Canfor Corporation

Annual Information Form

Information in this Annual Information Form is as of March 21, 2005 unless otherwise indicated.

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FINANCIAL HIGHLIGHTS

Annual Financial Information

	2004[1]	2003[2,3]	2002
Sales and income (millions of dollars)			
Sales	$4,341.9	$2,662.6	$2,652.7
Net income	420.9	153.3	11.5
Cash flow (millions of dollars)			
Cash flow from operations[4]	$713.4	$(1.3)	$124.2
Per common share (dollars)			
Net income — basic	$3.45	$1.81	$0.07
Net income — diluted	3.22	1.65	0.07
Common shareholders' equity	12.68	11.71	10.27
Financial position (millions of dollars)			
Working capital[4]	$865.9	$254.2	$277.0
Total assets	4,028.1	2,447.3	2,328.0
Long-term debt	660.5	478.0	643.4
Common shareholders' equity	1,966.8	1,092.6	953.9
Additional information[5]			
Return on capital employed	19.8%	10.3 %	2.7%
Return on assets	13.4%	7.1 %	1.9%
Return on common shareholders' equity	28.8%	15.0 %	1.2%
Ratio of current assets to current liabilities	2.3:1	1.5:1	1.7:1
Ratio of net debt to common shareholders' equity	11:89	35:65	41:59
EBITDA (millions of dollars)[4,5]	$676.8	$107.0	$150.4
Capital expenditures (millions of dollars)[4]	$184.5	$123.5	$67.4
Number of employees at year-end[6]	7,794	5,478	5,618
Employment costs (millions of dollars)[6]	$649.6	$461.4	$455.4

Quarterly Financial Information

	2004[1]				2003[2,3]			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Sales and income (millions of dollars)								
Sales	$1,149.9	$1,228.9	$1,277.5	$685.6	$656.4	$685.0	$639.4	$681.8
Net income (loss)	43.7	201.6	143.6	32.0	34.1	80.1	(1.1)	40.2
Per common share (dollars)								
Net income (loss) — basic	0.31	1.52	1.08	0.37	0.40	0.97	(0.03)	0.48
Net income (loss) — diluted	0.31	1.40	1.00	0.34	0.37	0.86	(0.03)	0.43
Dividends paid	—	—	—	—	—	—	0.065	0.065

(1) Includes the results of Slocan Forest Products Ltd. ("Slocan") from April 1, 2004.

(2) The results of the B.C. Chemicals division have been reclassified as a discontinued operation. The division was sold on August 29, 2003.

(3) Includes the results of Daaquam Lumber Inc. from May 27, 2003.

(4) Prior years' have been restated to conform to the 2004 presentation. For information regarding changes in accounting policy, see the section of the Consolidated Financial Statements of Canfor Corporation (the "Company", and together with its subsidiaries, "Canfor") for the year ended December 31, 2004 entitled "Notes to the Consolidated Financial Statements — Changes in Accounting Policy", and the section of the Company's "Management's Discussion and Analysis of Financial Condition and Results of Operations 2004" entitled "Changes in Accounting Policies" which are incorporated by reference herein.

(5) For additional information regarding EBITDA and other definitions of financial terms used in this Annual Information Form., see the introductory paragraphs of the Company's "Management's Discussion and Analysis of Financial Condition and Results of Operations 2004" and the section entitled "Definitions of Selected Financial Terms", which are incorporated by reference herein.

(6) Excludes the Company's proportionate share of Howe Sound Pulp and Paper Limited Partnership (the "Howe Sound Partnership").

The following factors affect the comparability of the data in the above three-year summary of financial data.

2004

On April 1, 2004, Canfor completed the acquisition of all of the issued and outstanding shares of Slocan. Canfor's financial results from that date reflect the combined activities of both Canfor and Slocan. For additional information regarding the Slocan acquisition, see "Business of Canfor".

A $48.7 million foreign exchange gain on translation of U.S. dollar long-term debt is included in income.

Canfor's results were affected by $299.7 million of expenses related to the softwood lumber trade dispute — comprised of $280.3 million of countervailing duties ("CVD"), $9.9 million of anti-dumping duties ("ADD") and $9.5 million of legal and other costs.

Expenses totaling $36.5 million were recorded in the year for integration, restructuring and other mill closure costs. For additional information, see note 17 in "Notes to the Consolidated Financial Statements", which is incorporated by reference herein.

Canfor made capital contributions of $38.2 million to its oriented strand board ("OSB") joint venture with Louisiana-Pacific Canada Ltd. relating to the construction of an OSB mill in Fort St. John, British Columbia. At year-end, a limited partnership, Canfor-LP OSB Limited Partnership ("OSB LP"), was formed to carry on this joint venture.

Outstanding convertible subordinated debentures of $155 million were converted and 11,742,424 common shares were issued to the debenture holders. At the same time, the company commenced a normal course issuer bid to buy back up to 6,578,868 common shares for cancellation.

2003

On January 1, 2003, Canfor terminated the designation of its U.S. dollar revenue stream as a hedge against its U.S. dollar long-term debt repayments. Consequently, any exchange gains or losses on long-term debt after this date are recognized into income. Included in net income for 2003 is a $110.9 million foreign exchange gain on translation of U.S. dollar long-term debt.

Canfor's results were affected by $151.7 million of expenses related to the softwood lumber trade dispute — comprised of $134.3 million of CVD, $12.3 million of ADD and $5.1 million of legal and other costs.

On May 27, 2003, Canfor completed the acquisition of 100% of Daaquam Lumber Inc. ("Daaquam") and Produits Forestiers Anticosti Inc. ("Anticosti"). Daaquam is a lumber manufacturing company located in St. Just-de-Bretenières, Québec with an annual lumber capacity of 150 million board feet, and holds timbercutting rights in the surrounding region. Anticosti holds additional timber rights and has harvesting operations on Anticosti Island, Québec.

On August 29, 2003, Canfor completed the sale of B.C. Chemicals, a division of Canadian Forest Products Ltd., to a limited partnership owned by Chemtrade Logistics Income Fund ("Chemtrade") for $117.3 million.

Included in net income are future income tax savings arising from Canfor's share of the operating losses within the Howe Sound Partnership. This generated savings of $8.1 million of future income taxes in the year.

A gain of $23.8 million was recorded from the sale of Coastal Operations property.

Under changes to British Columbia forestry legislation in the spring of 2003, the Government of British Columbia reduced the allowable annual cut ("AAC") of most major forest tenureholders in the province of British Columbia by 20%.The allcation of the take-back among the tenures held by Canfor under this legislation was determined by the Government and Canfor in December 2004 and will become effective in three principal stages, in December 2004, March 2005 and March 2006. The amount of compensation to be paid by the Government to Canfor for the take-back has not yet been determined. See "Wood Supply — Timber Resources" below. Unless otherwise indicated, specific references to Canfor's AAC in the Province of British Columbia in this Annual Information Form are based on the actual AAC of Canfor for the period indicated, without reduction to recognize the impact of the take-back.

2002

The softwood lumber trade dispute with the United States continued throughout the year, with Canfor incurring related expenses of $116.5 million — comprised of $107.6 million of combined CVD and ADD and $8.9 million of legal and other costs incurred to support the position of Canfor and the Canadian lumber industry. Partially offsetting this was the reversal of $45.8 million of combined CVD and ADD (recorded in 2001) due to a ruling by the International Trade Commission ("ITC") that determined that Canadian lumber shipm--ents pose only a threat of injury to the U.S. industry.

A gain of $11.4 million was recorded from the sale of the former Eburne sawmill property.

Included in net income are future income tax savings arising from Canfor's share of the operating losses within the Howe Sound Partnership. This generated savings of $8.0 million of future income taxes in the year.

A provision of $33.1 million was recorded to reflect the Company's Cost Reduction / Margin Improvement ("CRMI") Program, comprised of termination benefits totaling $25.8 million and $7.3 million for mill closure related costs. For additional information, see "Business of Canfor".

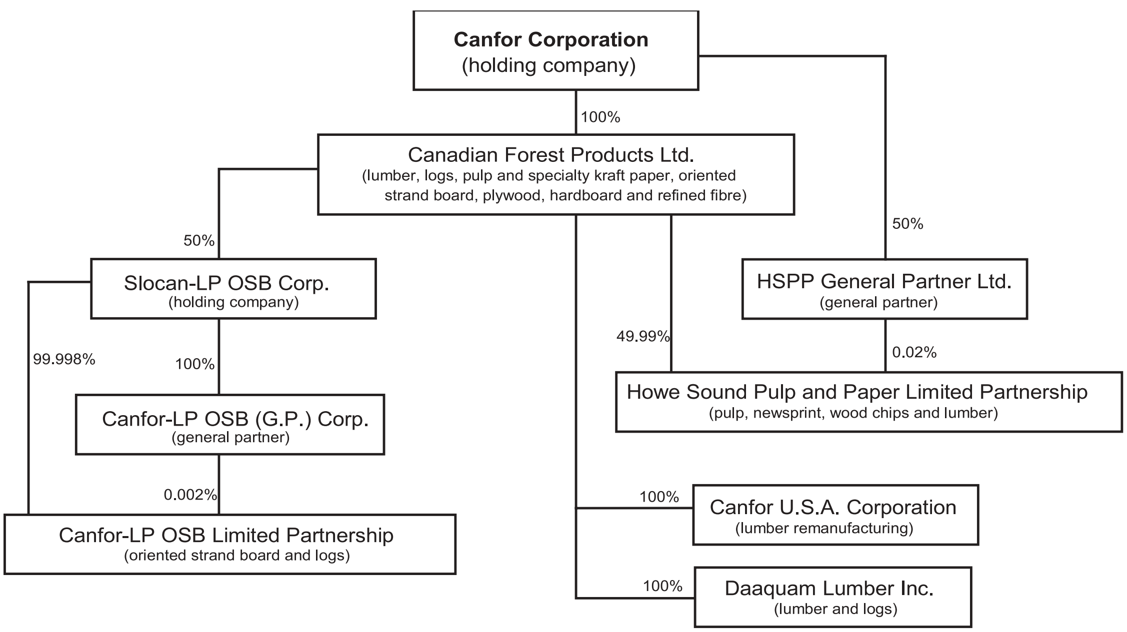
INCORPORATION

The Company was incorporated on May 17, 1966, under the British Columbia Company Act as part of a reorganization of predecessors of the Canfor group of companies, the first of which commenced operations in 1938. The Company is now governed by the British Columbia *Business Corporations Act*, which replaced the Company Act in March, 2004. In July 1983, Canfor became a public company and the Common Shares of the Company are listed and traded on the Toronto Stock Exchange.

The registered and head office of the Company is located at 100-1700 West 75th Avenue, Vancouver, British Columbia. In this Annual Information Form, Canfor Corporation is referred to as the "Company" and, unless otherwise indicated by the context, "Canfor" refers to the Company and its subsidiaries.

CORPORATE STRUCTURE

The following chart shows the Company's material subsidiaries and its interest in Howe Sound Partnership and OSB LP, their primary products or activities and the percentage of voting securities or ownership held. All of these companies were incorporated under the laws of British Columbia and are now governed by the *British Columbia Business Corporations Act*, except Canfor U.S.A. Corporation, which is constituted under the Washington *Business Corporation Act*, Howe Sound Partnership and OSB LP, which are constituted under the *Partnership Act* of British Columbia and Daaquam, which is constituted under the laws of Québec.



Canfor completed the acquisition of all the shares of Slocan on April 1, 2004. On that same day, Slocan was amalgamated with Canfor's principal operating subsidiary, Canadian Forest Products Ltd., with the continuing entity being called Canadian Forest Products Ltd. as identified in the chart above. Unless otherwise stated in this Annual Information Form, the results of Slocan's operations have been included in the Company's financial information since April 1, 2004.

With its partner Louisiana-Pacific Canada Ltd., Canfor holds a 50% interest in OSB LP, which is a joint venture to build and operate an OSB plant in Fort St. John, British Columbia, which is scheduled to begin operations in 2005.

Canfor also holds a 20.62% interest in Fibreco Export Inc., a company specializing in the sales, marketing and trading of hardwood and softwood wood chips.

In addition, Canfor has a minority interest in Seaboard General Partnership ("Seaboard"), formerly known as Seaboard Shipping Company Limited. Seaboard, which is owned by a group of British Columbia forest products companies including Canfor, ships Canfor's lumber to overseas customers.

The Company, through a wholly owned holding company, holds a one-third interest in each of Lakeland Mills Ltd. ("Lakeland") and The Pas Lumber Company Ltd. ("The Pas"). Lakeland and The Pas operate sawmills in the Prince George region of British Columbia and sell their wood chips to Canfor's Prince George pulp and paper operations.

Canfor's 50% interest in Howe Sound Partnership was originally held through its interest in Howe Sound Pulp and Paper Limited ("HSPP") and was written off in 1998 after management of the Company determined that Canfor would not recover its investment in HSPP. As a result of this write-off, Canfor no longer accounts for its interest in Howe Sound Partnership. See "Howe Sound Pulp and Paper Limited Partnership".

BUSINESS OF CANFOR

Canfor is a Canadian integrated forest products company based in Vancouver, British Columbia, employing approximately 7,800 people in its wholly owned forest products and affiliate operations (excluding Howe Sound Partnership). As a result of the combination with Slocan, Canfor is now the largest spruce-pine-fir ("SPF") lumber producer in North America, with production facilities in British Columbia, Alberta, Québec and the United States with an annual production capacity of 5.2 billion board feet of lumber, 440 million square feet of plywood (3/8 inch basis), 510 million square feet of OSB (3/8 inch basis), 1.2 million tonnes of pulp and 142,000 tonnes of kraft paper, together with approximately 14 million cubic metres of annual harvesting rights under its forest tenures, prior to the 20% take-back of AAC in the Province of British Columbia discussed below. See "Wood Supply – Timber Resources". Canfor's products also include remanufactured and finger-jointed lumber, newsprint, hardboard, refined fibre and logs. Canfor's products are exported primarily to the United States, Europe and the Far East. Canfor maintains wood products sales offices in Vancouver and Toronto, Canada and Tokyo, Japan and pulp and paper sales offices in Vancouver, Canada; Brussels, Belgium; and Tokyo, Japan and is represented by sales agents serving various other markets around the world.

