Q1 2011

For the three months ended March 31, 2011

CANFOR CORPORATION
2011 FIRST QUARTER
INTERIM REPORT

To Our Shareholders

Canfor Corporation today reported net income of $32.3 million for the first quarter of 2011, compared to $55.4 million for the fourth quarter of 2010 and $35.5 million for the first quarter of 2010. The Company's net income attributable to shareholders ("shareholder net income") for the first quarter of 2011 was $7.0 million, or $0.05 per share, down from $31.4 million, or $0.22 per share, for the fourth quarter of 2010 and down from $18.3 million, or $0.13 per share, reported for the first quarter of 2010.

The Company's results for the first quarter of 2011 are presented in accordance with International Financial Reporting Standards ("IFRS") for the first time, and comparative information in 2010 has been restated accordingly. Full details of the adjustments resulting from the Company's conversion to IFRS, including reconciliations to amounts previously recorded for 2010 comparative periods under previous Canadian generally accepted accounting principles, are presented in the Company's interim financial statements for the first quarter of 2011.

Shareholder net income for the first quarter of 2011 included several items affecting comparability with prior periods, which had an overall positive impact of $6.9 million, or $0.05 per share. After adjusting for all items affecting comparability, the Company effectively broke even in the first quarter of 2011. Similarly adjusted shareholder net income for the fourth quarter of 2010 was $13.6 million, or $0.10 per share, and adjusted shareholder net income for the first quarter of 2010 of $13.1 million, or $0.09 per share.

Reported EBITDA for the first quarter of 2011 was $72.9 million, down $10.6 million from the fourth quarter of 2010. EBITDA for the lumber segment was $18.0 million, down $3.7 million from the previous quarter, while EBITDA for the pulp and paper segment decreased $2.4 million to $64.0 million. Weaker panels results accounted for the majority of the remaining shortfall.

In the first quarter of 2011, a stagnant U.S. housing sector and severe winter weather conditions across much of North America weighed heavily on home construction activity and the Company's ability to deliver lumber to customers. While the Company's lumber production in the current quarter was up 7%, shipments of lumber were down 3% reflecting the major disruption to transportation networks caused by the adverse winter conditions. For offshore markets, lumber demand remained at high levels and continued to support higher prices for narrower dimensions in North America, with the average benchmark Western SPF (Spruce/Pine/Fir) 2x4 #2&Btr price up US$27, or 10%, from the previous quarter. As was the case in the previous quarter, however, these price increases were not replicated across wider dimensions and all higher grades. Northern Bleached Softwood Kraft ("NBSK") pulp market conditions remained favourable in the first quarter, with list prices to North America and Europe approaching US$1,000 per tonne towards the end of the period. Sales realizations across all products were negatively impacted by the strengthening of the Canadian dollar through the quarter.

Lumber unit manufacturing costs were down slightly from the previous quarter mostly reflecting more operating days (with Christmas shuts taken in the prior quarter) and productivity gains, which offset increased log costs that reflected higher diesel and purchased wood costs. Pulp unit manufacturing costs in the current quarter were also down, mostly as a result of lower whole log chip costs.

Canfor's strategic capital spending focus continued in the quarter. In addition to further work on the Company's Fort St. John sawmill and planer rebuild, the Company commenced several new high-return projects which form part of a three year, $300 million capital investment program for its lumber operations.

Despite a projected seasonal uplift in home construction and repair and renovation activity over the remaining spring months, the U.S. housing market is not forecast to show any significant recovery through the balance of the year given the current high levels of mortgage delinquencies, home foreclosures and home inventories. The Canadian housing market, although flat in the first quarter, is forecast to show moderate improvement in the second quarter. The strength of demand from China is projected to continue through the balance of the year, while the near-term outlook for Japan is more uncertain in the aftermath of the devastating earthquake and tsunami in March.

The global softwood pulp market is forecast to remain tight through the second quarter of 2011 as demand remains solid with continued strong shipments to China. In addition, annual maintenance downtime coupled with extended outages in Canada due to several large capital projects funded under the Canadian Federal Government Green Transformation Program, are projected to curtail supply.

Ronald L. Cliff
Chairman

James F. Shepard
President and Chief Executive Officer

Canfor Corporation
First Quarter 2011
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, 2011 relative to the quarters ended December 31, 2010 and March 31, 2010, and the financial position of the Company at March 31, 2011. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2011 and 2010, as well as the 2010 annual MD&A and the 2010 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2010 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which as of January 1, 2011 is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to EBITDA (calculated as operating income before amortization) which Canfor considers to be a relevant 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 Shareholder Net Income (Loss) (calculated as Shareholder Net income (loss) 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 Shareholder Net Income") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). EBITDA, Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder 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 IFRS. As there is no standardized method of calculating these measures, Canfor's EBITDA, Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and Adjusted Shareholder Net Income (Loss) to net income (loss) reported in accordance with IFRS 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; currency 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.

2010 prior period comparative financial information throughout this report has been restated, and is shown in accordance with IFRS. All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at May 4, 2011.

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 2011 EARNINGS OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)	Q1 2011	Q4 2010	Q1 2010
Sales	$ **624.0**	$ 629.1	$ 577.9
EBITDA	$ **72.9**	$ 83.5	$ 85.7
Operating income	$ **31.4**	$ 41.7	$ 43.9
Foreign exchange gain on long-term debt and investments, net	$ **4.7**	$ 9.8	$ 8.8
Gain (loss) on derivative financial instruments[2]	$ **4.7**	$ 1.8	$ (1.2)
Net income	$ **32.3**	$ 55.4	$ 35.5
Net income attributable to equity shareholders of Company	$ **7.0**	$ 31.4	$ 18.3
Net income per share attributable to equity shareholders of Company, basic and diluted	$ **0.05**	$ 0.22	$ 0.13
Average exchange rate (US$/CDN$)[3]	$ **1.014**	$ 0.987	$ 0.961

[1] Prior period amounts have been restated, and are shown in accordance with International Financial Reporting Standards ("IFRS").
[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] Source – Bank of Canada (average noon rate for the period).

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

Analysis of Specific Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	Q1 2011	Q4 2010	Q1 2010
Shareholder Net Income	$ **7.0**	$ 31.4	$ 18.3
Foreign exchange gain on long-term debt and investments, net	$ **(3.0)**	$ (6.9)	$ (6.2)
(Gain) loss on derivative financial instruments	$ **(2.9)**	$ (0.5)	$ 1.0
Gain on sale of operating assets of Howe Sound Pulp and Paper Limited Partnership	$ **-**	$ (4.9)	$ -
Increase in fair value of asset-backed commercial paper	$ **(1.0)**	$ (5.5)	$ -
Net impact of above items	$ **(6.9)**	$ (17.8)	$ (5.2)
Adjusted Shareholder Net Income	$ **0.1**	$ 13.6	$ 13.1
Shareholder net income per share (EPS), as reported	$ **0.05**	$ 0.22	$ 0.13
Net impact of above items per share	$ **(0.05)**	$ (0.12)	$ (0.04)
Adjusted Shareholder Net Income per share	$ **0.00**	$ 0.10	$ 0.09

EBITDA

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

(millions of dollars)	Q1 2011	Q4 2010	Q1 2010
Net income, as reported	**$ 32.3**	$ 55.4	$ 35.5
Add (subtract):			
Amortization	**$ 41.5**	$ 41.8	$ 41.8
Finance expense, net	**$ 6.3**	$ 6.6	$ 7.7
Foreign exchange gain on long-term debt and investments, net	**$ (4.7)**	$ (9.8)	$ (8.8)
(Gain) loss on derivative financial instruments	**$ (4.7)**	$ (1.8)	$ 1.2
Other expense (income)	**$ (1.7)**	$ (11.0)	$ 2.9
Income tax expense	**$ 0.5**	$ 2.3	$ 5.4
EBITDA, as reported	**$ 72.9**	$ 83.5	$ 85.7
Included in above:			
Negative (positive) impact of inventory valuation adjustments[4]	**$ 2.9**	$ (0.1)	$ (23.0)
EBITDA excluding impact of inventory valuation adjustments	**$ 75.8**	$ 83.4	$ 62.7

[4] In accordance with IFRS, 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, respectively. In periods where market prices are depressed and NRVs are below cost, this movement in log inventory volumes can result in large swings in inventory write-down amounts recorded in those periods. In addition, changes in market prices, foreign exchange rates, and costs over the respective reporting periods affect inventory write-downs.

Reported EBITDA for the first quarter of 2011 was $72.9 million, down $10.6 million from the fourth quarter of 2010. EBITDA for the lumber segment was $18.0 million, down $3.7 million from the previous quarter, while EBITDA for the pulp and paper segment decreased $2.4 million to $64.0 million. Weaker panels results accounted for the majority of the remaining shortfall.

In the first quarter of 2011, a stagnant U.S. housing sector and severe winter weather conditions across much of North America weighed heavily on home construction activity and the Company's ability to deliver lumber to customers. While the Company's lumber production in the current quarter was up 7%, shipments of lumber were down 3% reflecting the major disruption to transportation networks caused by the adverse winter conditions. For offshore markets, lumber demand remained at high levels and continued to support higher prices for narrower dimensions in North America, with the average benchmark Western SPF (Spruce/Pine/Fir) 2x4 #2&Btr price up US$27, or 10%, from the previous quarter. As was the case in the previous quarter, however, these price increases were not replicated across wider dimensions and all higher grades. Northern Bleached Softwood Kraft ("NBSK") pulp market conditions remained favourable in the first quarter, with list prices to North America and Europe approaching US$1,000 per tonne towards the end of the period. Sales realizations across all products were negatively impacted by the strengthening of the Canadian dollar through the quarter.

Lumber unit manufacturing costs were down slightly from the previous quarter mostly reflecting more operating days (with Christmas shuts taken in the prior quarter) and productivity gains, which offset increased log costs that reflected higher diesel and purchased wood costs. Pulp unit manufacturing costs in the current quarter were also down, mostly as a result of lower whole log chip costs.

Compared to the first quarter of 2010, EBITDA was down $12.8 million, but excluding the impact of inventory valuation adjustments, which were significant in the 2010 comparative period, EBITDA was up $13.1 million. The improved results compared to the first quarter of 2010 reflect improved sales realizations for Western SPF lumber and NBSK pulp products, offset in part by weaker southern yellow pine ("SYP") lumber and bleached chemi-thermo mechanical pulp ("BCTMP") sales realizations, as well as higher fibre costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics - Lumber

(millions of dollars unless otherwise noted)	Q1 2011	Q4 2010	Q1 2010
Sales	$ 328.6	$ 318.0	$ 292.0
Operating income (loss)	$ (2.3)	$ 0.7	$ 15.8
EBITDA, as reported	$ 18.0	$ 21.7	$ 36.3
Negative (positive) impact of inventory valuation adjustments	$ 0.1	$ (0.7)	$ (22.4)
EBITDA excluding impact of inventory valuation adjustments	$ 18.1	$ 21.0	$ 13.9
Average SPF 2x4 #2&Btr lumber price in US$[5]	$ 296	$ 269	$ 268
Average SPF price in Cdn$	$ 292	$ 273	$ 279
Average SYP 2x4 #2 lumber price in US$[6]	$ 302	$ 256	$ 329
Average SYP price in Cdn$	$ 298	$ 259	$ 342
U.S. housing starts (million units SAAR) [6]	0.563	0.534	0.617
Production – SPF lumber (MMfbm)	772.3	725.1	696.0
Production – SYP lumber (MMfbm)	94.8	82.9	85.0
Shipments – SPF lumber (MMfbm)[8]	715.3	760.1	672.7
Shipments – SYP lumber (MMfbm)[8]	90.9	93.4	85.6
Shipments – wholesale lumber (MMfbm)	59.2	41.6	38.8

[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] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR")
[8] Canfor-produced lumber, including lumber purchased for remanufacture.

