News Release

February 8, 2005

Canfor Corporation Announces Fourth Quarter and 2004 Earnings

Highlights

- Net income of $43.7 million in the fourth quarter and $420.9 for the year
- EBITDA of $61.9 million in the fourth quarter and $676.7 million for the year
- Net Debt to Equity reduced to 11:89

Vancouver, B.C. – Canfor Corporation (TSX: CFP) today reported net income of $43.7 million for the fourth quarter, or $0.30 per share on a diluted basis. Record net income of $420.9 million, or $3.22 per share, was earned in 2004.

The current quarter's results include a $36.1 million after-tax exchange gain on long-term debt, and $48.7 million for the year. Net income in the quarter includes a $8.9 million after-tax favourable duty adjustment resulting from the rate determination for the period from May 22, 2002 to April 30, 2003, restructuring and mill closure costs of $10.2 million after-tax, and $3.2 million of after-tax asset write downs. Total restructuring costs recorded in the year, after tax, were $28.8 million, of which $12.7 million were for mill closure costs and $16.1 million were associated with the integration of Canfor and Slocan.

Operating income in the quarter declined by $199.3 million from the third quarter's results, due to lower product prices and a 7% strengthening in the Canadian dollar value against the US dollar. Average prices in the quarter declined by 23% for lumber, 19% for plywood, 17% for OSB and 4% for pulp.

"In terms of operating performance and financial results, 2004 was a very successful year for Canfor," said Jim Shepherd, President and Chief Executive Officer. "Due to the hard work of our employees, Canfor has been able to take advantage of better than expected synergies from the completion of the Canfor-Slocan integration and capital projects have come on line that will help further reduce our costs and increase efficiencies going forward. I feel very confident that we have put the foundation in place that will help us weather the cyclicality of our industry and position Canfor well for long-term growth and success," he said.

Summary of Selected Results for the Quarter and Year[1]

(millions of dollars, except for per share amounts)	**4th Quarter 2004**	3rd Quarter 2004	**12 months ended December 31, 2004**	4th Quarter 2003	12 months ended December 31, 2003
Sales	**$ 1,149.9**	$ 1,228.9	**$ 4,341.9**	$ 656.4	$ 2,662.6
Countervailing & anti-dumping duties expensed	**$ (74.6)**	$ (78.0)	**$ (290.2)**	$ (33.3)	$ (146.6)
Restructuring costs	**$ (12.9)**	$ (0.5)	**$ (36.5)**	$ -	$ -
EBITDA	**$ 61.9**	$ 258.3	**$ 676.7**	$ 27.2	$ 107.0
Operating income (loss)	**$ 17.3**	$ 216.6	**$ 521.5**	$ (0.3)	$ (2.8)
Foreign exchange gain on long-term debt	**$ 36.1**	$ 40.5	**$ 48.7**	$ 25.4	$ 110.9
Net income from continuing operations	**$ 43.7**	$ 201.6	**$ 420.9**	$ 34.6	$ 85.8
Discontinued operation, net of tax	**$ -**	$ -	**-**	$ (0.5)	$ 67.5
Net income	**$ 43.7**	$ 201.6	**$ 420.9**	$ 34.1	$ 153.3
Per share (diluted)					
Net income from continuing operations	**$ 0.30**	$ 1.40	**$ 3.22**	$ 0.37	$ 0.92
Net income	**$ 0.30**	$ 1.40	**$ 3.22**	$ 0.37	$ 1.65
Average Canadian/US exchange rate	**$ 0.819**	$ 0.765	**$ 0.768**	$ 0.760	$ 0.714

[1] Figures quoted in this report reflect the results of the former Slocan operations since April 1, 2004.

Summarized operating results by segment are as follows:

Lumber

(millions of dollars unless otherwise noted)	**4th Quarter 2004**	3rd Quarter 2004	**12 months ended December 31, 2004**	4th Quarter 2003	12 months ended December 31, 2003
Sales	**$ 785.0**	$ 858.2	**$ 2,881.1**	$ 382.5	$ 1,566.9
EBITDA	**$ 44.4**	$ 212.4	**$ 499.4**	$ 15.6	$ 41.4
EBITDA margin	**6%**	25%	**23%**	4%	3%
Operating income (loss)	**$ 18.2**	$ 187.8	**$ 411.6**	$ 1.9	$ (4.7)
Average 2"x4" lumber price [2] in US$	**$ 338**	$ 440	**$ 395**	$ 298	$ 277
Average price in Cdn $	**$ 413**	$ 575	**$ 517**	$ 392	$ 388

The Lumber segment earned operating income of $18.2 million in the quarter compared to $187.8 million in the prior quarter and $1.9 million in the same quarter last year. This reduction in profitability compared to the prior quarter reflects the seasonal decline in product prices (23%) combined with the impact of a 7% increase in the value of the Canadian dollar relative to the US dollar. When comparing the results to the previous quarter, other factors to consider include restructuring costs for this segment of $10.7 million recognized in the fourth quarter. These relate primarily to severance and asset write-down costs resulting from mill closures identified in the quarter. When comparing the earnings in the current period and year to date with the same periods in 2003, the main factors are the income generated by the former Slocan operations, higher lumber prices and the effect of exchange rate movements. In addition the fourth quarter 2003 results were favourably impacted by the inclusion of $8.8 million of exchange gains on forward exchange contracts (none in the current quarter) and adversely impacted because of the downtime taken as a result of significant capital installations at the Prince George and Houston sawmill operations.

Operations:

With the exception of downtime taken over the Christmas holiday period, the lumber segment continued to operate at full capacity during the quarter.

Operational changes are being made to those mills most affected by the increasing supply of mountain pine beetle infested timber in order to address the resultant smaller log sizes and reduced timber quality. The Company's harvesting operations continue their focus on the most heavily infested areas.

Duties expensed for the quarter were $74.6 million compared to $78.0 million in the prior quarter and $33.3 million in the fourth quarter of 2003. The duty expense for the current quarter was impacted by adjustments made to both CVD and ADD as a result of US Department of Commerce announcements and assessments made in the quarter, which are discussed in detail in Note 7 to the attached financial statements. The net impact on operating earnings is a positive $11.3 million in the quarter.

Markets:

Following the 5 year highs achieved in the mid-third quarter, lumber prices weakened into September and declined further into the fourth quarter. Prices bottomed out in November before picking up for the balance of the quarter. Western SPF 2"x4" #2 & Better prices averaged US $338 per Mfbm for the fourth quarter which is 23% less than the previous quarter, and ended the year at US $358 per Mfbm. A number of factors contributed to a rebound in the lumber market. These included log shortages in Eastern Canada, the rebuilding of customer inventories in anticipation of a strong spring building season and concern about supply as a result of the US East Coast hurricanes.

