The indefinite closure of the Chetwynd sawmill (annual capacity of 219 million board feet) took effect in the quarter as announced. Compared to the first quarter of 2007, production volumes were down 224 million board feet, or 18%.

The Company continued to make progress on reducing controllable costs in the first quarter, with unit manufacturing costs at its Western Canadian operations improving 6% and 12%, respectively, relative to the fourth and first quarters of 2007. Inventory devaluations reduced operating earnings for the first quarter of 2008 by approximately $34 million.

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[8] US Census Bureau
[9] CMHC

Panels

Overview

The Panels segment recorded an operating loss of $26.8 million for the first quarter, compared to a loss of $34.2 million for the previous quarter and a loss of $18.5 million for the first quarter of 2007. The operating loss for the quarter continued to reflect very challenging market conditions faced by all OSB producers. Realized Canadian dollar OSB prices fell a further 14% from already weak levels recorded in the previous quarter. Compared to the first quarter of 2007, prices were down 18%.

The fourth quarter of 2007's results reflected restructuring costs of $14.4 million related to the permanent closure of the Company's Panel and Fibre operation in New Westminster, B.C., while $2.9 million of costs principally associated with the indefinite idling of the Company's PolarBoard facility were recorded in the first quarter of 2008. After taking account of these items, EBITDA was down $5.2 million compared to the previous quarter, reflecting the impact of weaker prices and a $3.9 million log inventory devaluation charge. Compared to the first quarter of 2007, adjusted EBITDA was down $7.1 million, with the significantly stronger Canadian dollar, lower prices and the current period's log inventory devaluation charge the major contributors to the adverse variance.

Selected Financial Information and Statistics

(millions of dollars unless otherwise noted)	**Q1 2008**	Q4 2007	Q1 2007
Sales	**$ 53.9**	$ 70.5	$ 71.7
EBITDA[10]	**$ (22.5)**	$ (28.8)	$ (12.5)
Adjusted EBITDA	**$ (19.6)**	$ (14.4)	$ (12.5)
EBITDA margin[10]	**(42)%**	(41)%	(17)%
Adjusted EBITDA margin	**(36)%**	(20)%	(17)%
Operating income (loss)	**$ (26.8)**	$ (34.2)	$ (18.5)
Average plywood price in Cdn$ [11]	**$ 347**	$ 374	$ 379
Average OSB price in US$[12]	**$ 138**	$ 165	$ 145
Average OSB price in Cdn$	**$ 139**	$ 162	$ 170
Production – plywood (MMsf 3/8")	**89.8**	93.1	100.9
Production – OSB (MMsf 3/8")	**158.4**	167.6	179.9
Shipments – plywood (MMsf 3/8")	**86.0**	90.3	86.9
Shipments – OSB (MMsf 3/8")	**163.8**	166.3	173.8

[10] EBITDA for the first quarter of 2008 includes a log inventory devaluation charge of $3.9 million, resulting from the Company's adoption of a new inventory accounting standard.
[11] Canadian softwood plywood, per Msf 3/8" basis, delivered to Toronto (Source – C.C. Crowe Publications, Inc.)
[12] OSB, per Msf 7/16" North Central (Source – Random Lengths Publications, Inc.)

Markets

Panel market conditions remained depressed throughout the first quarter of 2008, with weaker demand continuing to outpace reductions in capacity. OSB prices continued to trend downwards through most of the quarter, before improving slightly in March to end the quarter at US$142 per thousand square feet. Plywood prices also deteriorated through the quarter, with weak market conditions exacerbated by severe weather conditions in many parts of Canada.

Sales

OSB prices averaged US$138 per thousand square feet of 7/16" delivered to North Central[13] for the first quarter of 2008, down 16% from the previous quarter and 5% from the first quarter of 2007. The Canadian softwood plywood 3/8" delivered Toronto price was down 7% from the fourth quarter of 2007, and 8% from the first quarter of 2007. Shipments were lower by 7 million square feet, or 3%, compared to the previous quarter, and 11 million square feet, or 4%, compared to the first quarter of 2007.

Operations

OSB production was down over 5% from the previous quarter, for the most part reflecting seasonal productivity variations. Compared to the same quarter last year, production was lower by 12% due to market-related curtailment and moving to a 5-day per week operating schedule at the PolarBoard facility in March 2007. Plywood production was down 4% versus the previous quarter due primarily to seasonal factors, and 11% lower than the same period last year substantially due to market curtailment. Inventory devaluations adversely impacted the segment's operating income by approximately $5 million.

In January 2008, the Company announced the indefinite closure of its PolarBoard OSB and Tackama plywood mills in Fort Nelson, B.C. due to the high Canadian dollar and record low OSB prices, with both closures to take place when existing log inventories had been consumed and finished products shipped. In February, the Company reconsidered its decision for the Tackama mill, following various cost reduction initiatives undertaken by the mill employees, logging contractors and the provincial government. The indefinite closure of PolarBoard, which has an annual capacity of 640 million square feet (3/8" basis) of OSB production, is expected to occur in the second quarter.

