



July 28, 2006

CANFOR CORPORATION ANNOUNCES SECOND QUARTER 2006 EARNINGS

Vancouver, B.C. – Canfor Corporation (TSX: CFP) today reported net income of \$39.2 million for the second quarter, or \$0.28 per share, and net income of \$58.1 million, or \$0.41 per share, for the year to date.

Although not a GAAP measure, before adjustments for tax rate changes, foreign exchange translation gains, and other one-time items, the net loss for the quarter would have been \$22.9 million, or a loss of \$0.16 per share.

Operating income before amortization (EBITDA) was \$26.9 million in the quarter, or approximately 3% of sales, versus \$83.3 million, or approximately 9% of sales in the previous quarter. The decline of \$56.4 million was mainly a result of the continued strengthening of the Canadian dollar, which appreciated by 3% in the quarter, in combination with lower wood product prices: SPF lumber was 8% lower, SYP lumber was 13% lower, plywood was 4% lower and OSB was 16% lower. These factors were partially offset by higher pulp prices, which were nearly 8% higher. Compounding the difficult market conditions were lower production levels and increased volumetric costs in each of the business segments.

“Production in our Lumber and Panels segments was less than planned in the quarter due to operational issues, including several facilities still in their start-up phases, and the downtime at PolarBoard resulting from the fire in June. Faced with these challenging conditions in our wood products business, combined with the adverse market prices and the strength of the Canadian dollar, Canfor has a number of initiatives underway to improve productivity while continuing to lower costs. For example, downtime was taken in the second quarter to complete the Plateau rebuild, which will allow the mill to become competitive sooner, help to increase productivity and lower costs in our lumber business. These initiatives, in conjunction with continued demand for Canfor’s high-quality products and financial strength, will position Canfor well to weather the downturns experienced in our business. We completed our first full quarter with New South as part of the Canfor family. The integration is going as planned with management capitalizing on synergy opportunities,” said Jim Shepherd, Canfor President and CEO.

“The pulp and paper segment contributed another strong quarter of results for Canfor. We are also pleased with the successful launch of the Canfor Pulp Income Fund. We believe the timing was right considering the positive pulp market fundamentals, and that the Fund adds to shareholder value. The management and employees of the new Fund are some of the best in the business and we are confident that they will continue to run the operations efficiently and maintain the high level of customer service that has come to be expected in the market place.”

Mr. Shepherd went on to state, “Canfor is prepared to support the Softwood Lumber Agreement recently negotiated between the Governments of Canada and the United States.”

New Senior Vice-President, Operations

Canfor is pleased to announce that **Patrick (Patch) Bonkemeyer** has been appointed Senior Vice-President, Operations at Canfor effective August 1, 2006. In this new position, Mr. Bonkemeyer will have overall responsibility for the Wood Products manufacturing operations at Canfor and continue the initiatives already underway to improve results. Mr. Bonkemeyer brings to Canfor over twenty-five years experience in solid wood, pulp and paper operations, sales and marketing.

Conference Call

A conference call to discuss the second quarter financial and operating results will be held on Monday, July 31st at 8:00 am (PDT). To participate in the call, please dial one of the following numbers and enter Participant Pass Code 16734#: 604-899-1159 (Vancouver); 416-883-0193 (Toronto); 514-395-2055 (Montreal) or 1-888-458-1598 (Toll-Free North America). The call will be webcast live and will be available at www.canfor.com.

Forward Looking Statements

Certain statements in this press release constitute “forward-looking statements” which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as “expects”, “anticipates”, “intends”, “plans”, “will”, “believes”, “seeks”, “estimates”, “should”, “may”, “could”, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management’s current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

Canfor Corporation is a leading Canadian integrated forest products company based in Vancouver, British Columbia, with interests in over 33 facilities in British Columbia, Alberta, Quebec, Washington State and North and South Carolina. The Company is the largest producer of softwood lumber in Canada, while also producing oriented strand board (OSB), plywood, remanufactured lumber products and specialized wood products. Canfor also owns an 80% interest in Canfor Pulp Limited Partnership, which is one of the largest producers of northern softwood kraft pulp in Canada and a leading producer of high-performance kraft paper. Canfor shares are traded on the Toronto Stock Exchange (TSX: CFP).