Business Combination

On April 1, 2004, Canfor and Slocan completed the combination of their businesses pursuant to a plan of arrangement. Under the arrangement, Canfor acquired all of the issued and outstanding shares of Slocan in exchange for the issuance of approximately 49.3 million Canfor shares to Slocan shareholders on the basis of 1.3147 Canfor shares for each Slocan share held by them, representing a value of $9.18 per share.

At the time of the combination, Slocan owned and operated 10 sawmills, a plywood plant, an OSB plant, a chemi-thermal mechanical pulp mill and a lumber remanufacturing and finger jointing facility within the Province of British Columbia, as well as holding timber harvesting rights through the interior of the Province. Slocan's major products were lumber, pulp, plywood and OSB with combined total annual production capacities from these facilities of approximately 1.9 billion board feet of lumber, 265 million square feet (3/8 inch basis) of plywood, 900,000 bone-dried units of wood chips, 510 million square feet (3/8 inch basis) of OSB and 220,000 tonnes of chemi-thermo mechanical pulp ("CTMP"). Slocan was amalgamated with Canadian Forest Products Ltd., Canfor's principal operating subsidiary, on April 1, 2004.

In order to address the concerns of the federal Commissioner of Competition under the *Competition Act (Canada)* regarding the potential impact of the combination of Canfor and Slocan on competition, Canfor entered into a Consent Agreement, as required by the Commissioner, pursuant to which the Company was directed to divest the sawmill located at Fort St. James, British Columbia and certain associated harvesting rights. On December 22, 2004, Canfor entered into a sale agreement with Pope & Talbot Ltd. for the sale of the Fort St. James division for $39 million, plus the value of inventory, which will be determined at closing. The transaction will include the transfer to Pope & Talbot Ltd. of annual harvesting rights of 640,000 cubic metres. The transaction is subject to the consent of the Commissioner and other customary approvals, filings and conditions, and is expected to be completed in the second quarter of 2005.

For further information regarding the combination with Slocan, see the Company's material change reports dated December 1, 2003 and April 1, 2004, copies of which are available on SEDAR (System for Electronic Data Analysis and Retrieval) at www.sedar.com, and which are incorporated by reference herein.

General Development

In order to maximize shareholder value in the last three financial years ending December 31, 2004, Canfor has pursued a three-part strategy of:

- focusing on core business strengths that will support strong and sustainable profitability in a competitive market place;
- overhauling operating profitability to require each strategic business group to exceed financial targets; and
- implementing an active program of mergers, acquisitions and divestitures to accelerate the realization of strategic and shareholder value objectives.

During the past three years, Canfor has invested $561.6 million in corporate acquisitions and strategic alliances, $376.4 million in capital expenditures and $10.9 million in research and development. In addition, Canfor has added new products and rationalized some of its operations. The thrust of these activities has been to:

- create a world-class independent forest products company;
- provide an enhanced ability to compete more effectively on a global basis;
- substantially increase Canfor's market capitalization and liquidity;
- increase productive capacity, improve product quality and production efficiency, increase yield, improve product mix and reduce operating costs; and
- focus on its core businesses to improve overall profitability.

The most significant of these activities over the past three years have been the following:

- the acquisition of Daaquam and Anticosti in Québec, in May 2003;
- the sale of the B.C. Chemicals division to Chemtrade in August 2003 for $117.3 million;
- the closure of the Upper Fraser and Taylor sawmill operations during the third quarter of 2003;
- the sale of real property from the Coastal Operations in December 2003;
- the combination with Slocan in April 2004;
- the entry into an agreement to sell the Fort St. James division to Pope & Talbot Ltd. in December 2004, with anticipated completion in the spring of 2005; and
- the announcement of the closure of the Hines Creek sawmill operation and the Specialty mill at Quesnel in late 2004.

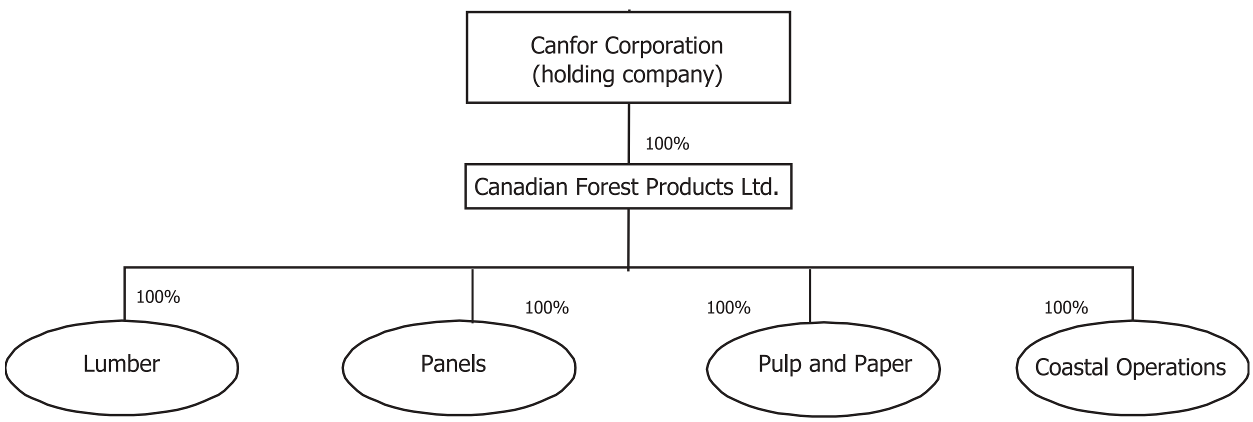
Trends, Events and Risks and Uncertainties

For additional information regarding changes to the Company's business expected in 2005 and known trends, commitments, events or uncertainties, see the Company's "Management's Discussion and Analysis of Financial Condition and Results of Operations 2004", in particular, the "Outlook" and "Risks and Uncertainties" portions thereof, which are incorporated by reference herein.

Business Segments

With the combination of Slocan's operations as of April 1, 2004, the business segments previously reported by Canfor have been changed to better reflect the combined company's business. Canfor's lumber, plywood and panel and fibre operations were formerly reported in the "Wood Products" segment, which has now been separated into "Lumber" and "Panels". The Lumber segment includes Canfor's sawmill and remanufacturing operations and the Panels segment includes Canfor's OSB, plywood and Panel and Fibre operations. The Pulp and Paper segment now includes the Taylor pulp operation and the Coastal Operations segment is unchanged.

The following chart outlines Canfor's wholly owned business segments and their respective principal operations:



- 19 sawmills in British Columbia, two in Alberta and one in Québec, with an annual productive capacity of 5.2 billion board feet
- Finger-jointing and lumber remanufacturing operations
- Woodlands operations with an allowable annual cut of 12.7 million m^3 (11.6 million m^3 in British Columbia) (1)
- Lumber and plywood marketing

- Two plywood mills with an annual production capacity of 440 million square feet (3/8" basis)
- OSB mill with an annual production capacity of 510 million square feet (3/8" basis)
- Panel and Fibre operation
- 50% interest in OSB LP mill under construction

- Intercontinental Pulp and Northwood Pulp mills
  Annual capacity:
  Kraft pulp – 859,200 tonnes
- Prince George Pulp & Paper mill
  Annual capacity:
  Kraft pulp – 136,700 tonnes
  Kraft paper – 142,000 tonnes
- Taylor Pulp mill
  Annual capacity:
  CTMP pulp – 220,000 tonnes
- Pulp and specialty kraft paper marketing

- Englewood & Mainland logging operations
- Allowable annual cut of 1.5 million m^3 (1)
- Coast Fibre Supply operation

Note:

(1) Does not reflect a reduction to Canfor's allowable annual cut of 2.37 million cubic metres under changes to British Columbia forestry legislation in the Spring of 2003, pursuant to which the Government of British Columbia reduced the allowable annual cut of most major forest tenureholders in the province of British Columbia by 20%. The allocation of the take-back among the tenures held by Canfor under this legislation was determined by Canfor and the Government in December, 2004 and will become effective in three principal stages in December 2004, March 2005 and March 2006. The amount of compensation to be paid by the Government for such take-back, has not yet been determined. See "Wood Supply - Timber Resources" below.

The following table sets forth, by business segment, Canfor's sales revenues from its wholly owned operations for the last two years:

	Year ended December 31	
	2004	2003
	(millions of dollars)	
Lumber	$2,881.1	$1,566.9
Panels	373.4	122.8
Pulp and Paper	981.7	853.4
Coastal Operations	105.7	119.5
Total sales	$4,341.9	$2,662.6

The following table indicates the composition of Canfor's consolidated sales revenues by market for the last two years:

	Year ended December 31	
	2004	2003
Canada	20	21
United States	61	55
Europe	7	10
Far East and other	12	14
Total	100%	100%

The foregoing two tables include the results of Slocan from April 1, 2004 and from Daaquam and Anticosti from May 27, 2003, the dates of completion of the combination with or acquisition of those companies.

WOOD SUPPLY

Timber Resources

Canfor harvests timber under forest tenures held by it in British Columbia, northern Alberta and southern Québec, and has a total AAC of approximately 14.2 million cubic metres. This does not reflect reductions to Canfor's AAC in British Columbia by 2.37 million cubic metres (including reductions under tenures formerly held by Slocan) in the Spring of 2003 as a result of the significant changes described below to legislation governing the British Columbia forest industry, which reductions will come into effect in December 2004 (as to 319,919 cubic metres), March 2005 (as to 1,632,195 cubic metres), December 2005 (as to 45,652 cubic metres) and March 2006 (as to 371,858 cubic metres). Notwithstanding these reductions, Canfor's fibre base continues to be one of the largest in Canada.

Canfor's wood fibre requirements are also met by open market purchases and exchanges on either a spot or contract basis. Canfor holds several types of forest tenures in the province of British Columbia, Alberta and Québec, which permit the harvesting of Crown timber.

The following table sets forth Canfor's timber resources as at December 31, 2004:

	Productive Area[1] (hectares)	Allowable Annual Cut[1] (cubic metres)
British Columbia		
Tenures having regulated sustained yields[2]		
Area-based — Tree Farm Licences[3]	1,002,682	2,041,624
Volumebased — Forest Licences (replaceable)	N/A	10,476,539
— Forest Licences (non-replaceable)	N/A	460,000
Tenures without regulated sustained yields		
Timber Licences[4]	2,200	120,000
Crown Granted Land (fee simple)[5]	139	N/A
Alberta		
Tenures having regulated sustained yields		
Forest Management Agreement	331,187	630,400
Timber Quotas	N/A	212,281
Québec		
Tenures having regulated sustained yields		
Forest Management Agreement	N/A	190,000
Timber Supply and Forest Management Agreement	N/A	38,300
Total	1,336,208	14,169,144

Notes:

(1) Does not include the reduction by 2.37 million cubic metres of Canfor's allowable annual cut in British Columbia described below.

(2) For an explanation of "regulated sustained yields", see the section entitled "Forest Management" below.

(3) Comprised of TFL 3 (Little Slocan), TFL 18 (Clearwater), TFL 30 (Sinclair), TFL 37 (Nimpkish) and TFL 48 (Chetwynd).

(4) Total inventory volume of 642,000 cubic metres to be depleted over the next six years.

(5) Total inventory volume of 66,000 cubic metres to be harvested as needed.

Note: N/A denotes Not Applicable.

In addition, Canfor augments its companyowned tenures through contractual rights to purchase logs by way of business relationships with First Nations and other licensees.

The Province of British Columbia owns approximately 95% of all timberlands in the province. Pursuant to the provisions of the Forest Act (British Columbia) ("Forest Act"), the Minister of Forests (the "Minister") is empowered to grant various forms of tenure and to regulate forestry operations.

A Tree Farm Licence ("TFL") requires a licensee to undertake to manage an area of Crown forestland, often in combination with other forestland held by the licensee, to yield an annual cut on a regulated sustained yield basis. TFL's are granted for a 25-year term and, subject to satisfactory levels of performance, will be replaced every five to ten years with a new TFL having a 25-year term. Canfor's TFL's have all been replaced for a 25-year term: TFL 48 (Chetwynd) in 1998, TFL 30 (Sinclair) and TFL 37 (Nimpkish) in 2000, TFL 18 (Clearwater) in 2001 and TFL 3 (Little Slocan) in 2002.

A Forest Licence is a volumebased tenure which authorizes a right to harvest a specified volume of timber each year within a particular timber supply area ("TSA") and generally provides for 15-year terms. These licences may be replaced every five to ten years for further 15-year terms, subject to satisfactory levels of performance. Canfor holds 21 replaceable Forest Licences, all of which were replaced between 1998 and 2003. In 2003, the Government of the Province of British Columbia passed legislation that has delayed the further replacement of all Forest Licences in B.C. until the provincial process for consultation and accommodation of First Nations has been completed. Canfor holds three non-replaceable Forest Licences, one expiring in each of 2006, 2008 and 2010. Canfor also holds two non-replaceable Forest Licences under joint venture agreements with West Moberley First Nations which licences expire in 2023. Timber Licences are a non-renewable form of tenure, which the licensee surrenders to the Crown after the timber, to which the licence applies, has been harvested and silviculture obligations have been fulfilled.