Pulp and Paper[14]

Overview

Operating income in the Pulp and Paper segment was up $20.3 million from the fourth quarter of 2007, for the most part reflecting improved realizations from higher average pulp and paper prices and the stronger U.S. dollar, partly offset by higher input costs. Compared to the same quarter last year, operating income was down $15.4 million, due primarily to the significantly stronger Canadian dollar and increased fibre costs, which more than offset the favourable impact of higher U.S. pulp prices. The impact of the stronger Canadian dollar was approximately $30 million when compared to the same period last year.

[13] Random Lengths

[14] Includes the Taylor Pulp Mill and 100% of Canfor Pulp Limited Partnership (CPLP), which is 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).

Selected Financial Information and Statistics

(millions of dollars unless otherwise noted)	**Q1 2008**	Q4 2007	Q1 2007
Sales	**$ 242.1**	$ 245.2	$ 267.3
EBITDA	**$ 45.1**	$ 27.7	$ 60.9
EBITDA margin	**19%**	11%	23%
Operating income	**$ 33.2**	$ 12.9	$ 48.6
Average pulp price – US$[15]	**$ 880**	$ 857	$ 790
Average price in Cdn$	**$ 884**	$ 841	$ 925
Production – pulp (000 mt)	**284.5**	313.2	305.4
Production – paper (000 mt)	**32.4**	33.1	31.6
Shipments – Canfor-produced pulp (000 mt)	**279.0**	308.3	304.3
Pulp - marketed on behalf of HSLP[16] (000 mt)	**78.3**	93.3	81.4
Shipments – paper (000 mt)	**35.1**	32.4	30.4

Markets

Pulp market fundamentals remained solid through the first quarter of 2008. The Pulp and Paper Products Council reported market pulp inventories (World 20 Producers) of softwood kraft market pulp were at 33 days of supply. For comparative purposes, 30 days inventory is considered representative of a balanced market.

Sales

Lower shipment volumes of NBSK market pulp in the quarter reflected 35,000 tonnes of production lost due to a fire at the Prince George Pulp and Paper Mill's chip screening and in-feed system in January 2008. Pulp prices continued to trend upwards, with average listed Northern Europe NBSK prices increasing US$23 per tonne, or 3%, compared to the fourth quarter of 2007, and US$90 per tonne, or 11%, compared to the first quarter of 2007. Paper sales realizations were up 10% compared to the previous quarter, but down slightly versus the first quarter of 2007.

Operations

As mentioned, pulp production for the first quarter of 2008 was significantly impacted by a fire at the Prince George Pulp and Paper Mill. Overall unit manufacturing costs increased by 4% in the period as the impact of the resulting lower production volumes, as well as higher fibre, chemical and energy prices, more than offset lower spending on maintenance costs. Unit fibre costs were up 3% compared to the previous quarter due to higher costs for residual sawmill chips and higher volumes of higher cost whole log chips. The higher fibre costs are directly related to the continued sawmill downtime in the B.C. Interior. Compared to the same quarter of 2007, unit fibre costs in the first quarter of 2008 were up 15%.

Concerning the damage and interruption resulting from the fire, the Company recorded a property damage insurance receivable of $11.6 million, and a related gain on disposal of assets of $8.5 million in the quarter. In addition, a business interruption insurance receivable of $11.4 million was recorded as revenue in the period.

Non-Segmented Items

[15] Per tonne, NBSK pulp list price delivered to U.S. (RISI)
[16] Howe Sound Pulp and Paper Limited Partnership Pulp Mill

(millions of dollars)	Q1 2008	Q4 2007	Q1 2007
Corporate costs	**$ (5.0)**	$ (3.9)	$ (13.3)
Interest income (expense), net	**$ (5.3)**	$ (4.3)	$ 0.6
Foreign exchange loss on long-term debt and investments	**$ (12.0)**	$ (4.1)	$ (6.0)
Gain on derivative financial instruments	**$ 6.0**	$ 6.2	$ 8.6
Asset Impairment	**$ -**	$ (256.0)	$ (5.0)
Net property damage insurance gain	**$ 8.5**	$ -	$ -
Other income (expense), net	**$ 1.3**	$ (3.5)	$ 15.3

Corporate Costs

In the first quarter the Corporate costs were $1.1 million higher than for the fourth quarter of 2007, which reflected the elimination of previously accrued incentive compensation costs, and were $8.3 million lower than costs for the first quarter of 2007, when the Company recorded a $4.6 million pre-tax charge associated with the resignation of its former chief executive officer.

Net Interest Income (Expense), net

Net interest expense of $5.3 million in the quarter was comprised of $9.1 million of interest on long and short-term debt, partially offset by $3.8 million of interest income on short-term investments. The net expense was $1.0 million higher than the fourth quarter due principally to lower cash and cash equivalent balances.

Foreign Exchange Loss on Long-Term Debt and Investments

In the first quarter the Company recorded a loss of $12.0 million on the translation of its U.S. dollar denominated debt and investments, substantially as a result of the decrease of three cents in the value of the Canadian dollar relative to its U.S. counterpart between December 31 and quarter end.

