



February 15, 2006

CANFOR CORPORATION ANNOUNCES FOURTH QUARTER AND 2005 EARNINGS

Vancouver, B.C. – Canfor Corporation (TSX: CFP) today reported net income of \$96.0 million for 2005, or \$0.67 per share on a diluted basis. A loss of \$12.3 million, or \$0.09 per share was incurred in the fourth quarter.

The quarterly and annual results were impacted by the continued strengthening of the Canadian dollar, which averaged 4% stronger than in the fourth quarter of 2004 and 8% stronger on an annual basis. Product prices increased slightly in the quarter, but on a year-to-date basis were significantly lower than in the prior year. When expressed in Canadian dollars, lumber prices were 16% lower, OSB prices were 20% lower, and pulp prices were 9% lower. Canadian dollar plywood prices were 27% lower than in 2004.

“Canfor’s priority remains the profitability of the Company in any market and to positively influence the controllable elements of our business”, said Canfor’s President and Chief Executive Officer, Jim Shepherd. “In 2005, Canfor sold or closed six operations that were either underperforming assets or simply not core to our business. We invested over \$300 million into our mills last year and continued to improve our operating and supply chain processes. The capital projects at Polarboard and Plateau and the start up of the co-generation facility at the Prince George Pulp and Paper mill are expected to further lower Canfor’s cost structure going forward, and the joint venture OSB mill in Fort St John has commenced production. These improvements are expected to positively impact Canfor’s first quarter 2006 financial performance.”

“In 2005 our focus was to position the Company for success. All of Canfor’s initiatives were driven by the strategy to be a highly profitable producer of building materials and the preferred supplier to markets around the world. The restructuring of the Company’s assets along with the announced Canfor International Distribution Centre and the memorandum of understanding with the Chinese Academy of Forestry in Beijing were all elements of this strategy. And we are looking forward to the pending purchase of New South Companies Inc. in the south-eastern United States. New South will assist Canfor to diversify its market and product mix, consistent with our global building products strategy.”

SUMMARY OF SELECTED RESULTS FOR THE QUARTER AND YEAR ^{1, 2}

(millions of dollars, except for per share amounts)	Q4 2005	Q3 2005	YTD 2005	Q4 2004	YTD 2004
Sales	\$ 861.0	\$ 932.3	\$ 3,787.8	\$ 1,037.7	\$ 3,925.0
Countervailing & anti-dumping duties expensed	\$ 39.9	\$ 58.5	\$ 224.8	\$ 71.3	\$ 276.2
EBITDA	\$ 23.7	\$ 31.3	\$ 294.0	\$ 60.6	\$ 634.8
Operating income (loss)	\$ (14.7)	\$ (5.8)	\$ 142.4	\$ 20.3	\$ 494.5
Foreign exchange gain (loss) on long-term debt	\$ (4.7)	\$ 30.0	\$ 10.0	\$ 36.1	\$ 48.7
Net income (loss) from continuing operations, after tax	\$ (10.6)	\$ 20.7	\$ 101.8	\$ 45.4	\$ 398.5
Net income (loss) from discontinued operations	\$ (1.7)	\$ (3.3)	\$ (5.8)	\$ (2.4)	\$ 17.0
Net income (loss)	\$ (12.3)	\$ 17.4	\$ 96.0	\$ 43.0	\$ 415.5

¹ Prior year comparative figures quoted in this report reflect the results of the former Slocan operations since April 1, 2004.

² Prior period figures have been restated throughout this report to reflect the discontinued operations classification of the Fort St James, Slocan and Valemount sawmills (formerly included in the Lumber segment) and the Coastal Operations segment, as discussed under “Discontinued Operations”.

(millions of dollars, except for per share amounts)	Q4 2005	Q3 2005	YTD 2005	Q4 2004	YTD 2004
Per share, diluted					
Net income (loss) from continuing operations	\$ (0.07)	\$ 0.14	\$ 0.71	\$ 0.32	\$ 3.09
Net income (loss)	\$ (0.09)	\$ 0.12	\$ 0.67	\$ 0.30	\$ 3.22
Average Canadian/US exchange rate ³	\$ 0.852	\$ 0.832	\$ 0.826	\$ 0.819	\$ 0.768

When comparing the results to the previous quarter, several one-time adjustments were recorded in the third quarter, which had a favourable impact of \$26.6 million after tax in that period. These adjustments included a \$24.7 million exchange gain on long-term debt, \$13.3 million of one-time tax adjustments, an \$8.9 million timber write-down and a \$2.5 million provision for mill closure costs. In the current quarter, one-time adjustments for foreign exchange and other items netted to an insignificant figure.

Summarized operating results by segment are as follows:

Lumber⁴

(millions of dollars unless otherwise noted)	Q4 2005	Q3 2005	YTD 2005	Q4 2004	YTD 2004
Sales	\$ 550.3	\$ 620.8	\$ 2,545.6	\$ 722.5	\$ 2,640.0
EBITDA	\$ 7.5	\$ 22.1	\$ 218.4	\$ 40.8	\$ 462.1
EBITDA margin	1%	4%	9%	6%	17%
Operating income (loss)	\$ (13.1)	\$ 1.2	\$ 131.5	\$ 16.6	\$ 382.4
Average 2"x4" #2 & Better lumber price in US \$ ⁵	\$ 328	\$ 327	\$ 355	\$ 338	\$ 394
Average price in Cdn \$	\$ 385	\$ 392	\$ 430	\$ 413	\$ 513
Production – lumber (MMfbm)	1,049.9	1,126.4	4,624.4	1,229.4	4,234.9
Shipments – Canfor-produced lumber (MMfbm)	1,053.3	1,219.9	4,681.1	1,265.5	4,247.3
Shipments – wholesale lumber (MMfbm)	122.7	114.4	415.7	79.0	300.2

The Lumber segment had an operating loss of \$13.1 million in the quarter, mainly due to the impact of the strengthened Canadian dollar and lower shipment volumes of Canfor-produced lumber. Although US dollar prices remained static relative to the third quarter, the continued strengthening of the Canadian dollar had a negative impact of \$8.1 million on operating income over the prior period. The current quarter's results reflected the full impact of the lower chip prices introduced in the third quarter.

Operations

Production decreased by 7% from the third quarter, mainly as a result of seasonal downtime and significantly reduced operations at the Plateau sawmill in order to complete that facility's strategic upgrade project. Correspondingly, cash conversion costs on a unit basis were 7% higher than in the prior quarter. Log costs decreased by 1% during the quarter due to increased harvesting of lower grade logs. Lumber recovery continues to be a focus for the segment and the Plateau upgrade, along with best practices programs for quality and optimization at the other facilities, will continue to deliver positive trend performance in 2006.

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

⁴ Excludes discontinued operations

⁵ Per thousand board feet (Source – Random Lengths Publications, Inc.)