[2] #2 & Better, per thousand board feet (Source – Random Lengths publication)

Panels

(millions of dollars unless otherwise noted)	**4th Quarter 2004**	3rd Quarter 2004	**12 months ended December 31, 2004**	4th Quarter 2003	12 months ended December 31, 2003
Sales	**$ 95.0**	$ 109.6	**$ 373.4**	$ 31.7	$ 122.8
EBITDA	**$ 22.6**	$ 38.5	**$ 129.5**	$ 1.0	$ 7.8
EBITDA margin	**24%**	35%	**35%**	3%	6%
Operating income	**$ 19.9**	$ 35.9	**$ 121.0**	$ 0.5	$ 5.3
Average plywood price in Cdn $ [3]	**$ 444**	$ 548	**$ 532**	$ 475	$ 458
Average OSB price in US $ [4]	**$ 293**	$ 353	**$ 371**	$ 386	$ 263
Average OSB price in Cdn $	**$ 358**	$ 461	**$ 483**	$ 533	$ 365

The Panels segment earned operating income of $19.9 million, or $16.0 million less than in the third quarter and $19.4 million more than the same quarter in 2003. The decrease from the previous quarter is primarily the result of lower product prices and the impact of the stronger Canadian dollar on sales. When comparing the current year's operating income to the same periods in 2003, the main factor in the increase is the inclusion of the former Slocan OSB and plywood operations in 2004.

Operations:

The North Central Plywood operation ran at full capacity for the fourth quarter following an upgrade to its hot press and lay up line in the previous quarter. The Tackama plywood operation incurred some downtime due to capital installation to upgrade the press.

Oriented strand board (OSB) operations ran well in the quarter but production was impacted in December by a 3-day maintenance shutdown and a critical press hydraulic failure. Profitability was reduced due to lower prices, which were down by 17% from the previous quarter.

Markets:

The North American demand for panels was strong in the third quarter but weakened significantly at the end of the quarter and into the fourth quarter. The average Canadian Softwood Plywood (CSP) price for the quarter of Cdn $444 (per Msf 3/8" basis, delivered to Toronto) was 19% less than the third quarter and $31 less than the same quarter in 2003. US dollar OSB prices declined on average 17% from the third quarter level. Canadian plywood markets levelled off at the end of the quarter and OSB prices strengthened, increasing by US $52 in the month of December.

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[3] Per Msf 3/8" basis, delivered to Toronto (Source – C.C. Crowe Publications, Inc.)

[4] Per Msf 7/16" North Central (Source – Random Lengths publication)

Pulp and Paper

(millions of dollars unless otherwise noted)	**4th Quarter 2004**	3rd Quarter 2004	**12 months ended December 31, 2004**	4th Quarter 2003	12 months ended December 31, 2003
Sales	**$ 239.0**	$ 248.7	**$ 981.7**	$ 217.0	$ 853.4
EBITDA	**$ 1.8**	$ 17.5	**$ 89.6**	$ 19.6	$ 69.8
EBITDA margin	**1%**	7%	**9%**	9%	8%
Operating income (loss)	**$ (10.1)**	$ 6.3	**$ 45.1**	$ 9.2	$ 25.7
Average pulp price [5] in US $	**$ 613**	$ 640	**$ 624**	$ 555	$ 527
Average price in Cdn $	**$ 748**	$ 837	**$ 812**	$ 730	$ 739

Operating income decreased by $16.4 million from the previous quarter and was $19.3 million lower than the same quarter in 2003. Lower pulp prices and the impact of the strengthened Canadian dollar were the main factors in the decrease in operating income from the prior quarter. When compared to the fourth quarter in 2003, the decrease in operating income in the current quarter is due to a number of one-time favourable adjustments recorded in the fourth quarter of 2003, including a chip inventory adjustment, forward contract gains and lower maintenance costs. When comparing the 2004 year with 2003, higher prices for pulp and the inclusion of the former Slocan Taylor pulp mill's results were the main factors in the higher earnings in 2004. Strong demand and tight supply of softwood pulp increased the average price delivered to northern Europe by 10% compared to the same period in 2003. However, when factoring in the impact of the strengthened Canadian dollar, the price increase was only 2%.

Operations

Production at the Northwood mill was above target in the quarter, which resulted in lower unit costs at that mill. The Intercon mill experienced some operational issues, including an area shut and some mechanical problems that caused daily production to be below target for the quarter. The Prince George Pulp mill's production for the quarter was reduced as a result of their annual maintenance shutdown in October, which was followed by an extended shutdown to complete major work on the co-generation project. During the shutdown, the paper machine at the Prince George mill continued to run at a reduced rate. The Taylor mill's productivity was slightly below target in the quarter, mainly due to a fire on the slab press that caused 400 tonnes of lost production and a BCTMP market-related shutdown over the Christmas period.

Markets

Market pulp inventories had risen globally through the summer due to a seasonal slowdown in demand. Customer inventories had correspondingly dropped to manageable levels and in some cases to fairly low levels. This supply and demand situation lead to strong shipments during October. At the beginning of the fourth quarter, pricing had bottomed in northwest Europe at US$590 per airdry metric tonne (admt). However an increase in orders from the more speculative Asian markets tipped the supply and demand balance. This allowed pulp producers to implement modest price increases, and by December the price in northwest Europe had risen to $630 per admt.

Entering 2005, paper demand has increased in the USA, which has exerted upward price pressures. Demand is also strong in Europe, with producers beginning to achieve some price improvement. Paper market fundamentals in Asia also appear to be good. Looking ahead, paper markets are heading into a seasonally strong period of the year. Pulp supply will start to be restricted by maintenance shutdowns later in the first quarter, and possibly by fibre supply problems in eastern Canada and the southeastern USA. These factors should lead to a higher pulp prices through the first quarter of 2005.

[5] delivered to Northern Europe – per tonne (Source – Pulp & Paper Week)

Coastal Operations

(millions of dollars)	4th Quarter 2004	3rd Quarter 2004	12 months ended December 31, 2004	4th Quarter 2003	12 months ended December 31, 2003
Sales	**$ 30.9**	$ 12.4	**$ 105.7**	$ 25.2	$ 119.5
EBITDA	**$ (2.3)**	$ (1.7)	**$ 4.6**	$ (2.0)	$ 7.2
EBITDA margin	**(7%)**	(14%)	**4%**	(8%)	6%
Operating income (loss)	**$ (4.6)**	$ (2.8)	**$ (2.2)**	$ (3.3)	$ 1.4

Coastal logging operations began its seasonal shutdown early this year, in mid November, due to heavy rainfall, which caused slides on the rail lines. As a result, unit costs were higher than normal in the quarter because of the reduced production and the additional maintenance work on the washed out roads and rail lines. Weak demand and deteriorating prices for hemlock and cedar further reduced profitability in the period.

