Q1 2010

For the three months ended March 31, 2010

CANFOR CORPORATION 2010 FIRST QUARTER INTERIM REPORT

To Our Shareholders

Canfor Corporation reported total net income of $32.5 million for the first quarter of 2010, compared to a net loss of $9.1 million for the fourth quarter of 2009 and a net loss of $69.9 million for the first quarter of 2009. As a result of the Company's adoption in 2010 of a new accounting standard, which requires the reclassification of non-controlling interests from long-term liabilities into equity, reported total net income now comprises both net income attributable to equity shareholders and non-controlling interests. The comparative prior periods have been adjusted to be shown on the same basis.

The Company's net income available to its equity shareholders was $15.6 million, or $0.11 per share, for the first quarter of 2010, up $32.6 million from a comparable net loss of $17.0 million, or $0.12 per share, for the fourth quarter of 2009 and an improvement of $74.4 million from the net loss of $58.8 million, or $0.41 per share, reported for the first quarter of 2009.

Equity shareholder net income for the first quarter of 2010 included several one-time items affecting comparability with prior periods, which had an overall positive impact on net income of $5.2 million, or $0.04 per share. After taking account of all items affecting comparability, the Company's adjusted equity shareholder net income for the first quarter of 2010 was $10.4 million, or $0.07 per share, compared to a similarly adjusted net loss of $24.2 million, or $0.17 per share, for the fourth quarter of 2009 and an adjusted net loss of $82.4 million, or $0.58 per share, for the first quarter of 2009.

Lumber and pulp prices increased significantly in the first quarter of 2010, and were the major reason for the Company's improved results for the quarter. Although U.S. housing activity showed only a modest improvement from the historically low levels of the previous quarter, North American lumber prices for Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") recorded strong gains mostly as a result of various supply factors, including the continued growth of lumber shipments to China and other Asian markets. Northern Bleached Softwood Kraft ("NBSK") pulp prices also moved up in the first quarter, reflecting improved demand, continued low global pulp inventory levels and the major disruption to pulp production caused by the Chilean earthquake in late February. The Canadian dollar edged towards parity with the US dollar during the quarter, partially offsetting the pricing gains for Canfor's Canadian operations.

The Company reported EBITDA of $78 million for the first quarter of 2010, which was up $63 million when compared to the fourth quarter of 2009. The first quarter's results reflected the positive impact from higher lumber and pulp prices both on sales and inventory values (at the end of the quarter, the Company had no inventory write-downs) and a continued tight control over costs. The Company ended the quarter with a cash balance of $94 million, and $424 million of available undrawn operating lines of credit.

During the first quarter, the Company reached a new 4-year labour agreement with the United Steelworkers union which applies to 14 of Canfor's operations in British Columbia. This agreement provides some relief from the protracted U.S. housing downturn and puts into place a profit-based performance incentive plan for hourly employees, which will result in enhanced teamwork and operational performance.

Looking ahead, the second quarter is expected to see a moderate pick up in lumber demand, reflecting seasonally higher housing starts and repair and renovation activity. As a result of historically-low operating rates and lower B.C. Interior log harvesting activity in the most recent winter logging season, Western SPF lumber may be in shorter supply, which could help to support current price levels through the second quarter. As a result, the Company will continue to match production to market demand and maintain its tight control over costs.

Ronald L. Cliff
Chairman

James F. Shepard
President and Chief Executive Officer

Canfor Corporation
First Quarter 2010
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended March 31, 2010 relative to the quarters ended December 31, 2009 and March 31, 2009, and the financial position of the Company at March 31, 2010. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2010 and 2009, as well as the 2009 annual MD&A and the 2009 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2009 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Throughout this discussion, reference is also made to EBITDA (calculated as operating income before amortization) which Canfor considers to be an important indicator for measuring 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. Reference is also made to Adjusted Net Income (Loss) (calculated as Net income (loss) attributable to equity shareholders less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Analysis of Specific Items Affecting Comparability of Net Income (Loss) Attributable to Equity Shareholders") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). EBITDA, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian GAAP. As there is no standardized method of calculating these measures, Canfor's EBITDA, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and Adjusted Net Income (Loss) to net income (loss) reported in accordance with GAAP are included in this MD&A.

Factors that could impact future operations are also discussed. These factors may be influenced by both 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; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.

Certain prior period comparative information throughout this report has been restated for consistency with the presentation in the current period. All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at April 27, 2010.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

FIRST QUARTER 2010 EARNINGS OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)	Q1 2010	Q4 2009	Q1 2009
Sales	**$ 577.9**	$ 549.6	$ 474.7
EBITDA	**$ 77.8**	$ 15.2	$ (84.6)
Operating income (loss)	**$ 39.0**	$ (23.6)	$ (124.2)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ 8.8**	$ 8.0	$ (12.9)
Gain (loss) on derivative financial instruments[2]	**$ (1.2)**	$ 2.3	$ (21.3)
Gain on sale of mill property	**$ -**	$ -	$ 44.6
Net income (loss)	**$ 32.5**	$ (9.1)	$ (69.9)
Net income (loss) attributable to equity shareholders of Company [3]	**$ 15.6**	$ (17.0)	$ (58.8)
Net income (loss) per share attributable to equity shareholders of Company, basic and diluted	**$ 0.11**	$ (0.12)	$ (0.41)
Average exchange rate (US$/CDN$) [4]	**$ 0.961**	$ 0.947	$ 0.803
U.S. housing starts (million units SAAR) [5]	**0.617**	0.559	0.523

[1] Certain amounts in prior periods have been reclassified to conform to the presentation in the current period.
[2] Includes gains (losses) from natural gas, diesel, foreign exchange and lumber future derivative financial instruments (see "Unallocated and Other" section for more details).
[3] Net income (loss) attributable to equity shareholders of Company ("Equity Shareholder Net Income (Loss)") is calculated as net income (loss), less non-controlling interests. For Q1 2010, the income attributable to non-controlling interests amounted to $16.9 million, compared to $7.9 million in Q4 2009 and a loss of $11.1 million in Q1 2009.
[4] Source – Bank of Canada (average noon rate for the period).
[5] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").

The Company's equity shareholder net income (loss) and adjusted net income (loss), together with the related adjustments, are detailed in the table below:

Analysis of Specific Items Affecting Comparability of Equity Shareholder Net Income (Loss)

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	Q1 2010	Q4 2009	Q1 2009
Equity Shareholder Net Income (Loss)	**$ 15.6**	$ (17.0)	$ (58.8)
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (6.2)**	$ (5.8)	$ 9.1
(Gain) loss on derivative financial instruments	**$ 1.0**	$ (1.4)	$ 12.4
Gain on sale of mill property	**$ -**	$ -	$ (37.8)
Corporate income tax rate reductions	**$ -**	$ -	$ (7.3)
Net impact of above items	**$ (5.2)**	$ (7.2)	$ (23.6)
Adjusted Net Income (Loss)	**$ 10.4**	$ (24.2)	$ (82.4)
Net income (loss) per share (EPS), as reported	**$ 0.11**	$ (0.12)	$ (0.41)
Net impact of above items per share	**$ (0.04)**	$ (0.05)	$ (0.17)
Adjusted Net Income (Loss) per share	**$ 0.07**	$ (0.17)	$ (0.58)

EBITDA

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

(millions of dollars)	Q1 2010	Q4 2009	Q1 2009
Net income (loss), as reported	**$ 32.5**	$ (9.1)	$ (69.9)
Add (subtract):			
Amortization	**$ 38.8**	$ 38.8	$ 39.6
Interest expense, net	**$ 7.0**	$ 7.1	$ 8.3
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (8.8)**	$ (8.0)	$ 12.9
(Gain) loss on derivative financial instruments	**$ 1.2**	$ (2.3)	$ 21.3
Gain on sale of mill property	**$ -**	$ -	$ (44.6)
Other expense (income)	**$ 2.9**	$ 2.7	$ (2.5)
Income tax expense (recovery) expense	**$ 4.2**	$ (14.0)	$ (49.7)
EBITDA, as reported	**$ 77.8**	$ 15.2	$ (84.6)
Included in above:			
Negative (positive) impact of inventory valuation adjustments[6]	**$ (23.0)**	$ (0.5)	$ 29.8
EBITDA excluding impact of inventory valuation adjustments	**$ 54.8**	$ 14.7	$ (54.8)

[6] In accordance with Canadian GAAP, Canfor records its log and finished product inventories at the lower of cost and net realizable value ("NRV"). Significant movements in inventory volumes occur due to the seasonal build and drawdown of logs in the first and second quarters each year. Where NRV is below cost this can result in large swings in inventory write-down amounts recorded in those periods. In addition to inventory volumes, the level of inventory write-downs recorded reflects changes in market prices, foreign exchange rates, and costs over the respective reporting periods. In Q1 2010, all inventory write-downs were recovered.