Panels

(millions of dollars unless otherwise noted)	Q4 2005	Q3 2005	YTD 2005	Q4 2004	YTD 2004
Sales	\$ 89.0	\$ 94.3	\$ 365.7	\$ 92.0	\$ 368.8
EBITDA	\$ 1.2	\$ 3.7	\$ 37.3	\$ 22.6	\$ 129.5
EBITDA margin	1%	4%	10%	25%	35%
Operating income (loss)	\$ (2.7)	\$ 1.3	\$ 25.4	\$ 19.9	\$ 121.0
Average plywood price in Cdn \$ ⁶	\$ 387	\$ 362	\$ 387	\$ 444	\$ 532
Average OSB price in US \$ ⁷	\$ 317	\$ 291	\$ 319	\$ 260	\$ 369
Average OSB price in Cdn \$	\$ 372	\$ 350	\$ 386	\$ 318	\$ 480
Production – plywood (MMsf 3/8")	109.9	104.2	433.3	104.9	356.6
Production – OSB (MMsf 3/8")	113.5	129.8	478.8	132.6	384.8
Shipments – plywood (MMsf 3/8")	98.3	124.3	435.7	96.3	343.6
Shipments – OSB (MMsf 3/8")	118.0	131.7	469.3	126.5	379.6

The Panels segment recorded an operating loss of \$2.7 million in the quarter, which was a \$4.0 million decrease from the previous quarter. The main reasons for the decrease are lower production and shipment volumes, higher costs due to an emergency shutdown at the PolarBoard mill, and the inclusion of a \$0.8 million operating loss from the new OSB joint venture, which was running at low production volumes during its start-up phase.

Operations

Plywood production was 5% higher than in the third quarter, mainly as a result of the 9-day maintenance shutdown at the Tackama mill that was taken in the previous quarter. Despite the improved productivity, conversion costs increased by 4% in the quarter primarily due to significant increases in the cost of natural gas used in the drying process.

OSB production was 13% lower than in the previous quarter as a result of a major equipment failure in the heat generation unit at the PolarBoard mill. An 11-day shutdown was taken to repair the equipment and to complete other maintenance work that had been planned for early 2006. The shutdown resulted in additional costs of \$3.5 million and 16 million square feet of lost OSB production in the quarter. The new OSB joint venture in Fort St John is proportionately consolidated in Canfor's results. The mill began production late in the fourth quarter.

Productivity at all panel manufacturing facilities is on track for a significantly improved financial performance in 2006.

Markets – Lumber and Panels

The effects of the Gulf Coast hurricanes lingered into the fourth quarter of 2005. Although the areas hit by the hurricanes represent less than 2% of the US housing market, the hurricanes disrupted supply and the flow of wood products during a time when inventory levels were lean throughout the supply chain. Mild fall weather and the backlog of home construction caused by shortages in other building materials held Western SPF 2"X4" #2 & Better prices at \$328 per thousand board feet, or virtually the same level as in the previous quarter. When compared to the fourth quarter of 2004, US dollar prices were 3% lower in 2005.

Offshore shipments recovered from the third quarter's independent container truckers' strike. Total offshore shipments increased by 5% in the fourth quarter and were 17% higher compared with the same period last year.

The panel market continued to be strong into the fourth quarter, especially OSB. The average price for OSB of US\$317 per Msf 7/16" North Central was 9% higher than third quarter and 22% higher than the fourth quarter of

⁶ Canadian softwood plywood, per Msf 3/8" basis, delivered to Toronto (Source – C.C. Crowe Publications, Inc.)

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

2004. Plywood prices averaged Cdn \$387 per Msf 3/8", delivered to Toronto, which was 7% higher than last quarter, but 13% lower than in the same period last year.

Demand during 2006 is expected to remain relatively strong through the first half of the year. Lumber and panel prices are expected to increase in the first quarter and gradually decline during the rest of the year as the full impact of rising mortgage rates and higher housing prices affects consumer spending and new home construction.

Pulp and Paper

(millions of dollars unless otherwise noted)	Q4 2005	Q3 2005	YTD 2005	Q4 2004	YTD 2004
Sales	\$ 221.7	\$ 217.2	\$ 876.5	\$ 223.2	\$ 916.2
EBITDA	\$ 28.9	\$ 9.9	\$ 68.4	\$ 1.8	\$ 89.6
EBITDA margin	13%	5%	8%	1%	10%
Operating income (loss)	\$ 16.8	\$ (2.1)	\$ 22.2	\$ (10.1)	\$ 45.1
Average pulp price – US \$ ⁸	\$ 600	\$ 588	\$ 611	\$ 609	\$ 622
Average price in Cdn \$	\$ 704	\$ 706	\$ 740	\$ 743	\$ 809
Production – pulp (000 mt)	304.7	298.8	1,189.1	309.1	1,142.3
Production – paper (000 mt)	31.5	31.7	127.4	31.9	134.1
Shipments – Canfor-produced pulp (000 mt)	312.4	309.6	1,189.1	312.8	1,114.2
<i>Marketed on behalf of HSLP⁹ (000 mt)</i>	97.4	90.9	372.9	109.0	357.9
Shipments – paper (000 mt)	30.7	31.1	127.3	31.0	139.8

Operating income improved by \$18.9 million over the previous quarter, and was \$26.9 million higher than in the same quarter last year. Higher pulp shipment volumes, a \$2.3 million scientific research and development tax credit and \$1.4 million of forward contract gains had a favourable impact on the quarter's results compared to the third quarter. When compared with the same quarter last year, 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 the tax credit and forward contract gains mentioned above.

Operations

The Intercontinental mill had 3.5 days of maintenance downtime in the fourth quarter (continuing from the shutdown that began in the last week of the third quarter). The Prince George Pulp and Paper mill also took a mini maintenance shutdown in the first week of October, with the pulp line down for 7.5 days and the paper line down for 4.2 days. Despite the downtime, pulp production volume was 2% higher than in the previous quarter due to exceptionally good performance at the Northwood and Intercontinental mills. The precipitator project at the Prince George mill was completed in December, ahead of schedule.

Markets

There were 33 days of supply in inventory in the chemical market pulp industry at the beginning of the fourth quarter, following the shipments-to-capacity ratio of 100% and good order books experienced in the third quarter. Softwood stocks, Canfor's key grade, stood at only 31 days of supply at the beginning of October, which is at or close to the level at which producers are likely to have enough pricing power to raise prices.

Prices rose in Asian markets in September, setting the stage for further pricing gains in all markets in October. The key Northwest European list price had effectively slumped to US \$585 per tonne during the summer, and the Canadian and Scandinavian suppliers into this market raised their list prices to US \$620. However, competitive

⁸ Per tonne, delivered to Northern Europe

⁹ Howe Sound Pulp and Paper Limited Partnership

pressures limited this price increase and producers were only able to raise prices to the US \$600 level. In the United States, price increases were more successful during the quarter, rising from US \$620 at the end of September to US \$640 in November and December.

Heading into 2006, fuelled by solid demand from all market regions and restricted supply due to maintenance outages in the northern hemisphere, the chemical market pulp industry is expected to achieve some modest pricing gains in the first and second quarters. Another factor influencing market dynamics is the looming possibility of more pulp mill closures in eastern Canada. Many industry analysts advise that the rising costs of energy and fibre, coupled with the appreciation of the Canadian dollar, are causing some eastern mills to become economically unviable.