Gain on Derivative Financial Instruments

The Company recorded a gain of $6.0 million on its derivative financial instruments for the first quarter of 2008, compared to a gain of $6.2 million for the fourth quarter of 2007, and a gain of $8.6 million for the first quarter of 2007.

Income Taxes

The Company's income tax recovery of $55.7 million for the first quarter of 2008 includes $9.1 million related to a 1% reduction in provincial corporate income tax rates substantially enacted during the quarter.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	**Q1 2008**	Q4 2007	Q1 2007
Ratio of current assets to current liabilities	**2.4 : 1**	3.0 : 1	3.1 : 1
Ratio of net debt to capitalization[17]	**13%**	10%	6%
Increase (decrease) in cash and cash equivalents from:	**$ (54.0)**	$ (108.3)	$ (585.8)
Operating activities	**$ (9.3)**	$ (48.3)	$ (556.7)
Financing activities	**$ (24.6)**	$ (25.8)	$ (61.6)
Investing activities	**$ (20.1)**	$ (34.2)	$ 32.5

Changes in Financial Position

Operating activities used $9.3 million of cash in the first quarter of 2008, compared to $48.3 million used in the previous quarter, and $556.7 million used in the first quarter of 2007. (The first quarter of 2007 included payments related to the Company's duty refund in late 2006, principally a $206.3 million income tax instalment and a special charge of US$164.0 million paid to the Canadian government, as well as a $166.3 million increase in inventories.) Contributing to the reduction in cash used by operations was a lower log inventory build ahead of Spring break-up, reflecting much reduced log volumes and lower log prices. In addition, the Company received an income tax refund of $119.3 million in the first quarter.

Financing activities used $24.6 million of cash in the first quarter of 2008, for the most part reflecting a long-term debt repayment of $14.8 million (US$15.0 million), and $13.6 million of distributions paid to non-controlling interests.

Cash used in investing activities totalled $20.1 million in the first quarter of 2008, and included capital asset additions of $19.3 million, and $11.5 million of funds advanced to HSLP as part of its debt restructuring in February 2008.

Liquidity and Financial Requirements

At March 31, 2008, Canfor had cash and cash equivalents of $241.5 million and $409.0 million of bank operating lines of credit available, of which $3.9 million was drawn down and an additional $43.4 million was reserved for several standby letters of credit.

Asset-Backed Commercial Paper

The Company has US$81.2 million of non-bank asset-backed commercial paper (ABCP), which is invested in four different Canadian trusts (the Trusts) with original maturities between August and September of 2007. Since August of 2007, the market for ABCP has experienced significant liquidity problems. The Trusts 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 March 17, 2008, the Pan Canadian Investors Committee filed with the Ontario Superior Court of Justice (the Court) a comprehensive arrangement pursuant to the Companies Creditors Arrangement Act (CCAA) to restructure most similarly affected trusts. On April 25, noteholders voted overwhelmingly in favour of the restructuring plan. A final hearing before the Court is currently scheduled for early May.

With respect to estimating the fair value of the ABCP, quoted market values of the investments have not been available. Therefore, management's judgment has been applied using all currently available information and estimated assumptions that market participants would use in pricing such ABCP. Canfor has reviewed information provided by the Pan Canadian Investors Committee, JP Morgan and DBRS including current investment ratings, composition and valuation estimates of underlying assets; the estimate of the extent of leverage in the Trusts; the

[17] Net debt (total debt, including operating lines of credit, less cash and cash equivalents) divided by net debt plus shareholders' equity.

progress of the restructuring efforts, and general economic conditions in considering the fair value of this investment. In estimating fair value, Canfor has assumed a high likelihood of successful restructuring of the investment.

Based on its assessment of fair value, Canfor recognized an impairment loss of $16.2 million in 2007 related to these investments, which represented 20% of the face value. No adjustment was recorded in the first quarter of 2008. 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 the fair value of the investment.

OUTLOOK

Lumber and Panel Markets

Demand for solid wood products is expected to remain at depressed levels for the remainder of 2008. A recovery of the U.S. housing market is not expected to occur until 2009, with U.S. housing starts expected to remain at historically low levels through the balance of 2008. While demand from the U.S. repair and remodeling (R&R) sector has not declined to the same degree as new home construction, a prolonged economic downturn in the US could lead to lower R&R activity. Canadian demand, after a slow start to the year, should show a marked improvement through the traditionally busier spring and summer months.

Pulp and Paper Markets

Demand and prices for market pulp are expected to remain relatively stable through the second quarter of 2008. The supply of market pulp will be tighter in the second quarter with many mills in the northern hemisphere taking their annual maintenance shutdowns. Maintenance outages are scheduled at CPLP's Northwood and Intercontinental Pulp Mills for the second quarter of 2008 that will result in an estimated 30,000 to 35,000 tonnes of reduced production. The announced price for April 2008 for Northern Europe is US$920 per tonne, an increase of US$40 per tonne over the price in March. No price increases have been announced for North American markets and prices are expected to remain steady at US$880 per tonne in the near term.

