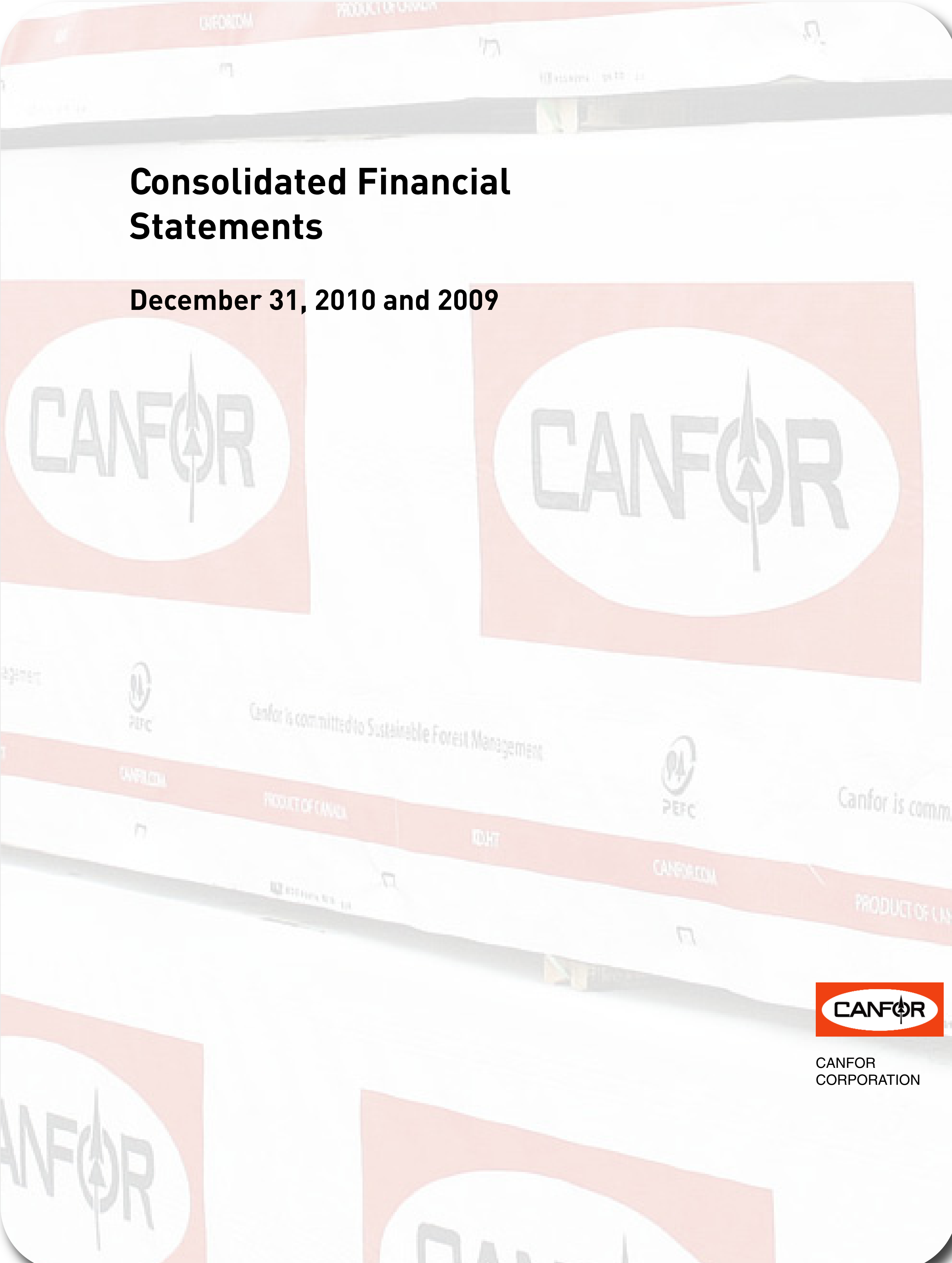

Consolidated Financial Statements

December 31, 2010 and 2009

CANFOR
CORPORATION

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

February 11, 2011

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canfor Corporation

We have audited the accompanying consolidated financial statements of Canfor Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of income (loss), changes in equity and comprehensive income (loss) and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canfor Corporation and its subsidiaries as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, BC
February 11, 2011

Canfor Corporation
Consolidated Balance Sheets

As at December 31 (millions of dollars)		**2010**		2009
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**260.3**	$	133.4
Accounts receivable				
Trade (Note 3)		**146.9**		137.2
Other		**54.2**		41.9
Income taxes recoverable		**-**		45.5
Future income taxes, net (Note 22)		**12.4**		11.4
Inventories (Note 4)		**326.6**		311.3
Prepaid expenses		**38.8**		36.4
Total current assets		**839.2**		717.1
Long-term investments and other (Note 5)		**102.2**		93.7
Property, plant, equipment and timber (Note 6)		**1,631.0**		1,676.6
Goodwill		**69.6**		73.3
Deferred charges (Note 7)		**136.3**		117.1
	$	**2,778.3**	$	2,677.8
LIABILIITES				
Current Liabilities				
Operating loans (Note 8)	**$**	**-**	$	0.6
Accounts payable and accrued liabilities (Note 9)		**292.9**		211.4
Current portion of long-term debt (Note 10)		**82.5**		34.0
Current portion of deferred reforestation obligation (Note 12)		**31.6**		27.8
Total current liabilities		**407.0**		273.8
Long-term debt (Note 10)		**235.6**		333.3
Long-term accrued liabilities and obligations (Note 11)		**209.3**		209.8
Future income taxes, net (Note 22)		**209.3**		200.8
	$	**1,061.2**	$	1,017.7
EQUITY				
Share capital (Note 15)	**$**	**1,125.4**	$	1,124.7
Contributed surplus		**31.9**		31.9
Retained earnings		**316.2**		246.2
Accumulated other comprehensive loss		**(26.3)**		(16.0)
Total equity attributable to shareholders of Company		**1,447.2**		1,386.8
Non-controlling interests (Note 2)		**269.9**		273.3
Total equity	**$**	**1,717.1**	$	1,660.1
	$	**2,778.3**	$	2,677.8

Commitments and contingencies (Note 30)

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

APPROVED BY THE BOARD

"R.S. Smith"

Director, R.S. Smith

"J.F. Shepard"

Director, J.F. Shepard

Canfor Corporation
Consolidated Statements of Income (Loss)

Years ended December 31 (millions of dollars)		2010		2009
Sales	**$**	**2,430.4**	$	2,075.8
Costs and expenses				
Manufacturing and product costs		**1,540.9**		1,584.9
Freight and other distribution costs		**428.0**		410.4
Export taxes		**40.0**		48.7
Amortization		**156.0**		155.3
Selling and administration costs		**63.3**		57.0
Restructuring, mill closure and severance costs (Note 17)		**32.9**		29.9
		2,261.1		2,286.2
Operating income (loss)		**169.3**		(210.4)
Interest expense, net (Note 18)		**(25.5)**		(29.3)
Foreign exchange gain on long-term debt and investments, net		**14.7**		50.4
Gain on derivative financial instruments (Note 25)		**0.1**		24.4
Gain on sale of mill property (Note 19)		**-**		44.6
North Central Plywoods mill fire (Note 20)		**-**		(3.0)
Other income (expense), net (Note 21)		**8.1**		(11.4)
Net income (loss) before income taxes		**166.7**		(134.7)
Income tax recovery (expense) (Note 22)		**(5.4)**		71.9
Net income (loss)	**$**	**161.3**	$	(62.8)
Net income (loss) attributable to: (Note 2)				
Equity shareholders of Company	**$**	**70.0**	$	(70.5)
Non-controlling interests		**91.3**		7.7
	$	**161.3**	$	(62.8)
Net income (loss) per common share: (in dollars) (Note 23)				
Attributable to equity shareholders of Company – Basic and Diluted	**$**	**0.49**	$	(0.50)