Non-Segmented Items

(millions of dollars)	Q4 2005	Q3 2005	YTD 2005	Q4 2004	YTD 2004
Corporate costs	\$ (15.7)	\$ (6.2)	\$ (36.7)	\$ (6.1)	\$ (54.0)
Net interest expense	\$ (9.3)	\$ (10.0)	\$ (42.2)	\$ (11.6)	\$ (58.8)
Foreign exchange gain (loss) on long-term debt	\$ (4.7)	\$ 30.0	\$ 10.0	\$ 36.1	\$ 48.7
Other income (expense)	\$ 7.9	\$ 1.3	\$ 12.8	\$ (0.7)	\$ 8.2
Unusual item	\$ 2.3	\$ (11.1)	\$ (8.8)	\$ -	\$ -

Corporate Costs

Corporate costs were \$9.5 million higher than in the previous quarter and \$9.6 million higher than in the fourth quarter of 2004 as a result of a \$6.5 million accrual for long-term incentive plan payments related to the last two fiscal years, \$1.0 million of severance costs, and higher donations, consulting fees and employee relocation costs.

Other Income

Other income of \$7.9 million in the quarter (year to date - \$12.8 million) was mainly comprised of income from the Seaboard General Partnership, amounting to \$8.9 million, partially offset by \$1.3 million of other equity losses from affiliated companies (year to date - \$2.7 million equity income) and miscellaneous income of \$0.3 million (year to date - \$1.2 million).

Interest Expense

Net interest expense was \$0.7 million lower than in the previous quarter and \$2.3 million lower than in the same quarter of 2004, mainly due to long-term debt reductions, the stronger Canadian dollar and, in accordance with Canadian accounting requirements, the restatement of the fourth quarter 2004 expense to include \$1.1 million of interest on the convertible debentures.

Unusual Item

On October 28, 2005, Canfor signed an agreement with the Province of British Columbia, in which Canfor received \$57.0 million in compensation for the loss of 20% of its replaceable tenures under the Province's Forestry Revitalization Plan, and a \$5.0 million advance payment against lost infrastructure and road construction costs. The effect of the timber take-back resulted in a reduction of approximately 2.4 million cubic metres to Canfor's existing allowable annual cut on its replaceable tenures. In the fourth quarter, based on a more detailed allocation of proceeds to the specific timber licenses returned, Canfor recorded a \$2.3 million reduction to the amount originally written down in the third quarter, bringing the total loss to \$8.8 million, or \$6.2 million after tax. Canfor is continuing discussions with the Province for further compensation for infrastructure, but the amount and timing of additional compensation, if any, is not yet determinable.

Discontinued Operations

Coastal Operations

During the fourth quarter, Canfor announced its intention to transfer 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. In consideration of the transfer Canfor will receive a partnership interest valued at \$45.0 million, which approximates book value of the assets transferred. CFLP has agreed to transfer these assets to Western Forest Products Ltd. (WFP) in return for, among other things, a long-term agreement with WFP to supply CFLP with fibre, and CFLP has agreed to supply this fibre to Howe Sound Pulp and Paper Limited Partnership. The transfer, which is subject to regulatory clearance under the federal Competition Act and by the British Columbia Minister of Forests, is expected to close in the first quarter of 2006. As a result of this transaction, Canfor has reclassified its Coastal Operations segment as discontinued operations and all comparative figures have been restated.

In the fourth quarter, Coastal operations incurred a loss of \$1.0 million after tax (year to date – \$4.4 million), including \$1.8 million of after-tax charges for severance, lease termination costs and an allowance for bad debts (year to date - \$2.5 million). Log shipments totaled 249.3 thousand cubic metres in the quarter and were 862.1 thousand cubic metres for the year to date. Logging operations were curtailed as of December 15th.

Sawmills

During the second quarter, Canfor completed the sale of its Fort St James, Slocan and Valemount sawmills in British Columbia for total cash proceeds of \$59.0 million. A net after-tax loss of \$4.0 million was recorded on the dispositions in that quarter, and was subsequently increased by \$0.7 million after tax in the fourth quarter.

Lumber shipments from discontinued operations in 2005 totaled 120.5 million board feet¹⁰ up to the date of disposition of the mills in the second quarter. In 2004, lumber shipments from discontinued operations totaled 125.2 million board feet in the fourth quarter and 437.0 million board feet for the year to date period.

Changes in Financial Position

Cash flow generated by operating activities was \$44.1 million in the fourth quarter, which is \$155.7 million lower than in the same quarter in 2004. The decrease in cash flow from operations is attributable to the lower earnings in the current period, as discussed above. On a year-to-date basis, operating activities generated \$193.3 million in cash (2004 – \$708.5 million).

Cash used in financing activities of \$11.8 million in the current quarter was comprised of a scheduled long-term debt repayment. Year-to-date financing activities of \$80.0 million were mainly comprised of long-term debt repayments of \$68.4 million and \$13.8 million for the purchase of one million of the Company's common shares for cancellation.

Investing activities consumed \$34.8 million of cash in the current quarter (year to date – \$251.8 million). Capital expenditures of \$95.9 million in the quarter (year to date – \$334.5 million) were partially offset by \$62.0 million in proceeds received from the Government of British Columbia for the return of timber licences, as discussed above. Major capital expenditures in the quarter included \$47.9 million for the Plateau sawmill modernization project, \$15.0 million for the construction of the OSB joint venture project in Fort St John, \$10.1 million for the planer upgrade at the Mackenzie sawmill and \$4.8 million for the Prince George Pulp mill's recovery boiler precipitator upgrade project.

Acquisition

On January 18, 2006, Canfor announced the 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. New South generated total revenues and EBITDA of approximately US \$500 million and US \$35 million respectively in 2005. Canfor

¹⁰ These volumes are excluded from the shipment volumes quoted elsewhere in this report.

expects to capture annual supply chain related synergies of approximately US \$10 million. The transaction, valued at US \$205 million, is expected to close in the first quarter of 2006.

Conference Call

A conference call to discuss the fourth quarter and full year financial and operating results will be held February 16, 2006 at 7:00 am Pacific (10:00 am Eastern). To participate in the call, please dial 604-678-9375 (Vancouver) or 1-866-898-9626 (Toll-Free North America). The call will be web cast live and will be available at www.canfor.com.

Canfor Corporation is a leading Canadian integrated forest products company based in Vancouver, British Columbia. The Company is the largest producer of softwood lumber and one of the largest producers of northern softwood kraft pulp in Canada. Canfor also produces kraft paper, plywood, remanufactured lumber products, oriented strand board (OSB), hardboard paneling and a range of specialized wood products, including baled fibre and fibre mat at 29 facilities located in British Columbia, Alberta, Quebec and Washington State.

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 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.