In addition, Canfor has five Pulpwood Agreements with the Province of British Columbia which grant a holder the right to obtain licences to harvest up to a specified volume of timber within a particular geographic area, subject to certain conditions. Canfor has the right, if necessary, to supply the requirements of its three pulp mills at Prince George under Pulpwood Agreement No. 1, which expires in 2018, Pulpwood Agreement No. 3, which expires in 2020, and Pulpwood Agreement No. 7, which expires in 2022. None of these Pulpwood Agreements are replaceable under the *Forest Act* and Canfor has not needed to access timber under these or their predecessor agreements since 1976. Canfor also has the right under Pulpwood Agreements No. 12 and 14, to up to 500,000 cubic metres of deciduous timber per year in the Fort St. John Timber Supply Area in connection with the Taylor Pulp Mill and the OSB mill being constructed in Fort St. John by OSB LP and up to 610,000 cubic metres of deciduous timber per year in the Fort Nelson Timber Supply Area in connection with the Company's existing OSB mill in Fort Nelson.

For each Forest Licence and TFL, an AAC is determined. The actual cut in any one year may vary from year to year provided that the actual cut over a five-year period does not exceed 110% of the aggregate AAC for that period. As required by the *Forest Act*, the provincial Chief Forester determines the AAC for each TFL and the total AAC in each TSA (which affects the AAC of Forest Licences in that TSA) in the Province. The Chief Forester is required to repeat such determination every five years, but has the option of postponing a redetermination for a period of up to ten years after the last determination if he concludes that the AAC will not change significantly from the previous determination. The AAC reflects harvesting practices in the previous five years, timber conditions, regional and local economic and social interests and environmental considerations for these licences and areas.

In March 2003, the Government of British Columbia introduced its *Forestry Revitalization Plan* and related legislation that provided for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan included the elimination of minimum cut control requirements, the elimination of existing timber processing requirements and the elimination of restrictions limiting the transfer and subdivision of existing licences. Previously, the *Forest Act* provided for a 5% reduction in AAC upon the change of ownership or control of certain forest tenures. In addition, the prior *Forest Act* provided that, unless the consent of the Minister was obtained in connection with a change of control of a holder of a Crown timber tenure or a transfer of a tenure by a holder, the Minister could cancel all Crown timber tenures of such holder without compensation or may deem consent to have been given and impose a range of requirements and conditions. Under the Plan, the government's consideration of changes of control or tenure transfers is now limited to the impact of such changes or transfers on competition in the standing timber markets, log markets or chip markets. *The Forestry Revitalization Plan* also provided that licensees, including Canfor, were required to return 20% of their replaceable tenure to the Crown, approximately half of which would be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half would be available for public auction. Although licensees are to be fairly compensated for the return of tenure and related infrastructure costs such as roads and bridges, the amount of compensation payable to Canfor has not yet been determined.

The effect of the timber take-back will result in a reduction of approximately 2.37 million cubic metres to Canfor's existing AAC on its replaceable tenures. Canfor and the Government have agreed on the licences and operating areas to which the take-back will apply, and that the reductions will become effective in December, 2004 (as to 319,919 cubic metres), March, 2005 (as to 1,632,195 cubic metres), December 2005 (as to 45,652 cubic metres) and March 2006 (as to 371,858 cubic metres). Canfor does not expect that the take-back, as identified, will adversely affect its ability to obtain adequate timber supplies for its operations or materially affect the costs of obtaining those supplies.

In northern Alberta, Canfor has a Forest Management Agreement ("FMA" #9900037) under which it undertakes to manage a designated area of Crown forestland. This FMA was renewed in 1999 for a 20-year period. In June 2003, the Government of Alberta approved the Detailed Forest Management Plan for the FMA and determined the coniferous AAC for the term of the FMA (1999-2019) to be 630,400 cubic metres.

The Province of Alberta also grants Timber Quotas having terms of 20 years and containing provisions for renewal. These quotas are intended to provide a continuous supply of timber in perpetuity. As a result of the amalgamation of forest management units by the Province of Alberta during 2004, Canfor now has two Timber Quotas, which expire in 2021 and 2024 respectively.

Canfor's regulated sustained yield tenures in Alberta specify an AAC and an aggregate allowable cut over a five-year period. The actual cut during each five-year period must be at least 60% of the aggregate specified for that period for the tenure to remain in good standing. Canfor would be subject to significant levies if its production were to exceed 110% of the aggregate allowable cut for that period.

In the Province of Québec, the Minister of Natural Resources, Wildlife and Parks has a number of tools for allocating timber harvesting rights and associated forest resource management responsibility. They include Timber Supply and Forest Management Agreements ("TSFMA") and Forest Management Agreements ("FMA"). Both require the agreement holder to fulfill management obligations similar to those in British Columbia in regards to planning, monitoring, and reporting activities. A TSFMA is a volumebased agreement that authorizes an owner of a wood processing mill to harvest an annual amount of volume from a specified timber supply area. A licence holder is evaluated based on the collective forest management and environmental performance of all operators within the timber supply area and on the effective utilization of the allocated volume by the individual mill owner. An FMA is a volume based agreement by which a single licensee is responsible for the management of a forest reserve where no TSFMA or Forest Management Contracts ("FMC") have been granted.

Canfor acquired Daaquam and Anticosti , two lumber and timber harvesting companies based in Québec in May, 2003. Anticosti has woodlands and harvesting operations on Anticosti Island located in the Gulf of St. Lawrence and holds a FMA with an AAC of 190,000 cubic metres. The timber is sold on a market price basis with Daaquam having first right of refusal on 65,000 cubic metres. Daaquam maintains a TSFMA near Saint Just-de-Bretenières with an annual harvest allocation of 38,300 cubic metres. The Company secures an additional volume of wood for its Québec operations through procurement contracts with suppliers in Ontario, Québec and the U.S.

Canfor is in substantial compliance with the harvesting terms of all of its tenure agreements in British Columbia, Alberta and Québec.

In 1998, Canfor's Chetwynd operation and the West Moberly First Nation were jointly offered a 20-year non-replaceable Forest Licence with an AAC of 100,000 cubic metres in the Dawson Creek TSA. Canfor's Fort St. John operation and the West Moberly First Nation were also offered a 20-year non-replaceable Forest Licence with an AAC of 150,000 cubic metres in the Fort St. John TSA. The awarding of these licences was conditional upon Canfor adding to its sawmilling capacity in the region, forming a partnership with the West Moberly First Nation for the forest management of these licences and forming alliances to supply lumber to secondary manufacturers in the region. During 1999, Canfor approved a capital investment program to modernize and increase the mill capacity of the Chetwynd sawmill. The Chetwynd mill expansion was completed in 2000. In 2001, Canfor negotiated joint venture agreements with the West Moberly First Nation for both licences. In 2003, Canfor completed similar improvements to the Fort St. John sawmill. The provincial government subsequently issued Forest Licences for each tenure in 2003, which became effective February 12, 2003 for the Forest Licence in the Dawson Creek TSA and January 1, 2004 for the Forest Licence in the Fort St. John TSA.

Mountain Pine Beetle

The mountain pine beetle continues to pose a significant threat to the lodgepole pine forests in the interior regions of British Columbia. A significant portion of this infestation is within Canfor's operating areas. Lodgepole pine accounts for 25% of the total timber volume harvested in British Columbia and more than 50% of the total timber volume harvested by Canfor.

The mountain pine beetle infestation in British Columbia now impacts approximately 280 million cubic metres of lodgepole pine and has spread at a rate that has averaged over 60% per year for the last four years. The Quesnel, Prince George, Morice and Lakes TSA's, all integral to Canfor manufacturing facilities, continue to be the most heavily impacted. In addition, the infestation also impacts at least seven other TSA's in which Canfor operates including the Kamloops, Mackenzie, and Dawson Creek TSA's. Although the levels of attack and the rate of spread in the Dawson Creek TSA are relatively low it does present a risk to the Chetwynd operation. There is also a risk of entry of mountain pine beetle into Canfor's Alberta FMA area, which is approximately 40% lodgepole pine. This risk has resulted in a joint effort by Canfor, the Ministry of Forests, Weyerhaeuser and the Alberta Government to attempt to suppress the beetle in the Dawson Creek TSA.

Canfor is working with the Ministry of Forests and other operators in several areas to implement an aggressive program to mitigate the spread of infestation by redirecting planned timber development to infected regions over the next five years. This has resulted in nearly 85% of the wood supply to Canfor's Prince George area mills being from beetle infested wood.

The average diameter of affected lodgepole pine logs tends to be smaller than traditional harvests and does not match well with existing sawmill equipment in the Prince George region. This issue is being addressed through realignment of manufacturing facilities in the area to fit with the changing fibre supply. In the short-term, Canfor has undertaken major capital expenditures to realign its Prince George area manufacturing capabilities to accommodate the increase in fibre from beetle-infested logs. If the outbreak continues to spread, the potential implications for Canfor include an eventual reduced fibre supply, a change in lumber product mix, increased costs and a potential decrease in the quality of lumber and chips produced. The general consensus is that beetle-killed timber will remain merchantable for 5 to 15 years, depending on local site conditions.

The Provincial government's focus in Quesnel, Prince George, Morice and the Lakes TSA's has shifted to salvage of beetle-killed timber rather than on suppression activities. The Provincial Chief Forester has recently revised the AAC in the Quesnel, Prince George and the Lakes TSA's upward by approximately 4 million cubic metres to encourage salvage activities. Several new non-replaceable forest tenures will be advertised for those areas, inviting proposals for the use of this salvage volume. Eventually (10 to 20 years from now), the AAC in the affected TSA's will have to be reduced to counter-balance the current increases in AAC. The extent of these future reductions is unknown at this time.

Late in 2004 Canfor, in conjunction with the City of Prince George and local Ministry of Forests representatives, developed recommendations for a salvage strategy for affected lodgepole pine trees on provincial Crown land, city land and private property within the city limits. The Minister of Forests is expected to act on these recommendations in early 2005.

Aboriginal Issues

In 1997, the Supreme Court of Canada in the Delgamuukw decision confirmed the continued existence of Aboriginal title and rights to lands continuously used or occupied by Aboriginal groups. As a result, Aboriginal groups have claimed Aboriginal title and rights over substantial portions of British Columbia, including areas where Canfor's forest tenures are situated. This decision has added to uncertainty regarding property rights in Canada (including forest tenure and other resource rights), particularly in much of British Columbia and other areas where treaties have not been concluded with Aboriginal groups. Due to the complexity of Aboriginal title issues, Canfor does not expect the issues of Aboriginal title in British Columbia to be resolved in the near future.

In November 2004, the Supreme Court of Canada in *Haida v. British Columbia and Taku River v. British Columbia* confirmed that the duty to consult with Aboriginal Groups arises when the Crown has knowledge, real or constructive, of the potential existence of an Aboriginal right or title and contemplates conduct that might adversely impact it. Notably, the Court found that the duty to consult is a Crown obligation that does not extend to third parties such as forestry companies. While the Crown can delegate "procedural aspects" to third parties, legal responsibility rests with the Crown. Third parties cannot be held liable for the Crown's failure to consult. While the Crown is required to consult in good faith, Aboriginal consent is not required and Aboriginal groups do not have a veto over government decisions. While these decisions provide improved clarity regarding the duty to consult, it may take some time for other related issues regarding consultation and accommodation that were not addressed by the Court to be resolved and for governments and Aboriginal groups to respond and adapt to the Court's decisions. This may result in some continued uncertainty as further refinements of the duty to consult and accommodate are made. Canfor will continue to cooperate, communicate and exchange information and views with Aboriginal groups in order to foster good relationships and minimize risks to its tenures and operational plans and will continue to participate with the Province in its consultations with Aboriginal groups.

For additional information regarding Aboriginal issues, see the section of the Company's "Management's Discussion and Analysis of Financial Condition and Results of Operations 2004", in particular the section entitled "Risks and Uncertainties — Aboriginal Issues", which is incorporated by reference herein.

Forest Management

Canfor is responsible for all aspects of forest management on the lands within its TFL's in British Columbia. In Alberta, Canfor is responsible for all aspects of forest management on the lands covered by its FMA's except forest fire protection, which is a responsibility of the Province of Alberta. In Québec, Canfor is responsible for all aspects of forest management on lands specified within its FMC's. The lands held under TFL's, FMA's, FMC's, TSFMA's, Forest Licences and Timber Quotas are managed on a "sustained yield" basis, whereby the volume of timber harvested is regulated according to the productive capacity of the land and the inventory of mature timber available for harvest. In Alberta, British Columbia and Québec, Canfor is responsible for reforestation of areas logged on all of its sustained yield tenures as well as on Timber Licences. The overall management of forestlands held under Forest Licences, Timber Quotas and Timber Licences is the responsibility of the respective Forest Services of British Columbia and Alberta.

The Coast Forest Region of British Columbia implemented the Market Pricing System ("MPS") for timber harvested on Crown land on February 29, 2004. This replaced the long-standing Comparative Value Pricing ("CVP") system, which had been in place since October 1, 1987 for all timber harvested by Canfor (as well as other operators) on the Coast. In contrast to the CVP system, MPS uses competitive auction-based prices to derive the stumpage rates for licence holders on the Coast. On implementation of the MPS, stumpage rates for harvested timber fell to reflect market levels at the time. Overall, Canfor expects that the MPS will result in lower average stumpage rates for the Company (and other operators) in the Coastal region than under the CVP system.

In the interior region of British Columbia, Canfor is actively participating in discussions with the Ministry of Forests over market-based or other possible stumpage pricing options for this region, where the CVP system is currently in place. It is not yet clear what form of pricing system may be introduced by the Provincial government in the interior region, or when that change may be implemented. In the interim, Canfor will continue to seek to manage and reduce the stumpage costs for in its interior operations under the CVP.