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

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

Years ended December 31 (millions of dollars)		**2010**		2009
Consolidated Statements of Changes in Equity				
Share capital				
Balance at beginning of year	**$**	**1,124.7**	$	1,124.7
Common shares issued on exercise of stock options		**0.7**		-
Balance at end of year (Note 15)	**$**	**1,125.4**	$	1,124.7
Contributed surplus				
Balance at beginning and end of year	**$**	**31.9**	$	31.9
Retained earnings				
Balance at beginning of year	**$**	**246.2**	$	316.7
Net income (loss) attributable to equity shareholders of Company		**70.0**		(70.5)
Balance at end of year	**$**	**316.2**	$	246.2
Accumulated other comprehensive income (loss)				
Balance at beginning of year	**$**	**(16.0)**	$	21.5
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries		**(10.3)**		(37.5)
Balance at end of year	**$**	**(26.3)**	$	(16.0)
Non-controlling interests (Note 2)				
Balance at beginning of year	**$**	**273.3**	$	276.8
Net income attributable to non-controlling interests		**91.3**		7.7
Distributions to non-controlling interests		**(94.7)**		(11.2)
Balance at end of year	**$**	**269.9**	$	273.3
Total equity – Balance at end of year	**$**	**1,717.1**	$	1,660.1
Consolidated Statement of Comprehensive Income (Loss)				
Net income (loss) for the year	**$**	**161.3**	$	(62.8)
Other comprehensive loss for year:				
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries		**(10.3)**		(37.5)
Total comprehensive income (loss)	**$**	**151.0**	$	(100.3)
Total comprehensive income (loss) attributable to: (Note 2)				
Equity shareholders of Company	**$**	**59.7**	$	(108.0)
Non-controlling interests		**91.3**		7.7
	$	**151.0**	$	(100.3)

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

Canfor Corporation
Consolidated Cash Flow Statements

Years ended December 31 (millions of dollars)		2010		2009
Cash generated from (used in)				
Operating activities				
Net income (loss) for year	$	**161.3**	$	(62.8)
Items not affecting cash:				
Amortization		**156.0**		155.3
Future income taxes (Note 22)		**7.6**		(22.5)
Long-term portion of deferred reforestation		**(7.3)**		(2.8)
Clear Lake permanent closure provision (Note 17)		**17.8**		-
Increase in fair value of asset-backed commercial paper (Note 5)		**(6.3)**		-
Gain on sale of mill property (Note 19)		**-**		(44.6)
North Central Plywoods mill fire, net (Note 20)		**-**		3.0
Foreign exchange gain on translation of long-term debt and investments, net		**(14.7)**		(50.4)
Changes in mark-to-market values of derivative financial instruments		**(1.7)**		(65.5)
Deferred maintenance amortization		**8.4**		5.9
Employee future benefits		**16.2**		11.4
Other, net		**(11.9)**		2.1
		325.4		(70.9)
Salary pension plan contributions		**(29.9)**		(16.4)
Deferred scheduled maintenance spending		**(6.1)**		(10.5)
Net change in non-cash working capital (Note 24)		**53.8**		29.2
		343.2		(68.6)
Financing activities				
Repayment of long-term debt (Note 10)		**(35.1)**		(175.5)
Decrease in operating loans (Note 8)		**(0.6)**		(24.6)
Cash distributions paid to non-controlling interests		**(79.0)**		(8.9)
Other, net		**0.5**		0.7
		(114.2)		(208.3)
Investing activities				
Additions to property, plant, equipment and timber		**(127.6)**		(59.0)
Proceeds from Green Transformation Program (Note 31)		**20.2**		-
Proceeds from disposal of property, plant, equipment and timber		**2.0**		55.3
Proceeds from North Central Plywoods mill fire claim (Note 20)		**-**		33.3
Proceeds from redemption of asset-backed commercial paper (Note 5)		**4.6**		15.4
Other, net		**(0.2)**		4.6
		(101.0)		49.6
Foreign exchange loss on cash and cash equivalents of self-sustaining foreign operations		**(1.1)**		(1.7)
Increase (decrease) in cash and cash equivalents		**126.9**		(229.0)
Cash and cash equivalents at beginning of year		**133.4**		362.4
Cash and cash equivalents at end of year	$	**260.3**	$	133.4
Cash receipts (payments) in the year				
Interest, net	$	**(23.8)**	$	(29.5)
Income taxes	$	**45.9**	$	52.0

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

1. Significant Accounting Policies

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

Basis of Consolidation

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

Use of Estimates

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

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

Cash and Cash Equivalents

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

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Property, Plant, Equipment and Timber

Costs of major replacements, extensions and improvements to plant and equipment are capitalized, together with related interest incurred on major projects during the construction period.

Property, plant, equipment and timber assets are amortized over the following estimated productive lives:

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

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

Amounts capitalized as timber comprise tree farm licenses and timber licenses that are renewable with the Provinces of British Columbia and Alberta. On January 1, 2010 the Company reduced the estimated useful lives of the majority of its renewable timber licenses from 60 years to 50 years. As a result of this change in estimate, the change in the annual amortization expense is approximately $3 million. Non-renewable licenses are amortized over the period of the license.

Government Assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the related asset with any amortization calculated on the net amount. Government assistance related to current expenses is recorded as a reduction of the related expenses.

Long-lived Assets

Long-lived assets are reviewed for impairment when the occurrence of events or changes in circumstances indicate that the carrying value of the assets may not be recoverable, as measured by comparing their net book value to the estimated future cash flows generated by their use and eventual disposition. Impaired assets are recorded at the lower of carrying amount and fair value, determined principally using discounted future cash flows expected from their use and eventual disposition. Estimates of future cash flows used to test the recoverability of Canfor's long-lived assets generally include key assumptions related to forecast prices and exchange rates. Other significant assumptions are the estimated useful life of the long-lived assets, and the impacts of both the Softwood Lumber Agreement with the U.S. and the Mountain Pine Beetle epidemic. Price and foreign exchange forecasts for 2011 and beyond were determined with reference to Resource Information Systems, Inc. publications.

Goodwill

Goodwill is the excess of the purchase price paid for an acquisition of a business over the fair value of the net assets acquired. Goodwill, all of which for Canfor is denominated in US dollars, is not amortized but is assessed annually for impairment, or more frequently if events or circumstances indicate that it may be impaired. The fair value of goodwill is estimated in the same manner as goodwill is determined at the time of acquisition. There was no write-down to goodwill in 2010 or 2009.

Deferred Reforestation Obligation

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

Environmental Remediation Costs

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

Asset Retirement Obligations

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

Employee Benefit Plans

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

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

Pension expense for the defined contribution plans is based on a percentage of employees' salaries or on a contribution required under collective agreements. For hourly employees covered by forest industry union defined benefit pension plans, the expense is equal to its contributions required under the collective agreements.