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Consolidated Statements of Income and Retained Earnings

(millions of dollars)	3 months ended December 31,		12 months ended December 31,	
	2005	2004	2005	2004
	(unaudited)		(audited)	
Sales (Note 2)	\$ 861.0	\$ 1,037.7	\$ 3,787.8	\$ 3,925.0
Costs and Expenses				
Manufacturing and product costs	629.2	705.9	2,598.4	2,382.8
Freight and other distribution costs (Note 2)	145.1	173.7	593.3	525.8
Countervailing and anti-dumping duties (Note 7)	39.9	71.3	224.8	276.2
Amortization	38.4	40.3	151.6	140.3
Selling and administration costs	23.0	13.3	72.0	68.9
	875.6	1,004.5	3,640.1	3,394.0
Restructuring, mill closure and other severance costs (Note 8)	0.1	12.9	5.3	36.5
Operating income (loss) from continuing operations	(14.7)	20.3	142.4	494.5
Interest expense (Note 2)	(9.3)	(11.6)	(42.2)	(58.8)
Foreign exchange gain (loss) on long-term debt	(4.7)	36.1	10.0	48.7
Other income (expense) (Note 10)	7.9	(0.7)	12.8	8.2
Unusual item (Note 11)	2.3	-	(8.8)	-
Net income (loss) from continuing operations before income taxes	(18.5)	44.1	114.2	492.6
Income tax recovery (expense) (Note 12)	7.9	1.3	(12.4)	(94.1)
Net income (loss) from continuing operations	(10.6)	45.4	101.8	398.5
Net income (loss) from discontinued operations (Note 3)	(1.7)	(2.4)	(5.8)	17.0
Net income (loss)	\$ (12.3)	\$ 43.0	\$ 96.0	\$ 415.5
Per common share (in dollars) (Note 14)				
Net income (loss) from continuing operations				
Basic	\$ (0.07)	\$ 0.34	\$ 0.71	\$ 3.31
Diluted	\$ (0.07)	\$ 0.32	\$ 0.71	\$ 3.09
Net income (loss)				
Basic	\$ (0.09)	\$ 0.31	\$ 0.67	\$ 3.45
Diluted	\$ (0.09)	\$ 0.30	\$ 0.67	\$ 3.22
Retained earnings, beginning of year			\$ 691.9	\$ 277.0
Net income for the period			96.0	415.5
Premium paid on common shares purchased for cancellation			(4.9)	(0.6)
Excess of fair market value over cost of property purchased from related party (Note 16)			(3.5)	-
Retained earnings, end of year			\$ 779.5	\$ 691.9

Consolidated Cash Flow Statements

(millions of dollars)	3 months ended December 31,		12 months ended December 31,	
	2005	2004	2005	2004
	(unaudited)		(audited)	
Cash generated from (used in)				
Operating activities				
Net income (loss) from continuing operations	\$ (10.6)	\$ 45.4	\$ 101.8	\$ 398.5
Items not affecting cash:				
Amortization	38.4	40.3	151.6	140.3
Income taxes	(10.7)	11.3	(0.6)	89.6
Long-term portion of deferred reforestation	6.7	19.0	0.8	2.1
Employee future benefits	(3.0)	8.8	8.5	25.1
Unrealized foreign exchange loss (gain) on long-term debt	6.7	(36.1)	(1.9)	(46.7)
Adjustment to accrued duties (Note 7)	(1.5)	(10.1)	(6.2)	3.6
Other	(2.9)	4.0	(4.9)	(4.7)
Changes in non-cash working capital (Note 18)	21.0	117.2	(55.8)	100.7
	44.1	199.8	193.3	708.5
Financing activities				
Proceeds from long-term debt	-	2.3	0.6	311.6
Repayment of long-term debt	(11.8)	(1.2)	(68.4)	(269.6)
Common shares purchased for cancellation (Note 13)	-	(1.5)	(13.8)	(1.5)
Net proceeds on issuance of common shares	-	0.8	1.9	9.5
Other	-	(0.5)	(0.3)	(0.8)
	(11.8)	(0.1)	(80.0)	49.2
Investing activities				
Proceeds from timber take-back (Note 11)	62.0	-	62.0	-
Net proceeds from sale of discontinued operations (Note 3)	-	-	59.0	-
Property, plant, equipment and timber	(95.9)	(92.2)	(334.5)	(202.5)
Electrical co-generation incentive payments (Note 18)	-	11.6	8.3	26.0
Howe Sound Pulp and Paper Limited Partnership (Note 16)	-	-	(50.0)	-
Business acquisition costs, net of cash acquired	-	(0.3)	-	(38.2)
Proceeds from sale of property, plant and equipment	2.5	0.5	7.5	9.9
Other	(3.4)	(4.5)	(4.1)	(2.0)
	(34.8)	(84.9)	(251.8)	(206.8)
Increase (decrease) in net cash from continuing operations	(2.5)	114.8	(138.5)	550.9
Increase (decrease) in net cash from discontinued operations (Note 3)	(0.1)	(68.8)	7.4	(19.3)
Increase (decrease) in net cash	(2.6)	46.0	(131.1)	531.6
Net cash (short-term indebtedness) at beginning of period	305.5	388.0	434.0	(97.6)
Net cash at end of period	\$ 302.9	\$ 434.0	\$ 302.9	\$ 434.0
Net cash is comprised of:				
Cash and temporary investments (Note 2)	\$ 306.3	\$ 438.5	\$ 306.3	\$ 438.5
Operating bank loans	(3.4)	(4.5)	(3.4)	(4.5)
	\$ 302.9	\$ 434.0	\$ 302.9	\$ 434.0
Cash payments (recoveries) in the period				
Interest, net	\$ 5.3	\$ 11.7	\$ 41.9	\$ 56.3
Income taxes	\$ (0.2)	\$ (1.2)	\$ 2.8	\$ 5.8

Consolidated Balance Sheets

(audited, millions of dollars)	As at December 31, 2005	As at December 31, 2004
ASSETS		
Current Assets		
Cash and temporary investments (Note 2)	\$ 306.3	\$ 438.5
Accounts receivable		
Trade	205.4	224.9
Other	79.8	58.1
Income taxes recoverable	-	14.7
Future income taxes	23.9	32.5
Inventories	600.9	573.8
Prepaid expenses	36.2	39.1
Current assets of discontinued operations (Note 3)	39.8	85.3
Total current assets	1,292.3	1,466.9
Long-term investments and other	186.5	196.8
Property, plant, equipment and timber	2,211.1	2,141.7
Deferred charges	96.9	96.1
Non-current assets of discontinued operations (Note 3)	43.7	78.1
	\$ 3,830.5	\$ 3,979.6
LIABILITIES		
Current Liabilities		
Operating bank loans (Note 5)	\$ 3.4	\$ 4.5
Accounts payable and accrued liabilities	380.3	455.0
Current portion of long-term debt	95.7	68.1
Current portion of deferred reforestation	43.3	44.3
Income taxes payable	4.1	-
Current liabilities of discontinued operations (Note 3)	9.3	30.3
Total current liabilities	536.1	602.2
Long-term debt (Note 5)	544.5	660.5
Other accruals and provisions (Note 6)	220.5	218.2
Long-term liabilities of discontinued operations (Note 3)	0.4	5.5
Future income taxes, net	468.3	499.2
Deferred credit (Note 16)	14.1	27.2
	\$ 1,783.9	\$ 2,012.8
SHAREHOLDERS' EQUITY		
Share Capital – 142,510,395 shares outstanding	1,268.7	1,275.7
Retained earnings	779.5	691.9
Foreign exchange translation adjustment	(1.6)	(0.8)
	\$ 2,046.6	\$ 1,966.8
	\$ 3,830.5	\$ 3,979.6

Contingencies (Note 7, 18)

Subsequent events (Note 20)

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, 2004. These interim financial statements follow the same accounting policies and methods of computation as used in the 2004 consolidated financial statements, except as described in Note 2.