Two significant pieces of Provincial legislation governing forest management activities were brought into force in 2004. On January 31, 2004, the *Forest and Range Practices Act* ("FRPA") came into effect. FRPA is results-based legislation that largely replaces the *Forest Practices Code* ("FPC") and provides greater flexibility with respect to how government mandated objectives and results for forest management are achieved. Government must still approve Forest Stewardship Plans ("FSP's"), which are the main operational plans under FRPA. However, FSP's provide greater flexibility in terms of how to achieve those objectives and results and are designed to reduce some of the costs created by the FPC. Canfor expects to begin to realize some of these cost reductions after FSP's are approved for its operations in 2005 and 2006.

On December 31, 2004, the *Integrated Pest Management Act*, which replaces the *Pesticide Control Act* came into effect. This legislation promotes the use of integrated pest management when dealing with forest pests and regulates the use of pesticides. This legislation also promotes a more flexible approach to forest management while still achieving mandated levels of environmental protection. The main activities that will be impacted by this legislation are vegetation management associated with plantations and some forest health and beetle management activities.

During 2004, the Provincial government amended several other pieces of forestry-related legislation. These amendments were mostly related to the Ministry of Forests *Forestry Revitalization Plan* (discussed above) and focused on issues associated with creating a more market-based forest industry in the province.

Canfor carries out its forest management responsibilities through a full-time staff of 100 registered professional foresters and biologists, as well as additional professional staff on part-time and contract basis. This forestry staff is engaged in supervising all aspects of forest development including planning, road development, harvesting methods and forest protection, and in research and development programs to increase the yield of its forestlands and improve the quality of its timber resources. Canfor operates, directly or under contract, seed orchards for the genetic improvement of forest seed at Sechelt and Vernon, British Columbia, and at Grande Prairie, Alberta.

Canfor's forestry staff supervises the reforestation of all harvested areas, which, in 2004, involved the planting of 64.2 million seedlings on 48,848 hectares and reforestation by natural regeneration on an additional 5,972 hectares. This compares to 49,205 hectares harvested during 2004.

In 2002, the Provincial government established the Forest Investment Account ("FIA"). The FIA is a government mechanism for promoting sustainable forest management in British Columbia. Funding for the program is approved annually by the legislature to authorize certain forest management activities. In April 2003, Canfor entered into an agreement with the Provincial government under which the government will fund $5.8 million for land based investments across British Columbia. Canfor is responsible for the implementation and delivery of the investments within this program.

Customers of forest products companies increasingly require assurances that products purchased are derived from well-managed forests. Canfor has responded by implementing a comprehensive third-party sustainable forest management ("SFM") certification strategy to verify the quality of its forest management practices.

Canfor holds an International Organization for Standardization ("ISO") 14001 certification of its environmental management system for all forest operations, first obtained in 1999 and re-certified as required for subsequent 3-year terms. In addition, Canfor holds certification under the Canadian Standards Association ("CSA") standard for sustainable forest management (CAN/CSA Z809) for its FMA area at Grande Prairie, Alberta, for its TFL's at Chetwynd, Englewood, and Prince George, British Columbia and for its Forest Licences at Fort St. John and Houston, British Columbia. Canfor also maintains a certification of part of its forest operations in the Prince George and Quesnel timber supply areas to the Sustainable Forestry Initiative® ("SFI") standard. The SFI program was created by the American Forest & Paper Association. Canfor is committed to having SFM certification in place for all of its tenures.

Wood Fibre Supply

The wood fibre supply for Canfor's and Howe Sound Partnership's lumber, panels and pulp and paper operations is obtained by logging on Canfor's forest tenures and purchasing logs, chips and waste materials from the manufacture of wood products. Logs are purchased from other tenure holders and from farmers, Aboriginal groups and other private landholders. Chips and waste materials are purchased from sawmillers and other wood products producers. Often, Canfor trades logs with these sawmillers and other wood products producers, receiving chips and waste materials in exchange.

The following table sets forth the volume of wood fibre produced and purchased, the volume of wood fibre consumed in Canfor's and Howe Sound Partnership's mills, and the volume of wood fibre sold to other wood fibre consumers for the last two years:

	Year ended December 31	
	2004	2003
	('000 cubic metres)	
Production from Canfor's timber tenures[1]		
Coastal British Columbia	1,312	1,257
Central / Northern Interior of British Columbia	10,023	8,161
Northern Alberta	1,093	1,094
Eastern Region (Québec)	335	59
Total production	12,763	10,571
Purchases		
Logs	7,794	3,581
Chips[2]	4,667	4,467
Total purchases	12,461	8,048
Total production and purchases	25,224	18,619
Trades and sales		
Logs[3]	1,791	1,721
Chips[4]	2,256	482
Total traded and sales	4,047	2,203
Total available for conversion into finished goods	21,177	16,416
Total converted by Canfor and Howe Sound Partnership into finished goods	20,462	15,757

(1) Results of Slocan are included from the completion of the combination with Slocan on April 1, 2004. Results of the Québec operations are included from the completion of the acquisition of Daaquam and Anticosti on May 27, 2003.
(2) Included in chip purchases are 445,182 cubic metres (2003 — 381,142 cubic metres) purchased from Lakeland and The Pas, in which Canfor owns a one-third interest.
(3) These sales are primarily coastal logs that are traded to obtain chips and waste materials.
(4) Included in chip sales are 462,699 cubic metres (2003 — 398,875 cubic metres) of chips sold by the Alberta operations and 141,144 cubic metres (2003 — 82,575 cubic metres) of chips sold by the Québec operations where Canfor does not have a pulp mill.

Note: Waste materials used for fuel and hardboard furnish in the Panel and Fibre operation are excluded from this table because of the difficulty in determining a reasonable conversion factor to solid wood equivalent.

Canfor's two whole-log chipping facilities have available capacity to supplement its supply of sawmill residual chips. The chipping facilities are capable of producing 325,000 oven-dried tonnes of chips annually.

Historically, Canfor has competed successfully for the chips required that cannot be supplied by Canfor's own sawmills and timber tenures and does not expect that this situation will change in 2005.

First Nations Business Relationships

Canfor is a party to various business relationships with Aboriginal groups, which collectively provide direct and indirect contractual access to an aggregate AAC of approximately 320,000 cubic metres. Canfor has a 49% ownership in an unincorporated joint venture with the Moricetown Indian Band in the Kyahwood Forest Products Joint Venture, which owns and operates a valueadded fingerjoint stud, lumber and fascia plant located in Moricetown, British Columbia. Canfor's Wood Products Marketing group markets the Kyahwood production. Canfor also provides raw materials to the Lheidli T'enneh Band which operates Chunzoohl Forest Products, a roofing shake plant located in Shelley, 15 kilometres north of Prince George, British Columbia.

Canfor owns a 22% interest in Takla Track & Timber Ltd. ("TTT") entitling Canfor to its proportionate share of the annual harvest from Forest Licences held by TTT in the Prince George region. The operations on TTT's Forest Licences are managed through an agreement with Takla Forest Management Ltd. ("TFML"), a separate company owned by the shareholders of TTT for the purposes of managing TTT's Forest Licences.

Canfor established an alliance with the Tl'azt'en Nation of Tache, British Columbia in 1996, to increase the volume of logs available to its sawmills and pulp mills. Canfor currently provides assistance to the Tl'azt'en Nation in the operation of their TFL. In return, Canfor has access to the production from the TFL.

Canfor's Chetwynd and Fort St. John operations and the West Moberly First Nation jointly hold 20-year non-replaceable Forest Licences in the Dawson Creek and the Fort St. John TSA's. See "Wood Supply — Timber Resources" above.

LUMBER

Lumber Production Facilities

Canfor currently operates 19 sawmills in the central and northern interior of British Columbia, two sawmills in northern Alberta and one sawmill in Québec. These sawmills have the annual capacity to produce approximately 5.2 billion board feet of lumber ranking Canfor as the largest SPF lumber producer in North America. The majority of lumber produced by

Canfor is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-four feet. A growing portion of Canfor's lumber production is comprised of specialty products that command premium prices and include machine stress rated ("MSR") lumber that is used in engineering applications such as roof trusses and floor joists. Other specialty products include Square Edge lumber for the North American market and J-grade lumber for the Japanese market.

As mentioned under "Business of Canfor", Canfor's Fort St. James sawmill in British Columbia is being sold. Pursuant to an agreement dated December 22, 2004 with Pope & Talbot Ltd., Canfor has agreed to sell the Fort St. James sawmill and harvesting rights to 640,000 cubic metres of timber for $39 million, plus the value of inventory, which will be determined at closing. The transaction is subject to the consent of the Commissioner of Competition and other customary approvals, filings and conditions. This transaction is expected to complete in the second quarter of 2005. In late 2004, Canfor also announced its intention to close the Hines Creek sawmill in Alberta and the Specialty mill at Quesnel. It is expected these operations will permanently close by June 2005.

As a by-product of Canfor's lumber production facilities, wood chips are produced from the portion of each log not converted into lumber, and these wood chips are sold to pulp mills for use as their raw material. In addition, Canfor extracts pulpwood from its northern and coastal forestry operations and converts this wood to chips for its pulp and paper operations as needed to supplement its supply of wood chips. Canfor also owns and operates two whole-log chipping facilities capable of producing 325,000 oven-dried tonnes of wood chips annually. The facilities are located adjacent to two of Canfor's sawmills.

Canfor also has the following secondary manufacturing operations: fingerjoint mills at one of its sawmills in the interior of British Columbia and at its Grande Prairie, Alberta sawmill and machine stress rated lumber facilities at seven of its sawmills. Canfor's also has two lumber remanufacturing operations - one in the lower mainland of British Columbia and one in Bellingham, Washington - that produce a wide range of specialty products. In addition, Canfor directs substantial volumes of lumber to custom remanufacturers in British Columbia and Alberta for processing into higher value products.

The following table sets forth Canfor's lumber production and sales for the last two years:

	Year ended December 31	
	2004	**2003**
	(Mfbm)[1]	
Production [2], [3]		
British Columbia	4,184,542	2,518,418
Alberta	318,671	308,926
Québec	108,697	65,976
	4,611,910	2,893,320
Sales	4,627,838	2,941,959

(1) Mfbm denotes thousand foot board measure.

(2) Includes volume from Slocan's operations from April 1, 2004.

(3) Includes volume from Daaquam's operations from May 27, 2003.

Since the imposition of CVD and ADD, Canfor has continued to position itself to reduce operating costs and maintain market share by operating at full capacity during 2004, except for three days at the end of the year.

Canfor harvests logs from tenures located in the northern interior region of British Columbia and northern Alberta to supply Canfor's lumber operations. Canfor's total AAC for these areas was approximately 12.5 million cubic metres in 2004. It is anticipated the revised level of AAC will be 10.5 million cubic metres of annual cut, net of the take-back under the Forestry Revitalization Plan, with any shortfall in mill requirements being made up with wood purchased from these areas (see "Wood Supply — Timber Resources" above).

The following table sets forth the log production from these tenures, log purchases and wood chip production from the above areas for the last two years:

	Year ended December 31	
	2004[1]	2003
Log Production (cubic metres)	11,116,188	9,254,289
Log Purchases (cubic metres)	4,107,311	2,589,422
Wood Chip Production (oven-dried tonnes)	2,363,489	1,484,198

(1) Includes volumes from Slocan's operations from April 1, 2004.

Lumber Distribution

Upon completion of the combination with Slocan in April, 2004, Canfor's volume of lumber increased significantly. For 2004, Canfor shipped 373,000 Mfbm more lumber than the combined Canfor and Slocan shipment volume in 2003. Much of the additional volume was directed to Canfor's customers through Canfor's distribution and reload systems. The volume increase resulted in significantly higher shipments to all of Canfor's customers in 2004.

Canfor markets lumber products throughout North America and overseas. In addition to its own production, Canfor also markets lumber produced from independent mills in North America and offshore countries to complement its product line. In 2004, approximately 79% of Canfor's lumber sales were made to United States markets and 13% to Canadian markets. Virtually all lumber destined for North America was shipped by truck and rail. Canfor leases a fleet of 300 railway cars to ensure adequate rail car supply throughout the year. The remaining 8% of shipments went offshore, principally to Japan, but also to Korea, China, Taiwan and Europe. Lumber going overseas travelled 87% by container ship and 13% by break-bulk (non-container) carrier.

Lumber Markets

In 2004, demand for lumber was extremely strong as new home construction reached record levels in North America. Low interest rates, record job creation and high consumer confidence fuelled all sectors of the housing market. Total U.S. housing starts were 1.95 million units, a 5% increase from the 1.85 million units in 2003, and the highest level since 1978[1]. Single-family housing starts were 1.61 million, the highest ever. In Canada, low interest rates also resulted in increased housing starts of 233,431 units, up 7% from 218,426 units in 2003[2].

Increased housing construction resulted in strong demand for building materials by North American homebuilders. The combination with Slocan allowed Canfor to increase shipments to professional building materials suppliers ("Pro Dealers") and industrial customers. During the year, customers continued to demand higher quality lumber and increased product consistency. Reflecting this trend, Canfor has increased production of high margin-added products.

Home improvement retailers, such as Home Depot and Lowe’s, also benefited from the rise in housing activity. Strong demand for existing homes pushed home sales to record levels, which resulted in a corresponding increase in house prices. Consumers used higher home equity to pay for home upgrades, which resulted in very strong levels of repair and renovation activity.

During the year, the U.S. dollar weakened against most of its key trading partners. The Canadian dollar and the Euro appreciated against the U.S. dollar by 8% and 9% respectively. However, with Western SPF 2”x4” #2&Btr prices gaining 43% from last year to average US$395 per Mfbm[3] in 2004, both producing regions increased import volumes over the previous year. In addition, transportation constraints within North American affected the delivery of wood products and reduced supply to the market during a period of solid demand.