Revenue Recognition

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

Foreign Currency Translation

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

Certain of Canfor's foreign operations are considered to be self-sustaining and the related assets and liabilities are translated using the current rate method. The translation gain or loss is included as a component of accumulated other comprehensive income (loss) in shareholders' equity. Canfor's self-sustaining foreign operations include New South Companies, Inc. and Canfor USA, both of which are wholly-owned subsidiaries based in the U.S.

Income Taxes

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

Investment Tax Credits

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.

Financial Instruments

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

Canfor's cash and cash equivalents and ABCP are classified as held-for-trading and are measured at fair value subsequent to initial recognition. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Operating loans, accounts payable and accrued liabilities, and long-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost.

Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract. Canfor utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, energy cost and commodity price risk. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company has chosen not to designate its derivative financial instruments as hedges. Consequently, the derivatives are carried on the Consolidated Balance Sheets at fair value, with changes in (realized and unrealized) fair value being recognized as 'Gain (loss) on derivative financial instruments' in the Consolidated Statements of Income (Loss).

Canfor reviews all assets, including financial instruments, for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Stock-based Compensation Plans

Canfor has three stock-based compensation plans, as described in Note 16. No stock options have been granted since 2002.

Cash consideration received from employees when they exercise the options is credited to share capital. Compensation expense is recognized for Canfor's contributions to the Employee Share or Unit Purchase Plans when they are made. Compensation expense is recognized for Canfor's Deferred Share Unit Plans when the deferred share units are granted, and changes in market value of the underlying shares are reflected in earnings.

Major Maintenance Costs

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

2. Changes in Accounting Policies

Current Year

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

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

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

Prior Year

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 *Goodwill and Intangible Assets*. This Section replaced Section 3062 *Goodwill and Intangible Assets* and Section 3450 *Research and Development Costs*, and established revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new Standard, EIC 27 *Revenues and Expenditures During the Pre-operating Period* was withdrawn and as a result various pre-production and start-up costs are required to be expensed as incurred. No material adjustments were required upon adoption of this new Standard.

During 2009, the CICA amended Handbook Section 3862 *Financial Instruments – Disclosures* to require enhanced disclosures about the relative reliability of the data that an entity uses to measure the fair values of its financial instruments. Additional disclosures as required by this amendment include the classification of financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used in estimating fair values. These disclosures have been included in Note 25.

3. Trade Accounts Receivable

(millions of dollars)		2010		2009
Gross receivables	$	149.4	$	139.3
Less: Allowance for doubtful accounts		(2.5)		(2.1)
	$	146.9	$	137.2

4. Inventories

(millions of dollars)		2010		2009
Logs	$	53.9	$	39.9
Finished products		169.7		164.7
Residual fibre		17.4		22.3
Processing materials and supplies		85.6		84.4
	$	326.6	$	311.3

The above inventory balances are stated after inventory write-downs from cost to net realizable value. The write-downs for the various components of inventory at December 31 were:

(millions of dollars)		2010		2009
Logs	$	2.0	$	13.0
Finished products		1.2		12.7
	$	3.2	$	25.7

5. Long-term Investments and Other

(millions of dollars)		2010		2009
Asset-backed commercial paper (“ABCP”)	$	40.9	$	41.1
Other investments		26.5		27.3
Customer agreements		13.4		16.8
Investment tax credits		6.4		-
Other deposits, loans and advances		15.0		8.5
	$	102.2	$	93.7

In 2010, the Company recorded a gain of $6.3 million arising from a change in fair value of its US dollar denominated investment in ABCP, based on information available from increased liquidity of the investments held by the Company. In addition, proceeds of $4.6 million were received from partial redemption of ABCP (2009 - $15.4 million).

6. Property, Plant, Equipment and Timber

(millions of dollars)	2010 Cost	2010 Accumulated Amortization and Impairments	2010 Net Book Value	2009 Cost	2009 Accumulated Amortization and Impairments	2009 Net Book Value
Land	**$ 44.3**	**$ 4.8**	**$ 39.5**	$ 42.0	$ 4.8	$ 37.2
Pulp and kraft paper mills	**1,362.2**	**862.6**	**499.6**	1,350.1	814.9	535.2
Sawmills, plywood and oriented strand board plants	**1,285.2**	**802.9**	**482.3**	1,257.5	788.3	469.2
Logging buildings and equipment	**10.8**	**4.8**	**6.0**	10.7	4.5	6.2
Logging roads and bridges	**134.8**	**128.9**	**5.9**	149.5	142.2	7.3
Other equipment and facilities	**28.9**	**19.3**	**9.6**	28.6	17.4	11.2
Timber	**840.2**	**252.1**	**588.1**	840.2	229.9	610.3
	$ 3,706.4	**$ 2,075.4**	**$ 1,631.0**	$ 3,678.6	$ 2,002.0	$ 1,676.6

Included in the above costs are assets under construction in the amount of $12.2 million in 2010 (2009 – $10.2 million), which were not amortized.

7. Deferred Charges

(millions of dollars)	2010	2009
Prepaid pension benefits (Note 13)	**$ 134.8**	$ 114.8
Other	**1.5**	2.3
	$ 136.3	$ 117.1

8. Operating Loans

On a consolidated basis, at December 31, 2010, the Company had $433.5 million of unsecured operating loan facilities (December 31, 2009 – $445.6 million) which were undrawn (December 31, 2009 – $0.6 million drawn) and $17.8 million was reserved for several standby letters of credit (December 31, 2009 – $18.6 million). The Company also had a separate facility to cover a $13.2 million standby letter of credit at December 31, 2010 (December 31, 2009 - $16.0 million).

On July 30, 2010, the Company amended its main bank credit facility to a $350 million facility with a maturity date of October 31, 2013. The previous credit facility of $355 million was scheduled to mature on June 30, 2011. The general terms and conditions of the new credit facility are similar to the previous facility and include a new feature which allows for an increase of up to $100 million with existing or new lenders.

In addition, the Company's operating loan facilities include two facilities in the amounts of US$12.8 million ("Facility A") and US$29.8 million ("Facility B") at December 31, 2010. Facility A expires in January 2012, and is non-recourse to the Company under normal circumstances, except for an amount of US$6.7 million. Facility B expires in January 2011 and is non-recourse to the Company under normal circumstances. The ABCP assets of the Company have been pledged as security to support these credit facilities.

Excluding CPLP, the Company's bank operating lines at December 31, 2010 were $393.5 million (December 31, 2009 - $405.6 million) which were undrawn (December 31, 2009 – $0.6 million drawn) and $17.3 million was reserved for several standby letters of credit (December 31, 2009 – $18.1 million), the majority of which relates to unregistered pension plans. Except for Facility A and Facility B, interest is payable at floating rates based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio. Facility A and Facility B have similar terms, except that their interest rate is plus or minus a margin.

At December 31, 2010, CPLP had a $40.0 million bank loan facility (December 31, 2009 - $40.0 million) with a maturity date of November 30, 2011, of which $0.5 million was utilized for a standby letter of credit issued for general business purposes (December 31, 2009 - $0.5 million). The terms of this financing include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. In addition, CPLP has a separate facility with a maturity date of November 30, 2011, to cover a $13.2 million standby letter of credit issued to BC Hydro.

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

As at December 31, 2010, the Company and CPLP were in compliance with all covenants relating to their operating lines of credit.