Non-Segmented Items

(millions of dollars)	4th Quarter 2004	3rd Quarter 2004	12 months ended December 31, 2004	4th Quarter 2003	12 months ended December 31, 2003
Corporate costs	**$ (6.1)**	$ (10.6)	**$ (54.0)**	$ (8.6)	$ (25.2)
Equity income (loss)	**$ 2.3**	$ 4.9	**$ 11.3**	$ 0.8	$ (0.4)
Net interest expense	**$ (10.5)**	$ (11.9)	**$ (50.4)**	$ (11.1)	$ (50.5)
Foreign exchange gain on long-term debt	**$ 36.1**	$ 40.5	**$ 48.7**	$ 25.4	$ 110.9
Other income (expense)	**$ (3.7)**	$ (0.8)	**$ (3.8)**	$ 24.2	$ 24.9

Corporate costs were $4.5 million lower than the previous quarter. Although $2.2 million of integration-related costs and $1.0 million of other severance costs were expensed in the fourth quarter, the impact was more than offset by a reduction in other expenses. On a year-to-date basis, corporate costs were $28.8 million higher than in 2003, mostly as a result of additional costs incurred from merging the Canfor and Slocan head offices, including severance costs of $9.2 million, asset write-downs and lease costs of $7.2 million and duplicated corporate administration costs of $3.7 million. Other one-time expenses in 2004 included $4.1 million of special incentive awards paid in the first half of the year.

Equity income for the quarter and year to date was higher than the comparative periods last year as Canfor’s affiliated companies experienced the same strong prices and demand as Canfor’s lumber segment.

Interest expense was $1.4 million lower than in the previous quarter because of a $0.7 million increase in interest earned on temporary investments and the balance being the result of the favourable impact of the strengthening Canadian dollar on interest payable in US dollars.

Other expense of $3.7 million in the quarter is mainly comprised of a write-down of deferred costs associated with the Maine sawmill project, which has been discontinued, and a $1.0 million write-down of an investment in Coastal assets.

Changes in Financial Position and Liquidity

Cash flow generated from operations was $153.3 million in the fourth quarter, compared to $249.8 million in the third quarter and cash used by operations of $9.6 million in the fourth quarter of 2003. The decrease from the previous quarter is a reflection of the lower operating income resulting from the weaker product prices and strengthening of the Canadian dollar. This impact was partially offset by a reduction in lumber and log inventories of $50.4 million and $19.6 million respectively in the fourth quarter of 2004.

Cash flow used in financing activities was $2.4 million in the fourth quarter, compared to $40.9 million in the third quarter and $10.9 million in the same quarter last year. The third quarter's figure included a US $31.3 million debt payment. In the current quarter, $1.5 million was utilized to repurchase 104,800 of the Company's common shares for cancellation pursuant to a normal course issuer bid initiated in November. A final interest payment of $2.3 million was paid on the $155.0 million convertible debentures on November 15th. The debenture holders exercised their conversion right, which resulted in Canfor issuing 11,742,424 common shares.

Cash flow used for investing activities was $84.7 million in the quarter, compared to $50.3 million in the third quarter and $19.0 million in the fourth quarter of 2003. The increase in the current quarter is from higher capital spending, mainly related to the construction of the OSB mill in Fort St John and the Prince George Pulp and Paper Co-generation Project.

Outlook

2004's results have been largely driven by strong demand and excellent pricing for our lumber and panel product lines. After the seasonal decline in the fourth quarter, lumber prices have rebounded to US $405 (for 2"x4" #2 & Better) in early February, and Canfor recently announced a February 1st pulp price increase of US $30 per tonne in North America and Europe. Although revenues and profit will continue to be negatively impacted by the strength of the Canadian dollar, the Company is well positioned to benefit from anticipated continuing demand for its primary products.

Canfor's cost to complete the BC Hydro Power Smart co-generation project at its Prince George Pulp and Paper Mill is now expected to be $36 million higher than originally planned. The increased cost is a result of initial under-estimating of the cost of certain elements of the project, and from project design modifications and inflated steel prices. Despite the higher costs, the project remains on schedule and will reduce energy consumption and allow the Company to lower mill emissions and decommission two beehive burners, providing environmental benefits for the Prince George region. As part of the Power Smart program, BC Hydro is committing up to $49 million to the project.

A major capital expansion of the Plateau Division at Vanderhoof, BC was approved by the Company's Board of Directors on February 8, 2005. The project, which has an estimated capital cost of $104 million, will increase the mill's annual production to approximately 620 million board feet. The project will help meet customer needs while also enhancing the mill's ability to extract value from beetle infested timber. The project will lower cash conversion costs and increase lumber recovery. The equipment being installed was chosen to handle the specific characteristics of beetle wood.

The project will commence in the first quarter, with completion expected by the end of the year. No significant disruptions to existing operations are anticipated during the construction phase. The expansion will be funded out of operating cash flow and is expected to be paid back within thirty months.

Dividend

The Board of Directors has determined not to declare a dividend at this time.

Conference Call

A conference call to discuss quarterly results will be held Wednesday, February 9, 2004 at 12:00 pm Pacific Standard Time (3:00 pm Eastern). To participate in the call, please dial 1-800-387-6216 (Toll-Free North America) or 604-639-5227 (Vancouver).

Canfor Corporation is a leading Canadian integrated forest products company based in Vancouver, British Columbia. The Company has extensive woodlands operations and manufacturing facilities in British Columbia, Alberta and Quebec and a lumber remanufacturing plant in Washington State. Canfor is a major producer and supplier of lumber, bleached kraft pulp and specialty kraft paper for markets around the world and for plywood and oriented strand board (OSB) markets in North America.

Forward Looking Statements

This news release contains statements that are forward-looking in nature. Some of these forward–looking statements can be identified by the use of terminology such as "estimates", "plans", "expects", "anticipates", approximately" and "projections". The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those expressed or implied.

This news release contains references to EBITDA (operating income before amortization), which Canfor considers to be a key 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 GAAP. As there is no standardized method of calculating EBITDA, the Company's use of the term may not be directly comparable with similarly titled measures used by other companies.