Japan’s economy recovered in 2004 with increases in consumer spending and capital investment from both private and public sectors. Although total housing starts increased by only 28,966 units to 1.19 million units during 2004, wood 2”×4” housing, increased by 9,264 units during 2004[4]. Canfor’s J-grade lumber destined for Japan goes into wood 2”×4” housing, which has experienced steady growth for many years and which totaled 90,706 units in 2004, 11% higher than in 2003[4].

Other important offshore markets for Canfor are Korea, China and Taiwan. Canfor's shipments to these countries increased by 7% over the combined Canfor and Slocan volume in 2003. Strong sales to China reflected Canfor's efforts to grow market share in the expanding westernstyle housing market. With China's acceptance of North American-style wood-frame construction building codes, more Canadian SPF dimension is expected to be used in this developing market.

Sources: (1) U.S. Census Bureau, (2) Statistics Canada, (3) Random Lengths Publications, (4) Japan Ministry of Land, Infrastructure and Transportation and (5) Crow’s Publications.

Human Resources

Canfor employs approximately 4,297 persons in its Lumber operations in British Columbia, 313 persons in its operations in Alberta, 439 persons in its Québec operations and 144 persons in its operations in the United States. Of these, approximately 69% are covered by collective agreements with the United Steel Workers of America (formerly IWA-Canada) (“USWA”), the Communications, Energy and Paperworkers Union (“CEP”) and the Pulp, Paper and Woodworkers of Canada (“PPWC”). The collective agreement with the USWA, which represents the majority of the workers in the British Columbia operations, expired in June 2003. Negotiations between Canfor and the USWA for the renewal of the agreement were successfully concluded in October 2003 and the Union conducted ratification votes in early 2004. The agreement provides for wage increases totaling 11% over a six-year term. Another collective agreement which expired in June 2003, was the PPWC agreement covering the Mackenzie operation. Negotiations were concluded in the spring of 2004. The agreement provides for wage increases totaling 11% over a six-year term.

The contracts with the USWA and the CEP, which represent workers at each of Canfor’s two Alberta operations, expired in February 2004. Negotiations for the renewal of the Grande Prairie contract were ongoing at the time of writing. As previously mentioned, the Hines Creek sawmill will close by mid 2005.

According to 2004 provincial statistics compiled by the Forest Industry Advisory Service ("FIAS") covering nine multidivision lumber operations, Canfor's sawmills ranked second in the industry in lost-time frequency and third in medical incidents rates.

PANELS

Canfor operates an OSB plant and two plywood mills in the northern interior of British Columbia and the Panel and Fibre operation located in New Westminster, British Columbia.

The OSB plant, located in Fort Nelson, has an annual capacity to produce 510 million square feet (3/8” basis) of OSB panel product in a variety of thicknesses and sizes. This plant uses primarily aspen timber to produce a consistently high quality product, which is available from only a few other OSB producers in North America. This plant is currently implementing upgrades to its production facilities which, when completed in May 2005, are expected to result in a 21.5% increase in OSB production capacity.

The combined annual capacity of the two plywood mills is 440 million square feet (3/8" basis). The Fort Nelson plywood mill produces a range of products used in industrial, commercial, residential and specialty plywood applications. The Prince George plywood mill is certified with respect to Canadian softwood and Douglas fir plywood and for Japanese grading standards. This mill has been modernized over the past few years to automate some of its more labourintensive production stages and to increase the mill's efficiency when processing smaller diameter logs.

Canfor, with its co- venturer, Louisiana-Pacific Canada Ltd., is currently building an OSB plant in Fort St. John, British Columbia through OSB LP. Production is scheduled to begin in September of 2005 of an OSB plant with a planned annual capacity of 820 million square feet (3/8” basis).

The following table sets forth Canfor’s OSB and plywood production and sales for the last two years:

	Year ended December 31	
	2004	2003
	(Msf 3/8”)[1]	
Production		
OSB[2]	384,753	—
Plywood	356,648	175,605
	741,401	175,605
Sales		
OSB[2]	379,646	—
Plywood	343,591	172,335
	723,237	172,335

(1) Msf denotes thousand square feet, 3/8” basis.

(2) Includes volume from Slocan’s operations from April 1, 2004.

Panel and Fibre operation

Canfor produces hardboard paneling, refined fibre and wood fibre composite mat products at its Panel and Fibre operation in New Westminster, British Columbia for building, automotive and industrial uses. The hardboard plant, with an annual operating capacity of 48 million square feet (3/8" basis), is one of two hardboard plants in Canada. Baled dry fibre is produced from wood residues and is used as a raw material for hardboard production, cement board products and in the manufacturing of molded products for the automotive industry. Refined fibre is used to produce products for the hydroseeding business.

Panels Distribution

With the acquisition of Slocan, Canfor's volume of panels increased significantly in 2004. Canfor markets OSB and plywood products throughout North America and overseas. In 2004, approximately 84% of Canfor's OSB sales were made to United States markets and 16% to Canadian markets. For plywood, approximately 14% of Canfor's 2004 sales were made to United States markets and 84% to Canadian markets. Virtually all panel products destined for North America were shipped by truck and rail. Canfor leases a fleet of railway cars to ensure adequate rail car supply throughout the year. For plywood, the remaining 2% of 2004 shipments went to Japan. Plywood shipped overseas traveled 86% by container ship and 14% by break-bulk (non-container) carrier.

Panels Markets

Canfor's OSB production is primarily Performance Rate Sheathing, which is used in wall construction of new homes and in repair and remodeling projects. With strong demand for product, fuelled by U.S. construction activity, OSB prices set new records in 2004. The average 2004 price of OSB was US$371 per Msf 7/16" North Central, 26% higher than the previous year[3].

Canfor's plywood is used in home construction and specialty applications. The primary product of Canfor's plywood operations is sheathing, which is used to frame walls. In 2004, 18% of production was Select grade, which attracts a price premium over the standard sheathing grade. The plywood market also experienced the same strong housing demand as the lumber market in 2004. This resulted in an average price of Canadian Softwood Plywood of Cdn$532 per Msf(5) 3/8" basis, delivered to Toronto, a 20% increase from 2003.

Sources: (1) U.S. Census Bureau, (2) Statistics Canada, (3) Random Lengths Publications, (4) Japan Ministry of Land, Infrastructure and Transportation and (5) Crow's Publications.

Human Resources

Canfor employs approximately 766 persons in its Panels operations in British Columbia. Of these, approximately 72% are covered by collective agreements with the USWA and the PPWC. The collective agreements with the USWA and the PPWC representing the employees at Canfor's plywood operations both expired in June 2003. Negotiations were concluded in the spring of 2004, resulting in agreements that provide for wage increases totaling 11% over a six-year term.

In previous negotiations for the Panel and Fibre operation, Canfor and the union agreed to accept the terms and annual wage increases of the next two negotiated agreements between the coast forest industry and the USWA. In 2003, this resulted in a four-year agreement providing a total of 6% in wage increases over that time. This current agreement expires June 15, 2007.

According to 2004 provincial statistics compiled by FIAS covering four multidivision panel operations, Canfor's Panels operations ranked third in the interior industry in lost-time frequency and second in medical incidents rates.

PULP AND PAPER

Canfor is one of Canada's major producers of northern bleached softwood kraft ("NBSK") pulp for sale in the world market. Kraft pulp is a raw material for paper manufacturing and is used in the production of printing and other fine paper, tissue, newsprint and paperboard. NBSK pulp imparts strength to the product in which it is used as a result of the length of its fibre. Canfor manufactures bleached kraft pulp at its Intercontinental, Northwood and Prince George Pulp and Paper facilities located in Prince George, British Columbia. Kraft paper is manufactured at the Prince George Pulp and Paper mill and is used primarily in the production of multi-wall bags for industrial packaging where high strength is required.

Taylor Pulp mill, acquired as part of the combination with Slocan, produces both softwood and hardwood chemi-thermo mechanical pulp ("CTMP") using wood chips from northern white spruce softwood and aspen hardwood species. This mill is located near Taylor, British Columbia.

The three Prince George based mills are relatively close in proximity to each other, with the Northwood Pulp mill located approximately five kilometres from the Intercontinental Pulp and Prince George Pulp and Paper mills.

The following table sets forth the daily and annual production capacities of these facilities as at December 31, 2004:

	Daily Capacity	Annual Capacity
	(tonnes)	
Kraft Pulp		
Intercontinental Pulp Mill(1)	870	308,900
Northwood Pulp Mill(1)	1,550	550,300
Prince George Pulp and Paper Mill(1)	385	136,700
CTMP		
Taylor Pulp Mill(2)	632	220,000
Kraft Paper		
Prince George Pulp and Paper Mill(1)	400	142,000
Total capacity	3,837	1,357,900

(1) Assuming continuous operation for an average of 355 operating days per annum.

(2) Assuming continuous operation for an average of 348 operating days per annum.

All three of the Canfor Prince George mills have Quality Management Systems registered under ISO 9001:2000 and Environmental Management Systems registered under ISO 14001:1998. The current registrations are in effect until May 2006.

The configuration of the Prince George Pulp and Paper mill provides the ability to produce both bleached and unbleached kraft paper products. Since 1995, Canfor has emphasized product development which has resulted in a significant change in the paper product mix, moving from lower value unbleached multi-wall kraft paper to high performance papers, high porous, bleached and unbleached kraft papers, and specialty papers where profit margins are higher.

Through its production of POLAR KRAFT™ (bleached kraft paper), Canfor has succeeded in creating a new market in North America for high strength bleached packaging papers, which has contributed significantly to improved results. In 1999, Canfor began production of KODIAK KRAFT™ (high performance unbleached kraft paper) to leverage the market position created by POLAR KRAFT™ and further increase returns for Canfor's specialty kraft paper product line. Several strategic projects were undertaken on the paper machine during 1999 and 2000 to increase the production of the paper line and improve the profitability of the operation. In 2003 Canfor began production of two additional products, PolAir P™ (trademark pending) and KodAir P™ (trademark pending). These highly porous papers are especially suited for high performance multi-wall bag applications, which require rapid air release during filling. In 2004, trials were begun to develop Polar Liner, a light-weight fully bleached linerboard product used for the outer ply in the construction of corrugated boxes. The company expects to fully launch this new Polar Liner product by mid 2005.

Production and Sales Summaries

The following table sets forth pulp production and sales volumes for Canfor for the last two years:

	Year ended December 31	
	2004[1]	2003
	(tonnes)	
Pulp production		
Intercontinental Pulp Mill	309,183	308,862
Northwood Pulp Mill	551,574	543,725
Prince George Pulp and Paper Mill	129,636	139,506
Taylor Pulp Mill	151,957	—
	1,142,350	992,093
Pulp sales		
Intercontinental Pulp Mill	304,055	308,867
Northwood Pulp Mill	544,643	550,841
Prince George Pulp and Paper Mill	125,740	139,470
Taylor Pulp Mill	139,788	—
	1,114,226	999,178

(1) Includes volume from Slocan's operations (the Taylor Pulp Mill) from April 1, 2004.

The Company's Prince George pulp mills set an annual record for production in 2004, based on a 53 week operating year. Average production for Intercontinental, Northwood and Prince George Pulp was 3,160 tonnes per day compared to the 2003 record year of 3,196 tonnes per day.

The following table sets forth the paper production and sales volumes for the last two years:

	Year ended December 31	
	2004	2003
	(tonnes)	
Kraft paper production	134,078	128,515
Kraft paper sales	139,823	121,373

During 2004, the paper machine operated at near full production with the exception of the annual maintenance shut-down taken during the fourth quarter. Paper production and quality has continued to improve throughout the year and, in 2004, the paper machine produced more paper than ever before in its history.

Since the installation of new equipment in 2001, productivity, quality, and reliability on the paper machine has continued to trend upwards. In 2004, prime production averaged 24 tonnes per day higher than 2003 performance, and prime paper sales increased by 18,000 tonnes. Further improvements are planned in 2005.

Pulp and Paper Marketing and Distribution

Canfor, through its pulp and paper marketing operation, sells the pulp production of its northern British Columbia mills and, under an agency agreement, sells the pulp production of Howe Sound Partnership, in world markets. Sales offices are presently maintained in Vancouver, Canada; Brussels, Belgium; and Tokyo, Japan. In addition, Canfor is represented by sales agents serving various other Asian markets.

In May 1999, Canfor formed a joint marketing company with GeorgiaPacific Corporation for the sale and marketing of market pulp in Japan. In 2001, Canfor GeorgiaPacific Japan Corporation began representing Asia Pacific Resources International Holdings Ltd.'s ("April") Riaupulp mill in Indonesia in the Japanese market. In 2004, Canfor and April formed a new joint venture in Japan, Canfor April Corporation, to market Canfor and April pulps, and to represent Koch Cellulose in Japan.

In April 2004, when Canfor combined with Slocan, the Taylor CTMP mill was added to the Pulp and Paper group. The mill is known in the industry as the Fibreco pulp mill. The mill's production has been exclusively represented by an outside agency, and continued to be through 2004. Canfor plans to take over the marketing of the Fibreco mill's production in 2005.

In 2004, the approximate geographic distribution of kraft pulp sales was 34% to the European market, 30% to Asia and 36% to the Americas. The distribution of CTMP pulp sales was 2% to Europe, 93% to Asia, and 5% to the Americas.

Canfor sells specialty kraft paper directly in North America and through an agency to offshore markets. The approximate distribution of specialty kraft paper sales in 2004 was 77% to North America, 7% to the Far East and 16% to Europe.