9. Accounts Payable and Accrued Liabilities

(millions of dollars)		**2010**		2009
Trade payables	**$**	**139.2**	$	97.6
Accrued payroll and related liabilities		**72.9**		67.9
Derivative financial instruments		**6.7**		5.4
Restructuring, mill closure and severance costs		**17.4**		13.7
Interest and distributions payable		**24.0**		8.5
Other		**32.7**		18.3
	$	**292.9**	$	211.4

10. Long-term Debt

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

Summary of Long-term Debt

(millions of dollars)		**2010**		2009
Privately placed senior notes				
Canfor Corporation				
US$97 million, interest at 8.03%, repayable in 3 equal annual installments commencing March 1, 2009	**$**	**32.2**	$	67.7
US$50 million, interest at 6.18%, repayable April 1, 2011		**49.7**		52.3
US$50 million, interest at 6.33%, repayable February 2, 2012		**49.7**		52.3
US$75 million, interest at 5.42%, repayable April 1, 2013		**74.6**		78.5
Canfor Pulp Limited Partnership				
US$110 million, interest at 6.41%, repayable November 30, 2013		**109.4**		115.1
Other long-term obligations		**2.5**		1.4
		318.1		367.3
Less: current portion		**(82.5)**		(34.0)
	$	**235.6**	$	333.3

On March 1, 2010, the Company repaid $33.7 million (US$32.3 million) of privately placed senior notes with an interest rate of 8.03%. A further $1.4 million of other long-term obligations were repaid in the fourth quarter of 2010.

The Company's debt agreements include a restriction on the distribution of its retained earnings, with dividends restricted to an amount calculated under the terms of the debt agreements, and based upon earnings and dividends paid in previous periods.

Fair Value of Total Long-term Debt

The fair value of total long-term debt at December 31, 2010 was $332.4 million (2009 - $377.4 million). The fair value was determined using prevailing market rates for long-term debt with similar characteristics and risk profiles.

Scheduled Long-term Debt Repayments and Interest Payments

Long-term debt repayments and interest payments are payable in the next three years as follows:

(millions of dollars)	Debt repayments	Interest Payments
2011	$ 82.5	$ 15.4
2012	51.6	11.3
2013	184.0	7.5
	$ 318.1	$ 34.2

11. Long-term Accrued Liabilities and Obligations

(millions of dollars)	**2010**	2009
Deferred reforestation obligation (Note 12)	**$ 53.0**	$ 60.3
Accrued pension obligations (Note 13)	**19.0**	19.6
Accrued pension bridge benefit obligations (Note 13)	**10.7**	9.1
Other post-employment benefits (Note 13)	**108.9**	103.5
Asset retirement obligations (Note 14)	**5.2**	4.8
Other	**12.5**	12.5
	$ 209.3	$ 209.8

12. Deferred Reforestation Obligation

The following table provides a reconciliation of the deferred reforestation obligation for the 2010 and 2009 years:

(millions of dollars)	**2010**	2009
Reforestation obligation at beginning of year	**$ 88.1**	$ 95.6
Expense for year	**20.2**	17.9
Accretion expense	**3.2**	3.4
Changes in estimated future reforestation expenditures	**(4.3)**	(6.1)
Paid during the year	**(22.6)**	(22.7)
Reforestation obligation at end of year	**$ 84.6**	$ 88.1
Less: current portion	**(31.6)**	(27.8)
Long-term portion (Note 11)	**$ 53.0**	$ 60.3

The total undiscounted amount of the estimated cash flows required to settle the obligation at December 31, 2010 was $95.1 million (2009 - $98.9 million) with payments spread over 15 years. The estimated cash flows have been adjusted for inflation and discounted using credit-adjusted risk-free rates ranging from 3% to 8%.

13. Employee Future Benefits

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

Total cash payments for employee future benefits for 2010 were $64.5 million (2009 - $47.5 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans, and cash contributed to its forest industry union defined benefit plans. Cash payments in 2010 include a $23.0 million payment in relation to prior quarters, which was made after the measurement date.

Defined Benefit Plans

Canfor measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30 of each year. In 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 largest pension plan was as of December 31, 2009. The next valuation is currently scheduled for December 31, 2012.

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

Defined Benefit Plan Assets

	2010		2009	
(millions of dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets				
Beginning of year	**$ 463.5**	**$ -**	$ 476.8	$ -
Actual gain on plan assets	**40.4**	**-**	2.1	-
Canfor contributions	**17.7**	**4.9**	24.8	4.4
Employee contributions	**1.0**	**-**	0.9	-
Benefit payments	**(37.7)**	**(4.9)**	(39.2)	(4.4)
Net transfer out	**-**	**-**	(1.9)	-
End of year	**$ 484.9**	**$ -**	$ 463.5	$ -

Plan assets consist of the following:	**2010**	2009
Asset category	Percentage of Plan Assets	
Equity securities	**63%**	58%
Debt securities	**36 %**	41%
Other	**1 %**	1%
	100%	100%

Defined Benefit Plan Obligations

	2010		2009	
(millions of dollars)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation				
Beginning of year	**$ 530.3**	**$ 118.3**	$ 510.6	$ 103.6
Current service cost	**10.3**	**1.7**	10.1	1.5
Interest cost	**32.3**	**7.9**	32.8	6.9
Employee contributions	**1.0**	**-**	0.9	-
Benefit payments	**(37.7)**	**(4.9)**	(39.2)	(4.4)
Special termination benefits	**-**	**0.3**	-	-
Curtailment gain	**-**	**(1.4)**	-	(0.6)
Net transfer out	**-**	**-**	(1.9)	-
Plan amendments	**-**	**-**	-	(0.1)
Actuarial loss	**85.7**	**27.4**	17.0	11.4
End of year	**$ 621.9**	**$ 149.3**	$ 530.3	$ 118.3

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

(millions of dollars)	**2010** Pension Benefit Plans	**2010** Other Benefit Plans	2009 Pension Benefit Plans	2009 Other Benefit Plans
Fair market value of plan assets	**$ 484.9**	**$ -**	$ 463.5	$ -
Accrued benefit obligation	**(621.9)**	**(149.3)**	(530.3)	(118.3)
Funded status of plan – surplus (deficit)	**(137.0)**	**(149.3)**	(66.8)	(118.3)
Employer contributions after measurement date	**27.1**	**1.3**	6.2	1.1
Unamortized transitional amount	**(9.7)**	**9.7**	(13.8)	11.8
Unamortized past service costs	**1.8**	**0.6**	2.6	0.7
Unamortized net actuarial loss	**236.0**	**28.8**	169.0	1.2
Accrued benefit asset (liability)	**118.2**	**(108.9)**	97.2	(103.5)
Valuation allowance	**(3.0)**	**-**	(2.8)	-
Accrued benefit asset (liability), net of valuation allowance	**$ 115.2**	**$ (108.9)**	$ 94.4	$ (103.5)
The accrued benefits asset (liability) is included in Canfor's balance sheet as follows:				
Deferred charges	**$ 134.2**	**$ -**	$ 114.0	$ -
Long-term accrued liabilities and obligations (Note 11)	**(19.0)**	**(108.9)**	(19.6)	(103.5)
End of year	**$ 115.2**	**$ (108.9)**	$ 94.4	$ (103.5)

Excluded from the above tables are amounts relating to defined benefit pension plans of New South Companies, Inc., which was curtailed in 2003, and Canfor USA. The accrued benefit assets of these plans at December 31, 2010 totaled $0.6 million (2009 - $0.8 million).

