Q1 2009

For the three months ended March 31, 2009

CANFOR CORPORATION 2009 FIRST QUARTER INTERIM REPORT

To Our Shareholders

Canfor Corporation reported a net loss of $58.8 million ($0.41 per share) for the first quarter of 2009, compared to a net loss of $229.8 million ($1.61 per share) for the fourth quarter of 2008 and a net loss of $85.4 million ($0.60 per share) for the first quarter of 2008.

The net loss for the first quarter of 2009 included one-time items affecting comparability with prior periods, which had an overall positive impact on net income of $19.4 million ($0.14 per share). The more significant one-time items were as follows:

- A gain of $37.8 million ($0.27 per share) from the sale of property located at New Westminster, British Columbia (the site of the Company's former Panel & Fibre operation).
- Losses recorded on derivative financial instruments totaling $12.4 million ($0.09 per share), principally reflecting a decline in the value of the Canadian dollar compared to the US dollar and lower natural gas prices in the first quarter (the loss recorded on derivative financial instruments in the fourth quarter of 2008 was $50.3 million ($0.35 per share), and a gain of $2.7 million ($0.02 per share) was recorded in the first quarter of 2008).

After taking account of all one-time items affecting comparability, the Company reported an adjusted net loss for the first quarter of 2009 of $78.2 million ($0.55 per share), compared to similarly adjusted net losses of $53.3 million ($0.37 per share) for the fourth quarter of 2008 and $89.5 million ($0.63 per share) for the first quarter of 2008.

The severe U.S. and global economic downturn continued to affect the Company's financial results. U.S. housing starts, which were already at historically low levels, dropped a further 20% in the first quarter to the lowest level since records began in 1959. With orders in short supply, lumber prices receded further in the quarter, with Western SPF prices falling as low as US$134 per thousand board feet in January before recovering slightly towards the end of the quarter. Pulp markets were similarly impacted by very weak demand, and prices were under severe pressure through the quarter.

In response to the very difficult conditions, the Company significantly curtailed its lumber production during the quarter, operating at approximately 60% of capacity. Compared to the last quarter of 2008, lumber production was down by 95 million board feet. Market-related downtime was also taken at the Company's Taylor Pulp mill and at Canfor Pulp Limited Partnership ("CPLP"), in which Canfor holds a 50.2% interest.

Canfor reported negative EBITDA of $84.6 million in the first quarter, a deterioration of $54.4 million from the previous quarter. Weaker prices, lower shipments and inventory value write-downs resulting from the seasonal build of logs in Canada ahead of spring break-up (when no log deliveries are possible), as well as a lumber export tax refund in the previous quarter, accounted for the majority of the variance. However, the Company held its lumber unit production costs at previous quarter levels despite the lower operating rates. Compared to the same quarter of 2008, lumber unit production costs were down 7% despite an additional 250 million board feet of curtailment.

In early March, the Company repaid $100 million of long-term debt, and ended the quarter with cash of $155 million, and $446 million of unused and available operating lines of credit. Subsequent to the end of the quarter, on April 1, 2009, the Company repaid a further $76 million of long-term debt.

Market conditions are expected to remain very difficult through the balance of 2009 and into 2010 for all of the Company's products. With no indications of any firm market recovery in the near future, Canfor is taking a series of further measures to conserve cash.

Peter J.G. Bentley	**James F. Shepard**
Chairman	**President and Chief Executive Officer**

Canfor Corporation
First Quarter 2009
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor's financial performance for the quarter ended March 31, 2009 relative to the quarters ended December 31, 2008 and March 31, 2008, and the financial position of the Company. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2009 and 2008, as well as the 2008 annual MD&A and the 2008 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2008 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Throughout this discussion, reference is also made to EBITDA (calculated as operating income before amortization) and Adjusted EBITDA (calculated as EBITDA less restructuring, mill closure and severance costs), which Canfor considers to be important indicators for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Net Loss (calculated as Net 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 Net Loss") and Adjusted Net Loss per Share (calculated as Adjusted Net Loss divided by the weighted average number of shares outstanding during the period). EBITDA, Adjusted EBITDA, Adjusted Net Loss and Adjusted Net Loss per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian GAAP. As there is no standardized method of calculating these measures, Canfor's EBITDA, Adjusted EBITDA, Adjusted Net Loss and Adjusted Net Loss per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA, Adjusted EBITDA and Adjusted Net Loss to net income reported in accordance with GAAP are included in this MD&A.

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

Certain prior period comparative information throughout this report has been restated for consistency with the presentation in the current period. All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at April 29, 2009.

FIRST QUARTER 2009 EARNINGS OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)	Q1 2009	Q4 2008	Q1 2008
Sales	**$ 488.2**	$ 588.7	$ 648.5
EBITDA	**$ (84.6)**	$ (30.2)	$ (74.0)
Operating loss	**$ (124.2)**	$ (74.2)	$ (117.5)
Foreign exchange loss on long-term debt and investments, net	**$ (12.9)**	$ (72.0)	$ (12.0)
(Loss) gain on derivative financial instruments[2]	**$ (21.3)**	$ (81.7)	$ 6.0
Asset impairments	**$ -**	$ (99.6)	$ -
Gain on sale of mill property	**$ 44.6**	$ -	$ -
Net loss	**$ (58.8)**	$ (229.8)	$ (85.4)
Net loss per share, basic and diluted	**$ (0.41)**	$ (1.61)	$ (0.60)
Average exchange rate (US$/CDN$) [3]	**$ 0.803**	$ 0.825	$ 0.996
U.S. housing starts (million units SAAR) [4]	**0.523**	0.656	1.035

[1] Certain amounts in prior periods have been reclassified to conform to the presentation in the current period.
[2] Includes gains (losses) from natural gas, diesel, foreign exchange and lumber future derivative financial instruments (see "Unallocated & Other Items" section for more details).
[3] Source – Bank of Canada (average noon rate for the period).
[4] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").

Overview

The Company's net loss and adjusted net loss, together with the related adjustments, for the first quarter of 2009, the fourth quarter of 2008 and the first quarter of 2008 are detailed in the table below:

Analysis of Specific Items Affecting Comparability of Net Loss

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	Q1 2009	Q4 2008	Q1 2008
Net loss, as reported	**$ (58.8)**	$ (229.8)	$ (85.4)
Third Country Adjustment export tax refund	**$ -**	$ (7.1)	$ -
Restructuring, mill closure and severance costs	**$ 4.2**	$ 6.8	$ 2.6
Foreign exchange loss on long-term debt and investments, net	**$ 9.1**	$ 52.2	$ 8.7
Loss (gain) on derivative financial instruments	**$ 12.4**	$ 50.3	$ (2.7)
Gain on sale of mill property	**$ (37.8)**	$ -	$ -
Prince George Pulp & Paper mill fire, net	**$ -**	$ 0.2	$ (3.6)
Asset impairments	**$ -**	$ 74.1	$ -
Corporate income tax rate reductions	**$ (7.3)**	$ -	$ (9.1)
Net impact of above items	**$ (19.4)**	$ 176.5	$ (4.1)
Adjusted net loss	**$ (78.2)**	$ (53.3)	$ (89.5)
Net loss per share (EPS), as reported	**$ (0.41)**	$ (1.61)	$ (0.60)
Net impact of above items per share	**$ (0.14)**	$ 1.24	$ (0.03)
Adjusted net loss per share	**$ (0.55)**	$ (0.37)	$ (0.63)