Canfor uses various modes of surface transportation to distribute the pulp and paper products it sells. Rail and truck carriers serve North American markets. Export markets are served by rail or truck to modern forest products terminals at Vancouver and Squamish, British Columbia, where the products are transferred to vessels. Dedicated forest products vessels, multicargo vessels or container carriers transport products to major markets in Europe, Japan and Asia.

Pulp and Paper Markets

Over the long-term, global consumption of paper and paperboard is forecast to expand at a rate approximating the general expansion of the economy. As a result, it is expected that substantial additional quantities of papermaking fibres will be required.

Global economic growth lead to strong gains in worldwide paper and pulp demand in 2004. Although weak at the beginning of 2004, the United States experienced strong consumer demand and real gross domestic product ("GDP") growth as the year progressed. European GDP growth was not as strong as in North America, but was also positive in 2004. The Asian economies also experienced strong GDP growth in 2004, particularly in China.

One of Canfor's competitive strengths is its enviable customer base, comprised of customers who have a technical requirement for premium NBSK pulp, who are dominant in their field and who are interested in developing partnerships. Canfor's market approach in servicing these customers is designed to take advantage of the strong northern fibre available in British Columbia, consistency of product quality, and flexible bleaching technology. Canfor plans to take advantage of its solid customer base when marketing the pulp from the Taylor mill, capitalizing on good customer relationships to cultivate new business.

Canfor's pulp mills are well positioned within Canada with regard to fibre supply, environmental performance, energy supply and a skilled work force. Canfor's management believes that Canfor's competitive position is further enhanced by cost reduction initiatives implemented in recent years. With these initiatives, Canfor expects to continue to be well positioned to compete in the global marketplace.

During 2004, the US dollar weakened, in response to the growing trade, budget, and current account deficits in the United States. The competitive position of Canadian producers, relative to Nordic and United States producers, is dependent to a significant extent on the relationship between the various currencies in which pulp is sold. Most market pulp is sold in US dollars. The decline in strength of the United States dollar versus the Canadian dollar and the Euro during 2004 caused the competitive position of the Scandinavian and Canadian industries to weaken when compared to producers of softwood pulp from the southern hemisphere.

The kraft high performance paper industry is characterized by relatively few competitors. Although the commodity kraft paper industry in developed markets is stable, North American customers are beginning to convert from commodity to high strength specialty kraft papers. Canfor is well positioned to capitalize on this change. Canfor's marketing strategy has emphasized working with independent converters and flexible packaging end-users to create customer demand for new high performance products. Price levels in the kraft paper market have tended to be fairly stable, with niche market producers enjoying generally good operating rates.

Human Resources

Canfor employs approximately 1,318 staff and hourly employees in its Pulp and Paper group which includes the Intercontinental Pulp Mill, Northwood Pulp Mill, Prince George Pulp and Paper Mill, Taylor Pulp Mill and the pulp and paper marketing operation. Approximately 69% of these employees are covered by collective agreements with the CEP and PPWC unions. The collective agreements between Canfor and its two unions (CEP and PPWC) are in effect until April 30, 2008 and provide for wage increases totaling 11% over their five-year term.

In the B.C. primary pulp and paper sector, Canfor's four mills had some of the lowest medical incidence rates and lowest lost-time frequencies in the province, ranking first, second, third and fifth in terms of medical incidence rates and first, second, third and fourth in terms of lost-time frequency among the twelve reporting mills.

COASTAL OPERATIONS

Canfor's Coastal Operations are comprised of its Coastal logging operations (Englewood and Mainland operations) and the Coast Fibre Supply operation.

Coastal Logging Operations

Canfor's Englewood logging operations are located on northern Vancouver Island, while its Mainland logging operations are located in the Fraser Valley, Sunshine Coast and in the lower Lillooet River areas of British Columbia. These operations logged on tenures having an AAC of 1.475 million cubic metres in 2004. Due to the take-back of AAC under the *Forestry Revitalization Plan*, the Coastal logging operations will see a 29% reduction in AAC over a two-year period commencing March 2005. As part of these reductions, the Coastal logging operations will be reduced to an AAC of approximately 950,000 m^3 in 2005. By March 2006, the Fraser Valley, Sunshine Coast and Lillooet logging areas and a portion of TFL 37 will be taken back under the *Forestry Revitalization Plan*, and the remaining Coastal logging operations will be concentrated in the Englewood TFL 37 with a 848,500 m^3 AAC in 2006.

The following table sets forth the log production from the Coastal logging operations and sales / trades by the Coast Fibre Supply operation (as described below) for the last two years:

	Year ended December 31	
	2004	**2003**
	(cubic metres)	
Production	1,312,198	1,257,475
Sales/trade	1,148,316	1,236,988

The Coastal Operations delayed start up of logging until the end of the first quarter of 2004 due to the new Market Price Stumpage system ("MPS") introduced by the government of British Columbia which came into effect in May of 2004. Under the MPS system, the Coastal Operations realized a $4 per m3 stumpage savings for 2004, as compared to 2003. The coastal log market strengthened in the first two quarters of 2004 in response to a stronger Japanese market and the effect of a very strong US market. However, a weakening of the Japanese market coupled with the strengthening Canadian dollar in the third quarter lead to a sharp decline in prices and demand. Fourth quarter demand and price declined further, leading to a shut down in logging by the end of October.

The Coastal logging operations are focused on safety, sustainable forest management, environmental compliance and the achievement of financial targets. Timber harvesting for these operations is coordinated with Coast Fibre Supply's marketing program to ensure its customers (including Howe Sound Partnership) are supplied with a quality, on-time product that maximizes Canfor's sales revenues.

Coast Fibre Supply

Canfor's Coast Fibre Supply operation sells and trades the log production of the Coastal logging operations to acquire the logs and chips required for the Howe Sound Partnership's pulp and newsprint mills and for the Panel and Fibre operation. Logs that can be chipped by Howe Sound Partnership's Westcoast Cellufibre operation are sold to that operation at market value. Logs that cannot be used by Westcoast Cellufibre are sold to or traded with other coastal operators with the primary objective of obtaining the pulp logs and chips required by Howe Sound Partnership. In addition, the Coast Fibre Supply operation sources logs and chips for Howe Sound Partnership from areas such as southern Alaska, northern Washington and the interior of British Columbia.

Human Resources

Canfor employs approximately 346 people in its Coastal Operations, of which 83% are covered by collective agreements with the USWA. The term of the current Coast Master Agreement is from June 15, 2003 to June 15, 2007.

Coastal Operation's Safety Management System is designed around the Occupational Health & Safety Assessment Series ("OHSAS") 18001 standard and incorporates the concept of continuous improvement into the program. This safety management system has been in place for four years and the operation has experienced an improvement in its safety performance in several areas. Between 2000 and 2004, the lost time accidents were reduced by 52% and medical incidence rates were reduced 76%.

HOWE SOUND PULP AND PAPER LIMITED PARTNERSHIP

Canfor's interest in Howe Sound Partnership was originally held through its interest in HSPP. In April 1988, Canfor sold its Howe Sound Pulp Division at Port Mellon, British Columbia and its Westcoast Cellufibre Division at Vancouver, British Columbia to HSPP. HSPP was owned equally by Canfor and Oji Paper Co., Ltd. ("Oji Paper"), a leading Japanese producer and marketer of paper, including newsprint. NBSK pulp and newsprint are produced at Port Mellon on the British Columbia coast and wood chips are produced at the Westcoast Cellufibre operation. In 1990, HSPP completed the modernization and expansion of the kraft pulp mill and, in 1991, completed construction of a newsprint mill adjacent to the pulp mill, together with a related thermomechanical pulp mill facility. A cogeneration facility was completed in 1992 to generate electrical power for the pulp and newsprint operations.

On March 10, 2001, Canfor and Oji Paper reorganized HSPP by transferring the business of HSPP into a limited partnership, Howe Sound Partnership. Howe Sound Partnership continues to be jointly owned by Canfor and Oji and continues to carry on the former operations of HSPP. In 2002, the Westcoast Cellufibre Division closed its lumber operation facility and shifted focus to its core business of providing wood chips to the pulp and newsprint mill at Port Mellon. Howe Sound Partnership operates as a separate business in which all of the financing arranged by the Partnership is without recourse to either Canfor or Oji Paper. Under agreements which Howe Sound Partnership has with Canfor and Oji Paper, Canfor obtains and supplies fibre for Howe Sound Partnership’s mills at market prices, markets the pulp on a commission basis and provides certain management services for a fee related to cost. Oji Paper provides Howe Sound Partnership with technical services, particularly in relation to the newsprint mill, and is reimbursed for the costs and expenses incurred in providing the services. Oji Paper is responsible for marketing, on an agency basis, the newsprint production from Howe Sound Partnership, which is sold primarily in Japan. The newsprint market in Japan is the most quality conscious newsprint market in the world. Howe Sound Partnership’s Howe Sound mill is one of only two mills in North America equipped to produce gate roll coated, super lightweight newsprint required by the Japanese market.

Throughout 2004, Howe Sound Partnership’s operations were in substantial compliance with applicable environmental requirements, except for incidents which have not had, nor are they expected to have, a material effect on Howe Sound Partnership or its operations.

The following table sets forth the daily and annual production capacities of Howe Sound Partnership’s market pulp and newsprint operations as at January 3, 2005:

	Daily Capacity	Annual Capacity[1]
	(tonnes)	
Pulp	1,121	398,000
Newsprint	585	207,000

(1) Assuming continuous operation for an average of 355 operating days per annum for pulp and 354 days for newsprint.

The following table sets forth Howe Sound Partnership's pulp and newsprint production and sales for the last two years:

	Year ended December 31	
	2004	**2003**
	(tonnes)	
Pulp production	350,867	364,917
Pulp sales	357,876	361,749
Newsprint production	203,926	202,643
Newsprint sales	201,877	203,069

As part of the reorganization in 2001, HSPP was amalgamated with Canadian Forest Products Ltd., Canfor's principal operating subsidiary, and, with ongoing operations of Howe Sound Partnership, approximately $643 million of tax losses of HSPP at that time became available to reduce the future taxable income of the amalgamated company. Also, as part of the reorganization, Canadian Forest Products Ltd. made a payment of $60.2 million to Howe Sound Partnership, which was applied to reduce the long-term debt of HSPP assumed by Howe Sound Partnership. As a result of utilizing these tax losses, Canadian Forest Products Ltd. made further payments to Howe Sound Partnership of $5.0 million in 2002 and $7.0 million in 2004. A final payment was made to Howe Sound Partnership on January 2, 2005 of $50.0 million.

As a result of the 2001 reorganization, Canadian Forest Products Ltd. recorded a future income tax asset of $193.2 million and a deferred credit of $119.4 million, based upon the tax rates prevailing at that time. Since then, the balances have been adjusted to reflect tax rate changes announced by the Government of British Columbia. The deferred credit is being recognized into income on a systematic basis.

Canfor wrote off its investment in the joint venture in 1998 and no longer reflects its share of the joint venture's results in its earnings. Canfor's method of accounting for its interest in Howe Sound Partnership did not change as a result of the reorganization.

ENVIRONMENT

Canfor is committed to the responsible stewardship of the environment throughout its operations. Canfor meets this commitment by: practicing forest management that recognizes ecological processes and diversity and supports integrated use of the forest; designing and operating its facilities to comply with or surpass legal requirements; setting environmental objectives and targets to reduce the risk of pollution and continue to achieve improvements in environmental performance; and promoting environmental awareness throughout Canfor's operations.

Canfor has implemented a program of regular audits of its Environmental Management System ("EMS") and compliance with government regulations and industry practices at all operations. Canfor's management believes it has sound environmental management programs established in all operations. These programs are continually being improved to help ensure that Canfor is exercising due diligence and is fulfilling its environmental commitments and responsibilities.

As previously discussed, all of CFP's forest operations achieved registration under ISO's Environmental Management System Standard (ISO 14001) in December 1999. At the time, this represented the largest area of managed forestlands to achieve this certification in North America.

This registration was expanded in 2000 to include the forestlands acquired as a result of the acquisition of Northwood Inc. in 1999. Also in 2000, the Company achieved certification of approximately 1.5 million hectares of forestlands under CSA's Sustainable Forest Management System Standard.

In 2001, an additional 0.2 million hectares of forestland was certified under the CSA Standard. These certifications are part of Canfor's strategy to certify all of its area-based tenures to the CSA SFM System Standard.

Canfor's Prince George Pulp and Paper and Intercontinental Pulp mills and the Howe Sound Pulp and Paper Mill were among the first mills in North America to achieve ISO 14001 registrations in early 1998. The Northwood Pulp Mill achieved ISO 14001 registration in June 2001. These mills were all successful in retaining registration following audits by the registrar for these standards in 2003. The Rustad sawmill EMS attained ISO 14001 registration in the fourth quarter of 2002.

During 2004, Canfor's operations were in substantial compliance with environmental requirements except for incidents which have not had, nor are they expected to have, a material effect on Canfor or its operations.

With the acquisition of Slocan, Canfor has twelve wood residue burners at its sawmills in B.C. and Alberta, including four Tier 1 burners which, under recently amended *B.C. Wood Residue Burner and Incinerator Regulations*, are now required to cease operation by December 31, 2007. Commissioning of Canadian Gas & Electric's 25 megawatt ("MW") electricity cogeneration facility adjacent to the Grande Prairie sawmill began in late 2004 and will eliminate Canfor's one remaining Alberta burner in 2005. A wood residue fuelled 48 MW cogeneration facility under construction at the Prince George Pulp and Paper mill in Prince George, will result in the shut down of the Canfor Polar sawmill Tier 1 burner and the Canfor Isle Pierre sawmill burner in 2005. Canfor is working with a B.C. pellet manufacturer conducting detailed feasibility studies towards establishment of a pellet plant at Canfor's Houston sawmill which would eliminate Canfor's Tier 1 burner in Houston. Developing a cogeneration facility at Houston also remains an option being considered by Canfor, contingent on the pellet plant feasibility study. Canfor is also continuing to evaluate alternatives to create value from surplus wood residues and shut down its other Tier 1 beehive burners. Options being considered include cogeneration and wood fuelled sawmill energy systems.