Overview

Reported EBITDA for the lumber segment was $18.0 million for the first quarter of 2011, down $3.7 million from the fourth quarter of 2010. Total shipments of Canfor-produced lumber of 806 million board feet for the first quarter were down 6% from the previous quarter as severe winter weather conditions across much of North America disrupted home construction activity and transportation networks, adding to the existing challenges presented by the continued weak U.S. housing sector. Revenues in the lumber segment were up $10.6 million from the previous quarter, with lower sales of Canfor-produced lumber being more than offset by higher wholesale lumber and log sales.

Benchmark 2x4 prices for Western SPF and SYP lumber saw solid increases during the quarter. However, as in the previous quarter, these price movements were not matched across most other grades and dimensions in North America and in offshore markets, where prices in some cases rose by no more than a few dollars. In addition, price increases were partially offset by the stronger Canadian dollar and higher freight costs. Unit lumber conversion costs were down from the previous quarter and helped to offset increased log costs.

Compared to the first quarter of 2010, reported EBITDA for the lumber segment was down $18.3 million but results for the first quarter of 2010 were positively impacted by an inventory valuation adjustment related to increasing market prices in that quarter. Excluding the impact of the inventory valuation adjustment, EBITDA in the first quarter of 2011 was up $4.2 million. Improved sales realizations for most Western SPF products, particularly to offshore markets, and higher shipment levels more than offset weaker SYP prices and higher log costs.

Markets

The underlying structural challenges affecting the U.S. housing market, as evidenced by elevated housing inventory levels, high foreclosure rates and falling home prices, continued to overshadow the lumber market during the first quarter of 2011. In addition, the adverse weather conditions delayed the delivery of finished lumber products to market and adversely impacted new home construction. As a result, U.S housing starts in February fell to one of the lowest levels on record, at 512,000 units[9] (seasonally adjusted annual rate - SAAR) before recording a 7% increase in March.

[9] U.S. Census Bureau

For the first quarter as a whole, U.S housing starts averaged 563,000 units SAAR, an increase of 5% from the previous quarter. Single family starts, which consume a higher proportion of lumber, were 415,000 units SAAR, down 5% compared to the previous quarter, while multi-family starts were up 50% at 148,000 units SAAR. Compared to the same quarter last year, total housing starts were 9% lower, with single family starts down 21% and multi-family starts up almost 60%.

In Canada, lumber consumption eased in the first quarter of 2011, resulting from a seasonal slowdown and concern over housing affordability in some regions. Housing starts averaged 178,000 units SAAR[10], comparable with the previous quarter, and down 17,000, or 9%, compared to the first quarter of 2010.

Canfor's offshore lumber shipments remained at high levels, but were down slightly from the record setting performance from the previous quarter, mostly as a result of transportation constraints. Strong lumber demand from Asia saw a 50% rise in Canfor's offshore shipments from the same quarter of 2010. China continued to lead all offshore shipment volumes.

<u>Sales</u>

Sales for the lumber segment in the first quarter of 2011 were $328.6 million, up $10.6 million, or 3%, from the previous quarter, and up $36.6 million, or 13%, compared to the first quarter of 2010.

Total shipments for the first quarter of 2011 were 865 million board feet, down 3% compared to the previous quarter, largely reflecting the impact of the severe winter weather conditions. Shipments to China represented 23% of total shipments, down slightly from 26% in the previous quarter. Compared to the first quarter of 2010, total shipment levels were up 9%, mostly reflecting the increased China demand, a significant amount of which has been supplied from the Company's Quesnel mill which re-opened in June 2010 after a five month curtailment.

Despite the struggling U.S. housing sector, the continued strong demand for 2x4 lumber product from China supported higher 2x4 prices in the quarter. The benchmark Random Lengths Western SPF 2x4 #2&Btr price averaged US$296 per Mfbm, up 10% from the fourth quarter of 2010. However, this level of increase was not seen across all other dimensions, as evidenced by the 2x6, 2x8 and 2x10 benchmark prices which moved up 5%, 1% and 4% respectively. For SYP, the benchmark 2x4 price was up 18% to US$302 per Mfbm but this was more than double price increases for most wider dimensions. Overall, offshore prices saw modest increases compared to the previous quarter, with improved market pricing more than offsetting the impact of the stronger Canadian dollar. Rising freight costs for all markets, reflecting tight truck availability and higher diesel costs, also eroded some of the market price gains.

Compared to the first quarter of 2010, price movements were mixed, with narrower Western SPF dimensions seeing moderate gains while wider Western SPF and all SYP dimensions saw price declines. Overall, sales realizations for Western SPF products in North America showed a modest increase, but more substantial increases were seen in offshore markets despite a stronger Canadian dollar. Increased freight costs also offset some of the pricing gains.

The average value of the Canadian dollar compared to the US dollar in the first quarter was up 2.7 cents, or 3%, from the previous quarter, and up 5.3 cents, or 6% compared to the first quarter of 2010, offsetting some of the improvements in US dollar pricing for SPF lumber products.

The Random Lengths Framing Lumber Composite price averaged US$297 per Mfbm for the first quarter of 2011, up US$26, or 10%, compared to the previous quarter, but was still below the trigger price of US$315 required to reduce the export tax rate on all U.S. bound shipments below the current rate of 15%.

Total residual fibre revenue was up compared to the previous quarter reflecting higher production volumes in the quarter, offset in part by lower sawmill chip prices, partially related to a modest decline in pulp sales realizations. Compared to the first quarter of 2010, residual fibre revenue was up reflecting higher sawmill residual chip prices linked to higher average NBSK pulp prices, as well as higher operating rates.

[10] CMHC – Canada Mortgage and Housing Corporation

Operations

The Company's lumber production was 867 million board feet for the quarter, or 72% of capacity, up 7% from the fourth quarter of 2010. The increase reflected the Christmas downtime taken at most mills in the previous quarter, offset in part by the permanent closure of the Clear Lake sawmill in January 2011. Compared to the first quarter of 2010, production was up 86 million board feet, or 11%, mostly reflecting market curtailment taken at the Chetwynd and Quesnel sawmills in the first quarter of 2010, offset in part by the Clear Lake closure in the current quarter. The Company's Mackenzie sawmill also moved from one to two shifts during the first quarter of 2010.

Overall, the Company's lumber unit manufacturing costs were down marginally from the previous quarter, with decreases in unit cash conversion costs more than offsetting increases in unit log costs. The improvement in unit cash conversion costs principally reflected the higher number of operating days and increased productivity, as well as the closure of the higher-cost Clear Lake sawmill. Increased log costs reflected higher diesel costs and increased competition for purchased wood.

Compared to the first quarter of 2010, unit manufacturing costs were up 2%, mostly as a result of higher logging and hauling costs, in part driven by the sharp rise in diesel costs as well as increased purchased wood prices.

Restructuring, mill closure and severance costs in the current quarter were $1.5 million, similar to those for the previous quarter, and $2.7 million lower than the first quarter of 2010 when the Quesnel and Chetwynd mills were also curtailed.

In the first quarter of 2010 the Company recorded a $22.4 million recovery of previously recorded write-downs, resulting from the improved market prices in the first quarter of 2010 compared to the end of 2009. Inventory valuation adjustments were minimal in the current period.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[11]

(millions of dollars unless otherwise noted)		**Q1 2011**		Q4 2010		Q1 2010
Sales	**$**	**283.0**	$	300.8	$	269.7
Operating income	**$**	**47.2**	$	50.0	$	34.4
EBITDA	**$**	**64.0**	$	66.4	$	51.0
Average pulp price delivered to U.S. – US$[12]	**$**	**970**	$	967	$	880
Average price in Cdn$	**$**	**957**	$	980	$	916
Production – pulp (000 mt)		**316.9**		320.6		307.1
Production – paper (000 mt)		**34.5**		34.7		31.0
Shipments – Canfor-produced pulp (000 mt)		**318.4**		331.1		315.6
Pulp marketed on behalf of HSLP (000 mt)[13]		**-**		-		91.5
Shipments – paper (000 mt)		**32.6**		39.0		37.7

[11] Includes the Taylor pulp mill and 100% of Canfor Pulp Limited Partnership ("CPLP"), which is consolidated in Canfor's results. Pulp production and shipment volumes presented are for both northern bleached softwood kraft ("NBSK") and bleached chemi-thermo mechanical pulp ("BCTMP").
[12] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).
[13] Howe Sound Pulp and Paper Limited Partnership pulp mill.

Overview

EBITDA for the pulp and paper segment for the first quarter of 2011 was $64.0 million, slightly less than EBITDA of $66.4 million reported for the previous quarter. US dollar pulp market prices remained in line with the previous quarter, but the stronger Canadian dollar led to lower sales realizations. Lower pulp shipments and higher chemical costs also contributed to the decrease in EBITDA but were offset by lower fibre costs and reduced operating costs. Investment tax credits totalling $3.4 million were also recorded in the fourth quarter of 2010.

Compared to the first quarter of 2010, EBITDA was up $13.0 million principally as a result of higher NBSK pulp US dollar prices, partially offset by lower BCTMP market prices and the stronger Canadian dollar, as well as higher fibre and chemical costs. The increase in fibre costs reflected higher prices paid for sawmill residual chips, partially offset by reduced whole log chip costs.

Markets

Global softwood pulp demand remained very strong in the first quarter of 2011 with record shipments in March 2011 led by demand from China. According to the World 20 report[14], global bleached softwood pulp shipments for March were 20% higher when compared to the same period in 2010 and for the first quarter in 2011 were 10% higher than in the same period in 2010. PPPC[15] statistics reported an increase in global demand for printing and writing papers of 1% for February 2011 year-to-date as compared to the same period in 2010.

Global softwood producer inventories remained tight as the strong global shipments in the first quarter of 2011 were partially offset by seasonally strong supply. At the end of March 2011, World 20 producers of bleached softwood pulp inventories were at 24 days of supply, a drop of one day from December 2010. Market conditions are generally considered balanced when inventories fall in the 27-30 days of supply range.

Sales

Shipments of Canfor-produced pulp in the first quarter of 2011 were 318,000 tonnes, down 13,000 tonnes, or 4%, from the previous quarter. Shipments were up marginally compared to the first quarter of 2010.

NBSK markets remained tight in the first quarter of 2011, with prices increasing towards the end of the quarter. U.S. and Europe NBSK pulp list prices averaged US$970 and US$960 per tonne, respectively, up slightly from the previous quarter. CPLP's NBSK pulp list prices to China showed solid gains, moving up US$37 to US$870 per tonne. The stronger Canadian dollar, however, more than offset these gains, resulting in lower sales realizations. BCTMP realizations were also down compared to the fourth quarter of 2010, with flat US dollar pricing and the stronger Canadian dollar.

Compared to the first quarter of 2010, NBSK pulp list prices to the U.S. were up US$90 per tonne, or 10%, reflecting the overall improvement in the markets over the year. However, a 6% increase in the value of the Canadian dollar reduced the net benefit of this increase for Canadian producers to approximately $40 per tonne. Prices to Europe and China were up US$100 per tonne and US$120 per tonne, respectively.