2. Changes in Accounting Policies and Presentation

Convertible Debentures

Effective January 1, 2005, Canfor retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) concerning the balance sheet presentation of financial instruments as liabilities or equity. Canfor had previously accounted for its convertible subordinated debentures as equity, including the related interest charges, in accordance with EIC-71 *Financial Instruments That May Be Settled at the Issuer's Option in Cash or its Own Equity Instruments*. Prior year figures have been restated to reflect the debentures as liabilities and the related interest as an expense on the income statement. This had no impact on previously reported earnings per share or retained earnings. The debentures had a maturity date of November 23, 2006 but were converted in November 2004 with the issuance of 11,742,424 Common Shares.

Variable Interest Entities

Effective January 1, 2005, Canfor adopted the CICA's new accounting guideline for the consolidation of variable interest entities. The primary objective of the guideline is to identify and report on entities over which control is achieved through means other than voting rights. The adoption of this guideline did not have a material impact on Canfor's financial position or results of operations.

Cash and Temporary Investments

Effective January 1, 2005, Canfor retroactively amended its presentation of cash and temporary investments to include unrepresented cheques, which were previously included in accounts payable.

Vendor Rebates

In September 2005, the CICA issued a new abstract, *EIC 156 Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)*, effective January 1, 2006. The EIC clarifies the measurement and presentation of vendor discounts and volume rebates, which Canfor had previously presented under "costs and expenses". In the fourth quarter, Canfor elected to adopt the abstract effective January 1, 2005, which reduced both sales and costs and expenses by \$103.3 million for the year (2004 – \$105.0 million).

3. Discontinued Operations

In the fourth quarter of 2005, Canfor announced its intention to transfer 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. In consideration of the transfer Canfor will receive a partnership interest valued at \$45.0 million, which approximates book value of the assets transferred. CFLP has agreed to transfer these assets to Western Forest Products Ltd. (WFP) in return for, among other things, a long-term agreement with WFP to supply CFLP with fibre, and CFLP has agreed to supply this fibre to Howe Sound Pulp and Paper Limited Partnership. The transfer, which is subject to regulatory clearance under the federal Competition Act and by the British Columbia Minister of Forests, is expected to close in the first quarter of 2006. As a result of this transaction, Canfor has reclassified its Coastal Operations segment as discontinued operations and all comparative figures have been restated.

During the second quarter, Canfor completed the sale of its Fort St James, Slocan and Valemount sawmills in British Columbia for total cash proceeds of \$59.0 million. A net after-tax loss of \$4.0 million was recorded on the dispositions

in the second quarter and was subsequently adjusted to \$4.7 million after tax in the fourth quarter. The sale of the Fort St James mill and associated harvesting rights was directed by the federal Commissioner of Competition as a condition to Canfor's acquisition of Slocan Forest Products Ltd. on April 1, 2004. The decision to sell the Slocan and Valemount sawmills was made as part of a process to focus the company's manufacturing assets around certain product lines and fibre baskets. Canfor retained the right to any refund of countervailing and anti-dumping duty (note 7) paid prior to the dispositions.

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

(millions of dollars)	3 months ended December 31			12 months ended December 31		
	Coastal Operations	Sawmills	Total	Coastal Operations	Sawmills	Total
2005						
Sales to external customers	\$ 20.8	\$ -	\$ 20.8	\$ 67.9	\$ 61.7	\$ 129.6
Operating income (loss) before income taxes	\$ (1.6)	\$ -	\$ (1.6)	\$ (6.8)	\$ 5.1	\$ (1.7)
Loss on disposal before income taxes	-	(3.0)	(3.0)	-	(9.2)	(9.2)
Income tax recovery	0.6	2.3	2.9	2.4	2.7	5.1
Net loss	\$ (1.0)	\$ (0.7)	\$ (1.7)	\$ (4.4)	\$ (1.4)	\$ (5.8)
Net loss per share - diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.01)	\$ (0.04)
2004						
Sales to external customers	\$ 30.9	\$ 51.0	\$ 81.9	\$ 105.7	\$ 206.2	\$ 311.9
Operating income (loss) before income taxes	\$ (5.3)	\$ 1.6	\$ (3.7)	\$ (2.9)	\$ 29.2	\$ 26.3
Loss on disposal before income taxes	-	-	-	-	-	-
Income tax recovery (expense)	1.9	(0.6)	1.3	1.1	(10.4)	(9.3)
Net income (loss)	\$ (3.4)	\$ 1.0	\$ (2.4)	\$ (1.8)	\$ 18.8	\$ 17.0
Net income (loss) per share - diluted	\$ (0.03)	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ 0.14	\$ 0.13

4. Canfor-LP OSB Limited Partnership

Canfor has entered into a limited partnership 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. 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.

During the fourth quarter of 2005, Canfor made capital contributions of \$23.5 million to the venture (year to date – \$102.3 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 funding requirement of approximately \$288.0 million, of which \$258.0 million is capital, \$17.0 million is for deferred costs and the balance is for working capital. At the end of 2005, construction was near completion and the mill had commenced limited production in December.

These consolidated financial statements include the following amounts, which represent Canfor's 50% ownership interest in the partnership:

(millions of dollars)	December 31, 2005	December 31, 2004
Income Statement		
Sales	\$ 0.5	\$ -
Costs and expenses	(1.3)	-
	\$ (0.8)	\$ -
Condensed Cash Flow Statement		
Cash used in operating activities	\$ (10.9)	\$ 5.7
Cash used in investing activities	(90.6)	(44.8)
Decrease in net cash	\$ (101.5)	\$ (39.1)
Condensed Balance Sheet		
Cash	\$ 8.4	\$ 1.2
Other current assets	7.0	1.3
Property, plant and equipment	126.8	
Construction in progress	-	41.8
Deferred costs	8.6	3.0
Accounts payable and accrued liabilities	(9.0)	(7.0)
Net assets	\$ 141.8	\$ 40.3

5. Bank Indebtedness and Long-Term Debt

At December 31, 2005, Canfor had \$337.0 million of bank operating lines of credit available, of which \$3.4 million was drawn down and an additional \$43.5 million was reserved for several standby letters of credit.

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 approximately \$1,362.0 million in additional long-term debt and pay up to \$523.0 million, or approximately \$3.67 per share, in dividends to its common shareholders.

At December 31, 2005, the fair value of Canfor's long-term debt was \$664.2 million.

6. Other Accruals and Provisions

(millions of dollars)	December 31, 2005	December 31, 2004
Deferred reforestation	\$ 67.7	\$ 66.9
Countervailing duty provision (Note 7)	67.4	76.7
Accrued pension obligations	20.8	17.7
Post employment benefits	63.1	54.7
Other long-term liabilities	1.5	2.2
Total other accruals and provisions	\$ 220.5	\$ 218.2

7. Countervailing and Anti-dumping Duties

The US Department of Commerce (DOC) determination that resulted in countervailing duty (CVD) of 18.79% was appealed to a NAFTA Panel. As a result of a series of NAFTA Panel rulings and remands to the DOC, on November 22, 2005, the DOC issued a Fifth Remand Determination with a CVD rate of 0.80%, which is considered “*de minimis*.” It is the position of the Canadian parties that this finding requires the CVD order to be revoked and all CVD deposits that have been collected so far, and that have not been liquidated, to be refunded with interest. (In Canfor’s case, none of its CVD deposits have been liquidated.) It is the position of the DOC that if the Fifth Remand Determination is upheld, it will operate prospectively only, which means that the CVD order would be considered to have been effective for the period May 22, 2002 through at least November 22, 2005. The Fifth Remand Determination is currently under challenge by various parties before the NAFTA panel. This NAFTA CVD appeal will have no effect on CVD cash deposits or CVD until there is a final result in that appeal.