At the end of 2001, Canfor was invited to participate in the Community Airshed Planning Committees in Prince George and in the Bulkley Valley (Houston). These Committees have had full engagement on the part of Canfor staff. Committees have begun to approach airshed management by gaining better knowledge of source impacts, modeling and applying the principle of cost effectiveness to the planning of management actions.

COMPETITIVE POSITION

Each of the markets in which Canfor sells lumber, panel, pulp and paper products is highly competitive with many major firms in each market. Canfor's competitive position is influenced by the availability, quality and cost of its raw materials, energy and labour, and its plant efficiencies and productivity in relation to its competitors. Canfor, like the rest of the Canadian forest products industry, competes in an international market and is therefore subject to the impact of currency fluctuations and global business conditions. Many of Canfor's lumber and panel products also compete with substitutes for wooden building materials of various kinds.

RESEARCH AND DEVELOPMENT

Canfor continues to be committed to research and development through its ongoing support of industry sponsored organizations (e.g. Forintek Canada and the Pulp and Paper Research Institute of Canada) as well as Canfor's Research and Development Centre, which is the only corporately owned and operated forest products research facility of its type in British Columbia.

The objectives of Canfor's research and development efforts are:

- Apply knowledge from the research network to create a sustainable competitive advantages for Canfor; and
- Provide technical assistance to Canfor's manufacturing and marketing divisions

Canfor's research and development reporting structure was changed during 2004 to reflect the significance of external customers in areas such as new product development and new business opportunities. The research and development group now jointly reports to the Lumber & Panels and Pulp & Paper marketing divisions. During 2004, Canfor primarily focused its pulp and paper research and development on new product development, while continuing its efforts in improving premium pulp quality, increasing efficiencies in mill processes and maximizing wood utilization. Solid wood and fibre research and development efforts were focused on the study of issues associated with the Mountain Pine Beetle infestation and it's impact on manufacturing and product quality. New utilization opportunities were also evaluated. Since 2001, Canfor has operated a solid wood pilot plant facility producing a number of valueadded products for market testing.

Canfor's research and development expenditures, including capital and industry sponsored organizations, amounted to $3.9 million in 2004 and $3.5 million in 2003.

DIRECTORS AND OFFICERS

Directors

The names and municipalities, province and country of residence of the Directors of the Company, their principal occupations and the periods during which they have been Directors of the Company are as follows:

Name and Municipality, Province and Country of Residence	Principal Occupation and Background	Director Since
P. J. G. Bentley, O.C., LL.D.[(2),(3),(4),(5)] Vancouver, British Columbia Canada	Chairman of the Board, Canfor Background: Peter J. G. Bentley is Chairman of Canfor and of the Company's principal subsidiary, Canadian Forest Products Ltd., and Co-chairman and a director of HSPP General Partner Ltd. After working in several positions throughout Canfor, Mr. Bentley became Executive Vice-President in 1970, President in 1975, and Chairman and C.E.O. in 1985, a position he held until April 24, 1995. Mr. Bentley is President and a director of Sierra Mountain Minerals Inc., a member of the Board of the Canadian Institute for Advanced Research, a member of the Advisory Board of BuildDirect.com, and Chair Emeritus of the VGH and UBC Hospital Foundation. He also served for many years as a director of Bank of Montreal and Shell Canada Ltd. Mr. Bentley is Chancellor of the University of Northern British Columbia. Mr. Bentley holds an Honourary Law degree from the University of B.C.	1966

R. L. Cliff, C.M., F.C.A.[(1),(2)] West Vancouver, British Columbia Canada	Chairman of the Board, Heathcliff Properties Ltd. Background: Mr. Cliff is Chairman of Heathcliff Properties Ltd. He is also President of the Heathcliff Foundation. Mr. Cliff was Chairman and a director of Terasen Inc. from 1972 to 2002. Mr. Cliff is a director of the Vancouver Police Foundation; Member of the Dean's Advisory Board to the Sauder School of Business at UBC; a Trustee of VGH & UBC Hospital Foundation; and the Chairman of the Vancouver Symphony Foundation. Mr. Cliff received his Commerce Degree from the University of B.C. and qualified as a Chartered Accountant in 1954.	1983
C. W. Daniel, O.C., LL.D.[(4)] Toronto, Ontario Canada	Corporate Director; Consultant Background: Mr. Daniel's career covered 38 years with Shell International Petroleum Company in the U.S.A., Europe, South America, the Caribbean and Canada. He was President and C.E.O. of Shell Canada Ltd. from 1974 until his retirement in 1985. He has served on numerous corporate and voluntary boards. He currently is a director of Andrés Wines Ltd. and Northgate Exploration. Mr. Daniel holds a Bachelor of Applied Science degree in Engineering and an Honourary Law degree, both from the University of Toronto.	1985
M. E. Hurst[(3),(4)] Vancouver, British Columbia Canada	Educational Author Background: Mrs. Hurst is an educational author who resides in Vancouver, British Columbia. Mrs. Hurst received a B.A. from the University of British Columbia, a Graduate Certificate in Education from the University of London, U.K. and a Masters of Education from the University of British Columbia. During her career, she has been a teacher with the Vancouver School Board, an educational consultant and a Sessional Lecturer at the University of British Columbia.	1987
S. A. Jarislowsky, O.C., C.P.Q., LL.D.[(2),(4)] Montreal, Québec Canada	Chairman and Chief Executive Officer, Jarislowsky, Fraser Limited Background: Mr. Jarislowsky is Chairman and Chief Executive Officer of Jarislowsky, Fraser Limited. He is a Director of Canadian Coalition for Good Governance; Chairman and CEO of Goodfellow Inc. and President of Growth Oil & Gas Investment Fund. Mr. Jarislowsky is also a director of C.D. Howe Research Institute and the Québec Prostate Cancer Foundation. Mr. Jarislowsky received a B.Sc. from Cornell, a Masters of Business Administration from Harvard Graduate School of Business Administration, a M.A. from the University of Chicago and Honourary Law Degrees from Queen's University, University of Montreal, University of Alberta, McMaster University, Laval University, Concordia University and the University of Windsor.	2004

M. J. Korenberg[(1),(3)] North Vancouver, British Columbia Canada	Managing Director, Vice-Chairman of The Jim Pattison Group Background: Mr. Korenberg is a director of Jim Pattison Group Inc. (and its affiliates), a trustee of Westshore Terminals Income Fund, a director of Westshore Terminals Ltd. and an adjunct professor, Faculty of Law, University of British Columbia.	2003
B. C. Louie, F.C.A.[(3),(5)] West Vancouver, British Columbia Canada	President and Chief Executive Officer, H.Y. Louie Co. Limited and Chairman and Chief Executive Officer of London Drugs Limited. Background: Mr. Louie is President and Chief Executive Officer of the H. Y. Louie Co. Limited, Chairman and Chief Executive Officer of London Drugs Limited. and Vice-Chairman and Director of IGA Canada Limited. He is a director of The Royal Bank of Canada, Duke University Heart Center and Duke University Medical Center. Mr. Louie is a Governor of the Food Marketing Institute, B.C. Business Council and the World Economic Forum – Food & Beverage Industry. He serves as Chairman of the Board of Governors, Simon Fraser University. Mr. Louie received a Commerce Degree from the University of British Columbia.	2004
P. A. Lusztig, C.G.A.[(1),(3)] Vancouver, British Columbia Canada	Dean Emeritus, University of British Columbia Background: Dean Emeritus, Faculty of Commerce and Business Administration, The University of British Columbia, Mr. Lusztig is a Trustee of the Health Benefit Trust (B.C.). He served as the federal commissioner for the B.C. Treaty Commission (Federal) until 2003. Mr. Lusztig received his Commerce Degree from the University of British Columbia, his Masters of Business Administration from the University of Western Ontario and his Doctorate Degree from Stanford University.	1983
E. P. Newell, O.C., LL.D.[(2),(3)] Edmonton, Alberta Canada	Chancellor, University of Alberta and Corporate Director Background: Mr. Newell retired as Chairman and C.E.O. of Syncrude Canada Limited in December 2003. He is Chancellor of the University of Alberta, a director of Nexen Inc and Terasen Inc., Chair of *CAREERS...The Next Generation* Foundation and a director of the Alberta Energy Research Institute, the C.D. Howe Institute, the Alberta Heart Institute and the Learning Partnership College Foundation. Mr. Newell received a degree in Chemical Engineering from the University of British Columbia and a Masters in Management Studies from the University of Birmingham, U.K. He holds Honourary Law degrees from the University of British Columbia, the University of Alberta and Athabasca University.	1999

J. A. Pattison, O.C., O.B.C.[2] West Vancouver, British Columbia Canada	President, Managing Director, Chief Executive Officer and Chairman, The Jim Pattison Group. Background: Mr. Pattison is a director of Jim Pattison Group Inc. (and its affiliates).	2003
M. E. J. Phelps, O.C.[2],[3] West Vancouver, British Columbia Canada	Chairman, Dornoch Capital Inc. Background: Mr. Phelps is Chairman of Dornoch Capital Inc., a private investment company. He is also a director of Duke Energy Corporation, Canadian Pacific Railway and Fairborne Energy Ltd. Mr. Phelps is Chairman of the Advisory Board, Duke Energy Gas Transmission — Canada and a member of the Advisory Board of Aon Reed Stenhouse. The Federal Government appointed Mr. Phelps as Chairman of "The Wise Persons' Committee", a panel developed to review Canada's system of securities regulation. Mr. Phelps was the Chairman (1992-2002) and C.E.O. (1988-2002) of Westcoast Energy Inc. Mr. Phelps received his Law Degree from the University of Manitoba and his Masters of Law from the London School of Economics and Political Science.	1990
R. T. Riley[4],[5] Montreal, Québec Canada	Vice-President of L.B.G. Capital, a Division of National Bank Financial Background: Mr. Riley is Vice-President of L.B.G. Capital, a division of National Bank Financial, an investment dealer. He is currently a director of Optimum General Inc. He received his Mechanical Engineering Degree from McGill University and his Masters of Business Administration from the Wharton School at the University of Pennsylvania. He had a 25 year career at Canadian Pacific Ltd. ending as a senior corporate officer, followed by eight years as an entrepreneur in the insurance and mutual fund businesses.	1987
D. C. Selman, F.C.A.[1],[5] Richmond, British Columbia Canada	Senior Partner, Wolrige Mahon Background: Mr. Selman is a senior partner with Wolrige Mahon, a firm of chartered accountants and is a chartered business valuator. He obtained his CA designation in 1958 and a Law Degree from the University of British Columbia in 1960. He is a director of Sun-Rype Products Ltd. and of Alpine Helicopters Ltd., an Intrawest subsidiary.	2004

J. A. Shepherd, P.Eng. Surrey, British Columbia Canada	President and Chief Executive Officer, Canfor Background: Mr. Shepherd was appointed President, April 1, 2004, and C.E.O., April 30, 2004, of the Company. From February 1999 to July 2000, Mr. Shepherd was the President and Chief Operating Officer of Slocan Forest Products Ltd. and was appointed Chief Executive Officer of Slocan in July 2000. Prior to this appointment, he was the President and Chief Operating Officer of Crestbrook Forest Industries Ltd. and President of Finlay Forest Industries Limited. Mr. Shepherd received his Mechanical Engineering degree from Queen's University. Mr. Shepherd is a director of BC Lumber Trade Council, Council of Forest Industries, Forest Products Association of Canada, BC Progress Board, BC Forest Safety Council, University of Northern British Columbia and Canadian Lumber Trade Alliance Incorporated.	2004

(1) Member of the Audit Committee.
(2) Member of the Management Resources and Compensation Committee.
(3) Member of the Corporate Governance Committee.
(4) Member of the Environmental, Health and Safety Committee.
(5) Member of the Pension Committee.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

Officers

The names and municipalities, province and country of residence of the executive officers of the Company and the offices held by them are as follows:

Name	Municipality of Residence	Office and Principal Occupation
P. J. G. Bentley, O.C., LL.D.	Vancouver, British Columbia, Canada	Chairman
J. A. Shepherd	Surrey, British Columbia, Canada	President and Chief Executive Officer
D. M. Calabrigo	Surrey, British Columbia, Canada	Vice-President, Corporate Development, General Counsel and Corporate Secretary
J. B. Engleson	Vancouver, British Columbia, Canada	Vice-President, Wood Products, East
K. O. Higginbotham	Surrey, British Columbia, Canada	Vice-President, Forestry and Environment
T. D. Hodgins	West Vancouver, British Columbia, Canada	Vice-President and Treasurer
C. T. James	West Vancouver, British Columbia, Canada	Vice-President, Human Resources

D. B. Kayne	Tsawwassen, British Columbia, Canada	Vice-President, Wood Products Marketing
D. W. Madlung	Surrey, British Columbia, Canada	Vice-President, Wood Products, West
J. R. Williams	Surrey, British Columbia, Canada	Vice-President, Fibre Supply

All of the above Directors and officers have had the same or similar principal occupations with the organizations indicated for the last five years except that: prior to April 2002, Mr. Cliff was Chairman of BC Gas Inc., now Terasen Inc. (1972-2002); prior to April 2003, Mr. Lusztig served as the federal commissioner for the B.C. Treaty Commission (Federal)(1995-2003); prior to December 2003, Mr. Newell was Chairman (1994) and Chief Executive Officer (1989) of Syncrude Canada Ltd.; prior to December 2002, Mr. Phelps was Chairman (1992-2002) and President and Chief Executive Officer (1988-2002) of Westcoast Energy Inc.; prior to April 2004 Mr. Williams was Group Vice-President, Fibre Management of the Company; prior to April 2004, Mr. Engleson was Group Vice-President, Wood Products, and prior to February 2002 was Vice-President, Wood Products, Prince George Region; prior to April 2004, Mr. Calabrigo was Vice-President, Human Resources, General Counsel and Corporate Secretary, prior to July 2003, was General Counsel and Corporate Secretary and prior to January 2001 was General Counsel and Corporate Secretary of Viceroy Resource Corporation; prior to January 2001, Mr. Kayne was General Manager, Wood Products Sales and Marketing; prior to April 2004, Mr. Shepherd was President (from February 1999) and Chief Executive Officer (from July 2000) of Slocan Ltd.; prior to December 2004, Mr. Hodgins was Vice-President and Treasurer of the Company, prior to April 2004, was Vice-President and Financial Officer of Slocan Ltd.; prior to April 2004, Mr. James was Vice-President, Human Resources of Slocan Ltd.; and prior to April 2004, Mr. Madlung was Vice-President, Operations of Slocan Ltd.