Operations

Pulp production in the first quarter of 2011 was 317,000 tonnes, down marginally from the previous quarter and up 3% from the first quarter of 2010. The increase compared to the first quarter of 2010 largely related to a maintenance outage at the Prince George pulp mill which extended into the comparative period.

Unit manufacturing costs were down in the first quarter of 2011 compared to the fourth quarter of 2010. Lower fibre costs and reduced spending on operating supplies and services contributed to the lower unit costs. The reduced fibre costs were largely attributable to lower prices paid for whole log and sawmill residual chips. Higher chemical prices offset some of these improvements. In addition, non-manufacturing costs in the previous quarter reflected increased short-term incentive compensation costs and expenses related to the conversion of Canfor Pulp Income Fund to a corporation (Canfor Pulp Products Inc.) on January 1, 2011.

Unit manufacturing costs were up slightly from the first quarter of 2010 with increased fibre and chemical costs offsetting the impact of higher production volumes. The increase in fibre costs reflected higher prices for sawmill residual chips, for the most part due to higher NBSK pulp prices, partially offset by reductions in the cost and volume of whole log chips.

[14] 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.

[15] Pulp and Paper Products Council ("PPPC").

Unallocated and Other Items

(millions of dollars)	Q1 2011	Q4 2010	Q1 2010
Operating loss of Panels operations[16]	**$ (5.7)**	$ (2.8)	$ (0.5)
Corporate costs	**$ (7.8)**	$ (6.2)	$ (5.8)
Finance expense, net	**$ (6.3)**	$ (6.6)	$ (7.7)
Foreign exchange gain on long-term debt and investments, net	**$ 4.7**	$ 9.8	$ 8.8
Gain (loss) on derivative financial instruments	**$ 4.7**	$ 1.8	$ (1.2)
Other income (expense), net	**$ (1.7)**	$ 11.0	$ (2.9)

[16] The Panels operations include the Peace Valley OSB (Oriented Strand Board) 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 panels operations reported an operating loss of $5.7 million for the first quarter, compared to a loss of $2.8 million for the previous quarter. The first quarter results included a $2.0 million expense for inventory valuation adjustments, reflecting continued low market prices for OSB product and the seasonal build up of log inventories in advance of spring break up. Excluding the impact of inventory valuation adjustments, as well as certain non-recurring items in the previous quarter, the operating loss for the first quarter was down $0.9 million reflecting improved sales realizations and lower conversion costs in the period. The higher loss compared to the first quarter of 2010 reflected weaker prices and the stronger Canadian dollar, as well as the inventory devaluation adjustment in the current quarter.

Corporate costs were $7.8 million in the first quarter of 2011, up $1.6 million from the previous quarter and $2.0 million from the first quarter of 2010. The increased costs compared to both periods primarily reflected higher share-based compensation and short-term incentive compensation costs recorded in the current quarter, as well as a non-recurring pension credit adjustment in the fourth quarter of 2010.

Net finance expense of $6.3 million for the first quarter of 2011 was down slightly from the previous quarter, and down $1.4 million from the first quarter of 2010, largely as a result of lower long-term debt balances and the positive impact from the stronger Canadian dollar.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt, net of investments, of $4.7 million for the first quarter of 2011 as a result of a 2% increase in the value of the Canadian dollar against the US dollar at the respective quarter ends. This gain was lower than gains recorded in both comparable periods, which saw the Canadian dollar strengthen further against its U.S. counterpart.

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. For the first quarter of 2011, the Company recorded a net gain of $4.7 million on its derivative instruments, principally reflecting gains attributable to the stronger Canadian dollar and higher market diesel prices, as well as gains on lumber futures due to falling market prices. The following table summarizes the gains (losses) on derivative financial instruments for the comparable periods.

(millions of dollars)	Q1 2011	Q4 2010	Q1 2010
Foreign exchange collars and forward contracts	**$ 1.9**	$ 3.3	$ 5.8
Natural gas swaps	**$ (0.1)**	$ -	$ (3.7)
Diesel options and swaps	**$ 1.0**	$ 0.6	$ 0.4
Lumber futures	**$ 1.9**	$ (2.1)	$ (3.7)
	$ 4.7	$ 1.8	$ (1.2)

Other expense, net of $1.7 million for the first quarter of 2011 included a net foreign exchange loss of $2.5 million on working capital balances, compared to $3.7 million in the previous quarter and $2.8 million in the first quarter of 2010. This expense was partially offset in the current quarter by a $1.1 million increase in the fair value of the Company's investment in asset-backed commercial paper ("ABCP"). Other income in the fourth quarter of 2010 included $6.3 million in relation to the ABCP and a $5.5 million gain on the sale of the operating assets of Howe Sound Pulp and Paper Limited Partnership.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	**Q1 2011**	Q4 2010	Q1 2010
Increase (decrease) in cash and cash equivalents	**$ (87.8)**	$ 37.2	$ (39.3)
Operating activities	**$ (5.7)**	$ 100.7	$ 27.8
Financing activities	**$ (75.0)**	$ (37.1)	$ (52.6)
Investing activities	**$ (6.8)**	$ (25.9)	$ (14.3)
Ratio of current assets to current liabilities	**2.0 : 1**	2.0 : 1	2.4 : 1
Net debt to capitalization	**6.6%**	3.8%	13.8%
ROCE – Consolidated[17]	**0.9%**	2.3%	1.6%
ROCE - Canfor solid wood business[18]	**(0.3)%**	1.3%	1.0%

[17] Consolidated Return on Capital Employed ("ROCE") is equal to shareholder net income for the period plus finance expense, after tax, divided by the average capital employed during the 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.

[18] ROCE for the Canfor solid wood business represents consolidated ROCE adjusted to remove the results and capital employed of the Company's interest in the Peace Valley OSB Joint Venture and pulp and paper operations, including CPLP and the Taylor pulp mill.

Changes in Financial Position

Operating activities used cash of $5.7 million in the first quarter of 2011, compared to cash generated of $100.7 million in the previous quarter. The variance resulted principally from working capital movements, most significantly the Company's seasonal build of log inventory ahead of spring break-up. Working capital movements in the prior quarter also included cash received in relation to the sale of the operating assets of Howe Sound Pulp and Paper Limited Partnership. Cash generated from operating activities in the first quarter of 2010 included $28.7 million of income taxes received, which related to tax loss carry-backs.

Financing activities used cash of $75.0 million in the first quarter of 2011, compared to $37.1 million in the previous quarter and $52.6 million in the first quarter of 2010. The current quarter's outflows included the repayment of long-term debt of $33.8 million (Q4 2010: $1.4 million; Q1 2010: $33.7 million) and cash distributions to non-controlling interests of $38.0 million (Q4 2010: $28.2 million; Q1 2010: $11.2 million). Interest payments of $3.5 million in the current quarter were down by just under $4.5 million from both the fourth and first quarters of 2010, reflecting lower debt levels and timing of payments.

Investing activities used $6.8 million in the first quarter of 2011, compared to $25.9 million in the previous quarter and $14.3 million in the first quarter of 2010. The Company received cash of $29.7 million from the redemption of certain ABCP in the current quarter. Cash used for capital additions was $48.9 million in the current quarter, slightly higher than the previous quarter, and included further work on the Company's Fort St. John sawmill and planer rebuild, and various other lumber mill upgrade projects, including new energy systems at the Prince George and Plateau sawmill operations.

Capital expenditures at CPLP principally reflected projects relating to the government funded Green Transformation Program (the "Program"). CPLP received cash of $9.6 million in the first quarter as reimbursement for capital additions under the Program, compared to $19.1 million in the previous quarter. CPLP has received Program approval to proceed with four projects totaling $157.4 million, of which $122.2 million will be funded under the Program. As of March 31, 2011 CPLP had incurred $55.8 million and received reimbursements totaling $29.8 million, with the majority of the outstanding balance expected to be received during the second quarter.

Liquidity and Financial Requirements

At March 31, 2011, the Company on a consolidated basis had cash and cash equivalents of $172.5 million and $446.7 million of bank operating lines of credit, which were undrawn, with $30.8 million reserved for several standby letters of credit. Included in these operating lines is a $30 million bridge loan credit facility negotiated in the period by CPLP to temporarily fund capital projects that are being reimbursed by the Program. The Company and CPLP remained in compliance with the covenants relating to its operating lines of credit and long-term debt during the quarter, and expect to remain so for the foreseeable future.

The Company's consolidated net debt to total capitalization at the end of the first quarter of 2011 was 6.6%.

Scheduled debt repayments in the second quarter of 2011 include US$50.0 million, which was paid on April 1. There are no further long-term debt repayments due over the balance of 2011.

Softwood Lumber Agreement (“SLA”) Update

On January 18, 2011, the U.S. triggered the arbitration provision of the 2006 SLA by delivering a Request for Arbitration. The U.S. claims that BC has not properly applied the timber pricing system grandparented in the SLA. The U.S. also claims that subsequent to 2006, BC made additional changes to the timber pricing system which had the effect of reducing timber prices. The claim focuses on substantial increases in Grade 4 (non sawlog or low grade) volumes commencing in 2007. It is alleged that timber was scaled and graded as Grade 4 that did not meet the criteria for that grade, and was accordingly priced too low.

As the arbitration is a state-to-state international dispute under the SLA, Canada is preparing a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. To date, the U.S. has not filed a detailed statement of claim with the arbitration panel. It is not possible at this time to predict the outcome or the value of the claim, and accordingly no provision has been recorded by the Company.

OUTLOOK

Lumber

Despite a projected seasonal uplift in home construction and repair and renovation activity over the remaining spring months, the U.S. housing market is not forecast to show any significant recovery through the balance of the year given the current high levels of mortgage delinquencies, home foreclosures and home inventories. The Canadian housing market, although flat in the first quarter, is forecast to show moderate improvement in the second quarter.

The strength of China demand is projected to continue through the balance of the year, and should help to support higher North American 2x4 SPF prices. The Company’s sales volumes to China are forecast to surpass the record shipment levels in 2010 as the two primary segments, remanufacturing and concrete forming, remain strong. In addition, further development of the wood frame construction market is anticipated to lead to increased use of higher grade lumber.

After the tragic earthquake and tsunami, the Japanese market near-term outlook is more uncertain as the country focuses on clean-up efforts and providing temporary shelter to its citizens. The rebuilding of the devastated areas is projected to lead to increased Western SPF lumber demand in time, but this is currently not anticipated to begin for at least 12 months.

Pulp and Paper

The global softwood pulp market is forecast to remain tight through the second quarter of 2011. A price increase of US$30 per tonne was announced for all markets effective April 1, 2011. Demand remains solid with continued strong shipments to China. In the second quarter of 2011, annual maintenance downtime coupled with extended outages in Canada due to several large capital projects funded under the Canadian Federal Government Green Transformation Program, are projected to curtail supply.

OUTSTANDING SHARES

At May 4, 2011, there were 142,705,764 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards 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.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For interim and annual periods in 2011 and beyond, Canfor is required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS"). The Company's financial statements for the first quarter of 2011 are the first to be prepared in accordance with IFRS.

The principal impacts of the transition to IFRS on the net income of the Company are the reduction in employee future benefit and amortization expenses which substantially result from opening balance sheet adjustments recorded to equity at January 1, 2010. In addition, certain costs of CPLP have been reclassified from manufacturing and product costs to amortization, thereby increasing EBITDA. The impacts of the transition to IFRS are set out in Note 14 to the Condensed Consolidated Interim Financial Statements for the first quarter of 2011.