EBITDA

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

(millions of dollars)	Q1 2009	Q4 2008	Q1 2008
Net loss, as reported	**$ (58.8)**	$ (229.8)	$ (85.4)
Add (subtract):			
Amortization	**$ 39.6**	$ 44.0	$ 43.5
Interest expense, net	**$ 8.3**	$ 7.7	$ 5.3
Foreign exchange loss on long-term debt and investments, net	**$ 12.9**	$ 72.0	$ 12.0
Loss (gain) on derivative financial instruments	**$ 21.3**	$ 81.7	$ (6.0)
Gain on sale of mill property	**$ (44.6)**	$ -	$ -
Prince George Pulp & Paper mill fire, net	**$ -**	$ 0.3	$ (8.5)
Asset impairments	**$ -**	$ 99.6	$ -
Other income	**$ (2.5)**	$ (12.9)	$ (1.2)
Income tax recovery	**$ (49.7)**	$ (80.2)	$ (55.7)
Non-controlling interests	**$ (11.1)**	$ (12.6)	$ 22.0
EBITDA, as reported	**$ (84.6)**	$ (30.2)	$ (74.0)
Restructuring, mill closure and severance costs	**$ 6.4**	$ 10.3	$ 3.8
Adjusted EBITDA	**$ (78.2)**	$ (19.9)	$ (70.2)

The global economic downturn continued to weigh heavily on Canfor's results in the first quarter of 2009. Demand for lumber products fell yet further, as evidenced by a 20% decline in average U.S. housing starts from 656,000 in the fourth quarter of 2008 to 523,000 (Seasonally Adjusted Annual Rate – SAAR) in the first quarter of 2009. March seasonally adjusted annualized housing starts were 510,000 units. The decline in housing starts had a major impact on lumber prices and shipment levels in the first quarter.

The quarterly average benchmark Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr lumber price fell to US$155[5] per thousand board feet ("Mfbm") which was US$35 per Mfbm, or 18%, lower than the previous quarter, and US$50 per Mfbm, or 24%, lower than the first quarter of 2008. Prices for Southern Yellow Pine ("SYP") fared little better - the average benchmark SYP 2x4 #2 price for the fourth quarter was US$235 per Mfbm, US$23 per Mfbm, or 9%, lower than the previous quarter and US$50 per Mfbm, or 18%, lower than the first quarter of 2008. Significant price reductions were also seen for wider grades.

Pulp prices also declined sharply through the first quarter of 2009, as a result of very weak market demand. The average NBSK pulp list price for U.S. delivery was US$673 per tonne, US$114 per tonne, or 14%, lower than the previous quarter and US$207 per tonne, or 24%, lower than the first quarter of 2008.

Partly offsetting the negative impact of the fall in solid wood and pulp prices in the first quarter of 2009 was a further decrease in the value of the Canadian dollar relative to its U.S. counterpart. The Canadian dollar averaged just over 80 cents in the quarter, which represented a 3% decline compared to the previous quarter and, more significantly, a 19% decrease compared to the first quarter of 2008.

Lumber sales volumes reflected depressed market demand, with shipments down 17% compared to the previous quarter. The Company responded to the difficult conditions by taking substantial market-related curtailments with lumber production for the quarter approximating 60% of total capacity.

The Company reported negative EBITDA of $84.6 million in the first quarter, a deterioration of $54.4 million from the previous quarter. For the most part, this reflected the impact of weaker commodity prices (on both sales and closing inventory values), significantly lower shipments and increased inventory write-downs at quarter end arising from the seasonal build of log inventories in the B.C. Interior in preparation for spring break-up (when no log deliveries are possible), as well as a Third Country Adjustment lumber export tax refund recorded in the previous quarter. However, the Company held its lumber unit production costs at previous quarter levels despite the lower operating rates. Compared to the same quarter of 2008, the Company's lumber unit production costs were down 7%, despite 250 million board feet of additional market curtailment.

Other significant items affecting comparability with prior periods included the following (amounts net of tax and non-controlling interests):

- A gain of $37.8 million ($0.27 per share) from the sale of property located at New Westminster, British Columbia (the site of Company's former Panel & Fibre operation).
- Losses recorded on derivative financial instruments totaling $12.4 million ($0.09 per share), principally reflecting a decline in the value of the Canadian dollar versus the US dollar and lower natural gas prices in the first quarter. The loss recorded on derivative financial instruments in the fourth quarter of 2008 was $50.3 million ($0.35 per share), and a gain of $2.7 million ($0.02 per share) was recorded in the first quarter of 2008.

[5] Source – Random Lengths Publications, Inc.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics - Lumber

(millions of dollars unless otherwise noted)	Q1 2009	Q4 2008	Q1 2008
Sales	$ 277.3	$ 363.9	$ 352.5
EBITDA	$ (68.8)	$ (24.1)	$ (93.0)
Adjusted EBITDA	$ (66.3)	$ (20.4)	$ (92.3)
EBITDA margin	(25)%	(7)%	(26)%
Adjusted EBITDA margin	(24)%	(6)%	(26)%
Operating loss	$ (92.3)	$ (50.8)	$ (118.8)
Average SPF 2x4 #2&Btr lumber price in US$[6]	$ 155	$ 190	$ 205
Average SPF price in Cdn$	$ 193	$ 230	$ 206
Average SYP 2x4 #2 lumber price in US$[7]	$ 235	$ 258	$ 285
Average SYP price in Cdn$	$ 293	$ 313	$ 286
Production – SPF lumber (MMfbm)	701.9	791.6	883.7
Production – SYP lumber (MMfbm)	62.4	78.6	106.0
Shipments – SPF lumber (MMfbm) [8]	684.9	834.3	862.7
Shipments – SYP lumber (MMfbm) [8]	66.7	86.2	110.3
Shipments – wholesale lumber (MMfbm)	39.0	35.7	49.5

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

Overview

The Lumber segment reported an operating loss of $92.3 million for the first quarter of 2009, a $41.5 million higher loss than the fourth quarter of 2008, but an improvement of $26.5 million compared to the first quarter of 2008. Over those same periods, the Adjusted EBITDA loss was up $45.9 million and down $26.0 million, respectively.

The deterioration in Adjusted EBITDA of $45.9 million compared to the fourth quarter of 2008 was primarily attributable to a sharp decline in prices, as evidenced by an 18% fall in average Western SPF 2x4#2&Btr prices and a 9% drop in average SYP 2x4#2 prices, both of which were reflective of worsening market conditions. Similar price declines were also seen for most other widths of SPF and SYP lumber. Log and conversion costs were held at similar levels to the previous quarter, despite substantial downtime in the current period; however residual fibre chip prices declined sharply, reflecting significantly weaker pulp prices. Earnings in the first quarter also included inventory write-down charges of $24 million, $9 million higher than for the fourth quarter of 2008, principally as a result of a seasonal build of log inventories in the B.C. Interior, ahead of spring break-up, and lower sales realizations. The other major factor accounting for the unfavourable variance was the $10.8 million export tax refund booked in the fourth quarter of 2008.

The improvement in Adjusted EBITDA of $26.0 million compared to the first quarter of 2008 was primarily attributable to a significant reduction in unit manufacturing costs at the Company's Western operations, and operating losses mitigated through curtailment. The negative impact on earnings of the significant decline in prices was offset somewhat by the 19% depreciation of the Canadian dollar over the same period. Residual fibre chip prices were well down from the same quarter of 2008. The inventory write-down expense was $10 million lower than in the first quarter of 2008, with inventory write-downs at the end of March of 2009 down from a year earlier, mostly as a result of lower inventory volumes and the improved unit manufacturing costs.

