

Q1 2006

FOR

THE THREE MONTHS ENDED MARCH 31, 2006

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To Our Shareholders

Canfor Corporation reported net income of \$18.9 million for the first quarter of 2006, or \$0.13 per share on a diluted basis. This compares to income of \$65.6 million for the first quarter of 2005 and a loss of \$12.3 million for the fourth quarter of 2005.


Net income before foreign exchange translation losses, discontinued operations and other one-time adjustments was \$20.9 million, or \$0.15 per share.

Canfor's first quarter results were positively impacted by higher lumber and pulp prices, stronger demand and a committed focus of lowering manufacturing costs. While progress was made in the wood products operations, the Company will continue to improve upon the controllable items within the business. There will be further improvements to performance as major strategic initiatives ramp up at the Plateau sawmill and at Peace Valley OSB, and with the integration of the recently completed New South acquisition. The Company's pulp and paper operations had a very solid quarter and remain low cost producers of softwood kraft pulp.

Operating income before amortization (EBITDA) was \$83.3 million in the quarter, or approximately 9% of sales, versus \$23.7 million, or 3% of sales, in the previous quarter. The improvement of nearly \$50 million versus the previous quarter is mainly a result of improved productivity at most operations and higher prices for lumber and pulp (5% higher for lumber and 4% higher for pulp), which offset the impact of weaker panel prices (plywood 3% lower and OSB 10% lower) and the 2% strengthening in the Canadian dollar in the quarter. While pulp shipments were relatively flat quarter over quarter, shipments for lumber, OSB and plywood were respectively 10%, 33% and 12% higher.

Canfor completed its acquisition of New South Companies Inc. (New South) on March 6, 2006 for cash consideration of US \$181.6 million, net of assumed debt and including transaction costs. The operations of New South have been consolidated from March 6th and contributed EBITDA of \$2.0 million to the quarter's results, after an accounting adjustment to value finished product inventories at fair value at the time of acquisition.

Canfor is pleased that the framework for a softwood lumber agreement has been approved and appreciates the efforts of both the federal and provincial governments in bringing resolution to this long-standing dispute. It is a fair and balanced agreement that Canfor supports. It provides certainty and will give Canfor the opportunity to concentrate on growing its business.



Peter J.G. Bentley
Chairman



James A. Shepherd
President and Chief Executive Officer

Canfor Corporation
First Quarter 2006 – Report to Shareholders
Management’s Discussion and Analysis

This interim Management’s Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted Canfor’s performance during the first quarter of 2006 relative to the previous quarter and the last published annual results as at December 31, 2005 and relative to the comparative quarter in 2005. This MD&A should be read in conjunction with the interim consolidated financial statements and accompanying notes as well as the annual MD&A and audited consolidated financial statements and notes, which are included in Canfor’s Annual Report for the year ended December 31, 2005 (available at www.canfor.com).

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

Throughout this discussion, reference is made to EBITDA (operating income before amortization), which Canfor considers to be an important indicator for identifying trends in the performance of each operating segment and of the Company’s ability to generate funds to meet its debt repayment and capital expenditure requirements. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian generally accepted accounting principles. As there is no standardized method of calculating EBITDA, Canfor’s use of the term may not be directly comparable with similarly titled measures used by other companies.

Certain prior year comparative information throughout this report has been restated for consistency with the presentation in the current year.

The information in this report is as at April 28, 2006.

All financial references are in millions of Canadian dollars unless otherwise noted.

SUMMARY OF SELECTED RESULTS FOR THE QUARTER¹

| (millions of dollars, except for per share amounts) | Q1 2006 | Q4 2005 | Q1 2005 |
|---|--------------------|------------|------------|
| Sales ² | \$ 962.7 | \$ 853.8 | \$ 963.5 |
| Countervailing & anti-dumping duties expensed | \$ 30.2 | \$ 39.9 | \$ 58.9 |
| EBITDA | \$ 83.3 | \$ 23.7 | \$ 137.5 |
| Operating income (loss) | \$ 38.5 | \$ (14.7) | \$ 96.9 |
| Foreign exchange loss on long-term debt | \$ (1.0) | \$ (4.7) | \$ (3.6) |
| Net income (loss) from continuing operations, after tax | \$ 21.2 | \$ (10.6) | \$ 63.5 |
| Net income (loss) from discontinued operations | \$ (2.3) | \$ (1.7) | \$ 2.1 |
| Net income (loss) | \$ 18.9 | \$ (12.3) | \$ 65.6 |
| Per share, diluted | | | |
| Net income (loss) from continuing operations | \$ 0.15 | \$ (0.07) | \$ 0.44 |
| Net income (loss) | \$ 0.13 | \$ (0.09) | \$ 0.46 |
| Average Canadian/US exchange rate ³ | \$ 0.866 | \$ 0.852 | \$ 0.815 |

Net income increased by \$31.2 million over the previous quarter, mainly as a result of improved productivity at most operations and higher prices for lumber and pulp, which offset the impact of weaker panel prices (plywood 3% lower

¹ Includes the results of New South from March 6, 2006.

² Prior year sales figures in the Lumber segment have been restated for comparability with the presentation in the current year.

³ Source – Bank of Canada (average noon rate for the period)

and OSB 10% lower) and the 2% strengthening in the Canadian dollar in the quarter. When compared to the first quarter of 2005, net income was \$46.7 million lower, mainly due to a 6% strengthening in the Canadian dollar and lower product prices (lumber 14%, pulp 3%, plywood 15% and OSB 22%) in the current quarter.

The quarter's results were impacted by \$2.0 million of net unfavourable adjustments (after tax) for foreign exchange on long-term debt (\$0.8 million) and discontinued operations (\$2.3 million), which were partially offset by a \$1.1 million adjustment to the 2005 long-term incentive accrual. Net income excluding these specific items was \$20.9 million, or \$0.15 per share.

Acquisition of New South

On March 6, 2006, Canfor completed its acquisition of New South Companies Inc. (New South). Headquartered in South Carolina, New South operates three sawmills with an annual capacity of 425 million board feet of southern yellow pine, two treating plants, a finger joint plant and a European lumber import business. The transaction was valued at US \$181.6 million (US \$205.0 million, less assumed debt of US \$39.4 million and adjustments for working capital and transaction costs), or Cdn \$206.1 million. Post acquisition operating earnings from New South amounted to \$0.7 million, net of a \$1.8 million adjustment to revalue New South's opening inventories at fair value, and EBITDA was \$2.0 million (*all figures are in Canadian dollars*).