For kraft papers, prices should remain strong through the first half of 2008 as all paper packaging grades have experienced a sharp increase in production costs and concerns of reduced supply as a result will support pricing. Some capacity increases are expected in the second half of 2008 which may moderate price increases.

OUTSTANDING SHARES

At May 1, 2008, there were 142,589,312 common shares outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending March 31, 2008, there were no changes in the Company’s internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company’s 2007 annual statutory reports which are available on www.sedar.com or www.canfor.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Sales and Income (millions of dollars)								
Sales	**$ 648.5**	$ 711.0	$ 837.4	$ 876.6	$ 850.6	$ 892.0	$ 927.7	$1,059.9
Operating income (loss)	**$(117.5)**	$(124.7)	$ (52.1)	$ (38.4)	$ (57.8)	$ 656.1	$ (44.8)	$ (15.3)
Net income (loss) from continuing operations	**$ (85.4)**	$(237.0)	$ (42.1)	$ (38.8)	$ (42.7)	$ 466.9	$ (51.6)	$ 39.2
Net income (loss)	**$ (85.4)**	$(237.0)	$ (42.1)	$ (38.8)	$ (42.7)	$ 465.3	$ (51.6)	$ 39.2
Per common share (dollars)								
Net income (loss) from continuing operations:								
Basic	**$ (0.60)**	$(1.66)	$ (0.30)	$ (0.27)	$ (0.30)	$ 3.28	$ (0.36)	$ 0.28
Diluted	**$ (0.60)**	$(1.66)	$ (0.30)	$ (0.27)	$ (0.30)	$ 3.27	$ (0.36)	$ 0.28
Net income (loss)								
Basic and diluted	**$ (0.60)**	$(1.66)	$ (0.30)	$ (0.27)	$ (0.30)	$ 3.26	$ (0.36)	$ 0.28
Statistics								
Lumber shipments (MMfbm)	**1,023**	1,149	1,301	1,345	1,213	1,352	1,416	1,597
Plywood shipments (MMsf 3/8")	**86**	90	90	119	87	110	103	118
OSB shipments (MMsf 3/8")	**164**	166	162	168	174	184	193	188
Pulp shipments (000 mt)	**279**	308	307	309	304	292	308	293
Average exchange rate (US$/CDN$)	**$ 0.996**	$ 1.019	$ 0.957	$ 0.911	$ 0.854	$ 0.878	$ 0.892	$ 0.891
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 205**	$ 230	$ 260	$ 258	$ 253	$ 245	$ 278	$ 316
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 285**	$ 277	$ 273	$ 292	$ 279	$ 272	$ 304	$ 380
Average plywood price–Toronto (Cdn$)	**$ 347**	$ 374	$ 394	$ 357	$ 379	$ 366	$ 364	$ 360
Average OSB price–North Central (US$)	**$ 138**	$ 165	$ 177	$ 156	$ 145	$ 166	$ 181	$ 238
Average NBSK pulp list price delivered to the U.S. (US$)	**$ 880**	$ 857	$ 837	$ 810	$ 790	$ 770	$ 757	$ 705

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills, plywood and OSB plants, and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber and panel products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions, which as indicated in the lumber operations commentary, has adversely impacted the Company's production since late 2006, and particularly in the two most recent quarters. In the first quarter of 2007, strike action at CN resulted in shortages in railcar supply, which had an adverse impact on shipment volumes in the quarter.

Following the spinout of the Pulp Business on July 1, 2006, Canfor continues to consolidate 100% of the earnings from CPLP (Canfor Pulp Limited Partnership). However, the 20% non-controlling interest is removed from the income statement beginning in the third quarter of 2006, and a further 29.8% at the end of November 2006, which affects comparability of net income of prior periods.

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

(millions of dollars, after tax)	**Q1 2008**	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Foreign exchange gain (loss) on long-term debt and temporary investments	**$(10.1)**	$(3.5)	$5.1	$10.2	$(5.3)	$(9.9)	$(5.6)	$20.2
Gain (loss) on derivative financial instruments	**4.1**	3.5	6.9	(3.7)	4.9	-	-	-
Duty refund and interest	**-**	-	2.0	-	1.4	551.2	-	-
Mill closure and severance costs	**(2.6)**	(14.2)	(7.3)	(5.8)	-	(4.3)	-	-
CEO remuneration on resignation	**-**	-	-	-	(3.0)	-	-	-
Insurance deductible on fire at PolarBoard OSB plant	**-**	-	-	-	-	-	-	(1.4)
Corporate development costs related to segregation of pulp and paper business	**-**	-	-	-	-	-	-	(2.4)
Net property damage insurance gain	**3.6**							
Spinout costs incurred by CPLP	**-**	-	-	-	-	-	(3.1)	-
Change in accounting practice for pulp maintenance costs	**-**	-	-	-	-	-	-	2.6
Change in practice for valuation of log inventories	**(29.0)**							
Adjustment to prior period's incentive costs	**-**	1.5	-	2.3	-	-	-	-
Asset impairments	**-**	(189.1)	(6.0)	-	(4.1)	(16.2)	-	-
Dividend income	**-**	-	-	-	4.1	-	-	-
Accrual for environmental and related liabilities	**-**	(1.9)	-	-	-	-	-	-
Corporate income tax rate reductions	**9.1**	35.8	0.9	1.0	-	-	-	43.9
Prior year tax reassessments and other tax adjustments	**-**	0.5	2.2	-	-	0.5	-	(1.0)
Net income (loss) from discontinued operations			-	-	-	(1.6)	-	-
Net favourable (unfavourable) impact on net income	**$(24.9)**	$(167.4)	$3.8	$4.0	$(2.0)	$519.7	$(8.7)	$61.9