To ensure accurate and efficient reporting under IFRS, the Company developed a conversion implementation plan in 2008, which was designed to identify differences between previous Canadian GAAP and IFRS that affect Canfor and any required changes to accounting processes and controls (including information technology systems). No significant impacts were identified in relation to the Company's information systems or day-to-day accounting processes and controls. Canfor reviewed its disclosure controls and procedures and updated these as required to ensure that they are appropriate for reporting under IFRS. Reporting in accordance with IFRS has now been embedded into the Company's systems and procedures.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2011, 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 2010 annual statutory reports which are available on www.canfor.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

	International Financial Reporting Standards[19]					Previous Canadian GAAP[19]		
	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Sales and income (millions of dollars)								
Sales	**$ 624.0**	$ 629.1	$ 588.7	$ 634.7	$ 577.9	$ 549.6	$ 521.3	$ 530.3
Operating income (loss)	**$ 31.4**	$ 41.7	$ 32.0	$ 69.1	$ 43.9	$ (23.6)	$ (31.4)	$ (31.2)
Net income (loss)	**$ 32.3**	$ 55.4	$ 37.2	$ 43.7	$ 35.5	$ (9.1)	$ 4.1	$ 12.1
Shareholder net income (loss)	**$ 7.0**	$ 31.4	$ 9.1	$ 21.1	$ 18.3	$ (17.0)	$ (5.2)	$ 10.5
Per common share (dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.05**	$ 0.22	$ 0.06	$ 0.15	$ 0.13	$ (0.12)	$ (0.04)	$ 0.07
Statistics								
Lumber shipments (MMfbm)	**865**	895	877	875	797	887	837	884
OSB shipments (MMsf 3/8")	**63**	57	58	72	72	63	69	61
Pulp shipments (000 mt)	**318**	331	277	301	316	315	307	344
Average exchange rate – US$/Cdn$	**$ 1.014**	$ 0.987	$ 0.962	$ 0.973	$ 0.961	$ 0.947	$ 0.912	$ 0.858
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 296**	$ 269	$ 223	$ 266	$ 268	$ 205	$ 191	$ 174
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 302**	$ 256	$ 243	$ 379	$ 329	$ 231	$ 230	$ 236
Average OSB price – North Central (US$)	**$ 199**	$ 191	$ 178	$ 295	$ 214	$ 172	$ 178	$ 145
Average NBSK pulp list price delivered to U.S. (US$)	**$ 970**	$ 967	$ 1,000	$ 993	$ 880	$ 820	$ 733	$ 645

[19] Financial information for 2010 has been restated to be shown in accordance with IFRS. Financial information for 2009 has not been restated, and is shown above in accordance with previous Canadian GAAP.

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 manufacturing facilities. 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 for the quarters in 2009 reflect the impact of a global economic slowdown.

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

After-tax impact, net of non-controlling interests	**International Financial Reporting Standards[20]**					**Previous Canadian GAAP[20]**		
(millions of dollars, except for per share amounts)	**Q1 2011**	**Q4 2010**	**Q3 2010**	**Q2 2010**	**Q1 2010**	**Q4 2009**	**Q3 2009**	**Q2 2009**
Shareholder net income (loss), as reported	**$ 7.0**	$ 31.4	$ 9.1	$ 21.1	$ 18.3	$ (17.0)	$ (5.2)	$ 10.5
Foreign exchange (gain) loss on long-term debt and investments, net	**$ (3.0)**	$ (6.9)	$ (6.3)	$ 9.0	$ (6.2)	$ (5.8)	$ (19.6)	$ (19.7)
(Gain) loss on derivative financial instruments	**$ (2.9)**	$ (0.5)	$ (1.1)	$ 1.1	$ 1.0	$ (1.4)	$ (12.7)	$ (17.3)
Gain on sale of operating assets of Howe Sound Pulp and Paper Limited Partnership	**$ -**	$ (4.9)	$ -	$ -	$ -	$ -	$ -	$ -
Increase in fair value of asset-backed commercial paper	**$ (1.0)**	$ (5.5)	$ -	$ -	$ -	$ -	$ -	$ -
Clear Lake permanent closure provision	**$ -**	$ -	$ 13.4	$ -	$ -	$ -	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 2.0
Net impact of above items	**$ (6.9)**	$ (17.8)	$ 6.0	$ 10.1	$ (5.2)	$ (7.2)	$ (32.3)	$ (35.0)
Adjusted shareholder net income (loss)	**$ 0.1**	$ 13.6	$ 15.1	$ 31.2	$ 13.1	$ (24.2)	$ (37.5)	$ (24.5)
Shareholder net income (loss) per share (EPS), as reported	**$ 0.05**	$ 0.22	$ 0.06	$ 0.15	$ 0.13	$ (0.12)	$ (0.04)	$ 0.07
Net impact of above items per share	**$ (0.05)**	$ (0.12)	$ 0.04	$ 0.07	$ (0.04)	$ (0.05)	$ (0.22)	$ (0.24)
Adjusted shareholder net income (loss) per share	**$ 0.00**	$ 0.10	$ 0.10	$ 0.22	$ 0.09	$ (0.17)	$ (0.26)	$ (0.17)

[20] Financial information for 2010 has been restated to be shown in accordance with IFRS. Financial information for 2009 has not been restated, and is shown above in accordance with previous Canadian GAAP.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of dollars, unaudited)	**As at March 31, 2011**	As at December 31, 2010	As at January 1, 2010 (Note 14)
ASSETS			
Current assets			
Cash and cash equivalents	**$ 172.5**	$ 260.3	$ 133.4
Accounts receivable - Trade	**166.7**	146.9	137.2
- Other	**56.4**	54.2	41.9
Income taxes recoverable	**-**	-	45.5
Inventories (Note 4)	**402.4**	325.8	310.5
Prepaid expenses	**25.7**	28.1	21.0
Total current assets	**823.7**	815.3	689.5
Property, plant and equipment	**1,039.6**	1,049.1	1,077.7
Timber licenses	**542.4**	546.7	563.7
Goodwill and other intangible assets	**81.0**	84.5	92.4
Long-term investments and other (Note 5)	**59.8**	89.1	75.7
Total assets	**$ 2,546.5**	$ 2,584.7	$ 2,499.0
LIABILITIES			
Current liabilities			
Operating bank loans (Note 6(a))	**$ -**	$ -	$ 0.6
Accounts payable and accrued liabilities	**290.8**	292.9	211.4
Current portion of long-term debt (Note (6(b))	**97.2**	82.5	34.0
Current portion of deferred reforestation obligation	**31.5**	31.6	27.8
Total current liabilities	**419.5**	407.0	273.8
Long-term debt (Note 6(b))	**179.9**	235.6	333.3
Retirement benefit obligations	**261.1**	272.2	233.5
Deferred reforestation obligation	**66.4**	54.3	59.0
Other long-term liabilities	**18.3**	16.4	17.3
Deferred income taxes, net	**124.9**	123.7	126.0
Total liabilities	**$ 1,070.1**	$ 1,109.2	$ 1,042.9
EQUITY			
Share capital	**$ 1,125.7**	$ 1,125.4	$ 1,124.7
Contributed surplus	**31.9**	31.9	31.9
Retained earnings	**88.3**	79.0	40.2
Accumulated foreign exchange translation differences	**(16.5)**	(10.3)	-
Total equity attributable to equity holders of the Company	**1,229.4**	1,226.0	1,196.8
Non-controlling interests	**247.0**	249.5	259.3
Total equity	**$ 1,476.4**	$ 1,475.5	$ 1,456.1
Total liabilities and equity	**$ 2,546.5**	$ 2,584.7	$ 2,499.0

Contingency (Note 13)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, J.F. Shepard

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of dollars, unaudited)	Three months ended March 31, **2011**	2010
Sales	**$ 624.0**	$ 577.9
Costs and expenses		
Manufacturing and product costs	**409.1**	358.2
Freight and other distribution costs	**112.6**	101.2
Export taxes	**10.8**	11.6
Amortization	**41.5**	41.8
Selling and administration costs	**15.8**	15.6
Restructuring, mill closure and severance costs	**2.8**	5.6
	592.6	534.0
Operating income	**31.4**	43.9
Finance expense, net	**(6.3)**	(7.7)
Foreign exchange gain on long-term debt and investments, net	**4.7**	8.8
Gain (loss) on derivative financial instruments (Note 8)	**4.7**	(1.2)
Other expense, net	**(1.7)**	(2.9)
Net income (loss) before income taxes	**32.8**	40.9
Income tax expense (Note 9)	**(0.5)**	(5.4)
Net income	**$ 32.3**	$ 35.5
Net income attributable to:		
Equity shareholders of Company	**$ 7.0**	$ 18.3
Non-controlling interests	**25.3**	17.2
Net income	**$ 32.3**	$ 35.5
Net income per common share: (in dollars)		
Attributable to equity shareholders of Company		
- Basic and diluted (Note 10)	**$ 0.05**	$ 0.13

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

Canfor Corporation

Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of dollars, unaudited)	3 months ended March 31, 2011	2010
Net income	**$ 32.3**	$ 35.5
Other comprehensive income (loss)		
Foreign exchange translation differences for foreign operations	**(6.2)**	(8.0)
Defined benefit plan actuarial gains (losses)	**3.0**	(47.3)
Income tax (expense) recovery on defined benefit plan actuarial losses	**(0.8)**	10.6
Other comprehensive income (loss), net of tax	**(4.0)**	(44.7)
Total comprehensive income (loss)	**$ 28.3**	$ (9.2)
Total comprehensive income (loss) attributable to:		
Equity shareholders of Company	**$ 3.1**	$ (21.7)
Non-controlling interests	**25.2**	12.5
Total comprehensive income (loss)	**$ 28.3**	$ (9.2)

Condensed Consolidated Statements of Changes in Equity

(millions of dollars, unaudited)	3 months ended March 31, 2011	2010
Share capital		
Balance at beginning of period	**$ 1,125.4**	$ 1,124.7
Common shares issued on exercise of stock options	**0.3**	-
Balance at end of period	**$ 1,125.7**	$ 1,124.7
Contributed surplus		
Balance at beginning and end of period	**$ 31.9**	$ 31.9
Retained earnings		
Balance at beginning of period	**$ 79.0**	$ 40.2
Net income attributable to equity shareholders of Company	**7.0**	18.3
Defined benefit plan actuarial gains (losses), net of tax	**2.3**	(32.0)
Balance at end of period	**$ 88.3**	$ 26.5
Accumulated foreign exchange translation differences		
Balance at beginning of period	**$ (10.3)**	$ -
Foreign exchange translation differences for foreign operations	**(6.2)**	(8.0)
Balance at end of period	**$ (16.5)**	$ (8.0)
Total equity attributable to equity holders of Company	**$ 1,229.4**	$ 1,175.1
Non-controlling interests		
Balance at beginning of period	**$ 249.5**	$ 259.3
Net income attributable to non-controlling interests	**25.3**	17.2
Defined benefit plan actuarial losses attributable to non-controlling interests	**(0.1)**	(4.7)
Distributions to non-controlling interests	**(27.7)**	(11.7)
Balance at end of period	**$ 247.0**	$ 260.1
Total equity	**$ 1,476.4**	$ 1,435.2