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber⁴

| (millions of dollars unless otherwise noted) | Q1 2006 | Q4 2005 | Q1 2005 |
|--|------------|------------|------------|
| Sales ² | \$ 636.3 | \$ 543.1 | \$ 660.2 |
| EBITDA | \$ 46.4 | \$ 7.5 | \$ 101.3 |
| EBITDA margin | 7% | 1% | 15% |
| Operating income (loss) | \$ 21.8 | \$ (13.1) | \$ 76.0 |
| Average SPF 2x4 #2 & Better lumber price in US \$ ⁵ | \$ 343 | \$ 328 | \$ 398 |
| Average SPF price in Cdn \$ | \$ 396 | \$ 385 | \$ 488 |
| Average SYP 2x4 #2 lumber price in US \$ ⁶ | \$ 435 | \$ 439 | \$ 433 |
| Average SYP price in Cdn \$ | \$ 502 | \$ 515 | \$ 531 |
| Production – lumber (MMfbm) | 1,247.7 | 1,049.9 | 1,205.4 |
| Shipments – Canfor-produced lumber (MMfbm) | 1,162.6 | 1,053.3 | 1,116.7 |
| Shipments – wholesale lumber (MMfbm) | 150.0 | 122.7 | 76.6 |

The Lumber segment posted an operating income of \$21.8 million in the first quarter, or \$34.9 million higher than in the fourth quarter of 2005. Offsetting the unfavourable impact of the continued strengthening of the Canadian dollar was a 12% increase in sales volume and a 5% increase in average 2x4 Random Length pricing over the previous quarter. Emphasis on product profile and shipment performance also provided incremental revenue growth. Higher lumber prices, productivity and chip revenues in the first quarter of 2005 resulted in comparatively higher earnings in that period.

On December 12, 2005, the US Department of Commerce lowered the deposit rates for the countervailing and anti-dumping duties from 18.2% to 10.05%. As a result, the combined duty expense in the current period was \$9.7 million lower than in the fourth quarter and \$28.7 million lower than in the first quarter of 2005.

⁴ Includes the results of New South Companies Inc. from March 6, 2006 (Sales - \$53.1 million, EBITDA - \$2.0 million, Operating Income - \$0.7 million, Production - 29.7 MMfbm, Shipments - 37.4 MMfbm of SYP and 47.2 MMfbm of wholesale).

⁵ Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)

⁶ Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)

Operations

Operational gains were realized as certain facilities progressed out of capital construction phases and into various stages of their start-up curves. Most notable among these was the strategic upgrade at the Plateau operation that contributed to the noticeable improvement in the aggregate lumber performance over the prior period. Production at the Western SPF mills improved by 16% over the previous quarter and unit manufacturing costs were reduced by 4%.

Stumpage Rates

The Government of British Columbia has recently announced two significant policy changes related to pricing of Crown timber in the Interior Region of the Province.

In the first policy change, the Grade 3 (dead and dry) sawlogs category has been withdrawn with effect from April 1, 2006. These sawlogs will now be categorized as either sawlogs or pulpwood depending on their quality. If they are deemed to be pulpwood, they will continue to sell for 25 cents per cubic metre. If they qualify as sawlogs, they will be priced, on average, at \$10 per cubic metre less than green sawlogs. The change in log grades is intended to be revenue neutral to the Crown, meaning that the price of green sawlogs will decline somewhat. Consequently, for operations in areas with high proportions of dead and dry sawlogs, prices for fibre will increase and operations harvesting largely green timber will see log prices decline by a similar amount.

The second change announced is the replacement of the current Comparative Value Pricing System (CVP) with a market-based system driven by prices for timber sold in open auctions through the BC Timber Sales Program. In the current system, the declining value over time of trees killed by the Mountain Pine Beetle would not be appropriately recognized and this is the principal reason for the change. The Province of BC recently announced that a market-based system has now been agreed upon by both government and industry, and will be implemented September 1, 2006. Canfor's current analysis of the new system suggests a decrease in log prices at the time of implementation, which will result from the high volumes of wood available (beetle killed wood available for salvage) and the declining value of the beetle-killed trees as they degrade over time.

Canfor is currently in the process of determining the financial impact of these changes.

Markets – see below, following Panels section

Panels

| (millions of dollars unless otherwise noted) | Q1 2006 | Q4 2005 | Q1 2005 |
|--|------------|------------|------------|
| Sales | \$ 99.3 | \$ 89.0 | \$ 93.5 |
| EBITDA | \$ 6.9 | \$ 1.2 | \$ 20.6 |
| EBITDA margin | 7% | 1% | 22% |
| Operating income (loss) | \$ 1.1 | \$ (2.7) | \$ 17.8 |
| Average plywood price in Cdn \$ ⁷ | \$ 375 | \$ 387 | \$ 439 |
| Average OSB price in US \$ ⁸ | \$ 285 | \$ 317 | \$ 364 |
| Average OSB price in Cdn \$ | \$ 329 | \$ 372 | \$ 447 |
| Production – plywood (MMsf 3/8") | 114.0 | 109.9 | 108.3 |
| Production – OSB (MMsf 3/8") | 172.7 | 113.5 | 120.6 |
| Shipments – plywood (MMsf 3/8") | 110.3 | 98.3 | 106.0 |
| Shipments – OSB (MMsf 3/8") | 157.2 | 118.0 | 102.5 |

⁷ Canadian softwood plywood, per Msf 3/8" basis, delivered to Toronto (Source – C.C. Crowe Publications, Inc.)

⁸ Oriented strand board, per Msf 7/16" North Central (Source – Random Lengths Publications, Inc.)

Despite consistent downward pressure on prices in the quarter, the Panels segment recorded operating income of \$1.1 million, which was a \$3.8 million increase from the previous quarter. Higher production volumes and lower costs were the main reasons for the improved earnings. When compared to the first quarter of 2005, operating income was \$16.7 million lower as a result of weaker prices for both plywood and OSB.

The quarter's results include a \$2.2 million operating loss from the Peace Valley OSB joint venture. The plant, which is in its start-up phase, commenced operations at the end of the fourth quarter of 2005 and is expected to operate at 65-75% of its 820 million square feet (3/8" basis) annual capacity in the second quarter.

Operations

Plywood production was 4% higher than in the fourth quarter and 5% higher than in the first quarter of 2005, and conversion costs were reduced by 2% in the period. Complementing the operational efficiencies was a continued emphasis on product differentiation, which provided the majority of the revenue increase over the prior quarter.

OSB production at PolarBoard increased by 16% over the fourth quarter of 2005, when the mill was impacted by an 11-day unscheduled shutdown for maintenance and repairs. The improved operating performance and reduced maintenance costs resulted in a 16% reduction in total manufacturing costs.

OSB production of 172.7 million square feet in the quarter includes Canfor's 50% share of production from Peace Valley OSB, which totaled 90.2 million square feet. Peace Valley OSB steadily increased production through the first quarter. Product quality has been excellent with certification achieved quickly on desired products.