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

(millions of dollars)	**2010** Pension Benefit Plans	**2010** Other Benefit Plans	2009 Pension Benefit Plans	2009 Other Benefit Plans
Fair market value of plan assets	**$ 469.7**	**$ -**	$ 434.3	$ -
Accrued benefit obligation	**(613.4)**	**(149.3)**	(510.0)	(118.3)
End of year	**$ (143.7)**	**$ (149.3)**	$ (75.7)	$ (118.3)

Of the $143.7 million of pension plan deficit at December 31, 2010, $29.8 million relates to unregistered plans for which funding is not required (2009 - $25.5 million). Unregistered pension liabilities at December 31, 2010 include $12.2 million (2009 - $12.9 million) which are secured by a letter of credit.

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

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

(millions of dollars)	**2010** Incurred in Year	**2010** Matching Adjustments[a]	**2010** Recognized in Year	2009 Incurred in Year	2009 Matching Adjustments[a]	2009 Recognized in Year
Pension Benefit Plans						
Current service cost	**$ 10.3**	**$ -**	**$ 10.3**	$ 10.1	$ -	$ 10.1
Interest cost	**32.3**	**-**	**32.3**	32.8	-	32.8
(Return) loss on plan assets	**(40.4)**	**6.8**	**(33.6)**	(2.1)	(32.2)	(34.3)
Actuarial (gain) loss	**85.7**	**(73.9)**	**11.8**	17.0	(8.3)	8.7
Plan amendments	**-**	**0.3**	**0.3**	-	0.4	0.4
Curtailment loss	**-**	**0.5**	**0.5**	-	-	-
Change in valuation allowance	**-**	**0.2**	**0.2**	-	-	-
Amortization of transitional asset	**-**	**(4.1)**	**(4.1)**	-	(3.7)	(3.7)
	$ 87.9	**$ (70.2)**	**$ 17.7**	$ 57.8	$ (43.8)	$ 14.0
Other Benefit Plans						
Current service cost	**$ 1.7**	**$ -**	**$ 1.7**	$ 1.5	$ -	$ 1.5
Interest cost	**7.9**	**-**	**7.9**	6.9	-	6.9
Actuarial (gain) loss	**27.4**	**(27.6)**	**(0.2)**	11.4	(12.0)	(0.6)
Plan amendments	**-**	**0.1**	**0.1**	(0.1)	0.4	0.3
Curtailment gain	**(1.4)**	**-**	**(1.4)**	(0.6)	-	(0.6)
Special termination benefits	**0.3**	**-**	**0.3**	-	-	-
Amortization of transitional obligation	**-**	**2.1**	**2.1**	-	2.1	2.1
	$ 35.9	**$ (25.4)**	**$ 10.5**	$ 19.1	$ (9.5)	$ 9.6

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

Canfor also provides pension bridge benefits to certain eligible former employees. At December 31, 2010, the actuarially determined obligation for those benefits was $18.2 million (2009 - $15.9 million). The accrued benefit liability for those benefits at December 31, 2010 was $10.7 million (2009 - $9.1 million) (Note 11) and the related expense recognized in 2010 was $3.1 million (2009 - $1.7 million).

Significant assumptions

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

(weighted average assumptions)	**2010** Pension Benefit Plans	**2010** Other Benefit Plans	2009 Pension Benefit Plans	2009 Other Benefit Plans
Accrued benefit obligation as of December 31:				
Discount rate	**5.25%**	**5.50%**	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%**	6.60%	6.70%
Expected long-term rate of return on plan assets	**7.50%**	**n/a**	7.50%	n/a
Rate of compensation increase	**3.00%**	**n/a**	3.00%	n/a

Assumed health care cost trend rates

(weighted average assumptions)	**2010**	2009
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
Accrued benefit obligation	**$ 25.2**	**$ 20.4**
Total of service and interest cost	**$ 1.8**	**$ 1.4**

Defined contribution and other plans

The total cost recognized in 2010 for Canfor's defined contribution plans was $5.1 million (2009 - $3.5 million).

Canfor contributes to various forest industry union defined benefit pension plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the cost recognized for defined contribution plans above, amounted to $14.4 million in 2010 (2009 - $14.5 million).

14. Asset Retirement Obligations

(millions of dollars)	2010	2009
Balance at beginning of year	**$ 4.8**	$ 4.7
Accretion expense	**0.3**	0.3
Change in estimate	**0.1**	(0.2)
Balance at end of year (Note 11)	**$ 5.2**	$ 4.8

Canfor's asset retirement obligations include $3.1 million in relation to landfill closure costs at CPLP. These obligations represent estimated undiscounted future payments of $40.6 million to remediate the landfills at the end of their useful lives. The payments are expected to occur at periods ranging from 32 to 40 years and have been discounted at rates from 5.8% to 6.3%.

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

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

15. Share Capital

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

Issued:

	2010		2009	
(millions of dollars, except number of shares)	**Number of Shares**	**Amount**	Number of Shares	Amount
Common shares, beginning of year	**142,589,297**	**$ 1,124.7**	142,589,297	$ 1,124.7
Stock options exercised (Note 16)	**80,050**	**0.7**	-	-
Common shares, end of year	**142,669,347**	**$ 1,125.4**	142,589,297	$ 1,124.7

16. Stock-based Compensation

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

Stock Option Performance Plan

The Company has a stock option performance plan pursuant to which stock options were granted to selected officers and senior managers. No new stock options were granted in 2010 or 2009. The stock option performance plan provided for the issuance of up to a maximum of 5.8 million common shares at an exercise price equal to the market price of the Company's common shares on the date of grant. However, there are various criteria that limit the amount of options exercisable during each option year within the option period. The options are for a term of ten years and vest equally over three years. All granted options have fully vested. A summary of the status of the plan as of December 31, 2010 and 2009, and changes during the years ending on those dates, is presented below:

	2010		2009	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding at the beginning of year	**200,468**	**$ 9.34**	200,468	$ 9.34
Exercised	**(80,050)**	**8.73**	-	-
Cancelled	**(23,000)**	**9.80**	-	-
Outstanding at the end of the year	**97,418**	**$ 9.73**	200,468	$ 9.34

The following table summarizes information about stock options outstanding at December 31, 2010:

	Options outstanding			Options exercisable	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$8.30	6,750	0.1	$ 8.30	6,750	$ 8.30
$9.80 to $10.10	90,668	1.1	9.84	90,668	9.84
Outstanding at the end of the year	97,418		$ 9.73	97,418	$ 9.73

Employee Share and Unit Purchase Plans

The Company has a share purchase plan, which is available to all employees other than CPLP and New South employees. Purchases of common shares under this plan occur on the open market. Under the plan, employees can purchase up to 10% of their base salary or wage. Up to June 2007, the Company matched 30% of the first 5% of the amount contributed by the employee and paid the plan's brokerage fees. During 2010 and 2009, the Company has not made any contributions towards the purchase of its shares under the plan.

CPLP has a unit purchase plan, which is available to all CPLP employees. Purchases of Canfor Pulp Income Fund units under this plan occur on the open market. Under the plan the employees can purchase up to 10% of their base salary or wage. CPLP matches 30% of the first 5% of the amount contributed by the employee and pays the plan's brokerage fees. In 2010, CPLP made contributions of $0.7 million towards the purchase of the units of Canfor Pulp Income Fund under the plan (2009 - $0.6 million).