Despite only a modest improvement in the U.S. housing market in the first quarter of 2010, lumber producers saw prices climb through the first quarter of 2010 mostly in response to low operating rates and the continued growth of lumber shipments to Asia. Supply side developments were also a major factor behind another quarter of price increases for pulp producers.

North American prices across most Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") lumber products recorded strong gains compared to the last quarter of 2009, while prices to offshore markets, the significant majority of which are negotiated quarterly in advance, showed more modest gains. Average Northern Bleached Softwood Kraft ("NBSK") pulp prices continued to move up steadily through the quarter, with the aftermath of the Chilean earthquake having a pronounced impact on global supply in March. Compared to the previous quarter, the Canadian dollar was slightly higher compared to the U.S. dollar, and at quarter end was close to parity with its U.S. counterpart.

Lumber shipments by the Company in the first quarter of 2010 continued to reflect significant mill curtailments. In addition to the existing idling of its Radium, Rustad, Vavenby and Chetwynd lumber operations, the Company in mid-January of 2010 curtailed its Quesnel sawmill as a result of weak market demand and the current economics of running that operation.

The Company reported EBITDA of $77.8 million for the first quarter of 2010, up $62.6 million compared to the fourth quarter of 2009. The first quarter's results reflected the positive impact from the improved solid wood and pulp prices, both on sales and inventory values (at the end of the quarter, the Company had no inventory write-downs) and continued tight cost management.

Compared to the first quarter of 2009, reported EBITDA in the current quarter was up by $162.4 million. Excluding the impact from inventory write-downs, which were significant in both periods, EBITDA was up $114.3 million. This improvement was mostly attributable to the uplift in lumber and pulp prices, with benchmark U.S. Western SPF lumber and NBSK list pulp prices increasing 73% and 31%, respectively. Partly offsetting the higher prices for Canadian operations was the 20% strengthening of the Canadian dollar over the period. Higher pulp shipments and lower lumber and pulp unit manufacturing costs, which were down 13% and 10%, respectively, also had a significant positive impact on earnings.

The Company ended the first quarter of 2010 with a cash balance of $94 million, and $424 million of available undrawn operating lines of credit.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics - Lumber

(millions of dollars unless otherwise noted)	Q1 2010	Q4 2009	Q1 2009
Sales	**$ 292.0**	$ 285.3	$ 263.8
Operating income (loss)	**$ 11.8**	$ (30.8)	$ (92.3)
EBITDA, as reported	**$ 34.0**	$ (8.6)	$ (68.8)
Negative (positive) impact of inventory valuation adjustments	**$ (22.4)**	$ 0.1	$ 24.3
EBITDA excluding impact of inventory valuation adjustments	**$ 11.6**	$ (8.5)	$ (44.5)
Average SPF 2x4 #2&Btr lumber price in US$[7]	**$ 268**	$ 205	$ 155
Average SPF price in Cdn$	**$ 279**	$ 216	$ 193
Average SYP 2x4 #2 lumber price in US$[8]	**$ 329**	$ 231	$ 235
Average SYP price in Cdn$	**$ 342**	$ 244	$ 293
U.S. housing starts (million units SAAR)	**0.617**	0.559	0.523
Production – SPF lumber (MMfbm)	**696.0**	691.7	701.9
Production – SYP lumber (MMfbm)	**85.0**	76.0	62.4
Shipments – SPF lumber (MMfbm) [9]	**672.7**	750.1	684.9
Shipments – SYP lumber (MMfbm) [9]	**85.6**	115.8	66.7
Shipments – wholesale lumber (MMfbm)	**38.8**	20.6	39.0

[7] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[8] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[9] Canfor-produced lumber, including lumber purchased for remanufacture.

Overview

Reported EBITDA for the Lumber segment was $34.0 million for the first quarter of 2010, an improvement of $42.6 million compared to negative $8.6 million reported for the fourth quarter of 2009, and up $102.8 million compared to the first quarter of 2009.

Excluding the impact of inventory write-down adjustments, EBITDA for the first quarter of 2010 was $11.6 million, an improvement of $20.1 million from the fourth quarter of 2009 and up $56.1 million compared to the first quarter of 2009.

Total shipments of Canfor-produced lumber of 758 million board feet for the first quarter reflected continued weak product demand in the U.S. Shipments were down approximately 12% compared to the previous quarter, mostly reflecting a drawdown in finished good inventories in late 2009. The Company's shipments were in line with those of the first quarter of 2009.

North American lumber prices for most grades and widths rose sharply in the first quarter of 2010, as evidenced by average benchmark prices for Western SPF 2x4 #2&Btr and SYP 2x4 #2, which increased US$63 per Mfbm (31%) and US$98 per Mfbm (42%), respectively. The Canadian dollar was up slightly from the previous quarter. Compared to the first quarter of 2009, when US dollar prices were at their lowest levels for decades, prices for Western SPF lumber products were up significantly, by over 70% in some cases, although Canadian dollar sales realizations were adversely impacted by the 20% increase in the value of the Canadian dollar year-over-year. Prices to offshore markets showed modest gains from the previous quarter.

Overall unit manufacturing costs were in line with the previous quarter, but were down significantly from the first quarter of 2009, mostly reflecting various cost savings, improved productivity and lower stumpage rates. Residual chip prices moved up in line with higher Canadian dollar pulp sales realizations in the quarter. As a result of the more positive pricing environment, there were no lumber inventory write-downs recorded by the Company at the end of the current quarter.

Markets

U.S. demand for softwood lumber showed only a small improvement in the first quarter of 2010, with weak labour markets, a particularly harsh winter and increased U.S. home foreclosures hampering the housing market recovery. Sales of new and existing homes also weakened, resulting in higher inventories for the quarter.

On an annualized basis, total U.S. housing starts averaged 617,000 units[10] SAAR, a 10% increase from the previous quarter. Single family starts increased by 9% over the last quarter to 525,000 units SAAR. Compared to the same period last year, total housing starts were up 18% and single family starts up 47%. However, the comparative periods in 2009 represented the lowest level of housing activity in decades.

The Canadian housing market was relatively strong in the first quarter of 2010. Housing starts averaged 196,000 units[11] SAAR, an increase of 18,200 units, or 10%, compared to the previous quarter, and up 64,800 units, or 49%, compared to the first quarter of 2009.

Offshore lumber demand remained strong in the first quarter of 2010. The Company's shipments to China and Japan represented a higher percentage of sales volumes in the period compared to the previous quarter. Compared to the first quarter of 2009, shipments were up significantly, reflecting the continued growth in demand from the region.

Sales

Lumber sales revenues for the first quarter of 2010 were $292.0 million, up $6.7 million, or 2%, from the previous quarter of 2009, and up $28.2 million, or 11%, compared to the first quarter of 2009.

Strong demand from offshore markets, particularly China, continued to mitigate the impact from the protracted downturn in the U.S. housing market in the current quarter. Total shipments of Canfor-produced lumber for the first quarter of 2010 were 758.3 million board feet, down 107.6 million board feet, or 12%, compared to the fourth quarter of 2009, mostly due to drawdowns of finished good inventories in the comparative period. Compared to the first quarter of 2009, shipment levels were substantially unchanged.