Markets – Lumber and Panels

Mild weather across much of the US in January resulted in high levels of housing construction during that month and strong demand for solid wood products. However, winter weather descended on parts of the mid-west, temporarily reducing construction in those areas. As a result, average US housing starts for the first quarter of 2006 were 2.131 million units on a seasonally adjusted basis, which was 2% higher than the same period in 2005. Repair and renovation markets remained very strong. Increased lumber supply from Canadian and European producers over the same period last year resulted in lower prices for Spruce/Pine/Fir than during the first quarter of 2006. Many producers in British Columbia have increased capacity in the past few years in order to process the Mountain Pine Beetle killed timber. As well, European suppliers have also increased lumber capacity and continue to market their excess lumber in North America. As a result, Western SPF 2x4 #2 & Better prices decreased throughout the quarter to an average of US \$343, or 14% lower than the same period last year. Strong demand in the Southeast US and stable supply resulted in Southern Yellow Pine (Eastside) 2x4 #2 prices averaging US \$435 per Mfbm in the first quarter, which was marginally higher than in the same period in 2005.

First quarter lumber exports to all offshore markets were strong, with sales volume increasing by 22% over the first quarter of 2005. The Japanese market, which represents a major component of Canfor's offshore market, increased by 21% from the same period last year as a result of the continued strong demand for 2x4 housing. Other key emerging markets, such as China and Korea, also posted volume gains of 33% compared with the first quarter of 2005.

The structural panel market was also off to a strong start for the quarter, before housing activity slowed in some regions. In addition, new OSB capacity has come on stream since the first quarter of 2005 and the amount of supply has outstripped demand and has resulted in declining prices. The average OSB price of US \$285 per Msf 7/16" North Central was 22% lower than the same period last year. The average Canadian Softwood Plywood price of Cdn \$375 per Msf 3/8" basis delivered to Toronto was 15% below the average price for the first quarter of 2005.

Outlook – Lumber and Panel Markets

The US Federal government is expected to continue to raise interest rates to offset inflation, which is gradually increasing. Preliminary signs of the US new housing market leveling off are starting to occur and are expected to persist throughout the rest of the year. Although demand for new housing is expected to decline in the coming months, the repair and renovation market will remain strong, driven by continued sales of existing homes. Both

lumber and OSB prices are expected to trend lower during the second quarter as supply for both product lines remains strong.

Pulp and Paper

| (millions of dollars unless otherwise noted) | Q1 2006 | Q4 2005 | Q1 2005 |
|---|------------|------------|------------|
| Sales | \$ 227.1 | \$ 221.7 | \$ 209.8 |
| EBITDA | \$ 34.6 | \$ 28.9 | \$ 21.3 |
| EBITDA margin | 15% | 13% | 10% |
| Operating income | \$ 22.4 | \$ 16.8 | \$ 10.0 |
| Average pulp price – US \$ ⁹ | \$ 622 | \$ 600 | \$ 642 |
| Average price in Cdn \$ | \$ 718 | \$ 704 | \$ 788 |
| Production – pulp (000 mt) | 318.1 | 304.7 | 299.6 |
| Production – paper (000 mt) | 33.1 | 31.5 | 33.4 |
| Shipments – Canfor-produced pulp (000 mt) | 313.3 | 312.4 | 268.1 |
| <i>Marketed on behalf of HSLP¹⁰ (000 mt)</i> | 88.6 | 97.4 | 82.1 |
| Shipments – paper (000 mt) | 31.1 | 30.7 | 32.5 |

Operating income improved by \$5.6 million over the previous quarter, or by \$9.3 million considering that the fourth quarter results included a \$2.3 million scientific research and development tax credit and \$1.4 million of forward contract gains (\$0.1 million in the current quarter). When compared with the first quarter of 2005, the impact of lower prices and a stronger Canadian dollar in the current period was more than offset by the beneficial impact of lower chip prices, favourable energy costs resulting from the co-generation project and higher shipment volumes, as first quarter 2005 shipments were hampered by railcar shortages.

Operations

The mills ran well in the first quarter, with no major mechanical issues or unexpected downtime. The Northwood Pulp Mill set a quarterly production record, averaging 1,654 tonnes per day, compared to the fourth quarter 2005 average of 1,637 tonnes per day.

In comparison, cold weather and mechanical issues caused production challenges at all of the mills in the first quarter of 2005, and maintenance downtime at the Intercontinental and Prince George Pulp and Paper mills reduced production in the fourth quarter of 2005. Conversion costs were down by 3% from the previous quarter and 6% from the same period last year mainly due to the higher productivity in the period and lower natural gas costs.

Maintenance shutdowns are scheduled for the second quarter at the Prince George (8.5 days), Intercontinental (3.5 days) and Northwood (12.5 days) mills, which will reduce production by approximately 30,000 tonnes in the period.

Markets

The chemical market pulp industry began the year with 32 days of supply in inventory, having completed 2005 with a shipment to capacity ratio of 99% and good order books. Bleached softwood market pulp stocks, Canfor's key grade, stood at only 30 days of supply at the beginning of 2006, which is at or close to the level at which producers are likely to have enough pricing power to raise prices. Through March of 2006, producer stocks have declined further, to 28 days of supply for softwood pulp, as a result of strong shipments.

⁹ Per tonne, delivered to Northern Europe

¹⁰ Howe Sound Pulp and Paper Limited Partnership

With prices having bottomed during the fourth quarter of 2005 in Asian markets, producers of market pulp have been pushing prices up steadily thus far in 2006. The price into northwest Europe for northern softwood pulp, a benchmark price for the industry, has risen from the January low of US \$610-620 per tonne, to US \$640 per tonne in March. Most producers of northern softwood pulp, including Canfor, have announced to the market their intention to raise their price in Europe to US \$660 per tonne effective with April sales. Prices in the USA are rising to US \$690 per tonne in April. Asian market prices are also rising in April into the range of US \$570-640 per tonne, and are generally up by US \$80 per tonne since the beginning of the year.

The ability of the softwood kraft pulp industry to achieve higher prices in 2006 is the result of a modest improvement in demand, and a drop in supply. The demand side is being aided by reasonably good paper markets, where demand for international printing and writing paper was strong during the first quarter. The supply of northern softwood kraft market pulp is being impacted by numerous capacity closures. Several of Canfor's competitors have closed their pulp mills either permanently, or for prolonged temporary periods. The most recent shutdowns, dating to the fourth quarter of 2005, have occurred in British Columbia, Saskatchewan, Ontario, and Quebec, which were driven mainly by the impact of the strong Canadian dollar and rising energy costs. Additionally, industry analysts advise that the soaring cost of wood supply to eastern Canadian mills has caused them to become uncompetitive, and forced several mills to close. The second quarter market pulp supply situation should become even tighter, as pulp mills in the northern hemisphere often conduct their annual maintenance shutdowns during the spring.

Outlook – Pulp Markets

Looking forward, the supply of market pulp is expected to be restricted enough that the supply/demand balance should favour the producers through most, if not all, of the second quarter, which should minimize the amount of price competition over the summer months. Normally there is a seasonal slowdown in demand in the third quarter, which often leads to price deterioration, as producers seek to keep running their mills at full output.