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Consolidated Statements of Income and Retained Earnings

(millions of dollars)	3 months ended December 31, 2004	3 months ended December 31, 2003	12 months ended December 31, 2004	12 months ended December 31, 2003
	(unaudited)		(audited)	
Sales	**$ 1,149.9**	$ 656.4	**$ 4,341.9**	$ 2,662.6
Costs and expenses				
Manufacturing and product costs	**775.6**	486.5	**2,611.0**	1,932.7
Freight and other distribution costs	**211.1**	93.4	**657.5**	420.5
Countervailing and anti-dumping duties (Note 7)	**74.6**	33.3	**290.2**	146.6
Amortization	**44.6**	27.5	**155.2**	109.8
Selling and administration costs	**13.8**	16.0	**70.0**	55.8
	1,119.7	656.7	**3,783.9**	2,665.4
Restructuring costs (Note 8)	**12.9**	-	**36.5**	-
Operating income (loss) from continuing operations	**17.3**	(0.3)	**521.5**	(2.8)
Equity income (loss) of affiliated companies	**2.3**	0.8	**11.3**	(0.4)
Interest expense	**(10.5)**	(11.1)	**(50.4)**	(50.5)
Foreign exchange gain on long-term debt	**36.1**	25.4	**48.7**	110.9
Other income (expense)	**(3.7)**	24.2	**(3.8)**	24.9
Net income from continuing operations before income taxes	**41.5**	39.0	**527.3**	82.1
Income tax recovery (expense) (Note 10)	**2.2**	(4.4)	**(106.4)**	3.7
Net income from continuing operations	**43.7**	34.6	**420.9**	85.8
Net income (loss) from discontinued operation	**-**	(0.5)	**-**	67.5
Net income	**$ 43.7**	$ 34.1	**$ 420.9**	$ 153.3
Per common share (in dollars) (Note 12)				
Net income from continuing operations				
Basic	**$ 0.31**	$ 0.41	**$ 3.45**	$ 0.98
Diluted	**$ 0.30**	$ 0.37	**$ 3.22**	$ 0.92
Net income				
Basic	**$ 0.31**	$ 0.40	**$ 3.45**	$ 1.81
Diluted	**$ 0.30**	$ 0.37	**$ 3.22**	$ 1.65
Retained earnings, beginning of year – as reported			**$ 273.4**	$ 136.7
Cumulative effect of change in accounting policy (Note 2)			**3.6**	3.6
Retained earnings, beginning of year – as restated			**277.0**	140.3
Net income for the year to date			**420.9**	153.3
Common share dividends			**-**	(10.6)
Premium paid on common shares purchased for cancellation (Note 11)			**(0.6)**	-
Interest on equity component of convertible subordinated debentures, net of taxes			**(5.4)**	(6.0)
Retained earnings, end of current period			**$ 691.9**	$ 277.0

Consolidated Cash Flow Statements

(millions of dollars)	3 months ended December 31, 2004	3 months ended December 31, 2003	12 months ended December 31, 2004	12 months ended December 31, 2003
	(unaudited)		(audited)	
Cash generated from (used in)				
Operating activities				
Net income from continuing operations	**$ 43.7**	$ 34.6	**$ 420.9**	$ 85.8
Items not affecting cash:				
Amortization	**44.6**	27.5	**155.2**	109.8
Income taxes	**49.0**	0.1	**98.9**	(8.3)
Unrealized foreign exchange gain on long-term debt	**(36.1)**	(25.4)	**(46.7)**	(112.4)
Employee future benefits	**8.7**	(4.2)	**25.1**	8.9
Adjustment to accrued duties	**(10.1)**	(9.7)	**3.6**	(25.8)
Long-term portion of deferred reforestation	**17.9**	8.2	**2.9**	(7.9)
Loss (gain) on disposal of assets	**-**	(24.0)	**3.2**	(23.8)
Equity loss (income) of affiliated companies, net of tax	**(1.3)**	0.5	**(7.2)**	0.7
Other	**4.5**	2.0	**(2.1)**	1.7
Changes in non-cash working capital	**32.4**	(19.2)	**59.6**	(30.0)
	153.3	(9.6)	**713.4**	(1.3)
Financing activities				
Proceeds from long-term debt (Note 5)	**1.3**	-	**311.6**	4.8
Repayment of long-term debt (Note 5)	**(0.2)**	(8.4)	**(269.6)**	(57.7)
Net proceeds on issuance of common shares (Note 13)	**0.8**	0.5	**9.5**	0.9
Common shares purchased for cancellation (Note 11)	**(1.5)**	-	**(1.5)**	-
Dividends paid to common shareholders	**-**	-	**-**	(10.6)
Interest on convertible debentures, net of taxes	**(2.3)**	(3.0)	**(5.4)**	(6.0)
Other	**(0.5)**	-	**(0.8)**	(0.4)
	(2.4)	(10.9)	**43.8**	(69.0)
Investing activities				
Property, plant, equipment and timber	**(82.5)**	(39.5)	**(184.5)**	(123.5)
Business acquisition costs, net of cash acquired (Note 3)	**(0.3)**	-	**(38.2)**	(30.6)
Proceeds on disposal of property, plant and equipment	**1.1**	25.7	**10.6**	28.3
Other	**(3.0)**	(5.2)	**(4.0)**	(5.4)
	(84.7)	(19.0)	**(216.1)**	(131.2)
Increase (decrease) in net cash from continuing operations	**66.2**	(39.5)	**541.1**	(201.5)
Cash generated (used) by discontinued operation	**-**	(0.3)	**-**	121.2
Increase (decrease) in net cash	**66.2**	(39.8)	**541.1**	(80.3)
Net cash (short-term indebtedness) at beginning of period	**417.5**	(17.6)	**(57.4)**	22.9
Net cash (short-term indebtedness) at end of period	**$ 483.7**	$ (57.4)	**$ 483.7**	$ (57.4)
Net cash (short-term indebtedness) is comprised of:				
Cash and temporary investments	**$ 488.2**	$ 24.7	**$ 488.2**	$ 24.7
Operating bank loans	**(4.5)**	(82.1)	**(4.5)**	(82.1)
	$ 483.7	$ (57.4)	**$ 483.7**	$ (57.4)
Changes in non-cash working capital				
Accounts receivable	**$ 41.2**	$ (48.4)	**$ 56.5**	$ (52.3)
Inventories	**51.7**	(12.4)	**51.2**	(8.9)
Prepaid expenses	**(3.2)**	(1.2)	**(7.6)**	(2.3)
Accounts payable, accrued liabilities and current portion of deferred reforestation	**(49.0)**	42.9	**(37.6)**	37.4
Income taxes	**(8.3)**	(0.1)	**(2.9)**	(3.9)
	$ 32.4	$ (19.2)	**$ 59.6**	$ (30.0)

Interest paid in the 12 months ended December 31, 2004 was $56.3 million (2003 – $59.2 million) and taxes paid were $5.8 million (2003 – $5.6 million).