Deferred Share Unit Plans

On January 1, 2002, the Company implemented a Deferred Share Unit Plan for non-employee directors of the Company. A Deferred Share Unit ("DSU") is a right granted to a non-employee director to receive one common share of the Company, purchased on the open market, or the cash equivalent, on a deferred payment basis. The maximum number of DSUs outstanding under the plan is 1,000,000, and currently each non-employee director is entitled to 2,500 DSUs per year. The value of the DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company. The value of the outstanding DSUs at December 31, 2010 was $1.3 million (2009 - $0.8 million).

In May 2007, the Company implemented a Deferred Share Unit Plan (the "CEO Plan") for the Company's President and Chief Executive Officer ("CEO"). Pursuant to the terms of the plan, the CEO receives his annual salary in DSU units, which are allocated on a monthly basis. The value of the DSUs when redeemed will be equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs under the CEO Plan may only be redeemed on the date the CEO ceases, for whatever reason, to be employed by the Company. The value of the outstanding CEO DSUs at December 31, 2010 was $3.5 million (2009 - $1.4 million).

17. Restructuring, Mill Closure and Severance Costs

Restructuring, mill closure and severance costs represent costs associated with the indefinite or permanent closures of facilities and staff reductions. The expense for the year ended December 31, 2010 amounted to $32.9 million (2009 - $29.9 million). Of the 2010 expense, $17.8 million related to severance and other costs for the permanent closure of the Clear Lake sawmill, which was announced in the third quarter and took effect in January 2011. The significant majority of the remaining expense related to the ongoing costs of the Company's Radium, Rustad and Vavenby sawmills and PolarBoard and Tackama panel operations.

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

(millions of dollars)		**2010**		2009
Lumber	**$**	**29.6**	$	20.9
Unallocated and Other		**3.3**		9.0
	$	**32.9**	$	29.9

The following table provides a reconciliation of the restructuring, mill closure and severance liability for the 2009 and 2010 years:

(millions of dollars)		**2010**		2009
Accrued liability at beginning of year	**$**	**19.1**	$	23.3
Costs accrued in the year [a]		**26.5**		29.9
Paid during the year		**(27.2)**		(34.1)
Accrued liability at end of year	**$**	**18.4**	$	19.1

[a] Excluding non-cash expenses and recoveries related to provisions for capital asset and inventory write-downs resulting from indefinite and permanent mill closures.

18. Interest Income (Expense)

(millions of dollars)		**2010**		2009
Interest expense	**$**	**(27.6)**	$	(33.3)
Less: Interest income		**2.1**		4.0
Interest expense, net	**$**	**(25.5)**	$	(29.3)

Interest expense, net is comprised of:

(millions of dollars)		**2010**		2009
Short-term interest expense, net	**$**	**(4.5)**	$	(1.6)
Long-term interest expense, net		**(21.0)**		(27.7)
Interest expense, net	**$**	**(25.5)**	$	(29.3)

For the year ended December 31, 2010, short-term interest expense, net is comprised of stand-by fees for operating loans and letter of credit charges of $6.4 million (2009 - $5.3 million), offset by interest income on cash and cash equivalents and other receivables of $1.9 million (2009 - $3.7 million). Long-term interest expense, net relates substantially to interest expense on long-term debt.

19. Sale of Mill Property

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

20. Settlement of North Central Plywoods Mill Fire Insurance Claim

In April 2009, the Company reached a final settlement of the North Central Plywoods mill fire claim for gross proceeds of $65.5 million, less a deductible of $2.2 million, for net proceeds of $63.3 million. The Company received cash advances of $30.0 million from its insurer in 2008 and the remaining amount of $33.3 million in the second quarter of 2009. The final settlement resulted in a pre-tax loss of $8.8 million in the second quarter of 2009 of which $5.8 million was recorded to manufacturing and product costs and $3.0 million was recorded to North Central Plywoods mill fire, net. Under the terms of the settlement, there were no conditions attached to the use of the proceeds.

21. Other Income (Expense)

(millions of dollars)		**2010**		2009
Foreign exchange loss on translation of working capital	**$**	**(4.9)**	$	(11.4)
Increase in fair value of asset-backed commercial paper (Note 5)		**6.3**		-
Gain on sale of operating assets of Howe Sound Pulp and Paper Limited Partnership		**5.5**		-
Other, net		**1.2**		-
	$	**8.1**	$	(11.4)

In October 2010, Howe Sound Pulp and Paper Limited Partnership (now called 6382 Pulp and Paper Limited Partnership), a kraft pulp and newsprint mill operation jointly owned by Canfor and Oji Paper Co. Ltd., completed the sale of all of its operating assets. As a result of the sale, Canfor recorded a gain of $5.5 million. In conjunction with this sale, Canfor also completed the sale of Coastal Fibre Limited Partnership, which had no effect on income.

22. Income Taxes

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

	2010				2009			
(millions of dollars)		**Current**		**Long-term**		Current		Long-term
Future income tax assets								
Accruals not currently deductible	**$**	**15.9**	**$**	**16.1**	$	12.4	$	18.6
Derivative financial instruments		**0.7**		**-**		0.7		0.4
Non-capital loss carryforwards [a]		**-**		**29.9**		-		34.6
Investments		**-**		**1.0**		-		1.5
Post employment benefits		**-**		**27.9**		-		27.1
Other		**-**		**1.1**		-		6.8
	$	**16.6**	**$**	**76.0**	$	13.1	$	89.0
Future income tax liabilities								
Depreciable capital assets	**$**	**-**	**$**	**(237.8)**	$	-	$	(244.9)
Deferred pension and other costs		**-**		**(36.6)**		-		(33.1)
Unrealized foreign exchange gains on debt		**(4.2)**		**(6.1)**		(1.7)		(8.2)
Other		**-**		**(4.8)**		-		(3.6)
	$	**(4.2)**	**$**	**(285.3)**	$	(1.7)	$	(289.8)
Future income taxes, net	**$**	**12.4**	**$**	**(209.3)**	$	11.4	$	(200.8)

[a] Non-capital loss carryforwards expire on dates between 2027 and 2030.

The components of income tax recovery (expense) are as follows:

(millions of dollars)		2010		2009
Current	**$**	**2.2**	$	49.4
Future		**(7.6)**		22.5
	$	**(5.4)**	$	71.9

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

(millions of dollars)		2010		2009
Net income (loss) before income taxes	**$**	**166.7**	$	(134.7)
Income tax recovery (expense) at statutory tax rate				
2010 – 28.5% (2009 – 30%)	**$**	**(47.5)**	$	40.4
Add (deduct):				
Non-taxable income related to non-controlling interests in limited partnerships		**26.0**		2.3
Change in corporate income tax rates		**-**		7.3
Entities with different income tax rates and other tax adjustments		**1.7**		2.9
Tax recovery at rates other than statutory rate		**2.8**		2.8
Permanent difference from capital gains and losses and other non-deductible items		**11.6**		16.2
Income tax recovery (expense)	**$**	**(5.4)**	$	71.9

23. Net Income (Loss) Per Share

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

	2010	2009
Weighted average number of common shares	**142,613,920**	142,589,297
Incremental shares from potential exercise of stock options	**2,287**	-
Diluted number of common shares	**142,616,207**	142,589,297

24. Net Change in Non-Cash Working Capital

(millions of dollars)		2010		2009
Accounts receivable	**$**	**(3.7)**	$	(24.7)
Income taxes recoverable		**45.7**		1.6
Inventories		**(16.7)**		89.7
Prepaid expenses		**(2.5)**		(1.5)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation		**31.0**		(35.9)
Net decrease in working capital	**$**	**53.8**	$	29.2

25. Financial Instruments

Classification and Measurement of Financial Instruments

Canfor's accounts receivable, other deposits, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition.