North American prices for all grades and widths moved up sharply in the first quarter of 2010. The benchmark Western SPF 2x4 #2&Btr lumber price to the U.S. averaged US$268 per Mfbm[12], up US$63, or 31%, from the previous quarter, and up US$113 per Mfbm, or 73%, compared to the first quarter of 2009. Prices for other grades and widths also saw solid increases over both comparative periods. The US dollar price increases relative to the first quarter of 2009 were partially offset by the stronger Canadian dollar.

With the significant majority of offshore pricing negotiated quarterly in advance, prices to Asia lagged those in North America and showed more modest gains compared to the previous quarter.

Prices for SYP lumber products also climbed steeply in the first quarter of 2010. The average benchmark SYP 2x4 #2 price was US$329 per Mfbm[12], up approximately US$100 per Mfbm from both the fourth and first quarters of 2009.

The Random Lengths Framing Lumber Composite price averaged US$297 per Mfbm for the first quarter of 2010, up US$54, or 22%, compared to the previous quarter. The current quarter price was US$18 per Mfbm below the trigger price of US$315 per Mfbm required to reduce the export tax rate on all U.S. bound shipments below the current rate of 15%. Subsequent to quarter end, prices exceeded this threshold and as a result, May shipments to the U.S. will be subject to a lower export tax rate of 10%.

Total residual fibre revenue was up compared to the previous quarter and also the first quarter of 2009, reflecting improved Canadian dollar pulp sales realizations.

Operations

Lumber production for the first quarter of 2010 continued to reflect significant market curtailments taken by the Company. Production was 781 million board feet, up 2% from the previous quarter, with extended Christmas shutdowns at most of the Company's sawmills offsetting the impact of the Quesnel sawmill market curtailment for most of the quarter. Production was up slightly from the first quarter of 2009.

[10] U.S. Census Bureau
[11] CMHC – Canada Mortgage and Housing Corporation
[12] Random Lengths Publications, Inc.

Overall, the Company's unit manufacturing (log and conversion) costs were unchanged from the previous quarter. Compared to the first quarter of 2009, unit manufacturing costs were down 13%, for the most part reflecting operational and overhead cost savings, improved productivity, and lower stumpage rates resulting from lower prices in 2009 (stumpage is based on prior period Canadian dollar market prices).

Due to improved market prices in the first quarter of 2010, the Company had no inventory write-downs at the end of March. As a result, operating earnings in the period were positively impacted by a $22.4 million recovery of previously recorded write-downs. Inventory write-down adjustments in the previous quarter were minimal. In the first quarter of 2009, when inventory costs exceeded sales realizations, the Company recorded an inventory write-down expense of $24.3 million which was mostly attributable to the seasonal build of log inventories in the B.C. Interior, ahead of spring break up.

Restructuring costs in the current quarter were $4.2 million, similar to those for the previous quarter, and $1.7 million higher than for the first quarter of 2009 when fewer mills were curtailed.

Pulp and Paper[13]

Selected Financial Information and Statistics – Pulp and Paper

(millions of dollars unless otherwise noted)	Q1 2010	Q4 2009	Q1 2009
Sales	**$ 269.7**	$ 253.3	$ 205.3
Operating income (loss) [14]	**$ 33.9**	$ 16.5	$ (17.3)
EBITDA[14]	**$ 45.8**	$ 29.3	$ (5.0)
Average pulp price delivered to U.S. – US$[15]	**$ 880**	$ 820	$ 673
Average price in Cdn$	**$ 916**	$ 866	$ 838
Production – pulp (000 mt)	**307.1**	307.3	270.0
Production – paper (000 mt)	**31.0**	38.4	28.4
Shipments – Canfor-produced pulp (000 mt)	**315.6**	315.4	276.6
Pulp marketed on behalf of HSLP (000 mt)[16]	**91.5**	68.2	70.9
Shipments – paper (000 mt)	**37.7**	38.1	25.2

[13] Includes the Taylor Pulp mill and 100% of Canfor Pulp Limited Partnership, 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").
[14] Earnings for Q1 2010 include a negative impact from inventory write-down adjustments of $0.2 million, compared to $0.1 million in Q4 2009 and $3.7 million in Q1 2009.
[15] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).
[16] Howe Sound Pulp and Paper Limited Partnership pulp mill.

Overview

EBITDA in the Pulp and Paper segment in the first quarter of 2010 was $45.8 million, up $16.5 million compared to the fourth quarter of 2009. The improvement was attributable mostly to higher NBSK Canadian dollar sales realizations.

Compared to the same quarter of 2009, EBITDA was up $50.8 million, mostly due to higher Canadian dollar pulp sales realizations, and to a lesser extent, higher pulp operating rates and shipments (reflecting more favourable market conditions), and lower fibre, chemical and energy costs. NBSK pulp and BCTMP US dollar prices were up sharply from a year earlier, but some of this benefit was eroded by the appreciation of the Canadian dollar over the same period.

Markets

Pulp markets tightened further in the first quarter of 2010 as a result of improved demand and large incremental supply side reductions. Constrained supply conditions at the end of 2009 were the result of pulp mill closures during the year. In the first quarter of 2010, a number of supply side events created even tighter pulp market conditions. The largest impact was the Chilean earthquake on February 27, 2010 which removed approximately 8% of global softwood pulp supply for an expected duration of two to three months. Additional impacts on global softwood pulp supply were weather related issues in the southern U.S. and Russia throughout the first quarter, and a Finnish port strike in March 2010.

Pulp consumption levels have been steadily increasing since the second quarter of 2009. The printing and writing paper manufacturing sector experienced improved demand through February 2010, with demand up 10.6%[17] over February 2009. For February year to date, printing and writing paper demand is up 9.1% versus the same period in 2009.

The steady improvement in consumption, coupled with the supply side reductions, have resulted in very low pulp inventory levels. At the end of March 2010, World 20 producers[18] of bleached softwood pulp inventories stood at 23 days of supply. By comparison, March 2009 inventories stood at 40 days of supply. Market conditions are considered balanced when inventories fall in the 27-30 days of supply range.

Sales

Shipments of Canfor-produced pulp for the first quarter of 2010 were unchanged from the previous quarter, at 316,000 tonnes. Compared to the first quarter of 2009, however, shipments were up 39,000 tonnes, or 14%, principally due to increased demand.

With product availability in increasingly tight supply through the period, pulp producers implemented further price increases in the first quarter of 2010. Average NBSK market pulp list prices for U.S. delivery moved up to US$880 per tonne, up US$60, or 7%, from the fourth quarter of 2009. BCTMP prices were in line with the prior quarter. March NBSK pulp prices before discounts in the U.S. and Northern Europe markets were US$910 and US$890 per tonne respectively, and the price to China, with no discounts, was US$780 per tonne.

Compared to the first quarter of 2009, significantly higher NBSK pulp and BCTMP US-dollar prices were offset somewhat by the 20% stronger Canadian dollar. While average NBSK market pulp list prices for U.S. delivery were up US$207 per tonne, or 31%, the stronger Canadian dollar reduced the net benefit to Canadian producers to $78 per tonne.

Operations

Pulp production for the first quarter of 2010 was 307,000 tonnes, unchanged from the previous quarter. A maintenance outage at Canfor Pulp Limited Partnership's ("CPLP") Prince George Pulp and Paper mill, which was initially scheduled to take place in the second quarter of 2010, was moved to the first quarter to coincide with unplanned maintenance requiring the shutdown of the mill's recovery boiler. When compared to the previous quarter, the impact of this shutdown was largely offset by the impact of a scheduled maintenance outage at CPLP's larger Northwood pulp mill in the previous quarter.

Unit manufacturing costs for the first quarter of 2010 were down slightly from the previous quarter as a result of lower overall spending on maintenance costs, partly offset by increased fibre costs resulting from higher prices for sawmill residual chips.

Compared to the first quarter of 2009, unit manufacturing costs were down by 10%, primarily as a result of higher production volumes (the first quarter of 2009 included market curtailment) and lower fibre, chemical and energy costs. The lower fibre costs resulting from a reduction in higher-cost whole log chipping more than offset higher sawmill residual chip prices.

[17] Pulp and Paper Products Council ("PPPC").
[18] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the PPPC.