Consolidated Balance Sheets

(audited) (millions of dollars)	as at December 31, 2004	as at December 31, 2003
ASSETS		
Current assets		
Cash	**$ 40.2**	$ 24.7
Temporary investments	**448.0**	-
Accounts receivable		
Trade	**240.4**	173.2
Other	**63.8**	86.2
Income taxes recoverable	**14.7**	1.4
Future income taxes	**32.5**	21.9
Inventories	**635.7**	445.0
Prepaid expenses	**41.3**	24.1
Total current assets	**1,516.6**	776.5
Long-term investments and other	**197.4**	100.5
Property, plant, equipment and timber	**2,219.2**	1,443.5
Deferred charges	**94.9**	126.8
	$ 4,028.1	$ 2,447.3
LIABILITIES		
Current liabilities		
Operating bank loans (Note 5)	**$ 4.5**	$ 82.1
Accounts payable and accrued liabilities (Note 5)	**527.8**	343.4
Current portion of long-term debt	**68.1**	57.2
Current portion of deferred reforestation	**50.3**	39.6
Total current liabilities	**650.7**	522.3
Long-term debt (Note 5)	**660.5**	478.0
Other accruals and provisions (Note 6)	**223.7**	83.0
Future income taxes, net	**499.2**	175.7
Deferred credit	**27.2**	95.7
SHAREHOLDERS' EQUITY		
Share capital - 143,416,280 shares outstanding	**1,275.7**	659.2
Convertible subordinated debentures (Note 5)	**-**	155.0
Retained earnings	**691.9**	277.0
Foreign exchange translation adjustment	**(0.8)**	1.4
Total shareholders' equity	**1,966.8**	1,092.6
	$ 4,028.1	$ 2,447.3

Contingencies (Note 15)
Subsequent event (Note 16)

Statements of Segmented Information

(unaudited) (millions of dollars)		Lumber (Notes a, d)	Panels (Note a)	Pulp and Paper	Coastal Operations	Corporate and Other		Consolidated
3 months ended December 31, 2004								
Sales to external customers	**$**	**785.0**	**95.0**	**239.0**	**30.9**	**-**	**$**	**1,149.9**
Sales to other segments (Note c)	**$**	**35.0**	**0.9**	**-**	**4.6**	**-**	**$**	**40.5**
Operating income (loss)	**$**	**18.2**	**19.9**	**(10.1)**	**(4.6)**	**(6.1)**	**$**	**17.3**
Amortization	**$**	**26.2**	**2.7**	**11.9**	**2.3**	**1.5**	**$**	**44.6**
Capital expenditures	**$**	**15.5**	**32.8**	**30.9**	**1.5**	**1.8**	**$**	**82.5**
3 months ended December 31, 2003								
Sales to external customers	$	382.5	31.7	217.0	25.2	-	$	656.4
Sales to other segments (Note c)	$	19.6	0.8	-	2.3	-	$	22.7
Operating income (loss)	$	1.9	0.5	9.2	(3.3)	(8.6)	$	(0.3)
Amortization	$	13.7	0.5	10.4	1.3	1.6	$	27.5
Capital expenditures	$	28.8	0.1	9.5	0.8	0.3	$	39.5

Summary of Consolidated Production and Shipments

	Production		Shipments	
3 months ended December 31, (unaudited)	**2004**	2003	**2004**	2003
Lumber - MMfbm				
Canfor produced	**1,335.0**	691.0	**1,365.6**	702.4
Purchased from other wholesale producers			**79.0**	77.3
Total Lumber			**1,444.6**	779.7
Plywood - 000 Msf 3/8"	**104.9**	43.4	**96.3**	36.2
Oriented strand board – 000 Msf 3/8"	**132.6**	-	**126.5**	-
Pulp - 000 mt				
Canfor produced	**309.1**	234.3	**312.8**	260.8
Marketed on behalf of HSLP (Note e)			**109.0**	83.0
Total Pulp			**421.8**	343.8
Kraft paper - 000 mt	**31.9**	35.0	**31.0**	30.6
Coastal logs - 000 m^3	**423.5**	292.8	**359.9**	294.8

a. In the second quarter of 2004, subsequent to the business combination discussed in Note 3 of the Consolidated Financial Statements, Canfor divided its former Wood Products segment into its two major product categories. The Lumber segment includes all logging and forestry operations formerly included in Wood Products and the sawmill and remanufacturing operations. The Panels segment includes the plywood, OSB and panel and fibre operations.

b. Operations are presented by product lines. Operations are considered to be in one geographic area, Canada, since the subsidiary in the United States is not significant to the total.

c. Sales to other segments are accounted for at prices which approximate market value.

d. Sales for the quarter include sales of Canfor produced lumber of $715.8 million (2003 – $321.9 million) and $2,584.1 million for the year-to-date (2003 – $1,346.9 million).

e. Canfor is responsible for marketing, on a commission basis, the pulp production of Howe Sound Pulp and Paper Limited Partnership (HSLP).

Statements of Segmented Information

(unaudited) (millions of dollars)	Lumber (Note a, d)	Panels (Note a)	Pulp and Paper	Coastal Operations	Corporate and Other	Consolidated
12 months ended December 31, 2004						
Sales to external customers	**$ 2,881.1**	**373.4**	**981.7**	**105.7**	**-**	**$ 4,341.9**
Sales to other segments (Note c)	**$ 121.8**	**3.5**	**-**	**10.8**	**-**	**$ 136.1**
Operating income (loss)	**$ 411.6**	**121.0**	**45.1**	**(2.2)**	**(54.0)**	**$ 521.5**
Amortization	**$ 87.8**	**8.5**	**44.5**	**6.8**	**7.6**	**$ 155.2**
Capital expenditures	**$ 52.5**	**61.8**	**61.1**	**6.7**	**2.4**	**$ 184.5**
Identifiable assets	**$ 1,781.0**	**233.5**	**910.6**	**94.8**	**1,008.2**	**$ 4,028.1**
12 months ended December 31, 2003						
Sales to external customers	$ 1,566.9	122.8	853.4	119.5	-	$ 2,662.6
Sales to other segments (Note c)	$ 86.0	3.1	-	8.1	-	$ 97.2
Operating income (loss)	$ (10.0)	5.3	25.7	1.4	(25.2)	$ (2.8)
Amortization	$ 51.4	2.5	44.1	5.8	6.0	$ 109.8
Capital expenditures	$ 93.1	1.8	23.3	5.0	0.3	$ 123.5
Identifiable assets	$ 1,077.8	42.0	828.7	65.5	433.3	$ 2,447.3

Summary of Consolidated Production and Shipments

	Production		Shipments	
12 months ended December 31, (unaudited)	**2004**	2003	**2004**	2003
Lumber - MMfbm				
Canfor produced	**4,611.9**	2,893.3	**4,627.8**	2,942.0
Purchased from other wholesale producers			**300.2**	296.1
Total Lumber			**4,928.0**	3,238.1
Plywood - 000 Msf 3/8"	**356.6**	175.6	**343.6**	172.3
Oriented strand board – 000 Msf 3/8"	**384.8**	-	**379.6**	-
Pulp - 000 mt				
Canfor produced	**1,142.3**	992.1	**1,114.2**	999.2
Marketed on behalf of HSLP (Note e)			**357.9**	361.7
Total Pulp			**1,472.1**	1,360.9
Kraft paper - 000 mt	**134.1**	128.5	**139.8**	121.4
Coastal logs - 000 m^3	**1,312.2**	1,257.5	**1,148.3**	1,237.0

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, 2003. These interim financial statements follow the same accounting policies and methods of computation as used in the 2003 consolidated financial statements, except as described in Note 2.