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

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

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

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

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

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

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

SUMMARY OF SELECTED RESULTS

(millions of dollars, except for per share amounts)	Q2 2006	Q1 2006	YTD 2006¹	Q2 2005	YTD 2005
Sales ²	\$ 1,059.9	\$ 962.7	\$ 2,022.6	\$ 1,035.7	\$ 1,999.2
Countervailing & anti-dumping duties expensed	\$ 32.1	\$ 30.2	\$ 62.3	\$ 67.5	\$ 126.4
EBITDA	\$ 26.9	\$ 83.3	\$ 110.2	\$ 101.5	\$ 239.0
Operating income (loss)	\$ (15.3)	\$ 38.5	\$ 23.2	\$ 66.0	\$ 162.9
Foreign exchange gain (loss) on long-term debt	\$ 24.4	\$ (1.0)	\$ 23.4	\$ (11.7)	\$ (15.3)
Net income from continuing operations, after tax	\$ 39.2	\$ 21.2	\$ 60.4	\$ 28.2	\$ 91.7
Net loss from discontinued operations	\$ -	\$ (2.3)	\$ (2.3)	\$ (2.9)	\$ (0.8)
Net income	\$ 39.2	\$ 18.9	\$ 58.1	\$ 25.3	\$ 90.9
Per share, diluted					
Net income from continuing operations	\$ 0.28	\$ 0.15	\$ 0.42	\$ 0.20	\$ 0.64
Net income	\$ 0.28	\$ 0.13	\$ 0.41	\$ 0.18	\$ 0.63
Average Canadian/US exchange rate ³	\$ 0.891	\$ 0.866	\$ 0.878	\$ 0.804	\$ 0.809

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

² Prior year sales figures in the Lumber segment, as presented in the Quarterly Financial Information in the 2005 Annual Report, have been restated for comparability with the presentation in the current year.

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

Operating income declined by \$53.8 million over the previous quarter, and was \$81.3 million lower than in the same quarter in 2005. The continuing strength of the Canadian dollar, which appreciated by 3% in the quarter and by 11% compared to the second quarter of 2005, along with weakening prices for lumber and panels and lower production volumes, were the main reasons for the declining profitability. The benchmark SPF 2x4 #2 & Better US dollar lumber price declined by 8% from the first quarter and by 13% from the same time last year, or, when expressed in Canadian dollars, by 10% and 22% respectively. The decline in US dollar OSB prices was even more significant, with pricing falling by 16% from the first quarter and by 22% from the same time last year, or by 19% and 30%, respectively, when expressed in Canadian dollars. Canadian dollar plywood prices declined by 4% in the quarter but were at the same level as last year.

Several one-time adjustments were recorded in the second quarter, as noted below, which affect comparability with prior periods.

(millions of dollars, except for per share amounts)	After-tax
Insurance deductible on the fire at the PolarBoard OSB mill	\$ (1.4)
Project costs related to the spinout of the Pulp business	\$ (2.8)
Change in accounting policy for pulp maintenance expense	\$ 3.2
Tax adjustment resulting from corporate income tax rate reductions enacted in the 2006 Federal Budget and prior year reassessments	\$ 42.9
Foreign exchange gain on long-term debt	\$ 20.2
Favourable impact of above items on net income	\$ 62.1
Favourable impact of above items on earnings per share	\$ 0.44

Completion of Spinout of Pulp Income Trust

On July 1, 2006, Canfor completed the spinout of 20% of its NBSK pulp and paper business, after having received the approval of its shareholders on June 9, 2006 and the Supreme Court of British Columbia on June 15, 2006. Upon the completion of the spinout, the existing Common Shares of Canfor Corporation were cancelled and Canfor shareholders were entitled to receive one New Common Share of Canfor Corporation and 0.1 of a Unit of Canfor Pulp Income Fund (CPIF), with the distribution of the Fund Units being structured as a return of capital on the Canfor Shares. As a result, on the date of the spinout Canfor Shareholders owned all of the issued and outstanding New Common Shares and all of the issued and outstanding Fund Units, with the outstanding Fund Units representing a 20% indirect interest in the Pulp Business. Through its interest in the Canfor Pulp Limited Partnership (CPLP), which is indirectly exchangeable for Fund Units, Canfor owns the remaining 80% interest in the Pulp Business.