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	3 months ended March 31, 2011	2010
Cash generated from (used in)		
Operating activities		
Net income	**$ 32.3**	$ 35.5
Items not affecting cash:		
Amortization	**41.5**	41.8
Income tax expense	**0.5**	5.4
Long-term portion of deferred reforestation obligation	**12.1**	8.6
Foreign exchange (gain) loss on long-term debt and investments, net	**(4.7)**	(8.8)
Changes in mark-to-market value of derivative financial instruments	**(3.7)**	0.6
Employee future benefits	**0.4**	1.6
Net finance expense	**6.3**	7.7
Other, net	**(0.8)**	-
Salary pension plan contributions	**(9.7)**	(1.7)
Income taxes recovered (paid), net	**(0.7)**	28.7
Net change in non-cash working capital (Note 11)	**(79.2)**	(91.6)
	(5.7)	27.8
Financing activities		
Repayment of long-term debt (Note 6(b))	**(33.8)**	(33.7)
Finance expenses paid	**(3.5)**	(7.8)
Cash distributions paid to non-controlling interests	**(38.0)**	(11.2)
Other, net	**0.3**	0.1
	(75.0)	(52.6)
Investing activities		
Additions to property, plant and equipment	**(48.9)**	(17.2)
Reimbursements from Government under Green Transformation Program	**9.6**	-
Proceeds from redemption of asset-backed commercial paper (Note 5)	**29.7**	1.7
Other, net	**2.8**	1.2
	(6.8)	(14.3)
Foreign exchange gain (loss) on cash and cash equivalents of subsidiaries with different functional currency	**(0.3)**	(0.2)
Increase (decrease) in cash and cash equivalents	**(87.8)**	(39.3)
Cash and cash equivalents at beginning of period	**260.3**	133.4
Cash and cash equivalents at end of period	**$ 172.5**	$ 94.1

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

1. Basis of preparation and transition to International Financial Reporting Standards (“IFRS”)

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim financial reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, hereinafter referred to as “Canfor” or “the Company”.

These financial statements are the first interim condensed consolidated financial statements prepared by the Company under International Financial Reporting Standards (“IFRS”), which is the required reporting framework for Canadian publicly accountable enterprises. The financial statements have been prepared using accounting policies determined in accordance with IFRS that the Company expects to apply in its annual financial statements for the year ended December 31, 2011, as disclosed in note 3.

Canfor’s transition date to IFRS was January 1, 2010. Various reconciliations between previous Canadian generally acceptable accounting principles (“GAAP”) and IFRS related to the transition and subsequent reporting periods are set out in note 14, together with explanatory notes. Additional disclosures relating to these first interim financial statements under IFRS are contained in notes 2, 3 and 15 of these statements.

The currency of presentation for these financial statements is the Canadian dollar.

2. Reporting entity

Canfor Corporation is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of the Company’s registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada V6P 6G2.

Canfor is an integrated forest products company with facilities in Canada and the United States. The Company produces softwood lumber, pulp and paper products, oriented strand board, plywood, remanufactured lumber products and specialized wood products.

3. Significant accounting policies

The following accounting policies have been applied to the financial information presented.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when Canfor is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Significant subsidiaries include Canadian Forest Products Ltd., New South Companies Inc., and Canfor Pulp Limited Partnership (“CPLP”), which is 50.2% owned. There were no changes to the percentage ownership interest during 2011 or 2010 for these entities.

Joint ventures are those entities over whose activities Canfor has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are proportionally consolidated. Canfor’s joint ventures include a 50% interest in Canfor-LP OSB Limited Partnership.

Associates are those entities in which Canfor exercises significant influence, but not control, over financial and operating policies. Unless circumstances indicate otherwise, significant influence is presumed to exist when Canfor holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include Canfor’s share of the post-acquisition income and expenses and equity movement of these equity accounted investees.

Use of estimates

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

Significant areas requiring the use of management estimates include the allowance for doubtful accounts, income tax provisions, inventory valuations, amortization rates, deferred reforestation obligations, asset retirement obligations, environmental remediation obligations, provisions for insurance claims, pension and other benefit plan assumptions, and the valuation of goodwill, long-lived assets, and financial instruments, including asset-backed commercial paper ("ABCP") and other investments.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through net income, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Financial assets at fair value through net income - An instrument is classified at fair value through net income if it is held for trading or is designated as such upon initial recognition. Financial instruments at fair value through net income are measured at fair value, and changes therein are recognized in net income, with attributable transaction costs being recognized in net income when incurred. Included within this category are cash and cash equivalents and ABCP. Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of three months or less from the date of acquisition

Available-for-sale financial assets - Canfor's investments in equity securities are classified as available-for-sale financial assets where it does not have control or significant influence over the investee. These instruments do not have a quoted market price in an active market, and are therefore measured at cost subsequent to initial recognition. Any impairment loss on these investments is recorded through net income.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to spread the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for Canfor are trade and other receivables.

Other liabilities - All of Canfor's financial liabilities are measured at amortized cost using the effective interest method.

Derivative financial instruments

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

Canfor's derivative financial instruments are not designated as hedges for accounting purposes. Consequently, such derivatives for which hedge accounting is not applied are carried on the Consolidated Balance Sheet at fair value, with changes in fair value (realized and unrealized) being recognized in the Consolidated Statements of Income outside of operating income as 'Gain (loss) on derivative financial instruments'.

The fair value of the derivatives is determined with reference to period end market trading prices for derivatives with comparable characteristics.

Inventories

Inventories include logs, lumber, panels, pulp, kraft paper, chips and processing materials and supplies. These are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs, any other costs directly attributable to bringing assets to be used in the manner intended by management.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Canfor and its cost can be measured reliably. The carrying amount of the replaced component is removed. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The significant majority of Canfor's amortization expense relates to manufacturing and product costs.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, each reporting date. The following rates have been applied to Canfor's capital assets:

Buildings	5 to 50 years
Pulp and kraft paper machinery and equipment	20 years
Sawmill machinery and equipment	5 to 15 years
Oriented strand board machinery and equipment	10 to 20 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	5 to 25 years
Mobile and other equipment	5 years

Timber licenses

Timber licenses include tree farm licenses, forest licenses and timber licenses that are renewable with the Province of British Columbia when the relevant conditions are met. Timber licenses are carried at cost less accumulated amortization. Renewable licenses are amortized using the straight-line method over 50 years, while non-renewable licenses are amortized over the period of the license.

Other intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Canfor's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

On transition to IFRS, Canfor elected not to restate any business combinations under IFRS that occurred before the transition date of January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under previous Canadian GAAP.

Customer agreements

Canfor's customer agreements were acquired as part of the purchase of New South Companies Inc., and were recognized at fair value at the acquisition date. The customer agreements have a finite useful life and are carried at cost less accumulated amortization, which is recorded on a straight-line basis over 10 years.

Computer software

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over a period not exceeding five years.

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government assistance related to non-capital projects is recorded as a reduction of the related expenses.

Asset impairment

Canfor's property, plant and equipment, timber licenses and other intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, except for goodwill which is reviewed annually.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets, other than goodwill, for which an impairment was recorded in a prior period are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

For the purpose of impairment testing, goodwill is allocated to the Company's operating divisions which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes.

Financial assets are reviewed at each reporting date to determine whether there is evidence indicating they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on estimated future cash flows from that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in net income.

Employee benefits

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

Defined Benefit Plans

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

The liability recognized in the balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation is calculated separately for each plan by estimating the amount of future benefit earned by employees in respect of their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate used to determine the present value of the obligation is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of Canfor's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method and a measurement date of December 31. The pension deficit or surplus is adjusted on a quarterly basis for any material changes in underlying assumptions.

Canfor recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the year in which they occur.

Provisions

Canfor recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance cost. The main classes of provision recognized by Canfor are as follows:

Asset retirement obligations

Canfor recognizes a liability for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset.

Deferred reforestation obligation

Forestry legislation in British Columbia and Alberta requires Canfor to incur the cost of reforestation of its forest, timber and tree farm licenses and forest management agreements. Accordingly, Canfor records a liability for the costs of reforestation in the period in which the timber is harvested. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to management's estimates are recognized in net income as they occur.

Restructuring

A provision for restructuring is recognized when Canfor has approved a detailed and formal restructuring plan, which may include the indefinite or permanent closure of one of its operations, and the restructuring either has commenced or has been announced publicly. Provisions are not recognized for future operating costs.

Share-based compensation

Canfor has three share-based compensation plans, as described in the Company's financial statements for the year ended December 31, 2010.

Compensation expense is recognized for Canfor's Deferred Share Unit ("DSU") Plans when the DSUs are granted, with a corresponding increase to liabilities. The liability is remeasured at each reporting date and at settlement date, with any changes in the fair value of the liability recognized as compensation expense in net income. The fair value of the DSUs is determined with reference to the market price of Canfor's shares as at the date of valuation.

Compensation expense is recognized for Canfor's contributions to the Employee Share or Unit Purchase Plans when the related payments are made.

The Company has a Stock Option Performance Plan, under which no stock options have been granted since 2002. As discussed in note 14, the Company has adopted the IFRS 1 exemption in relation to share-based payment transactions and has not restated any amount recorded in relation to its Stock Option Performance Plan on transition to IFRS, as all grants are fully vested at the date of transition. Cash consideration received from employees when they exercise the options is credited to share capital.

Revenue recognition

Canfor's revenues are derived from the sale of the following major product lines: lumber, oriented strand board, pulp, kraft paper, residual fibre and logs. Revenue is measured at the fair value of the consideration received or receivable net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amounts of revenue can be measured reliably.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by Canfor are reported as a component of cost of sales. Lumber export taxes are recorded as a component of cost of sales.

Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Canfor recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long term assets in the Company's balance sheet, depending upon when the benefit is expected to be received.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of Canfor's sales and long-term debt is denominated in foreign currencies, principally the US dollar. Transactions in foreign currencies are translated to the functional currencies of the respective entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on re-translation are recognized in net income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Canadian dollar at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates at the transaction dates. Foreign exchange differences are recognized in other comprehensive income, and recorded to the accumulated foreign exchange translation account. Canfor's foreign operations include New South Companies, Inc. and Canfor USA, both of which are wholly-owned subsidiaries based in the U.S.

Accounting standards issued and not applied

The following International Financial Reporting Standards ("IFRS") have been issued by the International Accounting Standards Board, and adopted for use in Canada by the Accounting Standards Board, but have not been applied by the Company as their use is not yet mandatory.

IFRS 9 – Financial Instruments

This Standard will be mandatory for years commencing on or after January 1, 2013. The new Standard changes the categories for classification of financial instruments and, in certain cases, their measurement. IFRS 9 is not expected to have a material impact on the financial statements of Canfor.

4. Inventories

(millions of dollars)	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Logs	**$ 112.5**	$ 53.9	$ 39.9
Finished products	**193.2**	169.7	164.7
Residual fibre	**11.7**	17.4	22.3
Processing materials and supplies	**85.0**	84.8	83.6
	$ 402.4	$ 325.8	$ 310.5

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Write-downs at March 31, 2011 totaled $6.1 million (December 31, 2010 - $3.2 million; January 1, 2010 - $25.7 million).

5. Long-term Investments and Other

(millions of dollars)	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Asset-backed commercial paper ("ABCP")	**$ 12.1**	$ 40.9	$ 41.1
Other investments	**24.5**	26.5	27.3
Investment tax credits	**6.8**	6.4	-
Defined benefit plan assets	**4.6**	3.4	4.2
Other deposits, loans and advances	**11.8**	11.9	3.1
	$ 59.8	$ 89.1	$ 75.7

During the first quarter of 2011, net proceeds of $29.7 million were received from the redemption of certain ABCP assets. In addition, a pre-tax gain of $1.2 million was recorded due to an increase in the fair value of the remaining ABCP during the quarter.