Interest of Management and Others in Material Transactions

To the knowledge of Canfor, no director or executive officer of the Company, or any of their associates, has or had any material interest, directly or indirectly, in any transaction within the three most recently completed financial years of the Company that has materially affected or will materially affect the Company, other than in connection with the combination of the Company and Slocan on April 1, 2004 as follows: Great Pacific Industries Inc. or its affiliates, each of which are companies beneficially owned by James A. Pattison, held approximately 20% of the outstanding shares of Slocan at the time of the combination; and Jarislowsky, Fraser Limited, of which Stephen A. Jarislowsky is Chairman and Chief Executive Officer, held approximately 20% of the outstanding shares of Slocan at the time of the combination. Other former officers and directors of Slocan who are now officers and/or directors of Canfor were also shareholders of Slocan at the time of the combination.

Conflicts of Interests

To the knowledge of the Company, no director or executive officer of the Company has an existing or potential conflict of interest with Canfor.

Description of Capital Structure

The authorized share capital of the Company consists of 1,010,000,000 shares divided into 1,000,000,000 Common Shares without par value and 10,000,000 Preferred shares with a par value of $25 each. At February 8, 2005 there were 143,311,480 Common Shares issued and outstanding and no Preferred shares issued and outstanding.

Holders of the Common Shares are entitled to vote at all meetings of shareholders of the Company, except meetings at which only the holders of Preferred shares would be entitled to vote. The Common shareholders are entitled to receive dividends, as and when declared on the Common Shares.

Holders of Preferred shares are not generally entitled as such to receive notice of, or to attend or vote at, general meetings of shareholders of the Company. Preferred shareholders are entitled to preference over the Common Shares with respect to the payment of dividends and upon any distribution of assets in the event of liquidation, dissolution and winding-up of the Company.

Dividends

The declaration and payment of dividends is at the discretion of the Company's Board of Directors. The following dividends (per share) were paid in the years ended December 31.

	2004	2003
Common shares	$0.00	$0.13

The amount of dividends the Company is permitted to pay under its term loan agreements is determined by reference to consolidated net earnings less certain restricted payments. As at December 31, 2004, the Company would be permitted under these agreements to pay up to $458.0 million or $3.20 per share in dividends on its Common Shares. The agreements do not restrict payment of dividends on preferred shares or dividends paid in Common Shares of the Company.

Shareholder Rights Plan

On November 19, 1999, the Board of Directors of the Company (the "Board") approved the adoption, effective as at November 23, 1999, of a shareholder rights plan (the "Shareholder Rights Plan"). The purpose of the Shareholder Rights Plan is to discourage discriminatory or unfair take-over offers for the Company and provide the Board with time, if appropriate, to pursue alternatives to maximize shareholder value in the event of an unsolicited takeover bid for the Company.

This Shareholder Rights Plan was approved at the Annual General Meeting of shareholders held on April 28, 2000 and the Shareholder Rights Plan was reconfirmed and extended by the Company's shareholders for a three year term at its annual general meeting held on April 29, 2003.

Shareholdings of Directors and Executive Officers

As at February 8, 2005, the Directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 29,931,092 Common Shares representing approximately 20.89% of the outstanding Common Shares.

As at February 8, 2005, James A. Pattison beneficially owned 28,600,000 Common Shares, which are held by subsidiaries wholly owned by Mr. Pattison, and represent approximately 19.95% of the outstanding Common Shares of the Company. Jarislowsky, Fraser Limited, an investment management firm with which Stephen A. Jarislowsky is associated, owned 23,346,945 Common Shares representing approximately 16.29% of the outstanding Common Shares of the Company. MatthewsCartier Holdings Limited ("MCHL ") owned or exercises control or direction over 14,595,904 Common Shares representing approximately 10.18% of the outstanding Common Shares of the Company. MCHL is owned indirectly by trusts for the benefit of members of the Prentice and Bentley families of Vancouver. The late Mr. J. G. Prentice and the late Mr. L. L. G. Bentley were the founders of Canfor.

Markets for Securities

The Common Shares are listed and traded on the Toronto Stock Exchange under the symbol CFP. The main operating company is Canadian Forest Products Ltd., from which the name Canfor is derived.

Trading Price and Volume

The following table presents the high and low closing prices for the Company's Common Shares and the average daily trading volume of those shares, on a monthly basis, on the TSX for 2004.

Month of 2004	High	Low	Average Daily Trading Volume
January	$12.79	$10.84	604,188
February	$13.30	$12.02	500,319
March	$14.70	$12.75	533,348
April	$15.88	$13.95	996,538
May	$15.74	$14.25	545,635
June	$15.75	$14.40	442,272
July	$15.40	$14.75	365,649
August	$15.50	$14.29	461,937
September	$16.48	$15.15	1,165,606
October	$17.25	$13.90	632,975
November	$15.25	$13.21	874,572
December	$15.65	$14.20	526,821

Normal Course Issuer Bid

In 2004, the Board of Directors authorized the Company to conduct a normal course issuer bid (the "Issuer Bid"). The Issuer Bid commenced on October 15, 2004 and will terminate on the earliest of (a) the Company purchasing an aggregate of 6,578,868 Common Shares, which represents approximately 5% of the 131,577,364 Common Shares issued and outstanding as of October 1, 2004, or (b) October 14, 2005. The Board appointed a Bid Committee to oversee the purchase of Common Shares under the Issuer Bid and in accordance with the guidelines set by the Board. To February 8, 2005, the Company had purchased a total of 104,800 Common Shares at an average price of $14.6311 per share, all of which have been returned to the treasury of the Company for cancellation.

Security

The Company's operating lines of credit and term indebtedness are unsecured.

Material Contracts

Canfor and Canadian Forest Products Ltd. entered into a credit agreement dated for reference October 25, 2004 with Royal Bank of Canada and other institutional lenders providing for an unsecured and committed $325 million operating credit facility to replace most of their then existing demand operating credit lines and to also be available for general corporate purposes. This facility, which is comprised of a $125 million 364 day amount and a three year $200 million amount, is renewable annually and provides for floating rates of interest.

Canfor entered into a note purchase agreement dated February 2, 2004 with The Prudential Investment Management, Inc. and other purchasers providing financing of up to US $160 million (the "February Note Agreement"). Canfor also entered into a note purchase agreement on April 1, 2004 with John Hancock Life Insurance Company, Investors Partner Life Insurance Company, John Hancock Insurance Company of Vermont and The Maritime Life Assurance Company providing financing of up to US $75 million (the "April Note Agreement").

On February 4, 2004, Canfor issued US $50 million of senior notes under the February Note Agreement for general operating purposes and capital expenditures. On April 1, 2004, Canfor issued US $110 million of senior notes under the February Note Agreement and US $75 million under the April Note Agreement for the repayment of $160 million of long term debt existing at the time of acquisition of Slocan. Certain of the funds under the February Note Agreement and the April Note Agreement were also used to pay a make-whole payment on Slocan's outstanding indebtedness at the time of acquisition and for general corporate purposes.

The senior notes issued under the February Note Agreement and the April Note Agreement have the following interest rates and maturities: US $60 million at 5.66% (2009), US $50 million at 6.18% (2011), US $50 million at 6.33% (2012), and US $75 million at 5.24% (2013).

All of the foregoing note agreements and credit facility are unsecured but require compliance with certain covenants that could in certain circumstances restrict the ability of Canfor or its subsidiaries to incur additional indebtedness, to encumber or dispose of their assets, or to make certain payments or distributions.

Legal Proceedings

Reference is made to Note 16 of the Company's Consolidated Financial Statements for the year ended December 31, 2004and the sections entitled "Canada/US Softwood Lumber Dispute" and "NAFTA Lawsuit" in the Company's Management, Discussion and Analysis dated February 8, 2005, which are incorporated by reference herein.

Cease Trade Orders, Bankruptcies, Penalties, Sanctions

To the knowledge of the Company, no director, executive officer or a shareholder holding a sufficient number of securities of the Company to materially affect control of the Company was within the last 10 years of the date of this Annual Information Form, a director or executive officer of a company that, while acting in that capacity, (i) was subject to a cease trade or similar order for a period of 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased in such capacity, in a cease trade or similar order for a period of 30 consecutive days; or (iii) within a year of ceasing to act in such capacity became bankrupt, made a proposal under legislation relating to bankruptcy or insolvency or was subject to any proceedings, arrangement or comprise with creditors or had a receiver or trustee appointed to hold its assets, other than Mr. James A. Pattison who, from May 1997 to September 1999, was a director of Livent Inc., which in November 1998 filed for protection from creditors under the *Companies' Creditors Arrangement Act* (Canada) and in September 1999 filed for protection from creditors under Chapter 11 of the U.S. *Bankruptcy Code* in the United States.

Experts

The Company's auditors are PriceWaterhouseCoopers LLP, who have prepared the Auditor's Report included with the Company's Consolidated Financial Statements for the year ended December 31, 2004. As of the date of this Annual Information Form to the knowledge of the Company, the partners and employees of PriceWaterhouseCoopers LLP collectively owned beneficially, directly and indirectly, less than 1% of the Company's outstanding Common Shares.

Transfer Agent and Registrar

CIBC Mellon Trust Company is the Company's transfer agent and registrar with registers of transfers in Vancouver and Toronto.

Audit Committee Information

Audit Committee Terms of Reference

The text of the Audit Committee's terms of reference is disclosed in the Section entitled "Corporate Governance – Board Committees – Audit Committee" in the 2004 Information Circular for the Company's 2004 Annual General Meeting with respect to the Audit Committee's terms of reference.

Composition of Audit Committee

The Audit Committee is composed entirely of independent directors all of whom are financially literate as defined in Multilateral Instrument Form 52-110F1. Ron Cliff, the Chairman of the Committee is a Chartered Accountant and received a commerce degree from the University of British Columbia. Mr. Selman is a Chartered Accountant and a senior partner with Wolrige Mahon, a national accounting firm, and is a chartered business valuator. Mr. Lusztig is the Dean Emeritus of the Faculty of Commerce and Business Administration of the University of British Columbia and is a certified general accountant. Mr. Korenberg is the Vice-Chairman of the Jim Pattison Group and an adjunct professor the Faculty of Law, University of British Columbia.

The Audit Committee has adopted a policy for the engagement of non-audit services whereby the external auditor of the Company is not entitled to provide any non-audit services to the Company exceeding $50,000 in value without the Audit Committee's Chairman's prior approval and any such services exceeding $100,000 are to be approved by the Audit Committee. All such engagements are reported to the Audit Committee.

External Auditor Service Fees (By Category)

The aggregate fees billed by PricewaterhouseCoopers LLP, the auditor of the Company for the last two years was $3,675,623. Of this amount $2,980,623 was for audit, tax and financial services and $695,000 was for consulting services.

External Auditor Service Fees	**2004**	**2003**
Audit(1)	$1,060,000	$827,000
Audit related(2)	386,000	153,000
Tax(3)	250,000	259,000
Other(4)	141,000	554,000
Total	**$1,837,000**	**$1,793,000**

(1) For the audit of the Company's annual financial statements and services normally provided by the principal auditor in connection with the Company's statutory and regulatory filings.

(2) For assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported in (1), including accounting consultations and various agreed upon procedures.

(3) For tax compliance services.

(4) For consulting services other than the fees reported in (1) to (3).

Additional Information

Additional financial information regarding Canfor is provided in the Company's "Management's Discussion and Analysis of Financial Condition and Results of Operations 2004" and "Consolidated Financial Statements" for the year ended December 31, 2004, which are incorporated by reference herein. Additional information, including Directors' and Officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, and securities authorized for issuance under equity compensation plans, is contained in the information circular for the Annual General Meeting of the Company held on April 30, 2004 and in the information circular for the Annual General Meeting of the Company to be held on April 29, 2005.

The Company will provide upon request to the Secretary of the Company, 100-1700 West 75th Avenue, Vancouver, British Columbia V6P 6G2:

a) at no cost when the securities of the Company are in the course of a distribution under a short form prospectus or a preliminary short form prospectus,

   (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;

   (ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Company that have been filed, if any, for every period subsequent to the financial statements for its most recently completed financial year;

   (iii) one copy of the information circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of Directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate, and;

   (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information about Canfor is available on its web site at www.canfor.com and on SEDAR (System for Electronic Document Analysis and Retrieval) at *www.sedar.com*. In addition, all documents identified in this Annual Information Form as being incorporated by reference herein are available on SEDAR at *www.sedar.com.*