2. Changes in Accounting Policies and Presentation

Asset Retirement Obligations

Effective January 1, 2004, Canfor retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) for asset retirement obligations, which require that such obligations be measured at fair value. As a result of adopting these new recommendations, Canfor's deferred reforestation liability decreased by $5.6 million, the net future income tax liability increased by $2.0 million and retained earnings increased by $3.6 million at December 31, 2003. The change in accounting for deferred reforestation resulted in a $2.2 million increase to the deferred reforestation expense in 2004 (2003 – nil). The new recommendations were not applied to retirement obligations for assets with indeterminate useful lives because sufficient information is not presently available to estimate a range of potential settlement dates for the obligations.

Shipping and Handling Costs

Prior to January 1, 2004, Canfor, along with other companies in the forest industry, presented sales net of shipping and handling costs. Effective January 1, 2004, the CICA introduced new recommendations for the application of generally accepted accounting principles (GAAP), which, among other things, prohibit the use of "industry practice" and provide guidance on alternate sources to consult with when an issue is not specifically addressed by Canadian GAAP. As a result of applying the new standard, effective January 1, 2004, Canfor has reclassified shipping and handling costs and countervailing and anti-dumping duties to cost of sales. Also, in accordance with CICA Handbook Section 3400, Revenue, shipping and handling costs recovered from customers have been included in sales. Prior periods have been reclassified for comparability.

3. Business Combination

On April 1, 2004, Canfor and Slocan Forest Products Ltd. (Slocan) completed the combination of their businesses after having obtained the approval of Slocan shareholders on March 25, 2004 and of the Supreme Court of British Columbia on March 30, 2004. Under the plan of arrangement, Canfor acquired all of the issued and outstanding shares of Slocan in exchange for the issuance to Slocan shareholders of 1.3147 Canfor shares for each Slocan share held by them. 49.3 million Canfor shares were issued and were valued at $9.18 per share, which was the average market price of the shares shortly before and after the date that the terms of the combination were agreed to and announced.

Slocan was amalgamated with Canadian Forest Products Ltd., Canfor's principal operating subsidiary, on April 1, 2004. The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the estimated fair values of the assets and liabilities assumed as of April 1, 2004. 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	
Cash	$ 20.5
Non-cash working capital	162.7
Property, plant, equipment and timber	761.4
Other assets	20.1
Long-term debt	(209.7)
Long-term liabilities	(60.7)
Future income tax liabilities	(182.7)
Fair value of net assets acquired	$ 511.6
Consideration paid	
Common shares issued to Slocan shareholders	$ 452.9
Make-whole penalty on Slocan's long-term debt	28.6
Transaction costs	30.1
	$ 511.6

In order to address the concerns of the federal Commissioner of Competition under the *Competition Act (Canada)* regarding the impact of the combination 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. A sales agreement was entered into on December 22, 2004, and the sale is expected to close on March 1, 2005, subject to the approval of the Commissioner and other customary approvals, filings and conditions. Proceeds of $39 million, plus the value of inventory on the closing date, are expected to be received and the transaction is not expected to result in a significant gain or loss for accounting purposes. Due to the size of the Fort St James operation in relation to the entire lumber segment, it has not been accounted for as a discontinued operation.

4. Canfor-LP OSB Limited Partnership

In 2000, Slocan entered into a shareholders agreement with Louisiana-Pacific Canada Ltd. to jointly undertake construction and operation of an oriented strand board mill with rated annual capacity of 820 million square feet (3/8" basis), in Fort St. John, British Columbia. The decision to proceed with the project was made in January 2004. Canfor has agreed to supply 330,000 cubic metres of timber annually to the joint venture out of its existing timber tenure in the area. The joint venture is still in the pre-operating construction phase.

During the fourth quarter, Canfor made capital contributions of $21.3 million to the venture (year to date - $38.2 million). In order to retain its 50% interest, Canfor has agreed to contribute 50% of the capital to fund the project, which is estimated to have a total cost of $226.4 million.

At the end of the year, a limited partnership was formed to own the assets and carry on the business.

Canfor began proportionately consolidating the joint venture in the current quarter and has included the following amounts, which represent its 50% ownership interest, in these consolidated financial statements at December 31, 2004:

(millions of dollars)		
Balance Sheet		
Cash	$	1.2
Other current assets		1.3
Construction in progress		41.8
Deferred start-up costs		3.0
Accounts payable and accrued liabilities		(7.0)
	$	40.3
Cash flow		
Cash used in operating activities (working capital)	$	5.7
Cash used in investing activities		(44.8)
	$	39.1

5. Bank Indebtedness and Long-Term Debt

At December 31, 2004 Canfor had $332.0 million of bank operating lines of credit available, of which $4.5 million was drawn down and an additional $47.1 million was utilized for several standby letters of credit. In October 2004, Canfor entered into a new unsecured and committed $325 million credit facility to replace its existing demand operating lines of credit. This facility, which is comprised of a $125 million 364-day amount and a three-year $200 million amount, is renewable annually.

Included in the accounts payable and accrued liabilities balance are unpresented cheques of $49.7 million (2003 $40.2 million).

New private placement financing of US $50 million was drawn down on February 2, 2004 and was utilized for general operating purposes and capital expenditures. On April 1, 2004, the US $160 million of long-term debt assumed upon the acquisition of Slocan (Note 3) was refinanced with new private placement debt of US $185 million. The balance was used to pay a make-whole penalty on Slocan’s debt and for general corporate purposes. The new debt is in the form of unsecured senior notes, which 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 5.42% (2013).

The agreements relative to Canfor’s privately placed senior notes contain provisions limiting the amount of indebtedness that Canfor and its designated subsidiaries can incur and the amount of dividends paid to its common shareholders. Under these agreements, Canfor and its designated subsidiaries can presently incur $1,214.2 million in additional long-term debt and pay up to $458.0 million, or $3.20 per share, in dividends to its common shareholders.

At December 31, 2004, the fair value of Canfor's long-term debt was $778.4 million.

On November 15, 2004, Canfor redeemed all of its outstanding convertible subordinated debentures at the principal amount of $155.0 million plus accrued interest. The holders of the debentures exercised their right of conversion, which resulted in the Company issuing 11,742,424 Common Shares to them.