6. Operating Loans and Long-Term Debt

(a) Operating Loans

(millions of dollars)	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Canfor (excluding CPLP)			
Principal operating lines	**$ 350.0**	$ 350.0	$ 355.0
Facility A	**12.4**	12.7	13.5
Facility B	**-**	29.7	35.7
Other	**1.1**	1.1	1.4
Total operating lines - Canfor (excluding CPLP)	**363.5**	393.5	405.6
Drawn	**-**	-	(0.6)
Letters of credit (principally unregistered pension plans)	**(17.1)**	(17.3)	(18.1)
Total available operating lines – Canfor (excluding CPLP)	**$ 346.4**	$ 376.2	$ 386.9
CPLP			
Main bank loan facility	**$ 40.0**	$ 40.0	$ 40.0
Bridge loan credit facility	**30.0**	-	-
Facility for BC Hydro letter of credit	**13.2**	13.2	16.0
Total operating lines - CPLP	**83.2**	53.2	56.0
Letters of credit for general business purposes	**(0.5)**	(0.5)	(0.5)
BC Hydro letter of credit	**(13.2)**	(13.2)	(16.0)
Total available operating lines - CPLP	**$ 69.5**	$ 39.5	$ 39.5
Consolidated			
Total operating lines	**$ 446.7**	$ 446.7	$ 461.6
Total available operating lines	**$ 415.9**	$ 415.7	$ 426.4

For Canfor, excluding CPLP, the principal operating lines mature on October 31, 2013 with interest 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, which was for US$12.8 million at March 31, 2011, expires in January 2012, and is non-recourse to the Company under normal circumstances, except for an amount of US$6.7 million. The ABCP assets of the Company have been pledged as security to support this credit facility. Facility A has similar terms to the other operating lines, except that the interest rate is plus or minus a margin.

The maturity date of CPLP's principal bank loan facility was extended to November 30, 2013 during the quarter. 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.

During the quarter, CPLP arranged a new $30.0 million bridge loan credit facility to fund capital projects that are being funded by the Canadian Federal Government Green Transformation Program. The bridge facility terms are similar to CPLP's main facility, with interest and other costs at prevailing market rates. CPLP also has a separate facility with a maturity date of November 30, 2011 to cover a $13.2 million standby letter of credit issued to BC Hydro.

As at March 31, 2011, the Company and CPLP were in compliance with all covenants relating to their operating lines of credit.

All borrowings of CPLP (operating loans and long-term debt) are non-recourse to other entities within the Company.

(b) Long-Term Debt

On March 1, 2011, the Company repaid $31.5 million (US$32.3 million) of 8.03% interest rate privately placed senior notes. The Company also repaid $2.3 million of other long-term debt obligations during the quarter.

At March 31, 2011, the fair value of the Company's long-term debt, which was measured at its amortized cost of $277.1 million, was $290.3 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.

Subsequent to quarter end, on April 1, 2011, the Company repaid $48.1 million (US$50.0 million) of 6.18% interest rate privately placed senior notes.

7. Employee Future Benefits

Actuarial valuations of Canfor's defined benefit plans are obtained annually for accounting purposes with a measurement date of December 31. At the end of each interim reporting period, the Company estimates movements in its accrued benefit liabilities based upon movements in discount rates and the rates of return on plan assets, as well as any significant changes to the plans. Adjustments are also made for payments made and current service and interest costs.

For the quarter ended March 31, 2011, an amount of $3.0 million, before tax, was credited to other comprehensive income in relation to defined benefit plans. This relates principally to the merging of two of the Company's smaller defined benefit pension plans. For the quarter ended March 31, 2010 a pre-tax amount of $47.3 million was charged to other comprehensive income, principally reflecting a 0.5% reduction in the discount rate used to value the accrued benefit obligations during the quarter.

The assumptions used to estimate the changes in net accrued benefit liabilities were as follows:

(weighted average assumptions)	
Pension Benefit Plans	
Discount rate	
March 31, 2011	**5.50%**
December 31, 2010	5.50%
March 31, 2010	5.75%
January 1, 2010	6.25%
Rate of return on plan assets	
3 months ended March 31, 2011	**1.65%**
3 months ended March 31, 2010	1.50%
Other Benefit Plans	
Discount rate	
March 31, 2011	**5.75%**
December 31, 2010	5.75%
March 31, 2010	6.00%
January 1, 2010	6.75%

8. 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, 2011, the fair value of derivative financial instruments was a net liability of $0.5 million (December 31, 2010 – net liability of $4.1 million; January 1, 2010 – 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, 2011 and 2010:

	3 months ended March 31,	
(millions of dollars)	**2011**	2010
Foreign exchange collars and forward contracts	**$ 1.9**	$ 5.8
Natural gas swaps	**(0.1)**	(3.7)
Diesel options and swaps	**1.0**	0.4
Lumber futures	**1.9**	(3.7)
	$ 4.7	$ (1.2)

The following table summarizes the fair value of the derivative financial instruments included in the balance sheet at March 31, 2011, December 31, 2010 and January 1, 2010:

(millions of dollars)	**As at March 31, 2011**	As at December 31, 2010	As at January 1, 2010
Foreign exchange collars and forward contracts	**$ 0.6**	$ 1.6	$ 1.6
Natural gas swaps	**(2.7)**	(4.7)	(6.8)
Diesel options and swaps	**1.5**	1.0	(0.9)
Lumber futures	**0.1**	(2.0)	0.3
Total asset (liability)	**(0.5)**	(4.1)	(5.8)
Less: current portion	**(0.5)**	(4.1)	(3.5)
Long-term portion	**$ -**	$ -	$ (2.3)

9. Income taxes

(millions of dollars)	3 months ended March 31, 2011	2010
Current	**$ (0.2)**	$ 0.2
Deferred	**(0.3)**	(5.6)
Income tax expense	**$ (0.5)**	$ (5.4)

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, 2011	2010
Income tax expense at statutory rate 2011 – 26.5% (2010 – 28.5%)	**$ (8.7)**	$ (11.7)
Add (deduct):		
Non-taxable income related to non-controlling interests in limited partnerships	**6.7**	4.9
Entities with different income tax rates and other tax adjustments	**0.1**	(0.3)
Tax recovery at rates other than statutory rate	**0.2**	0.7
Permanent difference from capital gains and losses and other non-deductible items	**1.2**	1.0
Income tax expense	**$ (0.5)**	$ (5.4)

In addition to the amounts recorded to net income, a tax expense of $0.8 million was recorded to other comprehensive income in relation to the actuarial gains on defined benefit employee compensation plans (three months ended March 31, 2010 – recovery of $10.6 million).

10. Earnings 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, 2011	2010
Weighted average number of common shares	**142,676,805**	142,589,297
Incremental shares from potential exercise of options	**12,457**	1,720
Diluted number of common shares	**142,689,262**	142,591,017

11. Net Change in Non-Cash Working Capital

(millions of dollars)	3 months ended March 31, 2011	2010
Accounts receivable	**$ (14.4)**	$ (38.0)
Inventories	**(77.4)**	(89.0)
Prepaid expenses	**2.3**	0.9
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	**10.3**	34.5
Net increase in working capital	**$ (79.2)**	$ (91.6)

12. Segment information

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, widths and lengths 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 sales of residual fibre from the lumber segment to the pulp and paper segment for use in the 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, 2011 were $12.4 million (three months ended March 31, 2010 - $16.2 million).

(millions of dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended March 31, 2011							
Sales to external customers	**$**	**328.6**	**283.0**	**12.4**	**-**	**$**	**624.0**
Sales to other segments	**$**	**29.5**	**-**	**-**	**(29.5)**	**$**	**-**
Operating income (loss)	**$**	**(2.3)**	**47.2**	**(13.5)**	**-**	**$**	**31.4**
Amortization	**$**	**20.3**	**16.8**	**4.4**	**-**	**$**	**41.5**
Capital expenditures*	**$**	**25.6**	**23.3**	**-**	**-**	**$**	**48.9**
Identifiable assets	**$**	**1,415.0**	**848.7**	**282.8**	**-**	**$**	**2,546.5**
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)	$	15.8	34.4	(6.3)	-	$	43.9
Amortization	$	20.5	16.6	4.7	-	$	41.8
Capital expenditures	$	10.8	6.4	-	-	$	17.2
Identifiable assets	$	1,380.8	872.8	278.7	-	$	2,532.3

* Includes capital expenditures made by CPLP that are financed by the government-funded Green Transformation Program.

13. Contingency

On January 18, 2011, the U.S. triggered the arbitration provision of the 2006 Softwood Lumber Agreement ("SLA") by delivering a Request for Arbitration. The U.S. claims that BC has not properly applied the timber pricing system grandparented in the SLA. The U.S. also claims that subsequent to 2006, BC made additional changes to the timber pricing system which had the effect of reducing timber prices. The claim focuses on substantial increases in Grade 4 (non sawlog or low grade) volumes commencing in 2007. It is alleged that timber was scaled and graded as Grade 4 that did not meet the criteria for that grade, and was accordingly priced too low.

As the arbitration is a state-to-state international dispute under the SLA, Canada is preparing a defence to the claim with the assistance of the BC provincial government and the BC lumber industry. To date, the U.S. has not filed a detailed statement of claim with the arbitration panel. It is not possible at this time to predict the outcome or the value of the claim, and accordingly no provision has been recorded by the Company.

14. Transition to International Financial Reporting Standards ("IFRS")

These financial statements are the first interim condensed consolidated financial statements prepared by the Company under IFRS. The Company's transition date to IFRS was January 1, 2010 and accordingly the Company has prepared its provisional opening IFRS balance sheet as at that date. In preparing its opening IFRS balance sheet and comparative information for 2010, the Company has adjusted amounts previously reported in financial statements prepared in accordance with previous Canadian GAAP ("previous GAAP").

The differences identified are detailed in the following sections, which include a reconciliation of the Company's closing balance sheet at the end of 2009 under previous GAAP with its provisional opening balance sheet under IFRS on January 1, 2010. Reconciliations of total comprehensive income and equity from previous GAAP to IFRS for the quarter ending March 31, 2010 and the year ending December 31, 2010 then follow.

The accounting changes resulting from the transition to IFRS do not impact the Company's compliance with any of its financial covenants with respect to its debt obligations.

14.1 Optional exemptions from full retrospective application followed by the Company

The Company has applied IFRS 1 *First-time adoption of IFRS* in preparing these condensed consolidated interim financial statements. Canfor has elected to apply the following optional exemptions from full retrospective application under IFRS.

(a) Business combinations exemption

Canfor has applied the business combinations exemption and accordingly has not restated business combinations that took place prior to the January 1, 2010 transition date.

(b) Employee benefits exemption

Canfor has elected to recognize all cumulative actuarial gains and losses on its various defined benefit pension and post-retirement non-pension plans as at January 1, 2010.

(c) Accumulated foreign currency translation differences exemption

Canfor has elected to set its cumulative foreign exchange translation amount to zero at January 1, 2010. Under previous GAAP, this amount was included in Accumulated Other Comprehensive Income (Loss). This exemption has been applied to all foreign subsidiaries with functional currency other than Canadian dollars.