Canfor Corporation
Consolidated Income Statements

(millions of dollars, unaudited)	3 months ended March 31, **2008**	2007
Sales	**$ 648.5**	$ 850.6
Costs and expenses		
Manufacturing and product costs	**574.4**	662.1
Freight and other distribution costs	**115.1**	143.3
Export taxes	**13.4**	28.7
Amortization	**43.5**	47.8
Selling and administration costs	**15.8**	26.5
Restructuring, mill closure and severance costs (Note 2)	**3.8**	-
	766.0	908.4
Operating loss	**(117.5)**	(57.8)
Equity loss of affiliated companies	**(0.1)**	(0.1)
Interest income (expense), net	**(5.3)**	0.6
Foreign exchange loss on long-term debt and investments	**(12.0)**	(6.0)
Gain on derivative financial instruments (Note 12)	**6.0**	8.6
Asset impairments	**-**	(5.0)
Net property damage insurance gain (Note 4)	**8.5**	-
Other income, net	**1.3**	15.3
Net loss before income taxes and non-controlling interests	**(119.1)**	(44.4)
Income tax recovery (Note 5)	**55.7**	26.0
Non-controlling interests	**(22.0)**	(24.3)
Net loss	**(85.4)**	(42.7)
Per common share (in dollars) (Note 6)		
Net loss - Basic and Diluted	**$ (0.60)**	$ (0.30)

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 March 31, **2008**	2007
Cash generated from (used in)		
Operating activities		
Net loss from continuing operations	**$ (85.4)**	$ (42.7)
Items not affecting cash:		
Amortization	**43.5**	47.8
Income taxes	**(5.4)**	(10.6)
Long-term portion of deferred reforestation	**16.3**	16.4
Net property damage insurance gain (Note 4)	**(8.5)**	-
Write-down of inventories to net realizable value (Note 1)	**38.9**	13.1
Foreign exchange (gain) loss on long-term debt	**14.6**	(6.5)
Gain on derivative financial instruments (Note 12)	**(6.0)**	(8.6)
Asset impairments	**-**	5.0
Non-controlling interests	**22.0**	24.3
Other	**(2.0)**	0.3
Net increase in non-cash working capital (Note 7)	**(37.3)**	(595.2)
	(9.3)	(556.7)
Financing activities		
Repayment of long-term debt (Note 9)	**(14.8)**	(41.6)
Change in operating bank loans	**3.8**	2.6
Net proceeds on issuance of common shares	**-**	0.1
Cash distributions paid to non-controlling interests	**(13.6)**	(22.7)
	(24.6)	(61.6)
Investing activities		
Change in temporary investments	**-**	53.7
Additions to property, plant, equipment and timber	**(19.3)**	(18.3)
Proceeds from disposal of property, plant and equipment	**1.4**	0.5
Proceeds from property damage insurance claim (Note 4)	**6.2**	-
Advances to affiliated companies (Note 8)	**(11.5)**	-
Other	**3.1**	(3.4)
	(20.1)	32.5
Decrease in cash and cash equivalents	**(54.0)**	(585.8)
Cash and cash equivalents at beginning of period	**295.5**	1,023.8
Cash and cash equivalents at end of period	**$ 241.5**	$ 438.0
Cash (payments) receipts in the period		
Interest, net	**$ (5.2)**	$ (3.1)
Income taxes	**$ 119.3**	$ (206.3)

Canfor Corporation
Consolidated Balance Sheets

(millions of dollars)		As at March 31, 2008		As at December 31, 2007
ASSETS		(unaudited)		(audited)
Current Assets				
Cash and cash equivalents	**$**	**241.5**	$	295.5
Accounts receivable				
Trade		**208.1**		199.5
Other		**62.6**		74.3
Income taxes recoverable		**40.6**		136.7
Inventories		**494.4**		472.0
Prepaid expenses		**38.6**		40.8
Future income taxes, net		**7.8**		-
Total current assets		**1,093.6**		1,218.8
Long-term investments and other (Note 8)		**195.3**		170.4
Property, plant, equipment and timber		**1,939.2**		1,959.4
Goodwill		**71.3**		69.2
Deferred charges		**93.1**		90.0
	$	**3,392.5**	$	3,507.8
LIABILITIES				
Current Liabilities				
Operating bank loans (Note 9)	**$**	**3.9**	$	-
Accounts payable and accrued liabilities		**340.0**		335.0
Current portion of long-term debt (Note 9)		**79.1**		15.2
Current portion of deferred reforestation obligation		**34.6**		34.4
Future income taxes, net		**-**		19.0
Total current liabilities		**457.6**		403.6
Long-term debt (Note 9)		**417.4**		481.6
Long-term accrued liabilities and obligations (Note 10)		**220.0**		203.5
Future income taxes, net		**278.6**		299.5
Non-controlling interests		**310.8**		302.5
	$	**1,684.4**	$	1,690.7
SHAREHOLDERS' EQUITY				
Share capital – 142,589,312 common shares outstanding	**$**	**1,124.7**	$	1,124.7
Contributed surplus		**31.9**		31.9
Retained earnings		**576.5**		692.5
Accumulated other comprehensive loss		**(25.0)**		(32.0)
	$	**1,708.1**	$	1,817.1
	$	**3,392.5**	$	3,507.8