While the NAFTA litigation was proceeding, the DOC conducted “annual administrative reviews” of the CVD order. On December 20, 2004 the DOC published its final determination for the first annual administrative review covering the period from May 22, 2002 to March 31, 2003 (POR1), setting the CVD rate at 17.18%. This rate is to be used to determine the actual duties due for entries made during POR1, and the CVD cash deposit rate for shipments made on or after December 20, 2004. At that time, Canfor reduced the CVD expense accrual for POR1 for the difference between the original deposit rate of 18.79% and the revised rate of 17.18% and began expensing at the 17.18% rate for shipments subsequent to December 20, 2004. In February 2005, as a result of ministerial errors in the calculation, the DOC announced a further reduction to this rate, to 16.37%, applicable to assessment of CVD for POR1 and to future CVD cash deposits. As a result, in the first quarter of 2005, Canfor further reduced its CVD accrual for POR1 by \$6.5 million, to record CVD expense at 16.37%. The results in this review are on appeal and are therefore not final. On December 12, 2005, the DOC published its determination for the second administrative review, covering the period from May 2003 to April 2004 (POR2). The DOC set an assessment rate of 8.70% for POR2 entries and as the cash deposit rate on lumber entries occurring on or after December 12, 2005. It is anticipated that the final determination in this review will be appealed. The DOC’s third administrative review, which is currently underway, will determine the assessment of CVD duties for the period from April 1, 2004 to March 31, 2005 as well as the future cash deposit rate. Preliminary review results are due May 31, 2006 and final results are due in the fall of 2006 but can be extended until as late as December 2006.

In the case of the anti-dumping duty (ADD), from May 22, 2002 to December 21, 2004 cash deposits were made at 5.96%, which was the rate required at that time. Canfor recorded the ADD expense for that period at a lower rate, which was estimated by applying the DOC’s methodology to updated sales and cost data as they become available. The final rate will be determined when an official administrative review is complete for the respective periods. The DOC’s first annual administrative review of the ADD order covering the period from May 22, 2002 to April 30, 2003 (POR1) was completed in December 2004. This led to a change in the cash deposit rate on December 21, 2004 from the original rate of 5.96% to a weighted average rate for Canfor and Slocan of 1.83%. In December 2004, Canfor reduced its expense accrual for POR1 to reflect these announced final rates. Canfor’s results of the first administrative review are on appeal and are therefore not final. The second annual administrative review of the ADD order covered the period May 1, 2003 to April 30, 2004 (POR2), and final results were published on December 12, 2005. The DOC determined the ADD assessment rate for Canfor at 1.36% (subsequently amended by the DOC on January 23, 2006 to 1.35%) for POR2 and for cash deposits on lumber shipments after December 12, 2005. It is anticipated that Canfor’s results in this review will be appealed.

In the initial ADD investigation and in the first and second ADD administrative reviews, Canfor was one of the companies selected as a mandatory respondent, and for this reason has received its own company-specific ADD rate. However, in the third administrative anti-dumping review, which covers the period from May 1, 2004 to April 30, 2005 (POR3), the DOC employed a sampling methodology, and Canfor was not selected as a mandatory respondent in the sampling process. As a result, Canfor may be assigned the “all others” rate arising from the averaging of the rates of the mandatory respondents selected for POR3 in the manner announced by the DOC. There is no way of estimating what this rate may be. Canfor filed a voluntary questionnaire response in the third review, but the DOC refused to accept Canfor as a voluntary respondent, which would have given Canfor its own ADD rate for the third review. Canfor intends to challenge the DOC’s refusal vigorously, as well as the sampling methodology that was used

to select mandatory respondents for the third review. Given the uncertainty around the likely final rates to be determined for the ADD with respect to POR3 Canfor has made no adjustments to duties previously expensed for POR2 to reflect the lower CVD and ADD rate as announced in December 2005.

Since December 20, 2004 Canfor has expensed the duties at the same rate at which deposits are being paid, which was 16.37% for CVD and 1.83% for ADD until December 12, 2005, and 8.70% and 1.36% (subsequently amended by the DOC to 1.35% on January 21, 2006), respectively, thereafter. The cumulative additional CVD accrued in excess of the cash deposits made at December 31, 2005 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 December 31, 2005 is \$113.7 million and is being carried as a receivable under "long-term investments and other".

The NAFTA Panel hearing the appeal of the US International Trade Commission (ITC) finding that Canadian imports threatened injury to the US softwood lumber industry repeatedly found that the ITC determination violated US law. Eventually, the ITC issued a remand determination finding that the US softwood lumber industry was not threatened with material injury by reason of Canadian imports. As expected, the US challenged the NAFTA Panel's decision by recourse to a special Extraordinary Challenge Committee (ECC) under the NAFTA. The ECC ruled against the US on August 10, 2005. The position of the Canadian parties is that the US anti-dumping and countervailing duty orders must be terminated, with effect as from May 22, 2002, due to the ITC's having found no threat of injury in its NAFTA remand determination. However, the US position is that an ITC determination that there was a threat of injury, which was made in a "Section 129" proceeding following the US's loss of its defense of the original ITC determination before the WTO, effectively takes the place of the ITC's negative remand determination in NAFTA, and supplies the legal underpinning for maintaining the CVD and ADD orders in effect. The matter is now being litigated before the US Court of International Trade (CIT), and is expected to be decided by the CIT in mid-2006.

The "US Coalition for Fair Lumber Imports" also has challenged Chapter 19 appeals process for antidumping and countervailing duty proceedings, in an effort to undermine all of the NAFTA panel decisions mentioned above. It is unclear when the court handling this challenge, the US Court of Appeals for the District of Columbia Circuit, will decide that case.

As at December 31, 2005, Canfor (including Slocan before April 1, 2004) had paid combined duty deposits of US \$733.4 million (ADD of \$173.5 million and CVD of \$559.9 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 ITC negative remand determination were successful.

The Company 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 year-to-date expense of \$5.3 million is comprised of mill closure costs of \$3.8 million, which are mainly related to the permanent closure of the Tackama sawmill in the third quarter, severance costs of \$1.1 million, and restructuring costs of \$0.4 million associated with the formation of a jointly owned paper sales and marketing partnership with an external party.

Restructuring costs of \$12.9 million were recorded in the fourth quarter of 2004 and \$36.5 million for the year-to-date period. The year-to-date amount was comprised of \$20.4 million of severance and other costs associated with the integration of Canfor and Slocan operations and \$16.1 million of mill closure costs related to the closures of the Taylor, Upper Fraser and Hines Creek sawmills and the Quesnel Specialty mill.