Markets

Demand for softwood lumber was depressed through the first quarter of 2009 as housing starts remained under significant downward pressure. Total U.S. housing starts were 523,000 units SAAR[9], a 20% decline from the previous quarter, and a 50% decline from the first quarter of 2008. Single family starts leveled out during the quarter, but were still down 23% compared to the previous quarter, and down 51% compared to the first quarter of 2008.

Although the inventory of new homes for sale continued to fall through the quarter, the months supply remained high due to the reduced rate of sales. Months supply averaged 11.5 months[9] for the first quarter of 2009, comparable to the previous quarter, and up 1.3 months compared to the first quarter of 2008. By the end of the quarter the months supply had fallen to 10.7 months. Existing home inventory levels were down compared to both the previous quarter and first quarter of 2008, and the average months supply fell slightly to 9.7[10] months.

Canadian housing starts declined in the first quarter of 2009 to an average of 148,000 units SAAR[11], down 37,000 units SAAR, or 20%, compared to the previous quarter, and down 88,000 units SAAR, or 37%, compared to the first quarter of 2008.

Offshore demand decreased substantially in the first quarter reflecting a decrease in total Japanese housing starts along with a sharp drop in 2x4 pre-fabricated houses. The decline in demand from Japan was partially offset by an increase in lumber shipped to China.

The substantial drop in demand for lumber products during the first quarter resulted in historic lows for Random Lengths SPF 2x4 #2&Btr pricing. Prices dropped to a low of US$134[12] per Mfbm during the quarter, the lowest point since the #2&Btr grade was implemented as the benchmark price in 1999.

Sales

Lumber sales for the first quarter of 2009 were down $86.6 million, or 24%, compared to the fourth quarter of 2008, and down $75.2 million, or 21%, compared to the first quarter of 2008.

Average prices for all grades and widths of SPF lumber were significantly lower compared to the prior quarter and first quarter of 2008. Lumber SPF prices, as measured by Western SPF 2x4 #2&Btr, were down US$35 per Mfbm, or 18%, compared to the previous quarter, and down US$50 per Mfbm, or 24%, compared to the first quarter of 2008. The fall in prices for SYP lumber was less severe, but still had a marked impact on results. Average prices for SYP lumber, as measured by 2x4 #2, were down US$23 per Mfbm, or 9%, compared to the previous quarter and down US$50 per Mfbm, or 18%, versus the comparative quarter last year. Canadian dollar sales realizations were positively impacted by a 3% decrease in the value of the Canadian dollar relative to the previous quarter, and a decrease of 19% compared to the same quarter a year ago.

The Random Lengths Framing Lumber Composite price averaged US$196 per Mfbm for the first quarter of 2009, down US$27 per Mfbm compared to the previous quarter, remaining well below the trigger price of US$315 per Mfbm required to reduce the export tax rate on all U.S. bound shipments below the current rate of 15%. The export tax refund of $10.8 million, recorded by the Company in the fourth quarter of 2008, was received in the first quarter of 2009. (The Third Country Adjustment claim, made under the Softwood Lumber Agreement, was for one-third of 15% export taxes paid for the quarters ended December 31, 2007 and March 31, 2008, and was based on year-over-year movements in the Canadian and U.S. market share of total U.S. consumption of softwood lumber products, and the share of U.S. consumption from imports not originating in Canada.)

Reflecting the significant slowdown in construction activity, shipments for the first quarter of 2009 were down 166 million board feet, or 17%, compared to the previous quarter and down 232 million board feet, or 23%, compared to the first quarter of 2008.

Total residual fibre revenue showed a marked decrease from the first and fourth quarters of 2008, as a result of significantly lower sawmill operating rates and sharply lower pulp prices in the current period.

[9] U.S. Census Bureau
[10] National Association of Realtors
[11] CMHC
[12] Random Lengths Publications

Operations

Lumber production for the first quarter was 764 million board feet, 106 million board feet, or 12%, lower than for the previous quarter and 225 million board feet, or 23%, less than for the same quarter in 2008. The Company took curtailment in the form of extended mill shutdowns, shorter work weeks and reduced shifts in the first quarter, in response to very slow sales activity. Production volumes in the first quarter of 2008 included the Chetwynd and Mackenzie sawmill operations, which were subsequently indefinitely idled in March and June of 2008 respectively.

Overall, the Company's unit manufacturing (log and conversion) costs were in line with the previous quarter. Compared to the first quarter of 2008, unit manufacturing costs were down 7%, mainly due to reduced operating and overhead costs and increased productivity.

Inventory write-downs at the end of March of 2009 were $62 million, up $24 million from $38 million at the end of 2008. For the most part, the increase reflected the seasonal build of log inventories in the B.C. Interior as well as lower sales realizations. Compared to one year earlier, total inventory write-downs were significantly lower, reflecting reduced log inventory levels and improved unit manufacturing costs, partly offset by lower sales realizations. The inventory write-down expense recorded for the first quarter of 2009 was $24 million, $9 million higher than the previous quarter, and $10 million lower than the first quarter of 2008.

Pulp and Paper[13]

Selected Financial Information and Statistics – Pulp and Paper

(millions of dollars unless otherwise noted)	**Q1 2009**	Q4 2008	Q1 2008
Sales	**$ 205.3**	$ 204.3	$ 242.1
EBITDA	**$ (5.0)**	$ 8.9	$ 45.1
EBITDA margin	**(2)%**	4%	19%
Operating (loss) income	**$ (17.3)**	$ (2.2)	$ 33.2
Average pulp price delivered to U.S. – US$[14]	**$ 673**	$ 787	$ 880
Average price in Cdn$	**$ 838**	$ 954	$ 884
Production – pulp (000 mt)	**270.0**	256.1	284.5
Production – paper (000 mt)	**28.4**	30.1	32.4
Shipments – Canfor-produced pulp (000 mt)	**276.6**	235.6	279.0
Pulp marketed on behalf of HSLP (000 mt)[15]	**70.9**	52.6	78.3
Shipments – paper (000 mt)	**25.2**	24.3	35.1

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

Overview

Operating income and EBITDA in the Pulp and Paper segment in the first quarter of 2009 were down $15.1 million and $13.9 million, respectively, compared to the fourth quarter of 2008, largely due to the major impact of the downturn in global demand for pulp and paper products. The erosion of NBSK and BCTMP pulp prices was offset partly by the moderately weaker Canadian dollar, lower freight and fibre costs, less scheduled maintenance downtime and less market curtailment in the current period.

Compared to the same quarter of 2008, operating income and EBITDA were down $50.5 million and $50.1 million respectively, reflecting the pronounced impact of the slump in demand and prices on the results of CPLP and Taylor Pulp. These factors, and to a lesser extent, costs associated with a scheduled maintenance outage at CPLP's Northwood pulp mill significantly outweighed the favourable impact on earnings from the much lower Canadian dollar, and reduced freight costs and fibre costs. The lower fibre costs reflected falling sawmill residual and whole log chip prices.

Markets

The global pulp market deteriorated further during the first quarter of 2009 resulting in lower global demand for pulp and paper products, reduced global shipments, higher producer inventories and continued pressure on prices.

The demand for market pulp has fallen largely due to reduced demand for printing and writing papers, the largest consuming segment of market pulp. According to the Pulp and Paper Products Council ("PPPC"), global demand for printing and writing papers decreased 18% for March 2009 year-to-date when compared to the same period in 2008.

For the first quarter of 2009, the World 20 producers reported a shipment-to-capacity ratio of 84%[16] for NBSK market pulp, compared to a ratio of 92% for the first quarter of 2008. For all chemical market pulp the ratio was 86% in the first quarter of 2009, compared to 90% in the first quarter of 2008. The World 20 NBSK market pulp shipments in the first quarter of 2009 were down 18%[16] compared to the same period in 2008, and down 9% for all chemical market pulp.