This transaction furthers Canfor's strategy to focus on the profitability and growth of the wood products business, while still participating in the improved business fundamentals for the pulp and paper mills.

Canfor and the CPLP have entered into a long-term fibre supply agreement under which Canfor will continue to provide CPLP with residual wood chips and hog fuel produced at its sawmills at market prices.

Acquisition of New South

On March 6, 2006, Canfor completed its acquisition of New South Companies Inc. (New South). Headquartered in South Carolina, New South operates three sawmills with an annual capacity of 425 million board feet of southern yellow pine, two treating plants, a finger joint plant and an International lumber import business. The transaction was valued at US \$181.6 million (US \$205.0 million, less assumed debt of US \$39.4 million and adjustments for working capital and transaction costs), or Cdn \$206.1 million.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

(millions of dollars unless otherwise noted)	Q2 2006	Q1 2006	YTD 2006	Q2 2005	YTD 2005
Sales	\$ 736.1	\$ 636.3	\$ 1,372.4	\$ 719.0	\$ 1,379.2
EBITDA	\$ 12.3	\$ 46.4	\$ 58.7	\$ 87.5	\$ 188.8
EBITDA margin	2%	7%	4%	12%	14%
Operating income (loss)	\$ (10.3)	\$ 21.8	\$ 11.5	\$ 67.4	\$ 143.4
Average SPF 2x4 #2 & Better lumber price in US \$ ⁴	\$ 316	\$ 343	\$ 329	\$ 365	\$ 379
Average SPF price in Cdn \$	\$ 355	\$ 396	\$ 375	\$ 454	\$ 468
Average SYP 2x4 #2 lumber price in US \$ ⁵	\$ 380	\$ 435	\$ 407	\$ 458	\$ 446
Average SYP price in Cdn \$	\$ 426	\$ 502	\$ 464	\$ 570	\$ 551
Production – SPF lumber (MMfbm)	1,141.2	1,217.7	2,358.9	1,242.7	2,488.1
Production – SYP lumber (MMfbm)	111.4	29.9	141.3	-	-
Shipments – Canfor-produced SPF lumber (MMfbm)	1,198.1	1,125.2	2,323.3	1,291.3	2,407.9
Shipments – Canfor-produced SYP lumber (MMfbm)	126.6	37.4	164.0	-	-
Shipments – wholesale lumber (MMfbm)	272.4	150.0	422.4	102.0	178.6

Operating earnings in the Lumber segment decreased by \$32.1 million from the previous quarter and were \$77.7 million lower than in the same period last year, mainly as a result of the continued strengthening of the Canadian dollar, weaker lumber prices and lower production volumes. The impact of the lower lumber prices on operating income was approximately \$28.0 million, while the stronger dollar reduced earnings by approximately \$8.0 million compared to the previous quarter. On December 12, 2005, the US Department of Commerce lowered the deposit rates for the countervailing and anti-dumping duties from 18.20% to 10.05%. The lower rate, combined with the stronger Canadian dollar, resulted in the duty expense in the current period being \$35.4 million lower than in the second quarter of 2005.

Operations

SPF production fell by approximately 6% from the first quarter. Downtime at the Plateau operation was taken to complete final project tie-ins and balance inventories. The Houston operation discontinued its third shift during the quarter to focus resources on driving change in key performance metrics. On June 22nd, Canfor announced that it was taking downtime at several sawmills in July, which is expected to reduce production by approximately 50 million board feet.

SYP production of 111.4 million board feet includes a full quarter of New South's operations, while the prior quarter's volume of 29.9 million board feet was for a period of approximately four weeks.

Despite the weakening market conditions, SPF shipments grew by over 6% from the previous quarter. Even with the continuing deterioration of fibre quality resulting from the Mountain Pine Beetle epidemic, the segment also realized a 3% improvement in prime product outturns.

Inventory turn targets improved over the prior quarter and rough inventories were reduced by over 10%. The announced curtailments for July will further this trend.