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

(millions of dollars)	3 months ended December 31, 2005			12 months ended December 31, 2005		
	Integration Costs	Mill Closure & Other Restructuring Costs	Total	Integration Costs	Mill Closure & Other Restructuring Costs	Total
Balance of liability at beginning of period	\$ 4.8	\$ 6.1	\$ 10.9	\$ 10.8	\$ 13.5	\$ 24.3
Accrued in the period *	-	0.1	0.1	-	5.3	5.3
Less: non-cash items	-	-	-	-	(3.0)	(3.0)
Payments in the period	(1.3)	-	(1.3)	(7.3)	(9.6)	(16.9)
Balance of liability at end of period	\$ 3.5	\$ 6.2	\$ 9.7	\$ 3.5	\$ 6.2	\$ 9.7

* reported in the following segments:

Lumber	\$ 0.3	\$ 4.9
Pulp and Paper	\$ (0.2)	\$ 0.4

9. Employee Future Benefits

Canfor's total benefit costs were as follows:

(millions of dollars)	3 months ended December 31,		12 months ended December 31,	
	2005	2004	2005	2004
Defined benefit pension plans	\$ 7.4	\$ 9.8	\$ 19.6	\$ 19.6
Other employee future benefit plans	6.9	3.4	13.1	15.7
Defined contribution pension plans	0.8	0.4	2.1	1.2
	\$ 15.1	\$ 13.6	\$ 34.8	\$ 36.5

10. Other Income (Expense)

(millions of dollars)	3 months ended December 31,		12 months ended December 31,	
	2005	2004	2005	2004
Equity income (loss) of affiliated companies	\$ (1.3)	\$ 2.3	\$ 2.7	\$ 11.3
Seaboard General Partnership *	8.9	-	8.9	-
Other income (expense)	0.3	(3.0)	1.2	(3.1)
	\$ 7.9	\$ (0.7)	\$ 12.8	\$ 8.2

* Equity income participation in gain on sale of surplus assets.

11. Unusual Expense

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. Through legislation, licensees 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. Licensees will be compensated by the Crown for the return of tenure and related infrastructure costs such as roads and bridges.

The effect of the timber take-back resulted in a reduction of approximately 2.4 million cubic metres to Canfor's existing allowable annual cut on its replaceable tenures. In anticipation of the completion of negotiations with respect to site selection and compensation occurring in the fourth quarter of 2005, Canfor wrote down the associated timber licenses to their estimated fair value at September 30, 2005, which resulted in the recognition of an \$11.1 million loss in the third quarter. In the fourth quarter, a more detailed allocation of the proceeds to the specific timber licenses returned was performed, resulting in a \$2.3 million reduction to the original loss estimate.

On October 28, 2005, Canfor signed an agreement with the Province of British Columbia, in which Canfor received \$57.0 million in compensation for the loss of tenures noted above, and a \$5.0 million advance payment against lost infrastructure and road construction costs. Canfor is continuing discussions with the Province for further compensation for infrastructure, but the amount and timing of additional compensation, if any, is not yet determinable.

12. Income Tax Recovery (Expense)

(millions of dollars)	3 months ended December 31,		12 months ended December 31,	
	2005	2004	2005	2004
Current	\$ (1.7)	\$ 0.3	\$ (12.1)	\$ (8.1)
Future	11.8	(0.4)	(11.8)	(151.5)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	-	-	-	1.1
Tax on equity earnings	0.5	(1.0)	(1.0)	(4.1)
	10.6	(1.1)	(24.9)	(162.6)
Amortization of deferred credit on utilization of acquired tax losses	(2.7)	2.4	12.5	68.5
	\$ 7.9	\$ 1.3	\$ (12.4)	\$ (94.1)

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,		12 months ended December 31,	
	2005	2004	2005	2004
Income tax recovery (expense) at statutory tax rate	\$ 6.4	\$ (15.6)	\$ (39.7)	\$ (174.9)
Large corporation tax	(1.1)	(1.3)	(4.8)	(6.2)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	-	-	-	1.1
Amortization of deferred credit on utilization of acquired tax losses	(2.7)	2.4	12.5	68.5
Permanent differences from dividend income	3.1	-	3.1	-
Permanent difference from capital gains and losses	(0.6)	8.6	2.4	8.6
Benefit of losses not previously recognized	-	6.3	2.3	8.6
Change in estimate of available capital losses	-	-	(8.6)	-
1.5% reduction in British Columbia corporate tax rate	-	-	21.0	-
Other permanent differences and adjustments	2.8	0.9	(0.6)	0.2
Tax recovery (expense)	\$ 7.9	\$ 1.3	\$ (12.4)	\$ (94.1)

13. Share Capital

During the third quarter, the Company purchased 1,000,000 common shares for cancellation under a Normal Course Issuer Bid. The shares were purchased on the open market at an average price of \$13.84 per share, and the excess of the purchase price over the average book value per share, in the amount of \$4.9 million, has been charged to retained earnings. The Normal Course Issuer Bid expired on October 14, 2005. A new Normal Course Issuer Bid commenced on November 15th; however, no shares had been purchased as of December 31, 2005.

14. Earnings Per Share

(millions of dollars, except for number of shares and per share amounts)	3 months ended December 31,		12 months ended December 31,	
	2005	2004	2005	2004
Earnings per share from continuing operations				
Net income (loss) from continuing operations	\$ (10.6)	\$ 45.4	\$ 101.8	\$ 398.5
Basic earnings (loss) per share from continuing operations	\$ (0.07)	\$ 0.34	\$ 0.71	\$ 3.31
Net income (loss) from continuing operations – diluted earnings per share (a)	\$ (10.6)	\$ 46.1	\$ 101.8	\$ 403.9
Diluted earnings (loss) per share from continuing operations	\$ (0.07)	\$ 0.32	\$ 0.71	\$ 3.09
Earnings per share				
Net income (loss)	\$ (12.3)	\$ 43.0	\$ 96.0	\$ 415.5
Basic earnings (loss) per share	\$ (0.09)	\$ 0.31	\$ 0.67	\$ 3.45
Net income (loss) – diluted earnings per share (a)	\$ (12.3)	\$ 43.7	\$ 96.0	\$ 420.9
Diluted earnings (loss) per share	\$ (0.09)	\$ 0.30	\$ 0.67	\$ 3.22
Weighted average number of common shares	142,510,396	137,499,252	143,092,157	120,452,437
Incremental shares from stock options	99,191	185,827	163,120	226,625
Shares issuable upon conversion of convertible debentures	-	5,871,212	-	10,234,517
Diluted number of common shares	142,609,587	143,556,291	143,255,277	130,913,579

(a) 2004 – after adding back interest on liability component of convertible debentures

15. 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 December 31, 2005, Canfor had US \$46.4 million of forward contracts outstanding. These contracts were fixed at an average rate of 1.1702 and have option periods extending through to April 2006. There was an unrecognized gain of \$0.1 million on these contracts at December 31, 2005. Contracts totaling \$17.3 million were exercised in the current quarter and a gain of \$0.5 million was realized (2004 – nil). In 2005, contracts totaling \$97.5 million were exercised and a gain of \$2.1 million was realized (2004 – contracts totaling \$20.0 million were exercised at a gain of \$1.8 million).