Pulp inventories are at high levels by historic standards. Producer softwood pulp inventories at the end of March 2009 were comparable with December 2008 at 40 days of supply[16], and 7 days higher than at the end of March 2008.

The price of market pulp has fallen with demand. In March of 2009, the price for NBSK settled in the U.S. and Europe at US$650 per tonne and US$580 per tonne respectively. In comparison, in December of 2008, prices were at US$735 per tonne and US$635 per tonne, for U.S. and Europe respectively, and in March of 2008, both markets were priced at US$880 per tonne.

Sales

Shipments of Canfor-produced pulp were up 17% compared to the previous quarter, as CPLP responded to the significant reduction in global demand by pursuing opportunities to sell into non-traditional markets, such as the tissue market, and offshore spot markets. Realized Canadian dollar NBSK and BCTMP pulp prices fell sharply in the quarter, as the steep drop in prices more than offset the moderately weaker Canadian dollar.

Compared to the first quarter of 2008, shipments of Canfor-produced pulp in the first quarter were at similar levels, with realized Canadian dollar prices down significantly, reflecting the sharp decline in NBSK and BCTMP pulp prices, partly offset by the decline in the Canadian dollar over the same period.

Operations

Pulp production for the first quarter of 2009 was 14,000 tonnes higher than the fourth quarter of 2008 due primarily to less market downtime and less scheduled maintenance outages, partly offset by lower operating rates related to cold weather. Lower unit manufacturing costs in the first quarter of 2009 reflected the higher production volumes, lower maintenance costs and lower fibre costs. The latter resulted from lower sawmill residual chip prices and the termination by CPLP of higher-cost whole log chipping initiatives.

After taking account of the fire at CPLP's Prince George Pulp and Paper Mill in January of 2008, production was down 15% compared to first quarter of 2008, primarily as a result of market curtailments at both CPLP and Taylor Pulp, and CPLP's Northwood pulp mill's scheduled maintenance outage in the current period. The impact of lower operating rates and costs associated with the scheduled maintenance outage was partly offset by reduced fibre costs resulting from lower sawmill residual and whole log chip prices.

Freight costs in US dollar terms showed moderate declines compared to the first and fourth quarters of 2008.

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

Unallocated and Other Items

(millions of dollars)	Q1 2009	Q4 2008	Q1 2008
Operating loss of Panels operations	**$ (9.4)**	$ (15.2)	$ (26.8)
Corporate costs	**$ (5.2)**	$ (6.0)	$ (5.0)
Interest expense, net	**$ (8.3)**	$ (7.7)	$ (5.3)
Foreign exchange loss on long-term debt and investments, net	**$ (12.9)**	$ (72.0)	$ (12.0)
(Loss) gain on derivative financial instruments	**$ (21.3)**	$ (81.7)	$ 6.0
Asset impairments	**$ -**	$ (99.6)	$ -
Gain on sale of mill property	**$ 44.6**	$ -	$ -
Prince George Pulp & Paper mill fire, net	**$ -**	$ (0.3)	$ 8.5
Other income, net	**$ 2.5**	$ 12.9	$ 1.3

The operating loss of the panels operations included the results of the Peace Valley OSB joint venture, which was significantly curtailed for part of the quarter, as well as ongoing costs related to the indefinite idling of the Tackama and PolarBoard plants. The operating loss in the fourth quarter of 2008 included severance costs resulting from indefinitely idling the Tackama mill in October. The results for the first quarter of 2008 included the North Central Plywoods ("NCP") mill (which has since closed due to a fire), and the Tackama and PolarBoard mills, both of which are now indefinitely idled.

Corporate costs were $5.2 million in the first quarter of 2009, down $0.8 million compared to the fourth quarter of 2008 due mostly to lower salaries and benefits. Costs were in line with the first quarter of 2008.

Net interest expense for the first quarter was $8.3 million, slightly higher then the net expense in the fourth quarter of 2008. The increase resulted from lower cash balances due to the current period's cash operating losses and funding of seasonally higher log inventories, partly offset by reduced interest expense following the March 1 debt repayment.

In the first quarter of 2009, the Company recorded a foreign exchange translation loss on its US dollar denominated debt, net of investments, of $12.9 million, as a result of a 2.2 cent, or 3%, decline in the value of the Canadian dollar against the US dollar over the quarter.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in natural gas and diesel costs, foreign exchange rates and lumber prices. In the first quarter of 2009, the Company recorded a loss of $21.3 million related to its derivative instruments. This was substantially due to the weakening of the Canadian dollar and losses on natural gas swaps. The following table summarizes the gain (loss) on derivative financial instruments for the comparable periods.

Gain (loss) on derivative financial instruments:

	3 months ended March 31,	
(millions of dollars)	**2009**	2008
Foreign exchange collars and forward contracts	**$ (10.8)**	$ (10.9)
Natural gas swaps	**$ (9.5)**	$ 14.3
Diesel options and swaps	**$ (1.4)**	$ 2.2
Commodity futures	**$ 0.4**	$ 0.4
	$ (21.3)	$ 6.0

On February 13, 2009, Canfor completed the sale of a property located at New Westminster, British Columbia, for net proceeds of $46.0 million. The property is the site of Canfor's former Panel and Fibre operation, which was permanently closed at the beginning of 2008. The transaction resulted in a pre-tax gain of $44.6 million ($37.8 million on an after-tax basis).

Net other income of $2.5 million in the first quarter of 2009 included a distribution of $2.9 million received from Seaboard General Partnership. The significant majority of other income of $12.9 million in the fourth quarter of 2008 reflected foreign exchange movements on US dollar denominated working capital of Canadian operations due to a sharp depreciation of the Canadian dollar in that quarter.

The Company's income tax recovery of $49.7 million for the first quarter of 2009 includes $7.3 million related to a 1% reduction in provincial corporate income tax rates substantively enacted during the quarter. A similar reduction was enacted in the first quarter of 2008, with an impact of $9.1 million.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	Q1 2009	Q4 2008	Q1 2008
Increase (decrease) in cash and cash equivalents	**$ (207.2)**	$ 28.2	$ (54.0)
Operating activities	**$ (127.0)**	$ 16.5	$ (6.1)
Financing activities	**$ (110.4)**	$ 8.1	$ (24.7)
Investing activities	**$ 30.0**	$ (0.8)	$ (23.2)
Foreign exchange gains (losses) on cash and cash equivalents of self-sustaining operations	**$ 0.2**	$ 4.4	$ -
Ratio of current assets to current liabilities	**1.9 : 1**	2.0 : 1	2.4 : 1
Ratio of net debt to capitalization	**21%**	15%	13%

Changes in Financial Position

Operating activities used $127.0 million of cash in the first quarter of 2009, compared to $16.5 million generated in the previous quarter, and $6.1 million used in the first quarter of 2008. The reduction compared to the previous quarter was due primarily to the combination of current period cash operating losses, the seasonal log inventory build ahead of spring break-up, and higher trade receivables, partly offset by a $31 million income tax refund. The lower cash outflow for operating activities in the first quarter of 2008 was primarily due to a higher tax refund of $119 million received in that quarter.

Financing activities used $110.4 million of cash in the first quarter of 2009, due substantially to the repayment of long-term debt of $99.7 million (US$77.3 million), a decrease in CPLP's operating loan of $7.6 million and cash distributions paid to non-controlling interests of $3.2 million.

Net cash generated by investing activities was $30.0 million in the first quarter of 2009. The Company's sale of its former Panel & Fibre mill property, which completed in February, resulted in net proceeds of $46.0 million. Capital spending for the quarter was $18.8 million.