Cash and cash equivalents, ABCP and derivative instruments are measured at fair value. CICA Handbook Section 3862 *Financial Instruments – Disclosures* requires classification of these items within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The following table summarizes Canfor's financial instruments at December 31, 2009 and 2010, and shows the level within the fair value hierarchy in which they have been classified (for financial instruments measured at fair value):

(millions of dollars)	Fair Value Hierarchy Level		**2010**		2009
Financial assets					
Held for trading					
Cash and cash equivalents	Level 1	**$**	**260.3**	$	133.4
ABCP	Level 2		**40.9**		41.1
Derivative financial instruments	Level 2		**2.6**		1.9
Loans and receivables					
Accounts receivable (excluding derivatives)	n/a		**198.5**		179.1
Other deposits, loans and advances	n/a		**15.0**		8.5
Available for sale					
Cost-accounted investments in other entities	n/a		**26.5**		27.3
		$	**543.8**	$	391.3
Financial liabilities					
Held for trading					
Derivative financial instruments	Level 2	**$**	**6.7**	$	7.7
Other liabilities					
Operating loans	n/a		**-**		0.6
Accounts payable and accrued liabilities (excluding derivatives)	n/a		**286.2**		206.0
Long-term debt	n/a		**318.1**		367.3
		$	**611.0**	$	581.6

Financial Risk Management

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

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

(a) Credit risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable and long-term investments and other. Cash and cash equivalents includes cash held through major Canadian and international financial institutions and temporary investments with an original maturity date of three months or less. The cash and cash equivalents balance at December 31, 2010 is $260.3 million.

Canfor utilizes a combination of credit insurance, letters of credit and self-insurance to manage the risk associated with trade receivables. At December 31, 2010, approximately 65% of the outstanding trade receivables are covered by credit insurance. Canfor's trade receivable balance at December 31, 2010 is $149.4 million, before an allowance for doubtful accounts of $2.5 million. At December 31, 2010, approximately 99% of the trade accounts receivable balance was within Canfor's established credit terms.

(b) Liquidity risk:

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

At December 31, 2010, Canfor has accounts payable and accrued liabilities (excluding derivatives) of $286.2 million and current debt obligations of $82.5 million, all of which fall due for payment within one year of the balance sheet date.

(c) Market risk:

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

(i) Interest Rate risk:

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

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

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

(ii) Currency risk:

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $1.2 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable); (ii) loss (gain) of approximately $0.4 million in relation to the ABCP denominated in US dollars at year end; (iii) gain (loss) of approximately $3.1 million in relation to long-term debt denominated in US dollars at year end.

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses and the US dollar denominated debt. Part of the remaining exposure was during 2010 and 2009 covered by option contracts (foreign exchange collars) that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars, as well as US dollar forward sales contracts.

Canfor had the following foreign exchange derivatives at December 31, 2010 and 2009:

	2010		2009	
	Notional Amount	**Exchange Rates**	Notional Amount	Exchange Rates
US dollar collars	(millions of US dollars)	(protection / topside, per dollar)	(millions of US dollars)	(protection / topside, per dollar)
0-12 months				
US Dollar Collars	**$ -**	**$ -**	$ 12.0	$ 1.0500 / $ 1.2200
US dollar forward sales contracts	(millions of US dollars)	(range of rates, per dollar)	(millions of US dollars)	(range of rates, per dollar)
0-12 months				
US Dollar Forward Contracts	**$ 68.4**	**$ 0.9940 - $ 1.0678**	$ 86.0	$ 1.0302 - $ 1.0723

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax gain (loss) of approximately $0.7 million in relation to the foreign exchange forward contracts held at year end.

(iii) Energy Price risk:

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

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

Canfor had the following energy derivatives at December 31, 2010 and 2009:

	2010		2009	
	Notional Amount	**Average Rate**	Notional Amount	Average Rate
Natural Gas	(millions of gigajoules)	(dollars per gigajoule)	(millions of gigajoules)	(dollars per gigajoule)
Floating to fixed swap				
0 – 12 months	**1.1**	**$ 8.04**	2.1	$ 7.53
13 – 36 months	**-**	**$ -**	1.1	$ 8.04
Diesel	(millions of gallons)	(dollars per gallon)	(millions of gallons)	(dollars per gallon)
Floating to fixed swap				
0 – 12 months	**2.6**	**$ 2.22**	1.8	$ 2.49
13 – 36 months	**-**	**$ -**	0.2	$ 2.12

An increase (decrease) in the market price of natural gas of $0.10 per gigajoule would result in a pre-tax gain (loss) of approximately $0.1 million in relation to the natural gas swaps held at year end.

An increase (decrease) in the market price of diesel of $0.10 per gallon would result in a pre-tax gain (loss) of approximately $0.3 million in relation to the diesel swaps held at year end.

(iv) Commodity Price risk:

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

	2010		2009	
	Notional Amount	**Average Rate**	Notional Amount	Average Rate
Lumber	(MMfbm)	(US dollars per Mfbm)	(MMfbm)	(US dollars per Mfbm)
Future sales contracts				
0 – 12 months	**68.4**	**$ 294.71**	55.8	$ 242.30

An increase (decrease) in the futures market price of lumber of US$10 per Mfbm would result in a pre-tax loss (gain) of approximately $0.7 million in relation to the lumber futures held at year end.

Derivative Instruments

Canfor uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices and energy costs. At December 31, 2010, the fair value of outstanding commodity and exchange financial instruments was a net liability of $4.1 million (2009 - $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 years ended December 31, 2010 and 2009:

(millions of dollars)		**2010**		2009
Foreign exchange collars and forward contracts	**$**	**4.0**	$	36.0
Natural gas swaps		**(5.2)**		(16.0)
Diesel options and swaps		**0.8**		1.6
Lumber futures		**0.5**		2.8
Gain on derivative financial instruments	**$**	**0.1**	$	24.4

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

(millions of dollars)		**2010**		2009
Foreign exchange collars and forward contracts	**$**	**1.6**	$	1.6
Natural gas swaps		**(4.7)**		(6.8)
Diesel options and swaps		**1.0**		(0.9)
Lumber futures		**(2.0)**		0.3
	$	**(4.1)**	$	(5.8)
Less: current portion		**(4.1)**		(3.5)
Long-term portion	**$**	**-**	$	(2.3)

26. Related Party Transactions

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

Howe Sound Pulp and Paper Limited Partnership

Canfor had certain transactions with Howe Sound Pulp and Paper Limited Partnership ("HSLP"), of which Canfor was a joint owner, until HSLP sold its operating assets in October 2010 (Note 21). At December 31, 2010 there were no significant balances outstanding with HSLP (December 31, 2009 – total net receivable, after impairments, of $21.2 million).

The transactions with HSLP in 2010 and 2009 are summarized below:

(millions of dollars)		**2010**		2009
Chips purchased for resale to HSLP by Coastal Fibre Limited Partnership ("CFLP")	**$**	**3.4**	$	4.9
Pulp logs purchased for resale to HSLP by CFLP		**8.5**		5.6
Interest		**-**		1.0
Commission earned from marketing of HSLP pulp		**1.8**		2.4
Other		**1.5**		0.3
	$	**15.2**	$	14.2

Other Related Parties

Canfor purchases chips and lumber from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which it has a 33.3% interest. In 2010, Canfor purchased $6.1 million in chips and $1.4 million in lumber (2009 - $3.9 million and $0.9 million respectively). The payable balance outstanding at December 31, 2010 was $0.4 million (2009 - $0.4 million).