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 March 31, **2008**	2007
Consolidated Statements of Changes in Shareholders' Equity		
Share capital		
Balance at beginning of period	**$ 1,124.7**	$ 1,124.3
Common shares issued on exercise of stock options	**-**	0.2
Balance at end of period	**$ 1,124.7**	$ 1,124.5
Contributed surplus		
Balance at beginning of period	**$ 31.9**	$ 31.9
Balance at end of period	**$ 31.9**	$ 31.9
Retained earnings		
Balance at beginning of period	**$ 692.5**	$ 1,068.5
Implementation of financial instruments standards (Note 1)	**-**	(13.2)
Change in accounting for CPLP's pension liability	**-**	(2.2)
Log inventory devaluation (Note 1)	**(30.6)**	-
Net loss	**(85.4)**	(42.7)
Balance at end of period	**$ 576.5**	$ 1,010.4
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**$ (32.0)**	$ -
Implementation of financial instruments standards	**-**	(1.9)
Reclassification from foreign exchange translation adjustment	**-**	3.0
Net change in foreign exchange translation adjustment	**7.2**	(2.6)
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods	**(0.2)**	1.7
Balance at end of period	**$ (25.0)**	$ 0.2
Total shareholders' equity	**$ 1,708.1**	$ 2,167.0
Consolidated Statement of Comprehensive Loss		
Net loss	**$ (85.4)**	$ (42.7)
Other comprehensive income (loss)		
Exchange translation adjustment on self-sustaining foreign subsidiaries	**7.2**	(2.6)
Reclassification to income of losses on derivatives designated as cash flow hedges in prior periods, net of taxes and non-controlling interests	**(0.2)**	1.7
Other comprehensive income (loss)	**7.0**	(0.9)
Total comprehensive loss	**$ (78.4)**	$ (43.6)

Notes to the Consolidated Interim Financial Statements

(unaudited, in 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, 2007 available at www.canfor.com or www.sedar.com. These interim financial statements follow the same accounting policies and methods of computation as used in the 2007 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.

Changes in Accounting Policies

Effective January 1, 2008, the Company 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".

Section 1535 - Capital Disclosures

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

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 inventory 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. 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, the Company adopted the new recommendations on a prospective basis. 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 were reduced by $30.6 million. For the quarter ended March 31, 2008, the Company recorded charges for inventory write-downs of $38.9 million (quarter ended March 31, 2007 - $13.1 million).

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.

Section 3863 – Financial Instruments – Presentation

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

Effective January 1, 2007, the Company adopted Sections 3855, 3861, 3865, "*Financial Instruments", "Financial Instruments – Disclosure and Presentation, 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.

2. Restructuring, Mill Closure and Severance Costs

The Company recorded restructuring costs of $3.8 million in the first quarter of 2008, primarily related to the indefinite idling of the PolarBoard Oriented Strand Board facility in Fort Nelson, B.C.

The following table provides a reconciliation of accrued amounts relating to the indefinite or permanent closures of facilities, as well as severance costs:

(millions of dollars)	**March 31, 2008**	December 31, 2007
Accrued liability at beginning of period	**$ 35.8**	$ 4.9
Accrued in the period *	**3.8**	41.3
Less: non-cash items	**-**	(2.0)
Payments in the period	**(14.7)**	(8.4)
Accrued liability at end of period	**$ 24.9**	$ 35.8
* reported in the following segments		
Lumber	**$ 0.7**	$ 21.7
Panels	**2.9**	14.4
Corporate and Other	**0.2**	5.2
	$ 3.8	$ 41.3

3. Employee Future Benefits

Canfor's total benefit costs were as follows:

(millions of dollars)	3 months ended March 31, **2008**	2007
Defined benefit pension plans	**$ 0.8**	$ 4.3
Other employee future benefit plans	**4.3**	4.3
Defined contribution pension plans and 401(k) plans	**0.9**	0.4
Contributions to forest industry union plans	**5.3**	6.5
	$ 11.3	$ 15.5

4. Net Property Damage Insurance Gain

On January 15, 2008, a fire at Canfor Pulp Limited Partnership's (the Partnership) Prince George Pulp & Paper mill destroyed the chip screening and in-feed system. At quarter end, the Company recorded a property damage insurance receivable of $11.6 million, net of an aggregate policy deductible of $3.3 million, and a related gain on disposal of capital assets of $8.5 million.