In the fourth quarter of 2008 foreign exchange gains of $4.4 million on cash and cash equivalents of self-sustaining operations were recorded due to the weakening of the Canadian dollar through the period. The gains for the first quarter of 2009 were minimal reflecting lower cash balances and less significant movements in the exchange rate.

Changes in Equity

In addition to the $58.8 million net loss for the quarter which was charged to retained earnings, the Company recorded a credit to other comprehensive income of $3.1 million related to the foreign exchange translation adjustment on self-sustaining foreign subsidiaries, due substantially to the weaker Canadian dollar.

Liquidity and Financial Requirements

At March 31, 2009, the Company, on a consolidated basis, had cash and cash equivalents of $155.2 million and $506.1 million of bank operating lines of credit, of which $42.7 million was reserved for several standby letters of credit. Of CPLP's $75.0 million share of these operating lines, $17.6 million was drawn down at March 31, 2009. The Company's net debt to capitalization ratio at the end of the first quarter was 21%.

Included in the above bank operating lines of credit are two new operating loan facilities entered into on January 30, 2009 in the amounts of US$16.7 million ("Facility A") and US$43.7 million ("Facility B"). Facility A expires in January of 2012, with the option of four one-year extensions, and is non-recourse to Canfor, except for US$6.7 million. Facility B expires in January of 2011, with the option of five one-year extensions, and is non-recourse to Canfor under normal circumstances. The asset-backed commercial paper assets of the Company have been pledged as security to support these credit facilities.

On March 2, 2009 the Company repaid $99.7 million (US$77.3 million) of privately placed senior notes (US$45.0 million at 7.98% interest rate and US$32.3 million at 8.03% interest rate). Subsequent to the end of the first quarter, on April 1, 2009, the Company repaid a further $75.9 million (US$60.0 million) of privately placed notes at 5.66% interest rate.

At March 31, 2009, the Company had in place foreign exchange collar contracts for US$301.0 million, forward sale contracts for US$58.7 million and forward buy contracts for US$20.0 million, covering the period to December 2009. The collar contracts fix the Company's US dollar exchange rate between a minimum of CDN$0.98 and a maximum of CDN$1.12. The forward sale contract US dollar rates average between CDN$1.22 and CDN$1.29. The forward buy contract US dollar rates are between CDN$1.23 and CDN$1.28.

Settlement of NCP claim

On April 22, 2009, the Company reached a final settlement on its NCP insurance claim for gross proceeds of $65.5 million, less a deductible of $2.3 million, for net proceeds of $63.2 million. The Company had previously estimated net proceeds of $71.4 million from the claim, based on projected reconstruction costs and business interruption values. An after-tax charge of approximately $5.6 million ($0.04 per share) will be recorded in the second quarter of 2009 to reflect the final settlement. Under the terms of the settlement, there are no conditions attached to the use of the proceeds.

OUTLOOK

Lumber and Panel Markets

Lumber and panel markets are expected to remain near current low levels through the balance of 2009, as U.S. homebuilders continue to reduce their new home inventories. Further declines in housing inventories are still required before the U.S. housing market is expected to recover. Lumber consumption in Canada is also projected to remain under pressure as housing starts in Canada remain low compared to recent levels.

In addition, the demand for lumber in the North American repair and remodeling segment is also expected to remain relatively low in 2009 due to reduced home prices and economic uncertainty.

Lumber demand in Japan is also expected to remain low, though some stabilization is expected as government economic stimulus packages begin to take effect, and curtailments by producers help to balance supply and demand.

Pulp and Paper Markets

Pulp market conditions for the balance of 2009 are currently very difficult to forecast, principally due to rapidly changing supply and demand conditions in the market. The lower demand and prices experienced recently have resulted in numerous pulp mills in Canada and Scandinavia curtailing production in order to preserve cash and control inventories. These curtailments include temporary and permanent closures. Demand is projected to remain under pressure in the short term and possibly through the remainder of this year. The current balance of supply, demand, and the level of customer inventories, is allowing for some very modest price gains in Asian markets. However, a recent development in the U.S. allows certain pulp producers to receive tax credits by defining kraft black liquor as an "alternative fuel". This has the potential to significantly reduce the cost structures of those producers.

OUTSTANDING SHARES

At April 30, 2009, there were 142,589,297 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Section 3064, *Goodwill and Intangible Assets.* This section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets* and Section 3450, *Research and Development Costs*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new Standard, EIC 27, *Revenues and Expenditures During the Pro-operating Period,* is withdrawn and so various preproduction and start-up costs are required to be expensed as incurred. This Standard did not have a material impact on Canfor's consolidated financial statements.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Company has developed a conversion implementation plan to ensure that differences between Canadian GAAP and IFRS that affect Canfor are identified, and any required changes to accounting processes and controls (including information technology systems) are made in a timely manner to ensure a smooth transition on January 1, 2010.

The key elements of the conversion implementation plan are as follows:

Project Structure

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

Process and Timing

The process of converting to IFRS has been divided into a number of different stages, many of which will run concurrently. The planning phase has now been completed, as has an initial diagnostic. A detailed review of the impact of IFRS on Canfor's consolidated financial statements, and other areas of the Company, is underway.

It is currently anticipated that the detailed diagnostic will be completed by mid-2009. Any changes required to systems and controls (including information technology systems) will be identified as the project progresses; these are currently projected to be designed and tested by the end of the third quarter of 2009. The implementation of any significant changes to systems and controls, as well as related training, is currently scheduled for the second half of 2009.

A draft opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) is currently planned to be completed in the first half of 2010. Draft financial statements and disclosure information will be prepared for each quarter in 2010 (to be used for comparative purposes in 2011) and reporting under IFRS will commence for interim and annual periods in 2011.

Progress to Date

At March 31, 2009, the Company has completed the planning phase of the project and the initial diagnostic between Canadian GAAP and IFRS. While the effects of IFRS have not yet been fully determined, the Company has identified a number of key areas where it is likely to be impacted by changes in accounting policy. These include:

- Employee future benefits
- Property, plant, equipment and timber
- Intangible assets
- Impairment of assets
- Provisions, including deferred reforestation obligations and asset retirement obligations
- Presentation of financial statements, including presentation of minority interests

A detailed diagnostic is underway, and no decisions have yet been made with regard to accounting policy choices.

As a first-time adopter of IFRS, the Company is required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". A number of exemptions are available under this Standard which the Company is currently evaluating. The more significant exemptions include: recognizing through opening retained earnings all cumulative actuarial gains and losses on employee benefit plans, and cumulative translation adjustments on self sustaining operations; avoiding a retroactive restatement of previous business combinations under IFRS; and electing to use fair value at the transition date as deemed cost for capital assets in certain circumstances.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending March 31, 2009, 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 2008 annual statutory reports which are available on www.sedar.com or www.canfor.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Sales and income (millions of dollars)								
Sales	**$ 488.2**	$ 588.7	$ 668.0	$ 706.4	$ 648.5	$ 711.0	$ 837.4	$ 876.6
Operating (loss) income	**$ (124.2)**	$ (74.2)	$ 12.8	$ 20.8	$ (117.5)	$ (124.7)	$ (52.1)	$ (38.4)
Net (loss) income	**$ (58.8)**	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)	$ (237.0)	$ (42.1)	$ (38.8)
Per common share (dollars)								
Net (loss) income– basic and diluted	**$ (0.41)**	$ (1.61)	$ (0.66)	$ 0.45	$ (0.60)	$ (1.66)	$ (0.30)	$ (0.27)
Statistics								
Lumber shipments (MMfbm)	**791**	956	906	1,107	1,023	1,149	1,301	1,345
Plywood shipments (MMsf 3/8")	**-**	28	54	96	86	90	90	119
OSB shipments (MMsf 3/8")	**30**	56	91	153	164	166	162	168
Pulp shipments (000 mt)	**277**	236	284	289	279	308	307	309
Average exchange rate – US$/Cdn$	**$ 0.803**	$ 0.825	$ 0.960	$ 0.990	$ 0.996	$ 1.019	$ 0.957	$ 0.911
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 155**	$ 190	$ 263	$ 230	$ 205	$ 230	$ 260	$ 258
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 235**	$ 258	$ 289	$ 294	$ 285	$ 277	$ 273	$ 292
Average OSB price – North Central (US$)	**$ 154**	$ 172	$ 202	$ 174	$ 138	$ 165	$ 177	$ 156
Average NBSK pulp list price delivered to U.S. (US$)	**$ 673**	$ 787	$ 880	$ 880	$ 880	$ 857	$ 837	$ 810