Pulp Income Trust

As announced on February 15, 2006, Canfor intends to separate its northern softwood kraft pulp and paper business from its wood products business by transferring, to an indirectly owned limited partnership, its Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill, together with associated management. The Pulp Income Trust will be completed through a plan of arrangement under which Canfor will distribute a 20% interest in the limited partnership to its shareholders and retain an 80% interest. Completion is subject to a number of approvals, including approval by Canfor's shareholders and lenders and the Supreme Court of British Columbia, as well as receipt of satisfactory advice from the Company's counsel with respect to the tax consequences of the transaction. A special meeting of shareholders to approve the Pulp Income Trust is expected to occur in June, 2006.

Non-Segmented Items

| (millions of dollars) | Q1 2006 | Q4 2005 | Q1 2005 |
|---|--------------------|------------|------------|
| Corporate costs | \$ (6.8) | \$ (15.7) | \$ (6.9) |
| Net interest expense | \$ (9.8) | \$ (9.3) | \$ (11.8) |
| Foreign exchange loss on long-term debt | \$ (1.0) | \$ (4.7) | \$ (3.6) |
| Equity income and other | \$ 0.9 | \$ 10.2 | \$ 1.4 |

Corporate Costs

Corporate costs were \$8.9 million lower than in the previous quarter, primarily because the previous quarter included a \$6.5 million accrual for long-term incentive plan payments related to the last two fiscal years (of which \$1.4 million was reversed in the current quarter) and \$1.0 million of severance costs.

Interest Expense

Net interest expense of \$9.8 million was \$0.5 million higher than in the previous quarter as a result of lower cash and temporary investments during the period. Net interest expense was \$2.0 million lower than in the same quarter of 2005, mainly due to long-term debt reductions and the impact of the stronger Canadian dollar on US dollar denominated interest.

Equity Income and Other

Equity and other income amounted to \$0.9 million in the current quarter, compared to \$1.4 million in the same quarter last year. In the fourth quarter of 2005, equity and other income was unusually high because it included \$8.9 million from the Seaboard General Partnership as a result of asset sales and a \$2.3 million adjustment to the \$11.1 million loss recognized in the third quarter on timber taken back by the Province of British Columbia under its Forestry Revitalization Plan.

Discontinued Operations

Coastal Operations

On March 20, 2006, Canfor completed the transfer of its Englewood logging operation and associated timber licenses to a new limited partnership, Coastal Fibre Limited Partnership (CFLP), jointly owned with Oji Paper Canada Ltd., which contributed assets of equal value. In consideration of the transfer, Canfor received a partnership interest valued at \$45.0 million, which approximates book value of the assets transferred. On the same day, CFLP transferred these assets to Western Forest Products Ltd. (WFP) in return for a long-term agreement with WFP to supply CFLP with fibre, and CFLP will supply this fibre to Howe Sound Limited Partnership (HSLP). Canfor's 50% interest in CFLP has been proportionately consolidated in these financial statements, and the long-term fibre agreement with WFP, valued at \$40.0 million, has been recorded as a long-term asset, which will be amortized as the fibre is supplied to CFLP.

Coastal logging operations had been curtailed as of December 15, 2005. A net loss of \$2.3 million from discontinued operations was recognized in the first quarter, which was comprised of a \$4.3 million loss from the Coastal operations up to March 20th and a \$2.8 million loss on the assets transferred, including a \$2.4 million accrual for road deactivation and other closure costs. These amounts were partially offset by a \$4.8 million tax recovery. Coastal operations incurred an after-tax loss of \$0.8 million and \$1.0 million in the first and fourth quarters of 2005, respectively.

Sawmills

The first quarter 2005 results from discontinued operations include income from the former Fort St James, Slocan and Valemount sawmills, amounting to \$2.9 million after tax. The sale of these sawmills was completed during the second quarter of 2005.

SUMMARY OF FINANCIAL POSITION

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

| (millions of dollars) | Q1 2006 | Q4 2005 | Q1 2005 |
|--|------------|------------|------------|
| Ratio of current assets to current liabilities | 2.0:1 | 2.4:1 | 2.6:1 |
| Ratio of net debt to common shareholders' equity | 26:74 | 14:86 | 18:82 |
| Decrease in net cash | \$ (372.4) | \$ (2.6) | \$ (145.3) |
| – comprised of cash flow from (used in): | | | |
| Operating activities | \$ (139.2) | \$ 44.1 | \$ (31.3) |
| Financing activities | \$ (25.8) | \$ (11.8) | \$ 1.9 |
| Investing activities | \$ (224.0) | \$ (34.8) | \$ (118.2) |
| Discontinued operations | \$ 16.6 | \$ (0.1) | \$ 2.3 |

Changes in Financial Position

Operating activities consumed \$139.2 million in cash in the first quarter, compared to \$44.1 million of cash generated in the previous quarter and \$31.3 million consumed in the first quarter of 2005. The main reason for the decrease in operating cash flow is the seasonal build up of log inventories, which increased by \$219.7 million (or 4.0 million cubic metres) since the end of 2005. When compared to the first quarter in 2005, log inventories were \$156.9 million higher in the current period as a result of accelerated logging in order to take advantage of current stumpage rates.

Cash used in financing activities of \$25.8 million in the current quarter was comprised of scheduled long-term debt repayments of \$35.5 million and \$9.7 million of proceeds from long-term debt of subsidiary companies. The \$1.9 million of cash generated from financing activities in the first quarter of 2005 was mainly comprised of proceeds from the exercise of stock options. In the fourth quarter of 2005, cash used in financing activities of \$11.8 million was comprised of a scheduled long-term debt repayment.

Investing activities consumed \$224.0 million of cash in the current quarter, including \$206.1 million for the acquisition of New South. Capital expenditures, net of proceeds from disposals were \$14.4 million in the quarter. \$118.2 million of cash was used for investing activities in the first quarter of 2005, including \$66.1 million of net capital expenditures and \$50.0 million paid to HSLP for the utilization of their tax losses. Investing activities consumed \$34.8 million in the fourth quarter of 2005, including net capital expenditures of \$93.4 million, partially offset by \$62.0 million of proceeds received from the Government of British Columbia for the return of timber licences and lost infrastructure.

Liquidity and Financial Requirements

At the end of the current period, Canfor had net bank indebtedness of \$69.5 million and had additional bank operating lines of credit available of \$223.6 million.

OUTSTANDING SHARES

At April 28, 2006, there were 142,540,030 common shares outstanding.

RISKS AND UNCERTAINTIES

A comprehensive discussion of Risks and Uncertainties was included in the 2005 Annual Report. An update of that discussion is included below.

Canada/US Softwood Lumber Dispute

Canfor is currently expensing duties at the same rate at which deposits are being paid. Since December 12, 2005, this rate has been 8.70% for countervailing duty (CVD) and 1.36% for anti-dumping duty (ADD), which was subsequently amended by the US Department of Commerce (DOC) to 1.35% on January 21, 2006. The cumulative additional CVD accrued in excess of the cash deposits made at March 31, 2006 is \$67.4 million and is recorded on the balance sheet under "other accruals and provisions". The cumulative ADD cash deposits in excess of the calculated expense accrued at March 31, 2006 is \$113.8 million and is being carried as a receivable under "long-term investments and other".