The Company also recorded a related business interruption insurance receivable of $11.4 million owing to the Partnership at quarter end. This amount was credited to sales.

The Partnership received a cash advance of $6.2 million from its insurers during the quarter and subsequent to March 31, 2008, a further $16.8 million was received as further payment against the insurance receivable.

5. Income Tax Recovery

(millions of dollars)	3 months ended March 31, **2008**	2007
Current	**$ 23.6**	$ 0.2
Future	**32.0**	25.8
Tax on equity earnings	**0.1**	-
	$ 55.7	$ 26.0

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

(millions of dollars)	3 months ended March 31, **2008**	2007
Income tax recovery at statutory tax rate of 31.0%	**$ 36.9**	$ 15.2
Add (deduct):		
Non-controlling interests	**6.8**	8.3
Change in corporate income tax rate	**9.1**	-
Entities with different income tax rates and other tax adjustments	**0.7**	1.6
Tax recovery at rates other than statutory rate	**3.8**	-
Permanent difference from capital gains and losses and other non-deductible items	**(1.6)**	0.9
Income tax recovery	**$ 55.7**	$ 26.0

6. Net Loss Per Share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares during the period using the treasury stock method. Under this method, proceeds from the potential exercise of stock options are assumed to be used to purchase the Company's common shares.

	3 months ended March 31,	
	2008	2007
Weighted average number of common shares	**142,589,312**	142,560,656
Incremental shares from potential exercise of stock options	**3,693**	49,078
Diluted number of common shares	**142,593,005**	142,609,734

7. Changes in Non-Cash Working Capital

	3 months ended March 31,	
(millions of dollars)	**2008**	2007
Accounts receivable	**$ (11.4)**	$ (32.1)
Inventories	**(121.9)**	(179.4)
Prepaid expenses	**(3.6)**	(3.3)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	**30.1**	(157.5)
Income taxes recoverable	**96.1**	(206.1)
Future income taxes, net	**(26.6)**	(16.8)
Net increase in non-cash working capital	**$ (37.3)**	$ (595.2)

8. Long-Term Investments and Other

(i) Asset-Backed Commercial Paper

Long-term investments and other includes $64.0 million for non-bank asset-backed commercial paper (ABCP). The ABCP is measured at 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 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 failed to make payment at maturity and, along with 16 other ABCP conduits, are 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 (the Court) a comprehensive arrangement pursuant to the Companies' Creditors Arrangement Act (CCAA) to restructure the effected trusts. On April 25, noteholders voted overwhelmingly in favour of the restructuring plan. A final hearing before the Court is currently scheduled for early May.

Due to the disruption in the ABCP market, quoted market values of the investments have not been available. Therefore, the fair value of the ABCP has been determined based on management's judgment using all currently available information and estimated assumptions that market participants would use in pricing such ABCP as at the balance sheet date. Canfor reviewed information provided by the Pan-Canadian Investors Committee, JP Morgan 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 a high likelihood of successful restructuring of the investment. Of the US$81.2 million of ABCP which the Company has invested, it is estimated that:

- US$4.3 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 high investment grade rating;
- US$18.2 million is represented by a combination of synthetic and traditional securitized assets and collateralized debt obligations that will, on restructuring, be pooled with similar assets from other trusts and be replaced with a mix of senior and subordinated floating rate notes. It is anticipated that approximately 90% of the notes received by the Company will be senior notes and will carry a high investment grade rating.
- US$21.0 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 Series B that had a rating of AAA by DBRS, published on January 9, 2008 (subsequently downgrade to 'D' on CCAA filing). On restructuring, the assets will be replaced with a long-term floating rate note that may or may not be rated.

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.

(ii) Howe Sound Pulp and Paper Limited Partnership

On February 5, 2008, Howe Sound Pulp and Paper Limited Partnership (HSLP) restructured its term debt pursuant to an agreement among HSLP, Canfor, Oji Paper Co., Ltd. (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 projected to be repaid prior to June 30, 2013 from the free cash flow of HSLP.

As a consequence of the restructuring, Canfor contributed $7.3 million to HSLP in December 2007 and a further $11.5 million on closing in February 2008 (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 annual free cash flow of HSLP.

The $18.8 million of New Funds are included in the 'Long-term investments and other' line item on the March 31, 2008 Consolidated Balance Sheet.

9. Operating Bank Loan and Long-Term Debt

On March 1, 2008, Canfor repaid $14.8 million (US$15 million) of privately placed 7.88% interest rate senior notes.

At March 31, 2008, Canfor had $409.0 million of bank operating lines of credit available, of which $3.9 million was drawn down and an additional $43.4 million was reserved for several standby letters of credit.

At March 31, 2008, the fair value of Canfor's long-term debt, which was measured at its amortized cost of $496.5 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.