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills, OSB plants, and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and summer months. These factors, along with global supply and demand conditions, affect the Company's shipment volumes. As indicated in the earnings overview, the global financial and credit crisis has adversely impacted the Company's results since late 2008.

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

After-tax impact, net of non-controlling interests (millions of dollars, except for per share amounts)	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net (loss) income, as reported	**$ (58.8)**	$ (229.8)	$ (94.2)	$ 64.2	$ (85.4)	$ (237.0)	$ (42.1)	$ (38.8)
Export tax refund	**$ -**	$ (7.1)	$ -	$ -	$ -	$ -	$ -	$ -
Restructuring, mill closure and severance costs	**$ 4.2**	$ 6.8	$ 3.6	$ 22.3	$ 2.6	$ 14.2	$ 7.3	$ 5.8
Foreign exchange loss (gain) on long-term debt and investments, net	**$ 9.1**	$ 52.2	$ 11.3	$ -	$ 8.7	$ 3.5	$ (5.1)	$ (10.2)
Loss (gain) on derivative financial instruments	**$ 12.4**	$ 50.3	$ 21.4	$ (14.5)	$ (2.7)	$ (3.5)	$ (6.9)	$ 3.7
Gain on sale of mill property	**$ (37.8)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
North Central Plywoods mill fire, net	**$ -**	$ -	$ -	$ (45.0)	$ -	$ -	$ -	$ -
Prince George Pulp & Paper mill fire, net	**$ -**	$ 0.2	$ -	$ -	$ (3.6)	$ -	$ -	$ -
Asset impairments	**$ -**	$ 74.1	$ 56.9	$ -	$ -	$ 189.1	$ 6.0	$ -
Corporate income tax rate reductions	**$ (7.3)**	$ -	$ -	$ -	$ (9.1)	$ (35.8)	$ (0.9)	$ (1.0)
Other items	**$ -**	$ -	$ -	$ -	$ -	$ (0.1)	$ (4.2)	$ (2.3)
Net impact of above items	**$ (19.4)**	$ 176.5	$ 93.2	$ (37.2)	$ (4.1)	$ 167.4	$ (3.8)	$ (4.0)
Net loss, as adjusted	**$ (78.2)**	$ (53.3)	$ (1.0)	$ 27.0	$ (89.5)	$ (69.6)	$ (45.9)	$ (42.8)
Net (loss) income per share (EPS), as reported	**$ (0.41)**	$ (1.61)	$ (0.66)	$ 0.45	$ (0.60)	$ (1.66)	$ (0.30)	$ (0.27)
Net impact of above items per share	**$ (0.14)**	$ 1.24	$ 0.65	$ (0.26)	$ (0.03)	$ 1.17	$ (0.03)	$ (0.03)
Net (loss) income per share, as adjusted	**$ (0.55)**	$ (0.37)	$ (0.01)	$ 0.19	$ (0.63)	$ (0.49)	$ (0.33)	$ (0.30)

Canfor Corporation
Consolidated Balance Sheets

(millions of dollars, unaudited)		**As at March 31, 2009**		As at December 31, 2008
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**155.2**	$	362.4
Accounts receivable				
Trade		**147.3**		105.9
Other (Note 2)		**74.1**		93.7
Income taxes recoverable		**35.8**		47.1
Future income taxes, net		**44.4**		31.2
Inventories (Note 3)		**453.8**		404.9
Prepaid expenses		**32.5**		35.1
Total current assets		**943.1**		1,080.3
Long-term investments and other (Note 4)		**122.1**		125.7
Property, plant, equipment and timber		**1,778.5**		1,798.5
Goodwill		**86.7**		85.7
Deferred charges		**111.0**		110.2
	$	**3,041.4**	$	3,200.4
LIABILITIES				
Current Liabilities				
Operating loans (Note 5 (a))	**$**	**17.6**	$	25.2
Accounts payable and accrued liabilities		**327.4**		322.9
Current portion of long-term debt (Note 5 (b))		**116.4**		168.3
Current portion of deferred reforestation obligation		**32.2**		32.5
Total current liabilities		**493.6**		548.9
Long-term debt (Note 5 (b))		**400.2**		428.7
Long-term accrued liabilities and obligations (Note 6)		**219.5**		208.8
Future income taxes, net		**225.4**		242.4
Non-controlling interests		**263.6**		276.8
	$	**1,602.3**	$	1,705.6
SHAREHOLDERS' EQUITY				
Share capital – 142,589,297 common shares outstanding	**$**	**1,124.7**	$	1,124.7
Contributed surplus		**31.9**		31.9
Retained earnings		**257.9**		316.7
Accumulated other comprehensive income		**24.6**		21.5
	$	**1,439.1**	$	1,494.8
	$	**3,041.4**	$	3,200.4

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

APPROVED BY THE BOARD

Director, R.L. Cliff

Director, J.F. Shepard

Canfor Corporation
Consolidated Statements of Loss

(millions of dollars, unaudited)		3 months ended March 31, 2009		2008
Sales	**$**	**488.2**	$	648.5
Costs and expenses				
Manufacturing and product costs		**444.0**		574.4
Freight and other distribution costs		**97.3**		115.1
Export taxes		**10.9**		13.4
Amortization		**39.6**		43.5
Selling and administration costs		**14.2**		15.8
Restructuring, mill closure and severance costs (Note 7)		**6.4**		3.8
		612.4		766.0
Operating loss		**(124.2)**		(117.5)
Interest expense, net		**(8.3)**		(5.3)
Foreign exchange loss on long-term debt and investments, net		**(12.9)**		(12.0)
(Loss) gain on derivative financial instruments (Note 13)		**(21.3)**		6.0
Gain on sale of mill property (Note 8)		**44.6**		-
Prince George Pulp & Paper mill fire, net		**-**		8.5
Other income, net		**2.5**		1.2
Net loss before income taxes and non-controlling interests		**(119.6)**		(119.1)
Income tax recovery (Note 10)		**49.7**		55.7
Non-controlling interests		**11.1**		(22.0)
Net loss	**$**	**(58.8)**	$	(85.4)
Per common share (in dollars) (Note 11)				
Net loss - Basic and Diluted	**$**	**(0.41)**	$	(0.60)