6. Other Accruals and Provisions

(millions of dollars)	December 31, 2004	December 31, 2003
Deferred reforestation	**$ 72.4**	$ 34.0
Countervailing duty provision (Note 7)	**76.7**	-
Accrued pension obligations	**17.7**	5.5
Post employment benefits	**54.7**	34.0
Other liabilities	**2.2**	9.5
Total other accruals and provisions	**$ 223.7**	$ 83.0

7. Countervailing and Anti-dumping Duties

The US Department of Commerce (DOC) imposed an 18.79% countervailing duty (CVD) on Canadian lumber shipments to the US effective May 16, 2002. Canfor's company-specific cash deposit rate was subsequently reduced to 12.24%, effective prospectively from March 10, 2004. Canfor continued to expense CVD at the 18.79% after this date, because of the uncertainty about whether a company-specific administrative review would be granted. Canfor's subsidiary in Quebec, which was acquired in May 2003, had been making CVD deposits and recording the expense at their reduced company-specific deposit rate of 2.99% since November 2002. On December 14, 2004, after completing its administrative review for the period from May 2002 to April 2003 (POR1), the DOC determined the CVD assessment rate of 17.18% applicable to all Canadian companies for POR1. As a result of this determination, in the fourth quarter Canfor reduced its CVD accrual by $4.6 million, reducing the accrual for Canfor to record CVD expense at 17.18% for POR1, and increasing the accrual for the Quebec subsidiary to record CVD expense at 17.18% for the period from May 27, 2003 to December 20, 2004. The combined additional CVD accrued in excess of the cash deposits made at December 31, 2004 is $76.7 million and is included in "other accruals and provisions" (Note 6).

The DOC also imposed anti-dumping duties (ADD) on Canadian lumber shipments to the US effective May 16, 2002. Canfor's company-specific rate was determined at 5.96% and Slocan's company-specific rate was determined at 7.71%. While the cash payments up to December 20, 2004 were made at the required deposit rates, Canfor regularly reviews its estimate of the ADD expense rate by applying the DOC's methodology to updated sales and cost data as it became available. Canfor and Slocan had accrued ADD expense ranging from 2% to 5% for the periods from May 22, 2002 to September 30, 2004 and 2% for the fourth quarter of 2004. On December 14, 2004, the DOC determined the ADD assessment rate for Canfor at 2.06% and for Slocan at 1.37% for POR1. As a result of this determination, in the fourth quarter Canfor reduced its ADD accrual by $6.0 million to adjust the ADD expense accrued to the assessment rates for Canfor and Slocan for POR1. The cumulative ADD cash deposits in excess of the calculated expense accrued at December 31, 2004 is $116.9 million and is being carried as a receivable under "long-term investments and other".

The DOC officially announced in the Federal Register that it would be assessing duties in accordance with the rates that it determined in the reviews, which legal counsel advise would result in the excess ADD deposits being recoverable. Notwithstanding the rates established in the investigations and the posting of cash deposits, the final liability for the assessment of countervailing and anti-dumping duties will not be determined until the DOC's administrative review process is complete and all subsequent challenges or appeals are finalized.

As a result of the December 14, 2004 DOC determination, the CVD cash deposit rate was reduced to 17.18% and the company-specific ADD cash deposit rate was reduced to 1.83% for US lumber shipments after December 20, 2004.

As at December 31, 2004, Canfor (including legacy Slocan) had paid combined duty deposits of US $538.2 million (CVD of $383.7 million and ADD of $154.5 million) since inception of CVD and ADD in May 2002.

On August 31, 2004, a NAFTA Panel ruled, for the third time, that the US had failed to prove that Canadian lumber imports posed a threat of material injury to the US industry. The Panel gave the ITC ten days to comply with its ruling, which would effectively end the case and result in the return of all duties collected to date. On September

10th, the ITC released a decision indicating that the Canadian lumber industry did not threaten the US industry with material injury during the period of investigation. On October 13th, NAFTA formally issued its affirmation of the ITC's negative injury ruling. The United States filed a request for an Extraordinary Challenge, which could extend the case to March 2005 or beyond. If not reversed by an Extraordinary Challenge Committee review, the ITC's negative threat determination will become final, requiring revocation of the anti-dumping and countervailing duty orders on softwood lumber from Canada.

Canadian Interests continue to aggressively defend the Canadian industry in this US trade dispute and are appealing the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO.

8. Restructuring Costs

In the fourth quarter, Canfor expensed $2.7 million of severance, pension and other costs associated with the integration of Canfor and Slocan's operations (year to date: $20.4 million).

Also in the fourth quarter, Canfor recognized $7.9 million of severance and other costs associated with the announced closures of the Hines Creek sawmill and Quesnel Specialty mill.

The closure of the Taylor sawmill was completed in the second quarter and resulted in the recognition of further severance, pension and other costs of $5.9 million in that quarter. Additional pension costs of $0.9 million were accrued in the fourth quarter. Additional costs of $1.4 million related to the closure of the Upper Fraser sawmill in 2003 were also incurred in the fourth quarter.

9. Employee Future Benefits

The total benefit cost of Canfor's defined pension plans was $8.3 million in the fourth quarter of 2004 and $19.6 million for the year to date. The total benefit cost of Canfor's other employee future benefit plans was $3.4 million in the fourth quarter and $14.5 million for the year to date. The expense for Canfor's defined contribution plans was $0.4 million in the fourth quarter and $1.2 million for the year to date.

10. Income Tax Recovery (Expense)

(millions of dollars)	**3 months ended December 31, 2004**	3 months ended December 31, 2003	**12 months ended December 31, 2004**	12 months ended December 31, 2003
Current	**$ 0.3**	$ (2.4)	**$ (8.1)**	$ 9.5
Future	**0.5**	(3.6)	**(163.8)**	(13.6)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**-**	4.1	**1.1**	8.1
Tax on equity earnings	**(1.0)**	(1.3)	**(4.1)**	(0.3)
	(0.2)	(3.2)	**(174.9)**	3.7
Amortization of deferred credit on utilization of acquired tax losses	**2.4**	(1.2)	**68.5**	-
	$ 2.2	$ (4.4)	**$ (106.4)**	$ 3.7

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 December 31, 2004**	3 months ended December 31, 2003	**12 months ended December 31, 2004**	12 months ended December 31, 2003
Income tax expense at statutory tax rate	**$ (14.7)**	$ (14.2)	**$ (187.2)**	$ (29.9)
Large corporation tax	**(1.3)**	(0.8)	**(6.2)**	(4.7)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**-**	4.1	**1.1**	8.1
Deferred income tax credit amortized	**2.4**	(1.2)	**68.5**	-
Permanent difference from capital gains and losses	**8.6**	-	**8.6**	-
Benefit of capital losses not previously recognized	**6.3**	8.9	**8.6**	29.9
Other permanent differences and tax adjustments	**0.9**	(1.2)	**0.2**	0.3
Tax recovery (expense)	**$ 2.2**	$ (4.4)	**$ (106.4)**	$ 3.7

11. Share Capital

In December 2004, the Company purchased 104,800 common shares for cancellation, under a Normal Course Issuer Bid. The shares were purchased on the open market at an average price per share of $14.65, and the excess of the purchase price over the average book value per share has been charged to retained earnings. These shares were cancelled in January 2005. The Normal Course Issuer Bid, which allows for the purchase for cancellation of up to 6,578,868 Common Shares, or approximately 5% of the Company's outstanding shares, is expected to continue until October 14, 2005, unless terminated or completed earlier.