10. Long-term Accrued Liabilities and Obligations

(millions of dollars)	**March 31, 2008**	December 31, 2007
Deferred reforestation obligation	**$ 81.9**	$ 65.6
Accrued pension obligations	**19.5**	19.1
Accrued pension bridge benefit obligations	**8.0**	7.9
Post employment benefits	**90.0**	87.0
Asset retirement obligations	**11.1**	11.1
Other long-term liabilities	**9.5**	12.8
	$ 220.0	$ 203.5

11. Segmented Information [a]

(millions of dollars)		Lumber [b]	Panels	Pulp & Paper [d]	Corporate & Other		Consolidated
3 months ended March 31, 2008							
Sales to external customers	**$**	**352.5**	**53.9**	**242.1**	**-**	**$**	**648.5**
Sales to other segments [c]	**$**	**24.5**	**1.3**	**-**	**-**	**$**	**25.8**
Operating income (loss)	**$**	**(118.8)**	**(26.8)**	**33.2**	**(5.1)**	**$**	**(117.5)**
Amortization	**$**	**25.8**	**4.3**	**11.9**	**1.5**	**$**	**43.5**
Capital expenditures	**$**	**9.9**	**0.1**	**9.3**	**-**	**$**	**19.3**
3 months ended March 31, 2007							
Sales to external customers	$	511.6	71.7	267.3	-	$	850.6
Sales to other segments [c]	$	28.9	0.9	-	-	$	29.8
Operating income (loss)	$	(74.6)	(18.5)	48.6	(13.3)	$	(57.8)
Amortization	$	28.3	6.0	12.3	1.2	$	47.8
Capital expenditures	$	12.2	2.6	3.2	0.3	$	18.3

(a) Operations are presented by product line.

(b) Sales for the quarter include sales of Canfor-produced lumber of $279.8 million (2007 – $419.5 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.

Geographic Information

	3 months ended March 31, 2008	2007
Sales by location of customer		
Canada	**$ 133.7**	$ 144.4
United States	**345.5**	515.0
Europe	**45.4**	45.1
Far East and Other	**123.9**	146.1
	$ 648.5	$ 850.6
Capital assets and goodwill by location		
Canada	**$ 1,849.5**	$ 2,136.2
United States	**160.3**	169.0
Far East and Other	**0.7**	0.8
	$ 2,010.5	$ 2,306.0

12. Financial Instruments

All financial instruments and derivatives are measured at fair value on initial recognition except for certain related party transactions.

Classification of Financial Instruments
The Company has classified its cash and cash equivalents and ABCP as held-for-trading. Accounts receivable are classified as loans and receivables. Bank indebtedness, 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 at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract.

Financial Risk Management
The Company is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market price risk.

The Company'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 the Company.

I. Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or third party to a financial 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 90 days or less. The cash and cash equivalents balance at March 31, 2008 is $241.5 million.

The Company 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 and the remaining balances are with creditworthy counterparties. The Company's trade receivable balance at March 31, 2008 is $208.1 million.

II. Liquidity risk:

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

At March 31, 2008, the Company has accounts payable and accrued liabilities of $340.0 million and current debt obligations of $79.1 million (US$78.0 million), all of which fall due for payment within one year of the balance sheet date. The debt obligations are repayable on March 1, 2009.

III. 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 and foreign currency.

a. Interest Rate risk:

The Company is exposed to interest rate risk though its current financial assets and financial obligations bearing variable interest rate. The Company's cash and cash equivalents include term deposits with original maturity dates of 90 days or less.

Changes in the market interest rates do not have a significant impact on the Company'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.

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

b. Currency risk:

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

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

c. Energy Price risk

The Company is exposed to energy price risk relating to its purchase 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.

d. Commodity Price risk

The Company is exposed to commodity price risk related to sale of lumber, pulp, paper, plywood and oriented strand board. From time to time, the Company will enter 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.

Derivative Instruments

The Company 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 March 31, 2008, the fair value of outstanding commodity and exchange contracts was $22.8 million. The fair value of these contracts was determined based on prevailing market rates for instruments with similar characteristics.

The gain of $6.0 million recorded in the first quarter was comprised of the change in the fair value of derivative financial instruments in the period of $5.6 million and the reclassification, from accumulated other comprehensive income, of unrealized gains of $0.4 million on derivatives formerly designated as cash flow hedges that were exercised in the current period.

13. Capital Disclosures

The Company's objectives when managing capital are to safeguard its assets and maintain a globally competitive cost structure while looking for growth opportunities to ensure the ability to continue as a going concern and provide adequate returns to shareholders. In addition, the Company works with all relevant stakeholders to ensure the safety of its operations and employees, meet and exceed all environmental regulations and enhance the communities in which it operates.

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

(millions of dollars)	**March 31, 2008**	December 31, 2007
Total debt (including operating bank loans)	**$ 500.4**	$ 496.8
Less cash and cash equivalents	**(241.5)**	(295.5)
Net debt	**258.9**	201.3
Total shareholders' equity	**1,708.1**	1,817.1
	$ 1,967.0	$ 2,018.4

During the three months ended March 31, 2008 the Company was in compliance with all external capital requirements and covenants related to its debt facilities.

14. Comparative Figures

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