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

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

(millions of dollars, unaudited)	3 months ended March 31, 2009	2008
Consolidated Statements of Changes in Shareholders' Equity		
Share capital		
Balance at beginning and end of period	**$ 1,124.7**	$ 1,124.7
Contributed surplus		
Balance at beginning and end of period	**$ 31.9**	$ 31.9
Retained earnings		
Balance at beginning of period	**$ 316.7**	$ 692.5
Change in accounting for inventories	**-**	(30.6)
Net loss for the period	**(58.8)**	(85.4)
Balance at end of period	**$ 257.9**	$ 576.5
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**$ 21.5**	$ (32.0)
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**3.1**	7.2
Reclassification to income of losses on derivative instruments designated as cash flow hedges in prior periods	**-**	(0.2)
Balance at end of period	**$ 24.6**	$ (25.0)
Total shareholders' equity – Balance at end of period	**$ 1,439.1**	$ 1,708.1
Consolidated Statement of Comprehensive Loss		
Net loss for the period	**$ (58.8)**	$ (85.4)
Other comprehensive income (loss)		
Net change in foreign exchange translation adjustment on self-sustaining foreign subsidiaries	**3.1**	7.2
Reclassification to income of losses on derivative instruments designated as cash flow hedges in prior periods	**-**	(0.2)
Other comprehensive loss	**3.1**	7.0
Total comprehensive loss	**$ (55.7)**	$ (78.4)

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

Canfor Corporation
Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended March 31, 2009	2008
Cash generated from (used in)		
Operating activities		
Net loss for the period	**$ (58.8)**	$ (85.4)
Items not affecting cash:		
Amortization	**39.6**	43.5
Future income taxes	**(28.7)**	(32.1)
Long-term portion of deferred reforestation	**9.5**	16.3
Gain on sale of mill property (Note 8)	**(44.6)**	-
Prince George Pulp & Paper mill fire, net	**-**	(8.5)
Foreign exchange loss on long-term debt and investments, net	**12.9**	12.0
Unrealized loss (gain) on derivative financial instruments	**2.4**	(6.0)
Non-controlling interests	**(11.1)**	22.0
Other	**9.0**	6.1
Salary pension plan contributions	**(4.0)**	(2.9)
Net change in non-cash working capital (Note 12)	**(53.2)**	28.9
	(127.0)	(6.1)
Financing activities		
Repayment of long-term debt	**(99.7)**	(14.8)
(Decrease) increase in operating bank loans	**(7.5)**	3.8
Cash distributions paid to non-controlling interests	**(3.2)**	(13.6)
Other	**-**	(0.1)
	(110.4)	(24.7)
Investing activities		
Business acquisitions	**(0.9)**	-
Additions to property, plant, equipment and timber	**(18.8)**	(19.3)
Proceeds from disposal of property, plant and equipment	**46.2**	1.4
Partial proceeds from Prince George Pulp & Paper mill fire damage claim	**-**	6.2
Advances to affiliated companies	**-**	(11.5)
Interest received for restructuring period of asset-backed commercial paper	**3.5**	-
	30.0	(23.2)
Foreign exchange gain on cash and cash equivalents	**0.2**	-
Decrease in cash and cash equivalents	**(207.2)**	(54.0)
Cash and cash equivalents at beginning of period	**362.4**	295.5
Cash and cash equivalents at end of period	**$ 155.2**	$ 241.5
Cash payments (receipts) in the period		
Interest, net	**$ 5.1**	$ 5.2
Income taxes	**$ (30.7)**	$ (119.3)

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

Notes to the Consolidated Interim Financial Statements

(unaudited, in millions of dollars unless otherwise noted)

1. Significant Accounting Policies and Changes in Accounting Policies

(a) Basis of Presentation

These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor's Annual Report for the year ended December 31, 2008 available at www.canfor.com or www.sedar.com. These interim financial statements follow the same accounting policies and methods of computation as used in the 2008 consolidated financial statements, except as noted below.

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills, OSB plants, and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for solid wood products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

(b) Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Section: 3064 – "Goodwill and Intangible Assets". These requirements have been incorporated into the unaudited interim consolidated financial statements.

This Section replaced Section 3062 – "Goodwill and Intangible Assets" and Section 3450 – "Research and Development Costs", and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new Standard, EIC 27 – "Revenues and Expenditures During the Pre-operating Period" is withdrawn and so various pre-production and start-up costs are required to be expensed as incurred. No material adjustments were required on adoption of this new Standard.

2. Other Receivables

North Central Plywoods Mill Fire

Other receivables include $41.4 million related to a fire at the Company's North Central Plywoods ("NCP") facility in Prince George, British Columbia on May 26, 2008, which completely destroyed the mill. The mill is insured for equivalent replacement value. At the end of March 2009, the Company had not reached a final settlement with its insurer, and accordingly estimated a total insurance amount receivable of $71.4 million, based on projected reconstruction costs and business interruption values. At March 31, 2009, the Company had received advances of $30.0 million from the insurer which were offset against the recorded receivable.

On April 22, 2009, the Company reached a final settlement of this claim for gross proceeds of $65.5 million, less a deductible of $2.3 million, for net proceeds of $63.2 million. An after-tax charge of approximately $5.6 million ($0.04 per share) will be recorded in the second quarter of 2009 to reflect the final settlement. Under the terms of the settlement, there are no conditions attached to the use of the proceeds.

3. Inventories

(millions of dollars)	**As at March 31, 2009**	As at December 31, 2008
Logs	**$ 108.7**	$ 49.1
Lumber	**124.5**	118.7
Pulp	**84.7**	97.2
Paper	**23.0**	20.7
Panel products	**0.5**	1.5
Residual fibre	**20.5**	25.3
Processing materials and supplies	**91.9**	92.4
	$ 453.8	$ 404.9

The above inventory balances are stated after inventory write-downs from cost to net realizable value, which reflect historically low prices for solid wood products in both periods. Inventory write-downs at March 31, 2009 totaled $75.7 million (December 31, 2008 – $46.2 million).

4. Long-Term Investments and Other

(millions of dollars)	**As at March 31, 2009**	As at December 31, 2008
Non-bank asset-backed commercial paper	**$ 67.7**	$ 69.3
Other investments	**28.9**	28.9
Customer agreements	**22.3**	22.9
Other deposits, loans and advances	**3.2**	4.6
	$ 122.1	$ 125.7

On January 21, 2009 the final restructuring plan related to the non-bank asset-backed commercial paper ("ABCP") was completed.

5. Operating Loans and Long-Term Debt

(a) Operating Loans

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

On a consolidated basis, at March 31, 2009, the Company had $506.1 million of unsecured operating lines (December 31, 2008 – $430.0 million), of which $17.6 million was drawn down (December 31, 2008 – $25.2 million) and an additional $42.7 million was reserved for several standby letters of credit (December 31, 2008 – $41.4 million).

The Company's bank operating lines excluding CPLP were $431.1 million (December 31, 2008 - $355.0 million) of which $18.0 million (December 31, 2008 – $17.3 million) was reserved for several standby letters of credit, the majority of which relates to unregistered pension plans. Interest is payable at floating rates based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio. Other than Facility A and Facility B, the other bank operating lines, expire in June 2011.

CPLP's bank operating line was $75.0 million (December 31, 2008 – $75.0 million) of which $17.6 million was drawn down (December 31, 2008 – $25.2) and $24.7 million (December 31, 2008 – $24.1 million) was reserved for a standby letter of credit issued to BC Hydro in connection with a 15 year electrical cogeneration agreement. Interest is payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation and amortization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The bank operating line expires in November 2009.

(b) Long-Term Debt

On March 2, 2009, the Company repaid $99.7 million (US$77.3 million) of privately placed senior notes (US$45.0 million at 7.98% interest rate and US$32.3 million at 8.03% interest rate).

Subsequent to the end of the first quarter, on April 1, 2009, the Company repaid $75.9 million (US$60.0 million) of 5.66% interest rate privately placed senior notes.