(d) Share-based payments exemption

The Company has elected to apply the share-based payment exemption. IFRS 2 *Share-based Payment* has not been applied to the options granted under the Stock Option Performance Plan as these were all fully vested as at January 1, 2010.

In addition to these optional exemptions, Canfor has also ensured that all estimates at January 1, 2010 are consistent with estimates made at the same date under previous GAAP, as required by IFRS 1.

14.2 Presentation of non-controlling interests

Under previous GAAP, the Company adopted, as of January 1, 2010, three new inter-related accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These were Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements*, and 1602 *Non-controlling Interests*.

The adoption of Section 1602 resulted in the reclassification of non-controlling interests on Canfor's balance sheet from long-term liabilities into equity. As this adjustment was made under previous GAAP as of January 1, 2010, it is not included in the opening balance sheet reconciliation included below, but should be taken into account when comparing the December 31, 2009 financial statements to the opening IFRS balance sheet as at January 1, 2010.

14.3 Reconciliations between IFRS and previous Canadian GAAP

This section consists of a number of reconciliations between IFRS and previous Canadian GAAP which quantify the effect of the Company's transition to IFRS. The reconciliations include balance sheets as at January 1, 2010 and December 31, 2010, and equity as at March 31, 2010. Reconciliations of total comprehensive income under previous GAAP to IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010, and an explanation of the material adjustments to the statement of cash flows, are also provided.

(i) Reconciliation of opening balance sheet as at January 1, 2010

As at January 1, 2010 (millions of dollars, unaudited)	Previous Canadian GAAP	Note (section vi)	Effect of transition to IFRS	**IFRS**
ASSETS				
Current assets				
Cash and cash equivalents	$ 133.4		$ -	**$ 133.4**
Accounts receivable - Trade	137.2		-	**137.2**
- Other	41.9		-	**41.9**
Income taxes recoverable	45.5		-	**45.5**
Deferred income taxes, net	11.4	a	(11.4)	**-**
Inventories	311.3	c	(0.8)	**310.5**
Prepaid expenses	36.4	b	(15.4)	**21.0**
Total current assets	717.1		(27.6)	**689.5**
Property, plant and equipment		b	20.8	
		c	(9.4)	
		d	(610.3)	
	1,676.6		(598.9)	**1,077.7**
Timber licenses		c	(46.6)	
		d	610.3	
	-		563.7	**563.7**
Goodwill and other intangible assets		e	(114.8)	
		d	16.8	
	190.4		(98.0)	**92.4**
Long term investments and other		b	(5.4)	
		d	(16.8)	
		e	4.2	
	93.7		(18.0)	**75.7**
	$ 2,677.8		$ (178.8)	**$ 2,499.0**

As at January 1, 2010 (millions of dollars, unaudited)	Previous Canadian GAAP	Note (section vi)	Effect of transition to IFRS	**IFRS**
LIABILITIES				
Current liabilities				
Operating bank loans	$ 0.6		$ -	**$ 0.6**
Accounts payable and accrued liabilities	211.4		-	**211.4**
Current portion of long-term debt	34.0		-	**34.0**
Current portion of deferred reforestation obligation	27.8		-	**27.8**
Total current liabilities	273.8		-	**273.8**
Long-term debt	333.3		-	**333.3**
Retirement benefit obligations		e	101.3	
		e	132.2	
	-		233.5	**233.5**
Deferred reforestation obligation		f	60.3	
		f	(1.3)	
	-		59.0	**59.0**
Other long-term liabilities		f	(60.3)	
		e	(132.2)	
	209.8		(192.5)	**17.3**
Deferred income taxes, net		a	(11.4)	
		c	(14.2)	
		e	(49.5)	
		f	0.3	
	200.8		(74.8)	**126.0**
	$ 1,017.7		$ 25.2	**$ 1,042.9**
EQUITY				
Share capital	$ 1,124.7		$ -	**$ 1,124.7**
Contributed surplus	31.9		-	**31.9**
Retained earnings		c	(42.6)	
		e	(148.4)	
		f	1.0	
		g	(16.0)	
	246.2		(206.0)	**40.2**
Accumulated foreign exchange translation differences	(16.0)	g	16.0	**-**
Total equity attributable to equity holders of the Company	1,386.8		(190.0)	**1,196.8**
Non-controlling interests	273.3	e	(14.0)	**259.3**
Total equity	$ 1,660.1		$ (204.0)	**$ 1,456.1**
	$ 2,677.8		$ (178.8)	**$ 2,499.0**

(ii) Reconciliation of comprehensive income for three months ended March 31, 2010

(millions of Canadian dollars, unaudited)	Note (section vi)		3 months ended **March 31, 2010**
Net income			
Previous Canadian GAAP		$	32.5
Lower amortization of property, plant and equipment and timber licenses in period, net of tax	c		1.1
Lower pension expense for period, net of tax	e		1.9
Net income under IFRS		**$**	**35.5**
Other comprehensive income (loss)			
Previous Canadian GAAP		$	(8.0)
Actuarial gains (losses) on defined benefit plans during the period, net of tax	e		(36.7)
Other comprehensive income (loss) under IFRS		**$**	**(44.7)**

(iii) Reconciliation of equity at March 31, 2010

(millions of Canadian dollars, unaudited)	Note (section vi)		**As at March 31, 2010**
Previous Canadian GAAP – Total equity		$	1,672.9
Recognition of unamortized actuarial losses at date of transition	e		(162.4)
Lower pension expense for quarter ended March 31, 2010, net of tax	e		1.9
Actuarial gains (losses) on defined benefit plans for quarter ended March 31, 2010, net of tax	e		(36.7)
Recognition of impairment provisions at date of transition	c		(42.6)
Lower amortization of timber licenses and property, plant and equipment for quarter ended March 31, 2010, net of tax	c		1.1
Effect of change in discount rate for deferred reforestation obligation recognized on transition	f		1.0
IFRS – Total equity		**$**	**1,435.2**

(iv) Reconciliation of comprehensive income for year ended December 31, 2010

(millions of Canadian dollars, unaudited)	Note (section vi)		**Year ended December 31, 2010**
Net income			
Previous Canadian GAAP		$	161.3
Lower amortization of property, plant and equipment and timber licenses in period, net of tax	c		5.2
Lower pension expense for period, net of tax	e		7.3
Effect of change in discount rate for deferred reforestation obligation recognized on transition	f		(2.0)
Net income under IFRS		**$**	**171.8**
Other comprehensive income (loss)			
Previous Canadian GAAP		$	(10.3)
Actuarial losses on defined benefit plans during the period, net of tax	e		(48.0)
Other comprehensive income (loss) under IFRS		**$**	**(58.3)**

(v) Reconciliation of balance sheet at December 31, 2010

As at December 31, 2010 (millions of dollars, unaudited)	Previous Canadian GAAP	Note (section vi)	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	$ 260.3		$ -	**$ 260.3**
Accounts receivable - Trade	146.9		-	**146.9**
- Other	54.2		-	**54.2**
Deferred income taxes, net	12.4	a	(12.4)	**-**
Inventories	326.6	c	(0.8)	**325.8**
Prepaid expenses	38.8	b	(10.7)	**28.1**
Total current assets	839.2		(23.9)	**815.3**
Property, plant and equipment		b	13.8	
		c	(7.6)	
		d	(588.1)	
	1,631.0		(581.9)	**1,049.1**
Timber licenses		c	(41.4)	
		d	588.1	
	-		546.7	**546.7**
Goodwill and other intangible assets		e	(134.8)	
		d	13.4	
	205.9		(121.4)	**84.5**
Long term investments and other		b	(3.1)	
		d	(13.4)	
		e	3.4	
	102.2		(13.1)	**89.1**
	$ 2,778.3		$ (193.6)	**$ 2,584.7**
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$ 292.9		$ -	**$ 292.9**
Current portion of long-term debt	82.5		-	**82.5**
Current portion of deferred reforestation obligation	31.6		-	**31.6**
Total current liabilities	407.0		-	**407.0**

As at December 31, 2010 (millions of dollars, unaudited)	Previous Canadian GAAP	Note (section vi)	Effect of transition to IFRS	IFRS
Long-term debt	235.6		-	**235.6**
Retirement benefit obligations		e	132.3	
		e	139.9	
	-		272.2	**272.2**
Deferred reforestation obligation		f	53.0	
		f	1.3	
	-		54.3	**54.3**
Other long-term liabilities		f	(53.0)	
		e	(139.9)	
	209.3		(192.9)	**16.4**
Deferred income taxes, net		a	(12.4)	
		c	(12.3)	
		e	(60.6)	
		f	(0.3)	
	209.3		(85.6)	**123.7**
	$ 1,061.2		$ 48.0	**$ 1,109.2**
EQUITY				
Share capital	$ 1,125.4		$ -	**$ 1,125.4**
Contributed surplus	31.9		-	**31.9**
Retained earnings		c	(37.5)	
		e	(182.7)	
		f	(1.0)	
		g	(16.0)	
	316.2		(237.2)	**79.0**
Accumulated foreign exchange translation differences	(26.3)	g	16.0	**(10.3)**
Total equity attributable to equity holders of the Company	1,447.2		(221.2)	**1,226.0**
Non-controlling interests	269.9	e	(20.4)	**249.5**
Total equity	$ 1,717.1		$ (241.6)	**$ 1,475.5**
	$ 2,778.3		$ (193.6)	**$ 2,584.7**

(vi) Explanatory notes for reconciliations

The following explanations are referenced in the reconciliations in sections (i) to (v) of this note:

(a) Classification of all deferred income taxes as non-current assets (liabilities)

International Accounting Standard 1 ("IAS 1") requires that all deferred income tax balances be presented as non-current assets or liabilities on the balance sheet under IFRS. Previous GAAP required amounts to be shown as current assets or liabilities depending on the classification of the assets and liabilities to which the deferred income tax balances relate.

The effect of this reclassification on the Company's opening balance sheet was to move $11.4 million of deferred income taxes included within current assets to be offset against deferred income taxes in non-current liabilities. At December 31, 2010, the amount reclassified was $12.4 million.

(b) Reclassification of deferred maintenance costs to property, plant and equipment

CPLP carries out scheduled major maintenance shutdowns at its mills at regular intervals where the period between shuts can be longer than 12 months. Under previous GAAP, the costs of such shutdowns were initially recorded as a prepaid expense (with current and long term components) and amortized over the period until the next scheduled major shutdown. Under IFRS, these costs are considered to be a part of property, plant and equipment, and are also amortized over the period between shutdowns.

The effect of this on the Company's opening balance sheet was to reclassify $20.8 million into property, plant and equipment, with $15.4 million being removed from prepaids, and $5.4 million from long-term investments and other (reflecting the long-term portion). At December 31, 2010, $13.8 million was reclassified into property, plant and equipment with $10.7 million from prepaids and $3.1 million from long-term investments and other.

The reclassification of these maintenance costs results in the related expense being moved from manufacturing and product costs to amortization. In the first quarter of 2010 the amount of the reclassification on the income statement was $4.7 million, and the full year 2010 amount was $18.7 million.

(c) Recognition of impairment provisions against property, plant and equipment and timber licenses

There are differences in the methodology used to determine if an asset should be impaired under IFRS compared to that under previous GAAP. The previous GAAP rules provided for a two-step test, with no impairment being required if the undiscounted future expected cash flows relating to an asset exceeded 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. As a result, impairments were required for certain assets under IFRS that were not recorded under previous GAAP.