⁴ Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)

⁵ Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)

Stumpage Rates

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

In the first policy change, the Grade 3 (dead and dry) sawlogs category was eliminated effective April 1, 2006. This quality of log will now generally be categorized as sawlogs, with a minor amount categorized as pulpwood or dead and dry sawlogs depending on their quality. If they are deemed to be pulpwood, they will continue to sell for 25 cents per cubic metre. If they qualify as sawlogs, they will be priced, on average, at \$10 per cubic metre less than green sawlogs. The change in log grades is intended to be revenue neutral to the Crown, meaning that the stumpage rate for green sawlogs will decline somewhat. Consequently, for operations in areas with high proportions of sawlogs currently classified as dead and dry, the stumpage cost for fibre is anticipated to increase and operations harvesting largely green timber expect to see stumpage rates decline.

The second change announced is the replacement of the current Comparative Value Pricing System (CVP) with a market-based system driven by prices for timber sold in open auctions through the BC Timber Sales Program effective July 1, 2006. In the former CVP system, the declining value of trees killed by the Mountain Pine Beetle (MPB) would not be recognized and this is one of the reasons for the change. The Province of BC recently announced that a market-based system had been agreed upon by both government and industry and the original implementation date of September 1, 2006 was accelerated to July 1, 2006. Canfor's current analysis of the new system suggests a slight increase in log prices in the near term, but the expanding MPB epidemic across the Interior coupled with the declining value of the beetle-killed trees as they degrade, is expected, over time, to gradually reduce stumpage to reflect that market price.

The impact of these changes is not expected to have a material impact on Canfor's log costs in the near term.

Markets – see below, following Panels section

Panels

(millions of dollars unless otherwise noted)	Q2 2006	Q1 2006	YTD 2006	Q2 2005	YTD 2005
Sales	\$ 100.8	\$ 99.3	\$ 200.1	\$ 88.9	\$ 182.4
EBITDA	\$ (3.6)	\$ 6.9	\$ 3.3	\$ 11.8	\$ 32.4
EBITDA margin	(4)%	7%	2%	13%	18%
Operating income (loss)	\$ (10.6)	\$ 1.1	\$ (9.5)	\$ 9.0	\$ 26.8
Average plywood price in Cdn \$ ⁶	\$ 360	\$ 375	\$ 368	\$ 361	\$ 400
Average OSB price in US \$ ⁷	\$ 238	\$ 285	\$ 261	\$ 305	\$ 334
Average OSB price in Cdn \$	\$ 267	\$ 329	\$ 297	\$ 379	\$ 413
Production – plywood (MMsf 3/8")	115.5	114.0	229.5	110.9	219.2
Production – OSB (MMsf 3/8")	176.1	172.7	348.8	114.9	235.5
Shipments – plywood (MMsf 3/8")	118.1	110.3	228.4	107.1	213.1
Shipments – OSB (MMsf 3/8")	187.8	157.2	345.0	117.1	219.6

The Panels segment recorded an operating loss of \$10.6 million in the second quarter, which was \$11.7 million below the previous quarter's results and \$19.6 million lower than in the same quarter in 2005. Consistent downward pressure on average market values over the past two quarters, and the continuing appreciation of the Canadian

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.)

dollar have offset steady improvements in operational performance metrics. The aggregate negative impact of softening panel prices accounted for \$11.0 million of the total change in earnings since the last quarter.

The quarter's results include a \$3.1 million operating loss from the Peace Valley OSB joint venture, which was \$0.9 million worse than in the previous quarter, mainly due to increased amortization of deferred start-up costs. The plant, which is in its start-up phase, commenced operations at the end of the fourth quarter of 2005. The plant operated within the previously announced range of 65 to 75% of annual capacity in the second quarter.

Operations

Plywood

The continuous improvement initiatives undertaken in the plywood operations added to the gains of the last period, with production growth of over 1% achieved in the second quarter. In addition to the productivity gains, cost savings and a focus on efficiency contributed to a 3% reduction in cash conversion costs for the period. Complementing the operational efficiencies was a continued emphasis on prime product outturns, which improved by 2% over the last quarter.