Unallocated and Other Items

(millions of dollars)	Q1 2010	Q4 2009	Q1 2009
Operating loss of Panels operations[19]	**$ (0.5)**	$ (3.5)	$ (9.4)
Corporate costs	**$ (6.2)**	$ (5.8)	$ (5.2)
Interest expense, net	**$ (7.0)**	$ (7.1)	$ (8.3)
Foreign exchange gain (loss) on long-term debt and investments, net	**$ 8.8**	$ 8.0	$ (12.9)
Gain (loss) on derivative financial instruments	**$ (1.2)**	$ 2.3	$ (21.3)
Gain on sale of mill property	**$ -**	$ -	$ 44.6
Other income (expense), net	**$ (2.9)**	$ (2.7)	$ 2.5

[19] The Panels operations include the Peace Valley OSB joint venture, the only facility currently operating, and the Company's Tackama plywood and PolarBoard OSB plants, both of which are currently indefinitely idled.

The smaller operating loss reported by Panels operations for the first quarter of 2010 relative to the fourth quarter of 2009 reflected improved OSB market prices and higher operating rates (in the previous quarter, the Peace Valley OSB operation had its annual scheduled maintenance shutdown). The average OSB 7/16" North Central price was US$214 per thousand square feet ("Msf") for the quarter, up US$42 per Msf from the previous quarter. Compared to the first quarter of 2009, prices increased US$60 per Msf, but the benefit was partly offset by the stronger Canadian dollar. In the first quarter of 2009, depressed market conditions resulted in significant production curtailment taken at the Peace Valley OSB facility. The Company's Tackama plywood and PolarBoard OSB plants have remained indefinitely idled since 2008.

Corporate costs were $6.2 million for the first quarter of 2010, up $0.4 million from the fourth quarter of 2009 reflecting the re-introduction of the Company's incentive compensation plan. Compared to the first quarter of 2009, corporate costs were up $1.0 million, due primarily to higher share based compensation costs and incentive compensation costs.

Net interest expense of $7.0 million for the first quarter of 2010 was substantially unchanged from the previous quarter, and was down $1.3 million from the first quarter of 2009. For the most part, the reduced expense compared to the same quarter a year earlier reflected lower debt levels and the favourable impact of the stronger Canadian dollar on interest payable on US dollar denominated debt.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt, net of investments, of $8.8 million for the first quarter of 2010, which was similar to that recorded for the fourth quarter of 2009. The gain in the current period resulted from a 3 cent, or 3%, increase in the value of the Canadian dollar against the US dollar over the quarter. For the first quarter of 2009, the Company recorded a loss of $12.9 million, as a result of a 2.2 cent, or 3%, decline in the value of the Canadian dollar over the quarter.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in natural gas and diesel costs, foreign exchange rates and lumber prices. During the first quarter of 2010, the Company entered into additional foreign exchange collars with a total notional amount of $165.0 million and protection and topside rates of $1.04 and $1.21 per US dollar, respectively.

For the first quarter of 2010, the Company recorded a net loss of $1.2 million related to all its derivative instruments, as gains attributable to the stronger Canadian dollar were offset by mark-to-market losses recorded on natural gas swaps and lumber futures related to higher market prices. The following table summarizes the gains (losses) on derivative financial instruments.

(millions of dollars)	Q1 2010	Q4 2009	Q1 2009
Foreign exchange collars and forward contracts	**$ 5.8**	$ 2.7	$ (10.8)
Natural gas swaps	**$ (3.7)**	$ (1.5)	$ (9.5)
Diesel options and swaps	**$ 0.4**	$ 0.4	$ (1.4)
Lumber futures	**$ (3.7)**	$ 0.7	$ 0.4
	$ (1.2)	$ 2.3	$ (21.3)

Other expense, net of $2.9 million for the first quarter of 2010 was in line with the fourth quarter of 2009. The net expense in both quarters resulted principally from foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations. Other income for the first quarter of 2009 was $2.5 million and related mostly to a distribution of $2.9 million received from Seaboard General Partnership, in which Canfor holds a minority interest.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	Q1 2010	Q4 2009	Q1 2009
Increase (decrease) in cash and cash equivalents	**$ (39.3)**	$ (19.3)	$ (207.2)
Operating activities	**$ 15.9**	$ (13.8)	$ (127.0)
Financing activities	**$ (44.8)**	$ (2.6)	$ (110.4)
Investing activities	**$ (10.2)**	$ (2.2)	$ 30.0
Foreign exchange gain (loss) on cash and cash equivalents of self-sustaining foreign operations	**$ (0.2)**	$ (0.7)	$ 0.2
Ratio of current assets to current liabilities	**2.5 : 1**	2.6 : 1	1.9 : 1
Ratio of net debt to capitalization	**14.2%**	14.5%	20.9%
ROCE (annualized) - Consolidated[20]	**5.0%**	(3.1)%	(12.1)%
ROCE (annualized) - Canfor solid wood business[21]	**0.5%**	(3.9)%	(10.8)%

[20] Consolidated Return on Capital Employed ("ROCE") is equal to year-to-date net income plus interest, after tax, for the period, pro-rated to an annualized amount, divided by the average capital employed during the year-to-date period. Capital employed consists of current bank loans, current portion of long-term debt, long-term debt and shareholders' equity, less cash and cash equivalents and temporary investments.
[21] ROCE for the Canfor solid wood business represents consolidated annualized ROCE adjusted to remove the results and capital employed of the Company's interest in the Peace Valley OSB Joint Venture, CPLP and the Taylor Pulp mill.

Changes in Financial Position

Operating activities generated cash of $15.9 million in the first quarter of 2010 compared to cash used by operations of $13.8 million in the previous quarter. Higher cash earnings in the current quarter were offset by working capital movements, notably the Company's seasonal log inventory build ahead of spring break-up and higher trade receivables (related to higher prices). These factors were offset in part by higher accounts payable balances and a $28.7 million income tax refund received in the current period, which related to loss carry-backs. Compared to the first quarter of 2009, cash from operating activities was up $142.9 million, primarily as a result of improved cash operating earnings.

Financing activities used cash of $44.8 million in the first quarter of 2010, compared to $2.6 million used in the previous quarter and $110.4 million used in the first quarter of 2009. The current quarter's outflows included the repayment of long-term debt of $33.7 million (US$32.3 million) (Q4, 2009 - $Nil; Q1, 2009 - $99.7 million) and cash distributions paid to non-controlling interests of $11.2 million (Q4, 2009 - $2.6 million; Q1, 2009 - $3.2 million). In the first quarter of 2009, CPLP also decreased its operating loans by $7.5 million.

Investing activities in the first quarter of 2010 used net cash of $10.2 million compared to $2.2 million used in the previous quarter and $30.0 million generated in the first quarter of 2009. In the current quarter, cash spent on capital projects was limited to $13.1 million (Q4, 2009 - $10.3 million; Q1, 2009 - $18.8 million), and mostly related to upgrades to the Chetwynd operation's sawmill and planer ahead of its scheduled restart in May. In the fourth and first quarters of 2009, the Company received net proceeds of $6.5 million and $46.2 million, respectively from the sale of property, plant and equipment, substantially all of which related to the divestiture of non-core assets.

Changes in Equity

In addition to the net income of $32.5 million for the first quarter of 2010 which was credited to equity, accumulated other comprehensive income decreased by $8.0 million, due to the impact of the 3% appreciation of the Canadian dollar on the translation of the Company's foreign subsidiaries at quarter end.

Liquidity and Financial Requirements

At March 31, 2010, the Company on a consolidated basis had cash and cash equivalents of $94.1 million and $442.5 million of bank operating lines of credit, of which $0.6 million was drawn down and $17.8 million was reserved for several standby letters of credit. In addition, CPLP had a separate credit facility to cover a $16.0 million standby letter of credit issued to BC Hydro.

The Company's net debt to capitalization ratio at the end of first quarter of 2010 was 14.1%.

The Company remained in compliance with the covenants relating to its operating lines of credit and long-term debt during the quarter, and expects to remain so for the foreseeable future.

B.C. Interior Labour Negotiations Update

During the first quarter of 2010, the Company reached a new 4-year agreement with the United Steelworkers Union, which will expire on June 30, 2013. The agreement covers employees at 14 of the Company's operations in British Columbia.