On March 17, 2006 the NAFTA panel released its decision on the DOC's challenge to the Fifth Remand Determination issued in November 2005. It upheld its earlier findings and confirmed a CVD rate of 0.8%, which is considered "de minimis", and, as a result, the CVD order should be revoked.

As at March 31, 2006, Canfor had paid combined duty deposits of US \$759.9 million (ADD of \$177.1 million and CVD of \$582.8 million) since the inception of CVD and ADD in May 2002. All of these deposits would be eligible for refund to Canfor with interest if the litigation concerning the effect of the US International Trade Commission (ITC)'s negative remand determination were successful.

Canfor and other Canadian forest product companies, the Canadian Federal Government and Canadian provincial governments (Canadian Interests) categorically deny the US allegations and strongly disagree with the final

countervailing and dumping determinations made by the DOC in the investigations and reviews, and with the ITC's determination in the Section 129 proceeding. Canadian Interests continue to aggressively defend the Canadian industry in this US trade dispute. Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO.

On April 27, 2006 the federal governments of Canada and the US agreed upon the conditions for a term sheet to resolve the long-standing softwood lumber dispute.

SELECTED QUARTERLY FINANCIAL INFORMATION

| | Q1 2006 | Q4 2005 | Q3 2005 | Q2 2005 | Q1 2005 | Q4 2004 | Q3 2004 | Q2 2004 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Sales and Income (millions of dollars) | | | | | | | | |
| Sales | \$ 962.7 | \$ 853.8 | \$ 934.1 | \$ 1,035.7 | \$ 963.5 | \$ 1,037.7 | \$ 1,122.3 | \$ 1,143.7 |
| Operating income (loss) | \$ 38.5 | \$ (14.7) | \$ (5.8) | \$ 66.0 | \$ 96.9 | \$ 20.3 | \$ 206.0 | \$ 206.7 |
| Net income (loss) from continuing operations | \$ 21.2 | \$ (10.6) | \$ 20.7 | \$ 28.2 | \$ 63.5 | \$ 45.4 | \$ 193.2 | \$ 130.1 |
| Net income (loss) | \$ 18.9 | \$ (12.3) | \$ 17.4 | \$ 25.3 | \$ 65.6 | \$ 43.0 | \$ 200.0 | \$ 142.1 |
| Per common share (dollars) | | | | | | | | |
| Net income (loss) from continuing operations | | | | | | | | |
| Basic | \$ 0.15 | \$ (0.07) | \$ 0.14 | \$ 0.20 | \$ 0.44 | \$ 0.34 | \$ 1.47 | \$ 0.99 |
| Diluted | \$ 0.15 | \$ (0.07) | \$ 0.14 | \$ 0.20 | \$ 0.44 | \$ 0.32 | \$ 1.36 | \$ 0.92 |
| Net income (loss) | | | | | | | | |
| Basic | \$ 0.13 | \$ (0.09) | \$ 0.12 | \$ 0.18 | \$ 0.46 | \$ 0.31 | \$ 1.52 | \$ 1.08 |
| Diluted | \$ 0.13 | \$ (0.09) | \$ 0.12 | \$ 0.18 | \$ 0.46 | \$ 0.30 | \$ 1.40 | \$ 1.00 |
| Statistics | | | | | | | | |
| Lumber shipments (MMfbm) | 1,313 | 1,176 | 1,334 | 1,393 | 1,193 | 1,345 | 1,186 | 1,293 |
| Pulp shipments (000 mt) | 313 | 312 | 310 | 299 | 268 | 313 | 275 | 285 |
| Plywood shipments (MMsf 3/8") | 110 | 98 | 124 | 107 | 106 | 96 | 96 | 109 |
| OSB shipments (MMsf 3/8") | 157 | 118 | 132 | 117 | 103 | 127 | 121 | 133 |
| Average exchange rate (Cdn\$/US\$) | \$ 0.866 | \$ 0.852 | \$ 0.832 | \$ 0.804 | \$ 0.815 | \$ 0.819 | \$ 0.765 | \$ 0.736 |
| Average Western SPF 2x4 #2&Btr lumber price (US \$) | \$ 343 | \$ 328 | \$ 327 | \$ 365 | \$ 398 | \$ 338 | \$ 440 | \$ 437 |
| Average SYP (East) 2x4 #2 lumber price (US \$) | \$ 435 | \$ 439 | \$ 457 | \$ 458 | \$ 433 | \$ 410 | \$ 414 | \$ 405 |
| Average NBSK final pulp price delivered to Northern Europe (US \$) | \$ 622 | \$ 600 | \$ 588 | \$ 613 | \$ 642 | \$ 609 | \$ 637 | \$ 650 |
| Average plywood price—Toronto (Cdn \$) | \$ 375 | \$ 387 | \$ 362 | \$ 361 | \$ 439 | \$ 444 | \$ 548 | \$ 592 |
| Average OSB price—North Central (US \$) | \$ 285 | \$ 317 | \$ 291 | \$ 305 | \$ 364 | \$ 260 | \$ 351 | \$ 431 |

The main factors affecting the comparability of the results over the last eight quarters are changes in the value of the Canadian dollar against the US dollar, which, as the majority of Canfor's revenues are invoiced in US dollars, has had a significant impact on Canadian dollar revenues and the translation of US dollar denominated long-term debt, and changes in lumber, pulp, plywood and OSB prices, as highlighted in the table above.

One-time items that had a significant impact on quarterly results include restructuring and mill closure provisions of \$18.3 million, \$0.3 million and \$10.2 million in the second, third and fourth quarters of 2004 respectively and \$1.6 million and \$2.5 million in the second and third quarters of 2005 respectively (all figures are after tax). The second quarter 2005 results were reduced by a \$4.0 million after-tax loss on the sale of the Fort St James, Slocan and Valemount sawmills and the third quarter 2005 results were reduced by an \$8.9 million after-tax write-down of timber licences, which was subsequently reduced to \$6.2 million in the fourth quarter of 2005. In the third quarter of 2005, the BC Corporate income tax rate was reduced by 1.5%, which resulted in a \$21.0 million favourable adjustment to the current and future income tax liability being recorded in the period. This was partially offset by \$7.7 million of other tax adjustments related to the availability of capital losses and reassessments of prior tax years. The fourth quarter 2005 results include a \$5.2 million after-tax accrual for long-term incentive plan payments, which was reduced by \$1.1 million after tax in the first quarter of 2006. Favourable items affecting the fourth quarter 2005 results include \$8.9 million of income from the Seaboard General Partnership, resulting from asset sales, and \$2.0 million of scientific research and development tax credits claimed. The first quarter 2006 results include \$0.7 million of post-acquisition operating income from the New South operations.

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills, plywood and OSB plants, and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber and panel products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions. Shortages in railcar supply had an adverse impact on shipment volumes in the first quarter of 2005 and also in the first three quarters of 2004. A container truckers' strike at the Port of Vancouver impacted offshore shipments in the third quarter of 2005.