The effect at the date of transition was to decrease the book value of certain sawmill assets included within property, plant and equipment by $9.4 million and timber licenses by $46.6 million. An impairment of $0.8 million was also recorded against capital spares inventory. A corresponding adjustment to deferred income taxes of $14.2 million was also recorded, with the net amount of $42.6 million being charged to opening equity.

These impairments had the impact of reducing the overall amortization expense by $1.1 million for the first quarter of 2010, and $5.2 million for the 2010 year.

At December 31, 2010 the impact of these opening balance sheet impairments, after amortization, was to reduce property, plant and equipment by $7.6 million, timber licenses by $41.4 million and capital spares inventory by $0.8 million. The deferred income tax adjustment was $12.3 million, with the net amount of $37.5 million being charged to equity. No additional impairments were required at December 31, 2010 under IFRS.

(d) Reclassification of timber licenses and customer agreements

Under previous GAAP, the Company reported its timber licenses as a component of property, plant, equipment and timber. This is inconsistent with IFRS, and accordingly these balances have been reclassified to intangible assets. As a result of this reclassification, $610.3 million (before the above impairment) has been moved from property, plant, equipment and timber to timber licenses in the opening balance sheet, and $588.1 million at December 31, 2010.

In addition, customer agreements of $16.8 million in the opening balance sheet (December 31, 2010 - $13.4 million) have been reclassified from long-term investments and other to intangible assets.

(e) Recognition of unamortized actuarial losses at date of transition to IFRS into equity

Under IFRS, the Company's accounting policy is to recognize all actuarial gains and losses, arising on its defined benefit pension and other non-pension post retirement plans, immediately in other comprehensive income. At the date of transition, all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings.

This resulted in a charge to retained earnings in the opening balance sheet of $148.4 million, and a charge to non-controlling interests of $14.0 million reflecting non-controlling interests in CPLP. Pension assets recorded under previous GAAP of $110.6 million were removed, and liabilities of $101.3 million were recorded to reflect the actual funding position of the defined benefit pension plans. Remaining pension assets of $4.2 million were transferred from deferred charges to long-term investments and other. The long-term deferred income tax liability was reduced by $49.5 million as result of these adjustments. In addition, $132.2 million was reclassified from other long-term liabilities into the retirement benefit obligations line item on the balance sheet, reflecting liabilities in relation to non-pension post-retirement plans.

Under previous GAAP, actuarial gains and losses were deferred and taken through the income statement over a number of years. As Canfor has elected to recognize these immediately through other comprehensive income under IFRS, the defined benefit expense in the income statement is reduced by $1.9 million for the first quarter of 2010 and $7.3 million for the full year. The after-tax charge through other comprehensive income was $36.7 million in the first quarter of 2010, and $48.0 million for the full year.

At December 31, 2010 the differences in retained earnings and non-controlling interests under IFRS compared to previous GAAP were $182.7 million and $20.4 million, respectively. Pension assets of $131.4 million were removed and a liability of $132.3 million was recorded, with remaining pension assets of $3.4 million reclassified to long-term investments and other. The long-term deferred income tax liability was reduced by $60.6 million as a result of these adjustments. $139.9 million was reclassified in relation to non-pension post-retirement plans.

(f) Reclassification of long-term deferred reforestation obligation to separate balance sheet line item

The Company has elected to present the long-term deferred reforestation provision as a separate item on the balance sheet in the current year. Previously, this was included in other long-term liabilities. In addition, the amount of this provision of $60.3 million at January 1, 2010 was reduced in the opening balance sheet by $1.3 million due to a change in discount rate required to value the obligation under IFRS as compared to previous GAAP.

During 2010, the difference in discount rates used resulted in an after-tax expense that was $2.0 million higher under IFRS than under previous GAAP. In addition, the expense related to the unwinding over time of the discount on the Company's deferred reforestation obligation was reclassified from manufacturing and product costs into finance expense.

At December 31, 2010, the provision under previous GAAP of $53.0 million was reclassified, and was increased by $1.3 million due to different discount rates being used.

(g) Reset of the accumulated foreign translation account to zero at transition

In accordance with IFRS 1, the Company has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of entities with functional currencies other than the Canadian dollar to be nil at the date of transition. This resulted in a credit of $16.0 million to accumulated foreign translation differences and a charge of the same amount to retained earnings.

(vii) Explanation of material adjustments to the statement of cash flows

The impact of the transition to IFRS on the statement of cash flows is to reclassify certain items between cash flow categories. One of the main reclassifications relates to interest payments and receipts which were classified as operating activities under previous GAAP, but are shown as financing and investing activities, respectively, under IFRS.

In addition, the reclassification of certain of CPLP's major maintenance costs to property, plant and equipment under IFRS has an impact on the statement of cash flows. Under previous GAAP these costs were shown under operating activities as deferred maintenance spending, whereas under IFRS they are included in additions to property, plant and equipment under investing activities.

15. Supplemental IFRS disclosures for the year ended December 31, 2010

The following disclosures provide further information relating to Canfor's financial statements as at, and for the year ended, December 31, 2010. This additional disclosure is provided as a reference to aid the understanding of these first interim condensed consolidated financial statements prepared under IFRS.

15.1 Impairment of capital assets and timber licenses

In its opening balance sheet as at January 1, 2010, the Company recorded impairments of $46.6 million in relation to timber licenses and $9.4 million in relation to property, plant and equipment. These impairments all relate to the lumber segment. No impairment was recorded in connection with goodwill of $73.3 million at January 1, 2010 (December 31, 2010 - $69.6 million) resulting from the Company's acquisition of operations in the U.S. in 2006.

The opening balance sheet impairments principally reflect the impact of the Mountain Pine Beetle epidemic on the Company's B.C. Interior operations. The recoverable amounts of capital assets, timber licenses and goodwill for impairment assessment purposes have been determined using a discounted cash flow calculation to estimate their fair value less costs to sell, using cash flows forecast for periods up to 10 years. Key assumptions used in these cash flow forecasts include forecast prices and foreign exchange rates which Canfor's management determined with reference to external publications. A pre-tax discount rate of 11.0% was also used for the purposes of this calculation.

15.2 Employee Future Benefits

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

Defined Benefit Plans

Canfor obtains actuarial valuations for its accrued benefit obligations and the fair value of plan assets for accounting purposes under IFRS as at December 31 of each year. In addition, the Company estimates movements in its accrued benefit liabilities at the end of each interim reporting period, based upon movements in discount rates and the rates of return on plan assets, as well as any significant changes to the plans. Adjustments are also made for payments made and benefits earned.

In 2010, Canfor had six registered defined benefit plans, for which actuarial valuations are performed every three years. The most recent actuarial valuation for funding purposes of Canfor's single largest pension plan was as of December 31, 2009, and the next required plan valuation is currently scheduled for December 31, 2012.

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

	2010	
(millions of dollars)	**Pension Benefit Plans**	Other Benefit Plans
Defined Benefit Plan Assets		
Fair market value of plan assets		
Beginning of year	**$ 466.8**	**$ -**
Actual return on plan assets	**45.6**	**-**
Canfor contributions	**38.7**	**5.1**
Employee contributions	**0.9**	**-**
Benefit payments	**(38.5)**	**(5.1)**
End of year	**$ 513.5**	**$ -**

(millions of dollars)	2010 Pension Benefit Plans	2010 Other Benefit Plans
Defined Benefit Plan Obligations		
Accrued benefit obligation		
Beginning of year	**$ 553.6**	**$ 123.7**
Current service cost	**8.8**	**1.7**
Interest cost	**33.7**	**8.0**
Employee Contributions	**0.9**	**-**
Benefit payments	**(38.5)**	**(5.1)**
Actuarial loss (gain)	**49.5**	**22.0**
Other	**-**	**0.5**
End of year	**$ 608.0**	**$ 150.8**

Of the defined benefit plan obligation of $608.0 million (January 1, 2010 - $553.6 million), $12.3 million relates to plans that are wholly unfunded and $595.7 million relates to plans that are wholly or partly funded (January 1, 2010 - $11.7 million and $541.9 million, respectively). At December 31, 2010, certain liabilities for wholly unfunded pension plans were secured by a letter of credit in the amount of $12.2 million (January 1, 2010 - $12.9 million).

The total obligation for the other benefit plans of $150.8 million (January 1, 2010 - $123.7 million) is unfunded.

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

(millions of dollars)	December 31, 2010 Pension Benefit Plans	December 31, 2010 Other Benefit Plans	January 1, 2010 Pension Benefit Plans	January 1, 2010 Other Benefit Plans
Fair market value of plans assets	**$ 513.5**	**$ -**	$ 466.8	$ -
Accrued benefit obligation	**(608.0)**	**(150.8)**	(553.6)	(123.7)
Funded status of plans – surplus (deficit)	**(94.5)**	**(150.8)**	(86.8)	(123.7)
Unamortized past service costs	**-**	**-**	-	0.1
Effect of limit on recognition of asset	**(4.1)**	**-**	(3.8)	-
Accrued benefit liability	**(98.6)**	**(150.8)**	(90.6)	(123.6)
Pension bridge benefits	**(18.4)**	**-**	(15.9)	-
Other pension plans	**(1.0)**	**-**	0.8	-
Total accrued benefit liability, net	**$ (118.0)**	**$ (150.8)**	$ (105.7)	$ (123.6)

The net accrued benefit liability is included in Canfor's balance sheet as follows:

Long-term investments and other	**$ 3.4**	**$ -**	$ 4.2	$ -
Retirement benefit obligations	**(121.4)**	**(150.8)**	(109.9)	(123.6)
Total accrued benefit liability, net	**$ (118.0)**	**$ (150.8)**	$ (105.7)	$ (123.6)

Components of pension cost

The following table shows the before tax impact on net income and other comprehensive income of the Company's pension and other defined benefit plans.

(millions of dollars)	2010 Pension Benefit Plans	2010 Other Benefit Plans
Recognized in net income		
Current service cost	$ 8.8	$ 1.7
Interest cost	33.7	8.0
Expected return on plan assets	(33.9)	-
Other	-	0.5
Total pension cost recognized in net income	$ 8.6	$ 10.2
Recognized in other comprehensive income		
Actuarial loss (gain) immediately recognized	$ 33.7	$ 22.0
Effect of limit on recognition of asset	0.4	-
Curtailment loss (gain)	4.0	-
Total pension cost recognized in other comprehensive income	$ 38.1	$ 22.0

In addition to the amounts shown above, the expense recorded in net income for the bridge benefits in 2010 was $2.6 million, and $1.4 million was charged to other comprehensive income.

The expected return on plan assets is determined by taking into account the expected returns on the assets based on the Company's current investment policy.

Significant assumptions

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

	December 31, 2010		January 1, 2010	
(weighted average assumptions)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation at reporting date:				
Discount rate	5.50%	5.75%	6.25%	6.75%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Benefit costs for year ended December 31:				
Discount rate	6.25%	6.75%	n/a	n/a
Expected rate of return on plan assets	7.50%	n/a	n/a	n/a
Future salary increases	3.00%	n/a	n/a	n/a

Assumed health care cost trend rates

(weighted average assumptions)	December 31, 2010	January 1, 2010
Initial health care cost trend rate	6.95%	7.15%
Ultimate health care trend rate	4.20%	4.20%
Year ultimate rate is reached	2029	2029

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

(millions of dollars)	1% Increase	1% Decrease
Effect on defined benefit obligation	$ 23.7	$ (19.3)
Effect on the aggregate service and interest cost	$ 2.0	$ (1.6)