OUTLOOK

Lumber

Looking ahead, the second quarter should see a moderate pick up in lumber demand, reflecting seasonally higher North American housing starts and repair and renovation activity. New and existing home inventories in the U.S. are expected to remain close to current levels as mortgage delinquency and home foreclosures continue to weigh on the housing recovery. In Canada, lumber consumption is expected to ease as mortgage rates rise. Offshore shipments are expected to remain strong, as demand continues to climb in China and Japan markets.

As a result of historically-low operating rates and lower B.C. Interior log harvesting activity in the most recent winter logging season, Western SPF lumber may be in shorter supply, which could help to support current price levels for much of the second quarter.

Pulp and Paper

Pulp markets are expected to remain strong through the second quarter of 2010. Inventories held by producers and customers are at low levels compared to what is considered a balanced market and are expected to fall further, mainly due to the Chilean pulp mill downtime. An NBSK pulp list price increase for May to US$1,000 per tonne for North America was announced. With the supply/demand balance still in the favour of producers, there is potential for additional price increases through the second quarter of 2010. Any relative weakness of the US dollar versus the Canadian dollar or the Euro is also likely to exert upward pressure on NBSK pulp US dollar list prices.

A scheduled maintenance outage is planned for the Intercontinental Pulp Mill in the second quarter of 2010 with an estimated 9,000 tonnes reduction in production.

OUTSTANDING SHARES

At April 27, 2010, there were 142,599,297 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans and asset retirement obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ("CICA") has issued three new inter-related accounting standards, Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements*, and 1602 *Non-controlling Interests*. Prospective application of these new Sections is mandatory for annual reporting periods beginning on or after January 1, 2011, with earlier adoption permitted. The CICA requires all three Sections to be adopted concurrently. Canfor has adopted the new standards as of January 1, 2010.

Section 1582 replaces CICA Handbook Section 1581 *Business Combinations*, and brings the accounting for business combinations under Canadian GAAP in line with the accounting under International Financial Reporting Standards ("IFRS"). This will impact Canfor's financial statements should a business combination, such as a merger or an acquisition, occur during the year.

Sections 1601 and 1602 replace CICA Handbook Section 1600 *Consolidated Financial Statements.* Adoption of these Sections also reduces the differences between Canadian GAAP and IFRS. The adoption of Section 1602 has had a significant impact on the consolidated balance sheets and consolidated statements of income (loss) of Canfor. The non-controlling interests on Canfor's balance sheet have been reclassified from long-term liabilities into equity, and the net income (loss) of non-controlling interests is no longer deducted in arriving at the total net income (loss) of Canfor. The "Net income attributable to equity shareholders of the Company," as disclosed on the statements of income (loss), is comparable to "Net income (loss)" reported in previous years. These changes have been adopted retrospectively.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In early 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with IFRS for interim and annual periods in fiscal years beginning on or after January 1, 2011.

The Company developed a conversion implementation plan to ensure that differences between Canadian GAAP and IFRS that affect Canfor were identified and that any required changes to accounting processes and controls (including information technology systems) could be made in a timely manner to ensure a smooth transition on January 1, 2010. The conversion plan also includes elements to ensure the timely preparation of comparative information under IFRS for 2010, and to ensure efficient and accurate reporting under IFRS in 2011.

The Company has a project manager leading the conversion to IFRS, who is working with other members of the finance team to execute the elements of the implementation plan. The implementation team is working closely with senior management in a number of different business areas to ensure that the impacts of the conversion throughout the business are managed in a timely and efficient manner. A steering committee is overseeing the project.

Canfor has reviewed the impact of IFRS on its systems, processes and controls. No significant impacts were identified in relation to its information systems or day-to-day accounting processes. Canfor is reviewing its disclosure controls and procedures and will update these as required to ensure that they are appropriate for reporting under IFRS. In addition, various training sessions have been carried out for those employees impacted by the transition to IFRS, with further training to be provided as required prior to changeover in 2011.

Significant accounting impacts of conversion to IFRS for Canfor

A number of differences between Canadian GAAP and IFRS have been identified that are expected to have a significant impact on Canfor's financial statements. The Company is currently in the process of quantifying these differences in order to prepare an opening balance sheet under IFRS as of January 1, 2010. The areas that are expected to have a significant impact on Canfor are explained below. Since the process of finalizing the accounting impacts of the conversion to IFRS is still ongoing, and the accounting standards will continue to evolve through 2011, it is possible that further differences may arise that could have a significant impact on the Company's financial statements under IFRS.

<u>IFRS 1 "First time adoption of International Financial Reporting Standards"</u>

As a first-time adopter of IFRS, the Company is required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". IFRS 1 provides a number of optional exemptions to first-time adopters. The exemptions which are significant to Canfor, and that it currently plans to take, are noted below.

Property, plant and equipment

The methodology used to determine if an asset should be impaired is somewhat different under IFRS to that under Canadian GAAP. The Canadian GAAP rules provide for a two-step test, with no impairment being required if the undiscounted future expected cash flows relating to an asset are higher than the carrying value of that asset. Under IFRS, the undiscounted cash flows are not considered and an impairment is recorded where the recoverable amount (defined as the higher of 'value in use' and 'fair value less costs to sell') is below the asset's carrying value. This difference may result in an impairment being recorded under IFRS, but not under Canadian GAAP, and therefore require an opening balance sheet adjustment under IFRS. If an impairment is required under IFRS, the future annual amortization expense would be reduced due to the lower base value of the assets.

In addition under IFRS, timber licenses will no longer be grouped with Property, plant and equipment, but will be classified separately as an intangible asset on the balance sheet.

One further adjustment to the opening balance sheet is expected to be the reclassification of major inspection and overhaul expenses at CPLP's pulp mills to Property, plant and equipment, where such amounts occur at regular intervals over the life of the asset and those intervals are longer than one year. This adjustment would result in the related expenses being reclassified to capital assets and a higher amortization expense being recorded going forward. This would have a positive impact on the Company's EBITDA under IFRS compared to Canadian GAAP.

Employee future benefits

IFRS 1 provides an exemption that allows a company transitioning to IFRS to recognize all unamortized actuarial gains and losses in its opening balance sheet on transition. This adjustment would impact retained earnings at the opening balance sheet date. Canfor plans to take this exemption.

IFRS also provides different options for the treatment of these actuarial gains and losses going forward than those available under Canadian GAAP. One of these options is to recognize the full amounts of such gains and losses in the Company's balance sheet each year, with the adjustment recorded to Other Comprehensive Income, rather than recognizing these amounts through the income statement over a number of years. Canfor plans to take this option.

In addition, under IFRS past service costs associated with defined benefit plans that have fully vested are required to be expensed immediately. Under Canadian GAAP, these may be amortized on a straight-line basis over the average remaining service period of active employees. This will have an impact on Canfor's opening balance sheet and future employee benefit expense.

Joint ventures

Canadian GAAP allows for the use of proportional consolidation in the accounting for joint ventures. This is also currently allowed under IFRS, however it is expected that future changes may remove this option and permit only the equity method of accounting for such interests. This would affect a number of Canfor's balance sheet and income statement line items, specifically in relation to the Company's interest in the Peace Valley OSB joint venture, as these items would be presented as one line item on each of these statements.

Presentation of financial statements, including presentation of non-controlling interests

IFRS requires that non-controlling interests be treated as a component of equity, rather than as a liability, in the Company's balance sheet, with the related income (loss) no longer deducted in arriving at net income (loss), but disclosed separately on the face of the income statement. Canfor has elected to early adopt this change under Canadian GAAP during 2010.

In addition to the other changes noted in this section, a number of other reclassifications between line items on the financial statements are expected under IFRS.

Business combinations

IFRS 1 provides an exemption that allows companies transitioning to IFRS not to restate business combinations entered into prior to the date of transition. Canfor plans to take this exemption. In addition, the Company has elected to early adopt a new standard under Canadian GAAP from January 1, 2010 which would align the accounting for business combinations under Canadian GAAP to IFRS, should any such combinations occur in 2010.