OSB

After an encouraging start to the quarter, on June 9th a major fire occurred at PolarBoard, which negatively impacted production by 22% over the first quarter. Repairs to damaged machinery were completed in just over three weeks, with building repairs continuing into July. During the shutdown, maintenance and repair work planned for later in the year was also performed, as well as the installation of larger airlocks, which added \$1.8 million to the current quarter's costs. The mill resumed full production on July 5th.

Prior to this incident, the operation was on pace to improve upon last quarter's production and cash conversion costs by over 2%. Despite the negative impacts of the fire, panel recovery and grade outturns improved marginally over the prior period.

OSB production was 176.1 million square feet in the quarter, including Canfor's 50% share of Peace Valley OSB's production.

The segment also includes the Panel and Fibre operation, which, despite being significantly impacted by the strength of the Canadian dollar, was able to contribute a small positive EBITDA in the quarter.

Markets – Lumber and Panels

In the second quarter of 2006, reduced demand for wood products and readily available supply resulted in overall lower prices. US homebuilders were faced with a higher than normal inventory of unsold homes, and, as a result, housing starts were 12% lower than last quarter and 9% lower than the same period last year. The average SPF 2x4 #2 & Better Random Lengths price was US \$316 per Mfbm for the quarter, down 8% from the first quarter of 2006 and 13% from the same quarter in 2005. In this backdrop of weaker demand, temporary production curtailments in the US and Canada were announced.

SYP prices were also under pressure, with the 2x4 #2 (Eastside) price declining by 13% over the previous quarter and by 17% over the same quarter last year.

Home Centre sales continue to be strong, and increased by 10% year over year. Offshore sales in the second quarter increased modestly over the previous quarter and were 9% higher than the same period in 2005. Total shipments to Asia were flat, as a slight reduction to Japan was offset by higher shipments to China. Lumber shipments to Europe doubled over the previous quarter and were up 150% over the same quarter in 2005.

Both plywood and OSB were also affected by declining demand and oversupply during the quarter. The average OSB price of US \$238 per Msf 7/16" (North Central) declined 16% over the previous quarter and 22% over the second quarter of 2005. The Canadian Softwood Plywood (CSP) price of CDN \$360 per Msf 3/8" basis delivered to Toronto declined by 4% over the previous quarter and was virtually flat over the same period last year.

Outlook – Lumber and Panel Markets

US economic growth is expected to weaken slightly during the second half of 2006 and into 2007, as rising inflation and a continuation of high energy prices result in higher interest rates and reduced consumer spending. Rising mortgage rates, affordability issues and the retreat of investors and speculators from the housing market are expected to result in lower levels of housing starts during the second half of 2006. However, home repairs and renovations are expected to remain relatively strong as consumers choose to upgrade their current homes rather than purchase new ones. It is anticipated that the total lumber supply will start to decline, due to curtailments in North America and also because of reduced European shipments resulting from strong demand in Europe, low prices in North America and the continued strength of the Euro.

Pulp and Paper

(millions of dollars unless otherwise noted)	Q2 2006	Q1 2006	YTD 2006	Q2 2005	YTD 2005
Sales	\$ 223.0	\$ 227.1	\$ 450.1	\$ 227.8	\$ 437.6
EBITDA	\$ 28.2	\$ 34.6	\$ 62.8	\$ 8.3	\$ 29.6
EBITDA margin	13%	15%	14%	4%	7%
Operating income	\$ 17.3	\$ 22.4	\$ 39.7	\$ (2.5)	\$ 7.5
Average pulp price – US \$ ⁸	\$ 670	\$ 622	\$ 646	\$ 613	\$ 628
Average price in Cdn \$	\$ 752	\$ 718	\$ 735	\$ 763	\$ 776
Production – pulp (000 mt)	272.5	318.1	590.6	286.0	585.6
Production – paper (000 mt)	30.1	33.1	63.2	30.8	64.2
Shipments – Canfor-produced pulp (000 mt)	293.1	313.3	606.4	299.0	567.1
<i>Marketed on behalf of HSLP ⁹ (000 mt)</i>	98.3	88.6	186.9	102.5	184.6
Shipments – paper (000 mt)	31.3	31.1	62.4	33.0	65.5

Operating income declined by \$5.1 million from the previous quarter, but was \$19.8 million higher than in the same quarter last year. The decrease from the prior quarter is mainly due to lower production volumes as a result of planned maintenance shutdowns at the Northwood, Intercontinental and Prince George pulp mills. When compared to the first quarter of 2005, lower production volumes and the stronger Canadian dollar were more than offset by lower energy costs resulting from the co-generation project and the beneficial impact of lower chip prices.