12. Earnings Per Share

(millions of dollars, except for number of shares and per share amounts)	**3 months ended December 31, 2004**	3 months ended December 31, 2003	**12 months ended December 31, 2004**	12 months ended December 31, 2003
Basic Earnings				
Net income from continuing operations	**$ 43.7**	$ 34.6	**$ 420.9**	$ 85.8
Less interest on equity component of convertible debentures, net of taxes	**(0.7)**	(1.5)	**(5.4)**	(6.0)
Net income from continuing operations available to common shareholders	**43.0**	33.1	**415.5**	79.8
Net income from discontinued operations	**-**	(0.5)	**-**	67.5
Net income available to common shareholders	**43.0**	32.6	**415.5**	147.3
Diluted Earnings				
Add back interest on equity component of convertible debentures, net of taxes	**0.7**	1.5	**5.4**	6.0
Net income from continuing operations available to common shareholders	**43.7**	34.6	**420.9**	85.8
Net income available to common shareholders	**$ 43.7**	$ 34.1	**$ 420.9**	$ 153.3
Weighted average number of common shares	**137,499,252**	81,224,405	**120,452,437**	81,179,973
Incremental shares from stock options	**185,827**	112,561	**226,625**	88,891
Shares issuable upon conversion of convertible debentures	**5,871,212**	11,742,424	**10,234,517**	11,742,424
Diluted number of common shares	**143,556,291**	93,079,390	**130,913,579**	93,011,288
Per common share				
Net income from continuing operations				
Basic	**$ 0.31**	$ 0.41	**$ 3.45**	$ 0.98
Diluted	**$ 0.30**	$ 0.37	**$ 3.22**	$ 0.92
Net income				
Basic	**$ 0.31**	$ 0.40	**$ 3.45**	$ 1.81
Diluted	**$ 0.30**	$ 0.37	**$ 3.22**	$ 1.65

13. Stock-Based Compensation

During the quarter, proceeds of $0.8 million were received from the exercise of 88,000 stock options at a weighted-average exercise price of $9.20. For the year to date, proceeds of $9.5 million were received from the exercise of 1,073,011 options at an average of $8.85 per share.

No new stock options were granted in the current quarter or in the same quarter in 2003. The following pro forma disclosures present the effect, on the current and prior period's reported net income and earnings per share, of stock options granted in 2002, prior to the adoption of the fair-value based method of accounting.

(millions of dollars, except for per share amounts)	**3 months ended December 31, 2004**	3 months ended December 31, 2003	**12 months ended December 31, 2004**	12 months ended December 31, 2003
Net income				
As reported	**$ 43.7**	$ 34.1	**$ 420.9**	$ 153.3
Pro forma	**$ 43.6**	$ 33.9	**$ 420.6**	$ 152.6
Net income per common share				
As reported – basic	**$ 0.31**	$ 0.40	**$ 3.45**	$ 1.81
As reported – diluted	**$ 0.30**	$ 0.37	**$ 3.22**	$ 1.65
Pro forma – basic	**$ 0.31**	$ 0.40	**$ 3.45**	$ 1.81
Pro forma – diluted	**$ 0.30**	$ 0.36	**$ 3.21**	$ 1.64

The fair value of the stock options granted in 2002 was estimated on each grant date using a Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 2.6%; expected volatility of 44%; risk-free interest rate of 3.75%; and an expected life of 4 years. The weighted average fair value of each option was $3.10.

14. 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. No forward exchange contracts were outstanding at the end of the current period.

The Company also uses a variety of financial instruments to reduce its exposure to risks associated with lumber prices and energy costs. At the end of the current quarter, there were 195 lumber futures contracts outstanding, which had an unrealized loss of $0.1 million. Commodity swaps hedging future natural gas purchases of 2.6 million Gigajoules were outstanding at the end of the current quarter. There was an unrealized loss of $0.1 million on these swaps at December 31, 2004.

15. Contingencies

Property Transfer Tax Assessment

In 2003, Canfor had appealed the British Columbia Ministry of Provincial Revenue's assessment of property transfer taxes associated with the amalgamation of Canadian Forest Products and Howe Sound Pulp and Paper Limited in 2001. In the third quarter, the appeal was heard by the BC Supreme Court, and the case was decided in Canfor's favour. In October, Canfor received notice from the Ministry of Attorney General that the government would not be seeking to appeal the decision of the BC Supreme Court. The letter of credit for $11.1 million posted by Canfor was released by the Ministry in the fourth quarter.

The Forestry Revitalization Plan

In March 2003, the Government of British Columbia (the Crown) introduced the Forestry Revitalization Plan (the Plan) that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including Canfor, are required to return 20% of their replaceable tenure to the Crown. The Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related infrastructure costs such as roads and bridges.

The effect of the timber take-back will result in a reduction of approximately 2.4 million cubic metres to Canfor's existing allowable annual cut on its replaceable tenures. While the legislation taking back the 20% was passed in March 2003, the government has effectively loaned back the volume until the Minister orders that it is needed. Canfor has worked with the government to identify those licenses and operating areas that are to be returned to the Crown. 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 is to take effect in three stages: in December 2004, March 2005 and in March 2006. The amount of compensation to be made to Canfor for the take-back has not yet been determined.

The effect of the Plan on Canfor's financial position and results of operations cannot be determined at this time. Canfor will record the effects of the Plan at the time that the amounts to be recorded are estimable.

Prince George Pulp and Paper Cogeneration Project

In October 2003, Canfor entered into an agreement with BC Hydro to build a major electrical cogeneration facility (the Project) at the Prince George Pulp and Paper Mill. Under the agreement, BC Hydro is to contribute up to $49 million to the project and Canfor is to contribute the balance of the cost of the project, which is scheduled for completion during the second quarter of 2005. At December 31, 2004, Canfor had capitalized $42.2 million of construction costs ($4.9 million at December 31, 2003) and had further commitments of $9.6 million for 2005.

Should Canfor fail to complete the Project by February 28, 2006, it will be required to repay BC Hydro for any incentive payments received by Canfor and BC Hydro will be entitled to enforce any security provided by Canfor and to terminate the agreement. At December 31, 2004, BC Hydro had paid a total of $26.0 million in incentive payments and Canfor has posted a letter of credit in the amount of $18.3 million.

16. Subsequent Event

As discussed in Canfor’s 2003 annual financial statements, Canfor acquired $643 million of tax losses from Howe Sound Pulp and Paper Limited Partnership in 2001. Canfor made a payment of $7.0 million to HSLP in 2004 with respect to losses used in the year and made a final payment of $50.0 million on January 2, 2005.

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