6. Long-term Accrued Liabilities and Obligations

(millions of dollars)	**As at March 31, 2009**	As at December 31, 2008
Deferred reforestation obligation	**$ 72.6**	$ 63.1
Accrued pension obligations	**20.4**	20.0
Accrued pension bridge benefit obligations	**8.7**	8.7
Other post-employment benefits	**99.8**	98.3
Asset retirement obligations	**4.7**	4.7
Other	**13.3**	14.0
	$ 219.5	$ 208.8

7. 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 first quarter of 2009 amounted to $6.4 million and substantially resulted from the Company's indefinitely idled Mackenzie and Chetwynd lumber operations and PolarBoard and Tackama panel operations.

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

	3 months ended March 31,	
(millions of dollars)	**2009**	2008
Lumber	**$ 2.5**	$ 0.7
Unallocated and other	**3.9**	3.1
	$ 6.4	$ 3.8

The following table provides a reconciliation of the restructuring, mill closure and severance liabilities at March 31, 2009 and December 31, 2008:

(millions of dollars)	**As at March 31, 2009**	As at December 31, 2008
Accrued liability at beginning of period	**$ 23.3**	$ 29.8
Costs in the period [a]	**6.4**	39.8
Paid during the period	**(9.3)**	(46.3)
Accrued liability at end of period	**$ 20.4**	$ 23.3

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

8. Sale of Mill Property

On February 13, 2009, the Company completed the sale of a property located in New Westminster, British Columbia, for net proceeds of $46.0 million. The property was the site of the Company's former Panel and Fibre operation, which was permanently closed at the beginning of 2008. The sale transaction resulted in a pre-tax gain of $44.6 million ($37.8 million after-tax).

9. Employee Future Benefits Expense

	3 months ended March 31,	
(millions of dollars)	**2009**	2008
Defined benefit pension plans	**$ 3.5**	$ 0.8
Other employee future benefit plans	**3.0**	4.3
Defined contribution pension plans and 401(k) plans	**1.0**	0.9
Contributions to forest industry union plans	**3.7**	5.3
	$ 11.2	$ 11.3

10. Income Taxes

	3 months ended March 31,	
(millions of dollars)	**2009**	2008
Current	**$ 21.0**	$ 23.6
Future	**28.7**	32.1
	$ 49.7	$ 55.7

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

	3 months ended March 31,	
(millions of dollars)	**2009**	2008
Income tax recovery at statutory tax rate	**$ 35.9**	$ 36.9
Add (deduct):		
Non-controlling interests	**(3.3)**	6.8
Change in corporate income tax rates	**7.3**	9.1
Entities with different income tax rates and other tax adjustments	**1.2**	0.7
Tax recovery at rates other than statutory rate	**4.4**	3.8
Permanent difference from capital gains and losses and other non-deductible items	**4.2**	(1.6)
Income tax recovery	**$ 49.7**	$ 55.7

11. Net Loss Per Share

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares during the period using the treasury stock method. Under this method, proceeds from the potential exercise of stock options are assumed to be used to purchase 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,	
	2009	2008
Weighted average number of common shares	**142,589,297**	142,589,297
Incremental shares from potential exercise of options [a]	**-**	3,693
Diluted number of common shares [a]	**142,589,297**	142,589,297

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

12. Net Change in Non-Cash Working Capital

	3 months ended March 31,	
(millions of dollars)	**2009**	2008
Accounts receivable	**$ (34.4)**	$ (8.1)
Income taxes recoverable	**11.3**	96.1
Inventories	**(49.1)**	(83.0)
Prepaid expenses	**3.2**	1.9
Accounts payable, accrued liabilities and current portion of deferred reforestation obligation	**15.8**	22.0
	$ (53.2)	$ 28.9

13. 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, 2009, the fair value of outstanding commodity and exchange financial instruments was a net liability of $72.7 million (December 31, 2008 – net liability of $69.3 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 months ended March 31, 2009 and 2008:

	3 months ended March 31,	
(millions of dollars)	**2009**	2008
Foreign exchange collars and contracts	**$ (10.8)**	$ (10.9)
Natural gas swaps	**(9.5)**	14.3
Diesel options and swaps	**(1.4)**	2.2
Commodity futures	**0.4**	0.4
	$ (21.3)	$ 6.0

The following table summarizes the fair market value of the derivative financial instruments included in the balance sheet at March 31, 2009 and December 31, 2008:

(millions of dollars)	**As at March 31, 2009**	As at December 31, 2008
Foreign exchange collars and contracts	**$ (49.4)**	$ (53.2)
Natural gas swaps	**(14.8)**	(6.5)
Diesel options and swaps	**(8.7)**	(9.6)
Commodity futures	**0.2**	-
	(72.7)	(69.3)
Less: current portion	**(69.4)**	(67.5)
Long-term portion	**$ (3.3)**	$ (1.8)

14. Segmented Information [(a)]

Business Segment Information

(millions of dollars)		Lumber [(b)]	Pulp & Paper [(d)]	Unallocated & Other [(e)]	Elimination Adjustment		Consolidated
3 months ended March 31, 2009							
Sales to external customers	**$**	**277.3**	**205.3**	**5.6**	**-**	**$**	**488.2**
Sales to other segments [(c)]	**$**	**15.4**	**-**	**0.1**	**(15.5)**	**$**	**-**
Operating loss	**$**	**(92.3)**	**(17.3)**	**(14.6)**	**-**	**$**	**(124.2)**
Amortization	**$**	**23.5**	**12.3**	**3.8**	**-**	**$**	**39.6**
Capital expenditures	**$**	**12.5**	**6.3**	**-**	**-**	**$**	**18.8**
Identifiable assets	**$**	**1,484.8**	**884.8**	**671.8**	**-**	**$**	**3,041.4**
3 months ended March 31, 2008							
Sales to external customers	$	352.5	242.1	53.9	-	$	648.5
Sales to other segments [(c)]	$	24.5	-	1.3	(25.8)	$	-
Operating income (loss)	$	(118.8)	33.2	(31.9)	-	$	(117.5)
Amortization	$	25.8	11.9	5.8	-	$	43.5
Capital expenditures	$	9.9	9.3	0.1	-	$	19.3
Identifiable assets	$	1,581.4	971.6	839.5	-	$	3,392.5

(a) Operations are presented by product line.

(b) Sales for the first quarter include sales of Canfor-produced lumber of $217.3 million (three months ended March 31, 2008 – $279.8 million).

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

(d) Includes 100% of Canfor Pulp Limited Partnership and the Taylor Pulp Mill.

(e) Effective January 1, 2009, the operating results, capital expenditures and identifiable assets of the Company's panels business are no longer reported separately as an operating segment. With the exception of the Peace Valley OSB Limited Partnership, of which the Company owns a 50% share, all panel operations are currently indefinitely idled. Operating results, capital expenditures and identifiable assets of the panels business are now included in the Unallocated & Other segment. Sales of panels for the first quarter were $5.6 million (three months ended March 31, 2008 - $53.9 million).

Geographic Information

(millions of dollars)	3 months ended March 31, 2009	2008
Sales by location of customer		
Canada	**$ 81.4**	$ 133.7
United States	**253.4**	345.5
Europe	**35.6**	45.4
Far East and Other	**117.8**	123.9
	$ 488.2	$ 648.5

(millions of dollars)	**As at March 31, 2009**	As at December 31, 2008
Capital assets and goodwill by location		
Canada	**$ 1,675.8**	$ 1,697.9
United States	**189.3**	186.1
Far East and Other	**0.1**	0.2
	$ 1,865.2	$ 1,884.2

15. Comparative Figures

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