DISCLOSURE CONTROLS

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board and the Audit Committee.

Consolidated Statements of Income and Retained Earnings

| (millions of dollars, unaudited) | 3 months ended March 31, | |
|--|--------------------------|-----------------|
| | 2006 | 2005 |
| Sales | \$ 962.7 | \$ 963.5 |
| Costs and expenses | | |
| Manufacturing and product costs | 681.4 | 619.8 |
| Freight and other distribution costs | 152.4 | 130.7 |
| Countervailing and anti-dumping duties (Note 7) | 30.2 | 58.9 |
| Amortization | 44.8 | 40.6 |
| Selling and administration costs | 15.4 | 16.4 |
| | 924.2 | 866.4 |
| Restructuring, mill closure and other severance costs (Note 8) | - | 0.2 |
| Operating income from continuing operations | 38.5 | 96.9 |
| Equity income of affiliated companies | 0.6 | 1.6 |
| Interest expense | (9.8) | (11.8) |
| Foreign exchange loss on long-term debt | (1.0) | (3.6) |
| Other income (expense) | 0.3 | (0.2) |
| Net income from continuing operations before income taxes | 28.6 | 82.9 |
| Income tax expense (Note 10) | (7.4) | (19.4) |
| Net income from continuing operations | 21.2 | 63.5 |
| Net income (loss) from discontinued operations (Note 3) | (2.3) | 2.1 |
| Net income | \$ 18.9 | \$ 65.6 |
| Per common share (in dollars) (Note 12) | | |
| Net income from continuing operations | | |
| Basic | \$ 0.15 | \$ 0.44 |
| Diluted | \$ 0.15 | \$ 0.44 |
| Net income | | |
| Basic | \$ 0.13 | \$ 0.46 |
| Diluted | \$ 0.13 | \$ 0.46 |
| Retained earnings, beginning of year | \$ 779.5 | \$ 691.9 |
| Net income for the period | 18.9 | 65.6 |
| Retained earnings, end of year | \$ 798.4 | \$ 757.5 |

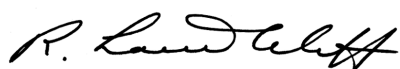
Consolidated Cash Flow Statements

| (millions of dollars, unaudited) | 3 months ended March 31, | |
|--|--------------------------|-----------------|
| | 2006 | 2005 |
| Cash generated from (used in) | | |
| Operating activities | | |
| Net income from continuing operations | \$ 21.2 | \$ 63.5 |
| Items not affecting cash: | | |
| Amortization | 44.8 | 40.6 |
| Income taxes | (0.2) | 17.0 |
| Long-term portion of deferred reforestation | 21.8 | 17.8 |
| Employee future benefits | 3.9 | 5.8 |
| Foreign exchange loss on long-term debt | 1.0 | 3.6 |
| Adjustment to accrued duties (Note 7) | - | (7.0) |
| Other | (3.7) | (1.0) |
| Changes in non-cash working capital (Note 14) | (228.0) | (171.6) |
| | (139.2) | (31.3) |
| Financing activities | | |
| Proceeds from long-term debt | 9.7 | 0.6 |
| Repayment of long-term debt | (35.5) | (0.3) |
| Net proceeds on issuance of common shares (Note 11) | 0.3 | 1.8 |
| Other | (0.3) | (0.2) |
| | (25.8) | 1.9 |
| Investing activities | | |
| Business acquisition (Note 2) | (206.1) | - |
| Property, plant, equipment and timber | (15.0) | (75.1) |
| Electrical co-generation incentive payments | - | 8.3 |
| Howe Sound Pulp and Paper Limited Partnership | - | (50.0) |
| Proceeds from sale of property, plant and equipment | 0.6 | 0.7 |
| Other | (3.5) | (2.1) |
| | (224.0) | (118.2) |
| Decrease in net cash from continuing operations | (389.0) | (147.6) |
| Increase in net cash from discontinued operations (Note 3) | 16.6 | 2.3 |
| Decrease in net cash | (372.4) | (145.3) |
| Net cash at beginning of period | 302.9 | 434.0 |
| Net cash (short-term indebtedness) at end of period | \$ (69.5) | \$ 288.7 |
| Net cash (short-term indebtedness) is comprised of: | | |
| Cash and temporary investments | \$ - | \$ 295.6 |
| Operating bank loans | (69.5) | (6.9) |
| | \$ (69.5) | \$ 288.7 |
| Cash payments (recoveries) in the period | | |
| Interest, net | \$ 19.2 | \$ 23.8 |
| Income taxes | \$ 4.5 | \$ (2.0) |

Consolidated Balance Sheets

| (millions of dollars) | As at March 31, 2006 (unaudited) | As at December 31, 2005 (audited) |
|--|---|--|
| ASSETS | | |
| Current Assets | | |
| Cash and temporary investments | \$ - | \$ 306.3 |
| Accounts receivable | | |
| Trade | 288.5 | 205.4 |
| Other | 91.6 | 79.8 |
| Future income taxes | 23.9 | 23.9 |
| Inventories | 917.5 | 600.9 |
| Prepaid expenses | 26.3 | 36.2 |
| Current assets of discontinued operations (Note 3) | - | 39.8 |
| Total current assets | 1,347.8 | 1,292.3 |
| Long-term investments and other assets | 257.8 | 186.5 |
| Property, plant, equipment and timber | 2,286.9 | 2,211.1 |
| Goodwill (Note 2) | 83.5 | - |
| Deferred charges | 92.1 | 96.9 |
| Non-current assets of discontinued operations (Note 3) | - | 43.7 |
| | \$ 4,068.1 | \$ 3,830.5 |
| LIABILITIES | | |
| Current Liabilities | | |
| Operating bank loans (Note 5) | \$ 69.5 | \$ 3.4 |
| Accounts payable and accrued liabilities | 450.3 | 380.3 |
| Current portion of long-term debt | 102.7 | 95.7 |
| Current portion of deferred reforestation | 44.9 | 43.3 |
| Income taxes payable | 6.7 | 4.1 |
| Current liabilities of discontinued operations (Note 3) | - | 9.3 |
| Total current liabilities | 674.1 | 536.1 |
| Long-term debt (Note 5) | 557.5 | 544.5 |
| Other accruals and provisions (Note 6) | 248.8 | 220.5 |
| Long-term liabilities of discontinued operations (Note 3) | - | 0.4 |
| Future income taxes, net | 508.5 | 468.3 |
| Deferred credit (Note 10) | 10.0 | 14.1 |
| | \$ 1,998.9 | \$ 1,783.9 |
| SHAREHOLDERS' EQUITY | | |
| Share capital – 142,540,030 shares outstanding | 1,268.9 | 1,268.7 |
| Retained earnings | 798.4 | 779.5 |
| Foreign exchange translation adjustment | 1.9 | (1.6) |
| | \$ 2,069.2 | \$ 2,046.6 |
| | \$ 4,068.1 | \$ 3,830.5 |

APPROVED BY THE BOARD



Director, R.L. Cliff



Director, J.A. Shepherd

Notes to the Consolidated Financial Statements

1. These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor's Annual Report for the year ended December 31, 2005. These interim financial statements follow the same accounting policies and methods of computation as used in the 2005 consolidated financial statements.