In 2010, shipping services provided by Seaboard International Shipping Company ("Seaboard"), in which Canfor had a 20% interest, amounted to $0.2 million (2009 - $0.6 million). There was no trade payable balance outstanding at December 31, 2010 or 2009. In addition, the Seaboard General Partnership, which owns Seaboard, declared a cash distribution to its partners during 2010, of which Canfor's share was $1.1 million.

On July 30, 2010 Canfor received a loan of $1.9 million from the Seaboard General Partnership by way of a demand, non-interest bearing promissory note payable on or before January 3, 2011. On January 3, 2011, Seaboard General Partnership declared an income distribution to its partners of which Canfor's share was $2.1 million. The distribution was received by way of offset against the non-interest bearing promissory note, and an additional cash payment of $0.2 million. Subsequent to year end, on January 5, 2011, Canfor sold its interest in Seaboard General Partnership.

27. Joint Ventures

Canfor-Louisiana Pacific OSB Limited Partnership

Canfor and Louisiana-Pacific Canada Ltd. jointly own Peace Valley OSB ("Canfor-LP OSB"), a limited partnership which owns and operates an oriented strand board ("OSB") plant in Fort St. John, BC. Canfor has agreed to supply 330,000 cubic metres of timber annually to the joint venture from its existing timber tenure in the area where the mill is located. During 2010, Canfor received net capital distributions of $5.3 million from Canfor-LP OSB (2009 – net contributions of $0.8 million).

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

(millions of dollars)		**2010**		2009
Balance sheet				
Cash	**$**	**2.8**	$	2.2
Other current assets		**3.0**		3.0
Property, plant and equipment		**89.4**		99.4
Accounts payable and accrued liabilities		**(3.2)**		(2.9)
Net assets	**$**	**92.0**	$	101.7
Statements of income (loss)				
Sales	**$**	**55.6**	$	38.9
Costs and expenses		**(60.1)**		(46.7)
Net loss	**$**	**(4.5)**	$	(7.8)
Cash flow statements				
Cash from (used in) operating activities	**$**	**6.0**	$	(1.3)
Cash from (used in) investing activities		**(5.4)**		0.7
Net increase (decrease) in cash	**$**	**0.6**	$	(0.6)

Coastal Fibre Limited Partnership

In October 2010, Canfor sold its 50% interest in Coastal Fibre Limited Partnership ("CFLP"), which was jointly owned with Oji Paper Canada Limited. The majority of CFLP's assets were written off in Canfor's balance sheet in 2008, and Canfor's share of CFLP's income and expenses were not significant in 2010 or 2009.

28. Segmented Information

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

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

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

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

Sales in the panel business (which does not meet the criteria to be a separate reportable segment) for the year ended December 31, 2010 were $55.6 million (year ended December 31, 2009 - $39.3 million).

(millions of dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
Year ended December 31, 2010							
Sales to external customers	**$**	**1,255.2**	**1,119.6**	**55.6**	**-**	**$**	**2,430.4**
Sales to other segments	**$**	**129.8**	**-**	**-**	**(129.8)**	**$**	**-**
Operating income (loss)	**$**	**10.2**	**191.6**	**(32.5)**	**-**	**$**	**169.3**
Amortization	**$**	**89.6**	**48.6**	**17.8**	**-**	**$**	**156.0**
Capital expenditures	**$**	**88.1**	**39.3**	**0.2**	**-**	**$**	**127.6**
Identifiable assets	**$**	**1,379.7**	**892.7**	**505.9**	**-**	**$**	**2,778.3**
Year ended December 31, 2009							
Sales to external customers	$	1,118.3	918.2	39.3	-	$	2,075.8
Sales to other segments	$	123.5	-	0.1	(123.6)	$	-
Operating income (loss)	$	(171.4)	5.4	(44.4)	-	$	(210.4)
Amortization	$	90.0	50.5	14.8	-	$	155.3
Capital expenditures	$	39.1	17.9	2.0	-	$	59.0
Identifiable assets	$	1,279.3	861.8	536.7	-	$	2,677.8

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

(millions of dollars)		**2010**		2009
Sales of lumber not produced by Canfor	**$**	**59.6**	$	55.3

Geographic Information

(millions of dollars)		2010		2009
Sales by location of customer				
Canada	$	**295.1**	$	274.9
United States		**1,114.8**		1,043.0
Asia		**766.4**		556.0
Europe		**201.0**		168.3
Other		**53.1**		33.6
	$	**2,430.4**	$	2,075.8

Capital assets and goodwill by location				
Canada	$	**1,558.8**	$	1,598.1
United States		**141.6**		151.7
Asia and Other		**0.2**		0.1
	$	**1,700.6**	$	1,749.9

29. Capital Disclosures

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

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

(millions of dollars)		2010		2009
Total debt (including operating loans) (Note 10)	$	**318.1**	$	367.9
Less: Cash and cash equivalents		**(260.3)**		(133.4)
Net debt		**57.8**		234.5
Total equity		**1,717.1**		1,660.1
Total capitalization	$	**1,774.9**	$	1,894.6
Net debt to total capitalization percentage		**3.3%**		12.4%

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

Separately, CPLP has leverage and interest coverage ratios calculated by reference to operating earnings before interest, taxes, depreciation and amortization. All borrowings of CPLP (operating loans and long-term debt) are non-recourse to other entities within the Canfor group.

Canfor's strategy is to ensure it remains in compliance with all of its existing covenants, so as to ensure continuous access to debt capital markets, and management reviews results and forecasts to monitor Canfor's compliance. Canfor was in compliance with all its debt covenants for the years ended December 31, 2010 and 2009.

30. Commitments and Contingencies

Operating Lease Commitments

Canfor has committed to operating leases for property, plant and equipment. As at December 31, 2010, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)		
2011	$	12.8
2012		9.2
2013		6.2
2014		3.0
2015		1.4
Thereafter		1.1
Total minimum lease payments	$	33.7

Letters of Credit

The Company has several letters of credit which are summarized in Note 8, Operating Loans.

Other Contractual Commitments

Contractual commitments at December 31, 2010 totaled $32.9 million (2009 - $30.2 million), and related principally to the construction of capital assets.

Pensions Commitments

The Company is currently committed to annual payments in relation to its main salary pension plan of $30.7 million for the next four years, or until such a time as a new funding valuation may lead to a reduction in the amount of payments required.

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 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. 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.

31. Pulp and Paper Green Transformation Program

In mid-2009 the Canadian federal government announced creation of a billion dollar Pulp and Paper Green Transformation Program ("the Program"). The federal government announced the allocation of credits on October 9, 2009 and CPLP was allocated $122.2 million from the Program. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the Program end date of March 31, 2012. CPLP has received Program approval to proceed with projects totaling $115.6 million, including a $100.0 million project to upgrade the recovery boiler at the Northwood pulp mill. CPLP submits claims for expenditures on approved projects under the Program on a quarterly basis. CPLP received $20.2 million for eligible expenditures under the program in 2010, and as of December 31, 2010 had incurred a further $18.0 million of qualifying reimbursable expenditures. These projects are expected to provide economic and environmental benefits to CPLP's operations.

32. Comparative Figures

Certain 2009 figures have been reclassified to conform to the current year's presentation.