Canfor also uses a variety of financial instruments to reduce its exposure to risks associated with lumber and pulp prices and energy costs. At the end of the current quarter, there were 186 lumber futures contracts outstanding, which had an unrealized loss of \$0.2 million. At December 31, 2005, Canfor had entered into swaps to hedge 1,500 tonnes of pulp at an average price of US \$675 per tonne. There was an unrealized gain of \$0.1 million on these contracts at December 31, 2005. Commodity swaps hedging future natural gas purchases of 5.6 million gigajoules at

an average price of \$6.53 per gigajoule were outstanding at the end of the current quarter. There was an unrealized gain of \$18.6 million on these swaps at December 31, 2005.

16. Howe Sound Pulp & Paper Limited Partnership (HSLP)

Canfor acquired \$643.0 million of tax losses from HSLP in 2001, which gave rise to a deferred credit of \$104.0 million. On January 2, 2005, Canfor made a final contribution of \$50.0 million to HSLP with respect to these losses. As at December 31, 2005, Canfor had \$14.1 million of deferred credits remaining available to reduce income tax expense in future periods.

In August 2005, Canfor purchased certain land and buildings from HSLP through a new partnership jointly owned with Oji Paper Canada Ltd. The property was purchased at fair market value, of which Canfor's share was \$5.7 million, but has been recorded at HSLP's carrying value, with the difference of \$3.5 million being recorded in retained earnings, in accordance with accounting rules for related party transactions of this nature.

17. Changes in Non-Cash Working Capital

(millions of dollars)	3 months ended December 31,		12 months ended December 31,	
	2005	2004	2005	2004
Accounts receivable	\$ 34.5	\$ 62.7	\$ 8.3	\$ 58.0
Income taxes	(2.1)	(7.5)	1.7	(2.9)
Inventories	(26.7)	66.3	(27.0)	70.3
Prepaid expenses	6.9	(3.2)	2.9	(7.8)
Accounts payable, accrued liabilities and deferred reforestation	8.4	(1.1)	(41.7)	(16.9)
	\$ 21.0	\$ 117.2	\$ (55.8)	\$ 100.7

18. Electrical Co-generation Incentive Payments

In 2003, Canfor entered into an agreement with BC Hydro to build an electrical co-generation facility at Canfor's Prince George Pulp and Paper mill. Under the agreement, BC Hydro was to contribute up to \$45.8 million of the project costs, with Canfor contributing the balance. Incentive payments of \$8.3 million were received from BC Hydro in the first quarter of 2005 and a final payment of \$11.5 million was recorded as a receivable in the fourth quarter. Total incentive payments of \$26.0 million were received in 2004. These incentive payments were accounted for as a credit to property, plant and equipment. The project was completed in the second quarter of 2005 at a net cost to Canfor of \$69.6 million. Canfor has entered into a 15-year commitment with BC Hydro for power displacement at the co-generation facility, whereby a proportionate repayment is required should the facility not generate a minimum of 390 gigawatt hours of electricity per year. As required in the agreement, Canfor has posted a letter of credit in the amount of \$21.8 million as security.

19. Segmented Information ^(a)

(millions of dollars)	Lumber ^(b)	Panels	Pulp & Paper	Corporate & Other	Consolidated
3 months ended December 31, 2005					
Sales to external customers	\$ 550.3	89.0	221.7	-	\$ 861.0
Sales to other segments ^(c)	\$ 15.3	-	-	-	\$ 15.3
Operating income (loss)	\$ (13.1)	(2.7)	16.8	(15.7)	\$ (14.7)
Amortization	\$ 20.6	3.9	12.1	1.8	\$ 38.4
Capital expenditures	\$ 74.1	19.5	5.2	(2.9)	\$ 95.9
3 months ended December 31, 2004 ^(d)					
Sales to external customers	\$ 722.5	92.0	223.2	-	\$ 1,037.7
Sales to other segments ^(c)	\$ 32.2	0.9	-	-	\$ 33.1
Operating income (loss)	\$ 16.6	19.9	(10.1)	(6.1)	\$ 20.3
Amortization	\$ 24.2	2.7	11.9	1.5	\$ 40.3
Capital expenditures	\$ 15.1	32.8	42.5	1.8	\$ 92.2
12 months ended December 31, 2005					
Sales to external customers	\$ 2,545.6	365.7	876.5	-	\$ 3,787.8
Sales to other segments ^(c)	\$ 107.9	-	-	-	\$ 107.9
Operating income (loss)	\$ 131.5	25.4	22.2	(36.7)	\$ 142.4
Amortization	\$ 86.9	11.9	46.2	6.6	\$ 151.6
Capital expenditures	\$ 158.7	105.7	63.5	6.6	\$ 334.5
Identifiable assets ^(e)	\$ 1,718.3	345.8	895.3	871.1	\$ 3,830.5
12 months ended December 31, 2004 ^(d)					
Sales to external customers	\$ 2,640.0	368.8	916.2	-	\$ 3,925.0
Sales to other segments ^(c)	\$ 112.7	3.5	-	-	\$ 116.2
Operating income (loss)	\$ 382.4	121.0	45.1	(54.0)	\$ 494.5
Amortization	\$ 79.7	8.5	44.5	7.6	\$ 140.3
Capital expenditures	\$ 51.1	61.8	87.1	2.5	\$ 202.5
Identifiable assets ^(e)	\$ 1,715.1	233.5	910.6	1,120.4	\$ 3,979.6

(a) 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.

(b) Sales for the quarter include sales of Canfor produced lumber of \$456.1 million (2004 – \$660.4 million) and \$2,216.2 million for the year to date (2004 – \$2,369.7). Excludes discontinued operations (Note 3).

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

(d) These figures include the results of the former Slocan operations since April 1, 2004.

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

20. Subsequent Events

On January 18, 2006 Canfor announced that it had signed an agreement to acquire all of the outstanding shares of New South Companies Inc. (New South) in a transaction valued at US \$205.0 million, including working capital of approximately US \$55.0 million. New South is headquartered in Myrtle Beach, South Carolina and operates three sawmills, two treating plants, a fingerjoint plant and a European lumber import business. The acquisition will be effected by a plan of merger requiring the approval of the holders of two-thirds of New South's outstanding shares. The acquisition agreement provides for the payment of certain amounts to Canfor in the event that the transaction is not completed by New South for certain reasons. Shareholders of New South representing approximately 80% of the outstanding voting shares of New South have agreed to support the transaction. Other customary closing conditions will apply. The transfer is expected to close in the first quarter of 2006 and will be funded from Canfor's existing resources.

On February 15, 2006 Canfor announced that it intends to separate its pulp business from its wood products business. Canfor proposes to transfer to an indirectly owned limited partnership, its northern softwood kraft pulp and paper business, including its Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill, together with associated management (the "Pulp Income Trust"). The Pulp Income Trust is proposed to be completed through a plan of arrangement under which Canfor will distribute a 20% interest in the Pulp Income Trust to its shareholders and retain an 80% interest. Completion of the Pulp Income Trust 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 a tax ruling confirming the expected treatment of the distribution of trust units as a return of capital to Canfor's shareholders. A special meeting of shareholders to approve the Pulp Income Trust is expected to occur in June 2006.

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