2. Business Acquisition

On March 6, 2006, Canfor completed its acquisition of New South Companies, Inc. (New South) at a cost of US \$181.6 million, net of assumed debt and including transaction costs.

New South operates three sawmills with an annual capacity of 425 million board feet of southern yellow pine, one remanufacturing facility and two lumber treating plants located in North and South Carolina and an international lumber import business. New South also operates a lumber-trucking fleet of 55 trucks on the US East Coast.

The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the fair values of the assets and liabilities assumed. The following fair value allocation is based on Management's best estimates and information known at the time of preparing these consolidated financial statements.

(millions of dollars)

| | |
|--------------------------------------|----------|
| Net assets acquired at March 6, 2006 | |
| Non-cash working capital | \$ 83.4 |
| Property, plant and equipment | 96.3 |
| Goodwill | 81.2 |
| Other assets | 31.3 |
| Long-term debt | (44.6) |
| Future income taxes, net | (39.0) |
| Other liabilities | (2.5) |
| | <hr/> |
| | \$ 206.1 |

New South is financially and operationally self-sustaining and, accordingly, the current rate method is used for the translation of their financial statements to Canadian dollars on consolidation. Under this method, assets and liabilities, including any excess of purchase price over book value arising on acquisition, are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate in effect during the period. Exchange gains or losses arising from the current rate method of translation are deferred in a separate component of shareholders' equity.

3. Discontinued Operations

On March 20, 2006, Canfor completed the transfer of its Englewood logging operation and associated timber licenses to a new limited partnership, Coastal Fibre Limited Partnership (CFLP), jointly owned with Oji Paper Canada Ltd., which contributed assets of equal value. In consideration of the transfer Canfor received a partnership interest valued at \$45.0 million, which approximates book value of the assets transferred. On the same day, CFLP transferred these assets to Western Forest Products Ltd. (WFP) in return for a long-term agreement with WFP to supply CFLP with fibre, and CFLP will supply this fibre to Howe Sound Pulp and Paper Limited Partnership (HSLP). Canfor's 50% interest in CFLP has been proportionately consolidated (Note 4) and the long-term fibre agreement with WFP, which is valued at \$40.0 million, has been recorded in "long-term investments and other assets" on the balance sheet, and will be amortized as the fibre is supplied to CFLP.

The following table presents selected financial information related to discontinued operations for the current and comparative quarters:

| 3 months ended March 31, | 2006 | | 2005 | |
|---|--------------------|--------------------|----------|---------|
| (millions of dollars) | Coastal Operations | Coastal Operations | Sawmills | Total |
| Sales to external customers | \$ 9.5 | \$ 6.4 | \$ 47.9 | \$ 54.3 |
| Operating income (loss) before income taxes | \$ (4.3) | \$ (1.3) | \$ 4.5 | \$ 3.2 |
| Loss on disposal before income taxes | (2.8) | - | - | - |
| Income tax recovery (expense) | 4.8 | 0.5 | (1.6) | (1.1) |
| Net income (loss) | \$ (2.3) | \$ (0.8) | \$ 2.9 | \$ 2.1 |
| Net income (loss) per share - diluted | \$ (0.02) | | | \$ 0.02 |

4. Joint Ventures

During the first quarter of 2006, Canfor made contributions of \$5.0 million to the Canfor-LP OSB Limited Partnership (Canfor-LP OSB), which is jointly owned with Louisiana-Pacific Canada Ltd. The mill, which is operating as Peace Valley OSB, commenced production in December 2005.

The following balances, representing Canfor's 50% ownership interests in Canfor-LP OSB and CFLP (Note 3), have been proportionately consolidated in Canfor's consolidated financial statements:

| 3 months ended March 31, | 2006 | | | 2005 |
|--|---------------|----------|----------|---------------|
| (millions of dollars) | Canfor-LP OSB | CFLP | Total | Canfor-LP OSB |
| Income Statement | | | | |
| Sales | \$ 11.1 | \$ 0.3 | \$ 11.4 | \$ - |
| Costs and expenses | (13.3) | (0.3) | (13.6) | - |
| Operating loss | \$ (2.2) | \$ - | \$ (2.2) | \$ - |
| Condensed Cash Flow Statement | | | | |
| Operating activities | \$ (6.7) | \$ (1.5) | \$ (8.2) | \$ (0.4) |
| Investing activities | 3.3 | 5.0 | 8.3 | (28.4) |
| Increase (decrease) in net cash | \$ (3.4) | \$ 3.5 | \$ 0.1 | \$ (28.8) |
| Condensed Balance Sheet | | | | |
| Cash | \$ 5.0 | \$ 3.5 | \$ 8.5 | \$ 2.5 |
| Other current assets | 13.7 | 1.8 | 15.5 | 2.3 |
| Property, plant and equipment | 127.0 | - | 127.0 | 69.3 |
| Long-term investments and other assets | - | 39.7 | 39.7 | - |
| Deferred charges | 7.7 | - | 7.7 | 3.9 |
| Accounts payable and accrued liabilities | (8.8) | - | (8.8) | (8.9) |
| Net assets | \$ 144.6 | \$ 45.0 | \$ 189.6 | \$ 69.1 |

5. Bank Indebtedness and Long-Term Debt

At March 31, 2006, Canfor had \$337.0 million of bank operating lines of credit available, of which \$67.7 million was drawn down and an additional \$45.7 million was reserved for several standby letters of credit.

At March 31, 2006, the fair value of Canfor's long-term debt was \$674.2 million.

6. Other Accruals and Provisions

| (millions of dollars) | March 31, 2006 | December 31, 2005 |
|--|----------------|-------------------|
| Deferred reforestation | \$ 90.3 | \$ 67.7 |
| Countervailing duty provision (Note 7) | 67.4 | 67.4 |
| Accrued pension obligations | 21.2 | 20.8 |
| Post employment benefits | 66.3 | 63.1 |
| Other long-term liabilities | 3.6 | 1.5 |
| Total other accruals and provisions | \$ 248.8 | \$ 220.5 |

7. Countervailing and Anti-dumping Duties

Canfor is currently expensing duties at the same rate at which deposits are being paid. Since December 12, 2005, this rate has been 8.70% for countervailing duty (CVD) and 1.36% for anti-dumping duty (ADD), which was subsequently amended by the US Department of Commerce (DOC) to 1.35% on January 21, 2006. The cumulative additional CVD accrued in excess of the cash deposits made at March 31, 2006 is \$67.4 million and is included in "other accruals and provisions" (Note 6). The cumulative ADD cash deposits in excess of the calculated expense accrued at March 31, 2006 is \$113.8 million and is being carried as a receivable under "long-term investments and other assets".