Foreign exchange

IFRS 1 provides an exemption that allows a Company to reset its cumulative translation account to zero at the date of transition, with the balance being transferred to opening retained earnings. Canfor plans to take this exemption.

Provisions

The threshold for recognition of provisions under IFRS is lower than that under Canadian GAAP. Under IFRS, a provision must be recorded where required payment is "probable", which is a lower threshold than "likely" under Canadian GAAP. This could result in additional provisions being required on transition to IFRS. The measurement of those provisions may also be adjusted, with IFRS requiring the mid-point in a range of potential outcomes to be used, whereas Canadian GAAP permits use of an amount at the low end of the range where no amount within the range of outcomes is indicated as a better estimate than any other. Measurement of provisions may also be affected by differences in the required calculation, such as the determination of the discount rate to be used.

Income taxes

Canfor is currently in the process of completing its review of the impacts of the transition to IFRS related to income taxes.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending March 31, 2010, 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 2009 annual statutory reports which are available on www.canfor.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Sales and income (millions of dollars)								
Sales	**$ 577.9**	$ 549.6	$ 521.3	$ 530.3	$ 474.7	$ 576.9	$ 654.9	$ 693.3
Operating income (loss)	**$ 39.0**	$ (23.6)	$ (31.4)	$ (31.2)	$ (124.2)	$ (74.2)	$ 12.8	$ 20.8
Net income (loss)	**$ 32.5**	$ (9.1)	$ 4.1	$ 12.1	$ (69.9)	$ (242.4)	$ (88.8)	$ 73.4
Equity shareholder net income (loss)	**$ 15.6**	$ (17.0)	$ (5.2)	$ 10.5	$ (58.8)	$ (229.8)	$ (94.2)	$ 64.2
Per common share (dollars)								
Equity shareholder net income (loss) – basic and diluted	**$ 0.11**	$ (0.12)	$ (0.04)	$ 0.07	$ (0.41)	$ (1.61)	$ (0.66)	$ 0.45
Statistics								
Lumber shipments (MMfbm)	**797**	887	837	884	791	956	906	1,107
OSB shipments (MMsf 3/8")	**73**	63	69	61	30	56	91	153
Pulp shipments (000 mt)	**316**	315	307	344	277	236	284	289
Average exchange rate – US$/Cdn$	**$ 0.961**	$ 0.947	$ 0.912	$ 0.858	$ 0.803	$ 0.825	$ 0.960	$ 0.990
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 268**	$ 205	$ 191	$ 174	$ 155	$ 190	$ 263	$ 230
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 329**	$ 231	$ 230	$ 236	$ 235	$ 258	$ 289	$ 294
Average OSB price – North Central (US$)	**$ 214**	$ 172	$ 178	$ 145	$ 154	$ 172	$ 202	$ 174
Average NBSK pulp list price delivered to U.S. (US$)	**$ 880**	$ 820	$ 733	$ 645	$ 673	$ 787	$ 880	$ 880

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, 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 products, is generally stronger in the spring and summer months. These factors, along with global supply and demand conditions, affect the Company's shipment volumes. Also, operating losses in the last quarter of 2008 and the 2009 year reflect the impact of the global economic slowdown.

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

After-tax impact, net of non-controlling interests

(millions of dollars, except for per share amounts)	**Q1 2010**	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Equity shareholder net income (loss), as reported	**$ 15.6**	$ (17.0)	$ (5.2)	$ 10.5	$ (58.8)	$ (229.8)	$ (94.2)	$ 64.2
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (6.2)**	$ (5.8)	$ (19.6)	$ (19.7)	$ 9.1	$ 52.2	$ 11.3	$ -
(Gain) loss on derivative financial instruments	**$ 1.0**	$ (1.4)	$ (12.7)	$ (17.3)	$ 12.4	$ 50.3	$ 21.4	$ (14.5)
Gain on sale of mill property	**$ -**	$ -	$ -	$ -	$ (37.8)	$ -	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ -	$ -	$ 2.0	$ -	$ -	$ -	$ (45.0)
Asset impairments	**$ -**	$ -	$ -	$ -	$ -	$ 74.1	$ 56.9	$ -
Corporate income tax rate reductions	**$ -**	$ -	$ -	$ -	$ (7.3)	$ -	$ -	$ -
Other items	**$ -**	$ -	$ -	$ -	$ -	$ 0.2	$ -	$ 22.3
Net impact of above items	**$ (5.2)**	$ (7.2)	$ (32.3)	$ (35.0)	$ (23.6)	$ 176.8	$ 89.6	$ (37.2)
Adjusted net income (loss)	**$ 10.4**	$ (24.2)	$ (37.5)	$ (24.5)	$ (82.4)	$ (53.0)	$ (4.6)	$ 27.0
Equity shareholder net income (loss) per share (EPS), as reported	**$ 0.11**	$ (0.12)	$ (0.04)	$ 0.07	$ (0.41)	$ (1.61)	$ (0.66)	$ 0.45
Net impact of above items per share	**$ (0.04)**	$ (0.05)	$ (0.22)	$ (0.24)	$ (0.17)	$ 1.24	$ 0.63	$ (0.26)
Adjusted net income (loss) per share	**$ 0.07**	$ (0.17)	$ (0.26)	$ (0.17)	$ (0.58)	$ (0.37)	$ (0.03)	$ 0.19

Canfor Corporation
Consolidated Balance Sheets

(millions of dollars, unaudited)	**As at March 31, 2010**	As at December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 94.1**	$ 133.4
Accounts receivable		
Trade	**169.9**	137.2
Other	**49.7**	41.9
Income taxes recoverable	**16.0**	45.5
Future income taxes, net	**11.0**	11.4
Inventories (Note 2)	**399.5**	311.3
Prepaid expenses	**36.8**	36.4
Total current assets	**777.0**	717.1
Long-term investments and other (Note 3)	**86.7**	93.7
Property, plant, equipment and timber	**1,657.9**	1,676.6
Goodwill	**70.5**	73.3
Deferred charges	**115.9**	117.1
	$ 2,708.0	$ 2,677.8
LIABILIITES		
Current Liabilities		
Operating loans (Note 4 (a))	**$ 0.6**	$ 0.6
Accounts payable and accrued liabilities	**254.0**	211.4
Current portion of long-term debt (Note 4 (b))	**33.0**	34.0
Current portion of deferred reforestation obligation	**27.8**	27.8
Total current liabilities	**315.4**	273.8
Long-term debt (Note 4 (b))	**290.6**	333.3
Long-term accrued liabilities and obligations (Note 5)	**224.4**	209.8
Future income taxes, net	**204.7**	200.8
	$ 1,035.1	$ 1,017.7
EQUITY		
Share capital – 142,589,297 common shares outstanding	**$ 1,124.7**	$ 1,124.7
Contributed surplus	**31.9**	31.9
Retained earnings	**261.8**	246.2
Accumulated other comprehensive income (loss)	**(24.0)**	(16.0)
Total equity attributable to shareholders of Company	**1,394.4**	1,386.8
Non-controlling interests (Note 1 (b))	**278.5**	273.3
Total equity	**$ 1,672.9**	$ 1,660.1
	$ 2,708.0	$ 2,677.8

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, J.F. Shepard

Canfor Corporation
Consolidated Statements of Income (Loss)

(millions of dollars, unaudited)		3 months ended March 31, 2010		2009
Sales	**$**	**577.9**	$	474.7
Costs and expenses				
Manufacturing and product costs		**365.6**		430.5
Freight and other distribution costs		**101.2**		97.3
Export taxes		**11.6**		10.9
Amortization		**38.8**		39.6
Selling and administration costs		**16.1**		14.2
Restructuring, mill closure and severance costs		**5.6**		6.4
		538.9		598.9
Operating income (loss)		**39.0**		(124.2)
Interest expense, net		**(7.0)**		(8.3)
Foreign exchange gain (loss) on long-term debt and investments, net		**8.8**		(12.9)
Gain (loss) on derivative financial instruments (Note 11)		**(1.2)**		(21.3)
Gain on sale of mill property (Note 6)		**-**		44.6
Other income (expense), net		**(2.9)**		2.5
Net income (loss) before income taxes		**36.7**		(119.6)
Income tax recovery (expense) (Note 8)		**(4.2)**		49.7
Net income (loss)	**$**	**32.5**	$	(69.9)
Attributable to: (Note 1 (b))				
Equity shareholders of Company	**$**	**15.6**	$	(58.8)
Non-controlling interests		**16.9**		(11.1)
	$	**32.5**	$	(69.9)
Per common share (in dollars) (Note 9)				
Net income (loss) attributable to equity shareholders of Company – Basic and Diluted	**$**	**0.11**	$	(0.41)