On March 17, 2006 the NAFTA panel released its decision on the DOC's challenge to the Fifth Remand Determination issued in November 2005. It upheld its earlier findings and confirmed a CVD rate of 0.8%, which is considered "de minimis", and, as a result, the CVD order should be revoked.

As at March 31, 2006, Canfor had paid combined duty deposits of US \$759.9 million (ADD of \$177.1 million and CVD of \$582.8 million) since the inception of CVD and ADD in May 2002. All of these deposits would be eligible for refund to Canfor with interest if the litigation concerning the effect of the US International Trade Commission (ITC)'s negative remand determination were successful.

Canfor and other Canadian forest product companies, the Canadian Federal Government and Canadian provincial governments (Canadian Interests) categorically deny the US allegations and strongly disagree with the final countervailing and dumping determinations made by the DOC in the investigations and reviews, and with the ITC's determination in the Section 129 proceeding. Canadian Interests continue to aggressively defend the Canadian industry in this US trade dispute. Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO.

8. Restructuring, Mill Closure and Other Severance Costs

The following provides a reconciliation of the restructuring, mill closure and other severance provision for the current period:

| (millions of dollars) | 3 months ended March 31, 2006 | | |
|---|-------------------------------|--|--------|
| | Integration Costs | Mill Closure & Other Restructuring Costs | Total |
| Balance of liability at beginning of period | \$ 3.5 | \$ 6.2 | \$ 9.7 |
| Accrued in the period | - | - | - |
| Payments in the period | (1.5) | (0.7) | (2.2) |
| Balance of liability at end of period | \$ 2.0 | \$ 5.5 | \$ 7.5 |

9. Employee Future Benefits

Canfor's total benefit costs were as follows:

| (millions of dollars) | 3 months ended March 31, | |
|-------------------------------------|--------------------------|--------|
| | 2006 | 2005 |
| Defined benefit pension plans | \$ 4.0 | \$ 4.0 |
| Other employee future benefit plans | 4.3 | 2.1 |
| Defined contribution pension plans | 0.6 | 0.5 |
| | \$ 8.9 | \$ 6.6 |

10. Income Tax Expense

| (millions of dollars) | 3 months ended March 31, | |
|---|--------------------------|-----------|
| | 2006 | 2005 |
| Current | \$ (6.0) | \$ (2.9) |
| Future | (5.3) | (28.4) |
| Tax on equity earnings | (0.2) | (0.6) |
| | (11.5) | (31.9) |
| Amortization of deferred credit on utilization of acquired tax losses | 4.1 | 12.5 |
| | \$ (7.4) | \$ (19.4) |

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

| (millions of dollars) | 3 months ended March 31, | |
|---|--------------------------|-----------|
| | 2006 | 2005 |
| Income tax expense at statutory tax rate | \$ (9.8) | \$ (28.8) |
| Large corporation tax | (0.9) | (1.3) |
| Amortization of deferred credit on utilization of acquired tax losses | 4.1 | 12.5 |
| Permanent difference from capital gains and losses | (0.2) | (1.3) |
| Other permanent differences and adjustments | (0.6) | (0.5) |
| Income tax expense | \$ (7.4) | \$ (19.4) |

11. Share Capital

During the first quarter of 2006, 29,667 stock options were exercised at an average price of \$9.19 per share.

12. Earnings Per Share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares during the period using the treasury stock method. Under this method, proceeds from the potential exercise of stock options are assumed to be used to purchase the Company's common shares.

| | 3 months ended March 31, | |
|--|--------------------------|-------------|
| | 2006 | 2005 |
| Weighted average number of common shares | 142,518,073 | 143,400,634 |
| Incremental shares from stock options | 88,203 | 247,889 |
| Diluted number of common shares | 142,606,276 | 143,648,523 |

13. Financial Instruments

A significant portion of Canfor's income from operations is generated from sales denominated in US dollars. In order to manage some of the risk associated with fluctuating exchange rates, Canfor enters into forward exchange contracts from time to time. At March 31, 2006, Canfor had US \$55.4 million of forward contracts outstanding. These contracts were fixed at an average rate of 1.1604 and have option periods extending through to August 2006. There was an unrecognized loss of \$0.3 million on these contracts at March 31, 2006. Contracts totaling US \$48.0 million were exercised in the current quarter and a gain of \$0.7 million was realized (2005 – nil).

Canfor also uses a variety of financial instruments to reduce its exposure to risks associated with lumber and pulp prices and energy costs. At March 31, 2006, there was an unrealized gain of \$0.2 million on lumber futures contracts outstanding, a \$0.8 million unrealized gain on pulp swaps and an unrealized gain of \$9.8 million on natural gas swaps.

14. Changes in Non-Cash Working Capital

| (millions of dollars) | 3 months ended March 31, | |
|--|--------------------------|------------|
| | 2006 | 2005 |
| Accounts receivable | \$ (31.0) | \$ (29.1) |
| Income taxes | (0.8) | 1.5 |
| Inventories | (252.9) | (172.8) |
| Prepaid expenses | 11.5 | 9.3 |
| Accounts payable, accrued liabilities and deferred reforestation | 45.2 | 19.5 |
| | \$ (228.0) | \$ (171.6) |

15. Segmented Information ^(a)

| (millions of dollars) | Lumber ^(b) | Panels | Pulp & Paper | Corporate & Other ^(d) | Consolidated |
|--|-----------------------|--------|--------------|----------------------------------|--------------|
| 3 months ended March 31, 2006 | | | | | |
| Sales to external customers | \$ 636.3 | 99.3 | 227.1 | - | \$ 962.7 |
| Sales to other segments ^(c) | \$ 16.6 | 0.7 | - | - | \$ 17.3 |
| Operating income (loss) | \$ 21.8 | 1.1 | 22.4 | (6.8) | \$ 38.5 |
| Amortization | \$ 24.6 | 5.8 | 12.2 | 2.2 | \$ 44.8 |
| Capital expenditures | \$ 13.4 | 2.6 | 3.8 | (4.8) | \$ 15.0 |
| Identifiable assets | \$ 2,249.8 | 388.4 | 885.9 | 544.0 | \$ 4,068.1 |
| 3 months ended March 31, 2005 | | | | | |
| Sales to external customers | \$ 660.2 | 93.5 | 209.8 | - | \$ 963.5 |
| Sales to other segments ^(c) | \$ 32.1 | 1.3 | - | - | \$ 33.4 |
| Operating income (loss) | \$ 76.0 | 17.8 | 10.0 | (6.9) | \$ 96.9 |
| Amortization | \$ 25.3 | 2.8 | 11.3 | 1.2 | \$ 40.6 |
| Capital expenditures | \$ 8.9 | 35.7 | 29.0 | 1.5 | \$ 75.1 |
| Identifiable assets | \$ 1,853.8 | 292.2 | 909.1 | 981.4 | \$ 4,036.5 |

(a) Operations are presented by product line.

(b) Sales for the quarter include sales of Canfor-produced lumber of \$520.0 million (2005 – \$585.6 million).

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

(d) Corporate & Other includes discontinued operations (Note 3).

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



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