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

Canfor Corporation
Consolidated Statements of Changes in Equity and Comprehensive Income (Loss)

(millions of dollars, unaudited)	3 months ended March 31, 2010	2009
Consolidated Statements of Changes in Equity		
Share capital		
Balance at beginning and end of period	**$ 1,124.7**	$ 1,124.7
Contributed surplus		
Balance at beginning and end of period	**$ 31.9**	$ 31.9
Retained earnings		
Balance at beginning of period	**$ 246.2**	$ 316.7
Net income (loss) attributable to equity shareholders of Company for period	**15.6**	(58.8)
Balance at end of period	**$ 261.8**	$ 257.9
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**$ (16.0)**	$ 21.5
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**(8.0)**	3.1
Balance at end of period	**$ (24.0)**	$ 24.6
Non-controlling interests (Note 1 (b))		
Balance at beginning of period	**$ 273.3**	$ 276.8
Net income (loss) attributable to non-controlling interests	**16.9**	(11.1)
Distributions to non-controlling interests	**(11.7)**	(2.1)
	$ 278.5	$ 263.6
Total equity – Balance at end of period	**$ 1,672.9**	$ 1,702.7
Consolidated Statement of Comprehensive Income (Loss)		
Net income (loss) for period	**$ 32.5**	$ (69.9)
Other comprehensive income (loss)		
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**(8.0)**	3.1
Total comprehensive income (loss)	**$ 24.5**	$ (66.8)
Attributable to: (Note 1 (b))		
Equity shareholders of Company	**$ 7.6**	$ (55.7)
Non-controlling interests	**16.9**	(11.1)
	$ 24.5	$ (66.8)

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

Canfor Corporation
Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended March 31, **2010**	2009
Cash generated from (used in)		
Operating activities		
Net income (loss) for period	**$ 32.5**	$ (69.9)
Items not affecting cash		
Amortization	**38.8**	39.6
Future income taxes	**4.4**	(28.7)
Long-term portion of deferred reforestation	**8.6**	9.5
Gain on sale of mill property (Note 6)	**-**	(44.6)
Foreign exchange (gain) loss on long-term debt and investments, net	**(8.8)**	12.9
Changes in mark-to-market values of derivative financial instruments	**0.6**	2.4
Employee future benefits	**3.8**	3.3
Other, net	**4.3**	5.7
Salary pension plan contributions	**(1.7)**	(4.0)
Deferred scheduled maintenance spending	**(2.4)**	-
Net change in non-cash working capital (Note 10)	**(64.2)**	(53.2)
	15.9	(127.0)
Financing activities		
Repayment of long-term debt (Note 4 (b))	**(33.7)**	(99.7)
Increase (decrease) in operating bank loans	**0.1**	(7.5)
Cash distributions paid to non-controlling interests	**(11.2)**	(3.2)
	(44.8)	(110.4)
Investing activities		
Additions to property, plant, equipment and timber	**(13.1)**	(18.8)
Proceeds from disposal of property, plant, equipment and timber	**0.2**	46.2
Interest received for restructuring period of asset-backed commercial paper	**-**	3.5
Proceeds from redemption of asset-backed commercial paper	**1.7**	-
Other, net	**1.0**	(0.9)
	(10.2)	30.0
Foreign exchange gain (loss) on cash and cash equivalents of self-sustaining foreign operations	**(0.2)**	0.2
Increase (decrease) in cash and cash equivalents	**(39.3)**	(207.2)
Cash and cash equivalents at beginning of period	**133.4**	362.4
Cash and cash equivalents at end of period	**$ 94.1**	$ 155.2
Cash (payments) receipts in period		
Interest, net	**$ (7.8)**	$ (5.1)
Income taxes	**$ 28.7**	$ 30.7

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

Notes to the Consolidated Interim Financial Statements

(unaudited, in millions of dollars unless otherwise noted)

1. Significant Accounting Policies and Changes in Accounting Policies

(a) Basis of Presentation

These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles ("GAAP") for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor Corporation's ("Canfor" or "the Company") Annual Report for the year ended December 31, 2009 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 2009 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 and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for solid wood 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.

(b) Changes in Accounting Policies

The Canadian Institute of Chartered Accountants ("CICA") has issued three new inter-related accounting standards, Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements*, and 1602 *Non-controlling Interests*. Prospective application of these new Sections is mandatory for annual reporting periods beginning on or after January 1, 2011, with earlier adoption permitted. The CICA requires all three Sections to be adopted concurrently. Canfor has adopted the new standards as of January 1, 2010.

Section 1582 replaces CICA Handbook Section 1581 *Business Combinations*, and brings the accounting for business combinations under Canadian GAAP in line with the accounting under International Financial Reporting Standards ("IFRS"). This will impact Canfor's financial statements should a business combination, such as a merger or an acquisition, occur during the year.

Sections 1601 and 1602 replace CICA Handbook Section 1600 *Consolidated Financial Statements.* Adoption of these Sections also reduces the differences between Canadian GAAP and IFRS. The adoption of Section 1602 has had a significant impact on the consolidated balance sheets and consolidated statements of income (loss) of Canfor. The non-controlling interests on Canfor's balance sheet have been reclassified from long-term liabilities into equity, and the net income (loss) of non-controlling interests is no longer deducted in arriving at the total net income (loss) of Canfor. The "Net income (loss) attributable to equity shareholders of the Company," as disclosed on the statements of income (loss), is comparable to the "Net income (loss)" reported in previous years. These changes have been applied retrospectively.

2. Inventories

(millions of dollars)		**As at March 31, 2010**		As at December 31, 2009
Logs	**$**	**116.9**	$	39.9
Finished products		**171.5**		164.7
Residual fibre		**28.5**		22.3
Processing materials and supplies		**82.6**		84.4
	$	**399.5**	$	311.3

There were no write-downs of inventory from cost to net realizable value at March 31, 2010 (December 31, 2009 – $25.7 million).

3. Long-Term Investments and Other

(millions of dollars)		**As at March 31, 2010**		As at December 31, 2009
Non-bank asset-backed commercial paper (“ABCP”)	**$**	**38.2**	$	41.1
Other investments		**26.3**		27.3
Customer agreements		**15.5**		16.8
Other deposits, loans and advances		**6.7**		8.5
	$	**86.7**	$	93.7

4. Operating Loans and Long-Term Debt

(a) Operating Loans

On a consolidated basis, at March 31, 2010, the Company had $442.5 million of unsecured operating loan facilities (December 31, 2009 – $445.6 million), of which $0.6 million was drawn down (December 31, 2009 – $0.6 million) and an additional $17.8 million was reserved for several standby letters of credit (December 31, 2009 – $18.6 million). The Company also had a separate facility to cover a $16.0 million standby letter of credit at March 31, 2010 (December 31, 2009 – $16.0 million).

The Company’s operating loan facilities include two facilities in the amounts of US$12.9 million (“Facility A”) and US$32.5 million (“Facility B”) at March 31, 2010. Facility A expires in January 2012, with the option of four one-year extensions, and is non-recourse to the Company under normal circumstances, except for an amount of US$6.7 million. Facility B expires in January 2011 and is non-recourse to the Company under normal circumstances. The ABCP assets of the Company have been pledged as security to support these credit facilities.

Excluding Canfor Pulp Limited Partnership (“CPLP”), the Company’s bank operating lines at March 31, 2010 were $402.5 million (December 31, 2009 - $405.6 million) of which $0.6 million was drawn down (December 31, 2009 – $0.6 million) and $17.3 million (December 31, 2009 – $18.1 million) was reserved for several standby letters of credit, the majority of which relates to unregistered pension plans. Except for Facility A and Facility B, 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 the Company’s net debt to total capitalization ratio. Facility A and Facility B have similar terms, except that their interest rate is plus or minus a margin. Other than Facility A and Facility B, substantially all of the bank operating lines expire in June 2011.

At March 31, 2010, CPLP had a $40.0 million bank credit facility with a maturity date of November 30, 2011, of which $0.5 million was utilized for a standby letter of credit issued for general business purposes. The terms of this financing include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on lenders’ Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. In addition, CPLP has a separate facility with a maturity date of November 30, 2011, to cover a $16.0 million standby letter of credit issued to BC Hydro.

As at March 31, 2010, the Company was in compliance with all covenants relating to its operating lines of credit.

(b) Long-Term Debt

On March 1, 2010, the Company repaid $33.7 million (US$32.3 million) of 8.03% interest rate privately placed senior notes.

At March 31, 2010, the fair value of the Company’s long-term debt, which was measured at its amortized cost of $323.6 million, was $338.5 million. The fair value of long-term debt was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

5. Long-term Accrued Liabilities and Obligations

(millions of dollars)	As at March 31, 2010	As at December 31, 2009
Deferred reforestation obligation	**$ 68.9**	$ 60.3
Accrued pension obligations	**19.1**	19.6
Accrued pension bridge benefit obligations	**9.0**	9.1
Other post-employment benefits	**105.1**	103.5
Asset retirement obligations	**4.9**	4.8
Other	**17.4**	12.5
	$ 224.4	$ 209.8

6. Sale of Mill Property

In February 2009, the Company completed the sale of a property located in New Westminster, British Columbia, for net proceeds of $46.0 million. The property was the site of the Company's former Panel and Fibre operation, which was permanently closed at the beginning of 2008. The sale transaction resulted in a pre-tax gain of $44.6 million.

7. Employee Future Benefits Expense

(millions of dollars)	3 months ended March 31, 2010	2009
Defined benefit pension plans	**$ 4.3**	$ 3.5
Other employee future benefit plans	**3.3**	3.0
Defined contribution pension plans and 401(k) plans	**0.9**	1.0
Contributions to forest industry union plans	**3.7**	3.7
	$ 12.2	$ 11.2

8. Income Taxes

(millions of dollars)	3 months ended March 31, 2010	2009
Current	**$ 0.2**	$ 21.0
Future	**(4.4)**	28.7
Income tax recovery (expense)	**$ (4.2)**	$ 49.7

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

(millions of dollars)	3 months ended March 31, 2010	2009
Income tax recovery (expense) at statutory rate 2010 - 28.5% (2009 - 30%)	**$ (10.5)**	$ 35.9
Add (deduct):		
Non-taxable income related to non-controlling interests in limited partnerships	**4.8**	(3.3)
Change in corporate income tax rates	**-**	7.3
Entities with different income tax rates and other tax adjustments	**(0.1)**	1.2
Tax recovery (expense) at rates other than statutory rate	**0.6**	4.4
Permanent difference from capital gains and losses and other non-deductible items	**1.0**	4.2
Income tax recovery (expense)	**$ (4.2)**	$ 49.7

9. Net Income (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 the Company'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.

	3 months ended March 31,	
	2010	2009
Weighted average number of common shares	**142,589,297**	142,589,297
Incremental shares from potential exercise of options [a]	**1,720**	-
Diluted number of common shares [a]	**142,591,017**	142,589,297

[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 are not included in the total common shares outstanding for purposes of the calculation of diluted net income (loss) per share.

10. Net Change in Non-Cash Working Capital

	3 months ended March 31,	
(millions of dollars)	**2010**	2009
Accounts receivable	**$ (38.0)**	$ (30.7)
Income taxes recoverable	**29.5**	11.3
Inventories	**(89.0)**	(49.1)
Prepaid expenses	**(0.4)**	3.2
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	**33.7**	12.1
Net (increase) decrease in working capital	**$ (64.2)**	$ (53.2)

11. Derivative Financial 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, 2010, the fair value of derivative financial instruments was a net liability of $1.9 million (December 31, 2009 – net liability of $5.8 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 three month periods ended March 31, 2010 and 2009:

	3 months ended March 31,	
(millions of dollars)	**2010**	2009
Foreign exchange collars and forward contracts	**$ 5.8**	$ (10.8)
Natural gas swaps	**(3.7)**	(9.5)
Diesel options and swaps	**0.4**	(1.4)
Lumber futures	**(3.7)**	0.4
	$ (1.2)	$ (21.3)

The following table summarizes the fair value of the derivative financial instruments included in the balance sheet at March 31, 2010 and December 31, 2009:

(millions of dollars)	**As at March 31, 2010**	As at December 31, 2009
Foreign exchange collars and forward contracts	**$ 8.8**	$ 1.6
Natural gas swaps	**(8.7)**	(6.8)
Diesel options and swaps	**0.4**	(0.9)
Lumber futures	**(2.4)**	0.3
	$ (1.9)	$ (5.8)
Less: current portion	**0.1**	(3.5)
Long-term portion	**$ (2.0)**	$ (2.3)

12. Segmented Information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("CEO") and the executive management team, who operate as Canfor's chief operating decision maker. The CEO and executive management team are responsible for allocating resources and assessing performance of the operating segments.

Canfor has two reportable segments, as described below, which offer different products and are managed separately because they require different production processes and marketing strategies. The following summary describes the operations of each of the Company's reportable segments:

- *Lumber* - Includes logging operations, and manufacture and sale of various grades and widths of lumber products.
- *Pulp and paper* – Includes purchase of residual fibre, and production and sale of pulp and paper products, including northern bleached softwood kraft ("NBSK") and bleached chemi-thermo mechanical pulp ("BCTMP"). This segment includes 100% of Canfor Pulp Limited Partnership and the Taylor Pulp mill.

Sales between segments are accounted for at prices that approximate fair value. These include sale of residual fibre from the lumber segment to the pulp and paper segment for use in their pulp production process.

Sales in the panels business (which does not meet the criteria to be a separate reportable segment) for the three months ended March 31, 2010 were $16.2 million (three months ended March 31, 2009 - $5.6 million).

(millions of dollars)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended March 31, 2010					
Sales to external customers	**$ 292.0**	**269.7**	**16.2**	**-**	**$ 577.9**
Sales to other segments	**$ 35.5**	**-**	**-**	**(35.5)**	**$ -**
Operating income (loss)	**$ 11.8**	**33.9**	**(6.7)**	**-**	**$ 39.0**
Amortization	**$ 22.2**	**11.9**	**4.7**	**-**	**$ 38.8**
Capital expenditures	**$ 10.8**	**2.3**	**-**		**$ 13.1**
Identifiable assets	**$ 1,433.3**	**883.7**	**391.0**	**-**	**$ 2,708.0**
3 months ended March 31, 2009					
Sales to external customers	$ 263.8	205.3	5.6	-	$ 474.7
Sales to other segments	$ 28.8	-	0.1	(28.9)	$ -
Operating income (loss)	$ (92.3)	(17.3)	(14.6)	-	$ (124.2)
Amortization	$ 23.5	12.3	3.8	-	$ 39.6
Capital expenditures	$ 12.5	6.3	-		$ 18.8
Identifiable assets	$ 1,484.8	884.8	671.8	-	$ 3,041.4

Sales to external customers in the lumber segment include the following sales of lumber not produced by Canfor:

(millions of dollars)	3 months ended March 31, 2010	2009
Sales of lumber not produced by Canfor	**$ 44.2**	$ 46.5

Geographic Information

(millions of dollars)	3 months ended March 31, 2010	2009
Sales by location of customer		
Canada	**$ 75.1**	$ 67.9
United States	**277.9**	253.4
Asia	**162.1**	110.6
Europe	**51.3**	35.6
Other	**11.5**	7.2
	$ 577.9	$ 474.7

(millions of dollars)	**As at March 31, 2010**	As at December 31, 2009
Capital assets and goodwill by location		
Canada	**$ 1,585.1**	$ 1,598.1
United States	**143.2**	151.7
Asia and Other	**0.1**	0.1
	$ 1,728.4	$ 1,749.9

13. Comparative Figures

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