The results for the quarter include a \$3.9 million favourable adjustment to planned major maintenance expenses. The change resulted from a requirement to revise the accounting policy for the recognition of such maintenance costs and the subsequent adoption of the deferral method of accounting. The amounts involved in prior periods are not considered significant enough to require restatement.

Operations

The Northwood Pulp Mill took its major maintenance shutdown in the period, and was down for 13.25 days. The Intercontinental Pulp Mill took a 4.2 day minor maintenance shutdown, and incurred additional production losses as a result of mechanical issues around start-up and a power loss in the river pump house and effluent system that resulted in a 3-day full mill emergency shutdown. Prince George Pulp Mill's major maintenance shutdown lasted 9.1 days. In total, maintenance and other downtime reduced production by 37,700 tonnes in the quarter.

⁸ Per tonne, delivered to Northern Europe

⁹ Howe Sound Pulp and Paper Limited Partnership

Self-generated power improved significantly in the quarter, with the co-generation facility averaging 975 megawatt hours per day, or 14% more than in the previous quarter. The target daily production of 1,068 megawatt hours was reached late in the quarter.

Markets

The chemical market pulp industry experienced solid demand during the second quarter of 2006. This was driven by healthy paper markets in all regions of the world, which were fuelled by solid economic growth in the United States, Europe, and Asia.

Shipments of market pulp were strong enough in the second quarter to drive inventories held by pulp producers down to 28 days of supply¹⁰. The largest impact on supply of chemical market pulp was the temporary and permanent closures of market pulp mills in North America, due to rising energy and fibre costs, particularly softwood kraft pulp mills in eastern Canada. Several Canadian mills encountered production problems upon starting up, which further restricted supply from their operations.

Demand for market pulp has increased noticeably this year, which has resulted in strong shipments to Asia and Western Europe. Shipments to North America are down overall, mainly due to a lack of supply from North American mills. Yet the paper industry has been very strong in the US through the second quarter, with paper manufacturers having healthy pricing traction. European paper mills have also enjoyed strong demand but have struggled with obtaining higher paper prices, due to overcapacity in their industry. In Asia, paper demand in the region has been strong and manufacturers have had modest success in raising paper prices, which is needed to compensate for pulp price increases.

Outlook – Pulp Markets

Looking forward, the strong demand for pulp and paper, combined with the supply constraints caused by North American closures, has caused both producers' and consumers' inventories to decrease appreciably. Demand for paper, and hence pulp, is expected to accelerate in late summer to accommodate the strong printing needs of advertisers for back-to-school and holiday goods. The combination of low to moderate inventories and a spike in demand is an indicator that the market may delay seasonal price declines normally experienced at this time of the year.

Non-Segmented Items

(millions of dollars)	Q2 2006	Q1 2006	YTD 2006	Q2 2005	YTD 2005
Corporate costs	\$ (11.7)	\$ (6.8)	\$ (18.5)	\$ (7.9)	\$ (14.8)
Net interest expense	\$ (11.8)	\$ (9.8)	\$ (21.6)	\$ (11.1)	\$ (22.9)
Foreign exchange gain (loss) on long-term debt	\$ 24.4	\$ (1.0)	\$ 23.4	\$ (11.7)	\$ (15.3)
Equity income and other income (expense)	\$ (3.5)	\$ 0.9	\$ (2.6)	\$ 2.2	\$ 3.6

Corporate Costs

Corporate costs increased by \$4.9 million over the previous quarter and were \$3.8 million higher than in the same period last year. The higher costs in the current quarter were primarily due to the payment of a \$1.8 million insurance deductible for the fire at PolarBoard and, in comparison, the first quarter expense was reduced by a \$1.4 million reversal of long-term incentive plan payments accrued in the prior year.

¹⁰ Pulp and Paper Products Council

Interest Expense

Net interest expense of \$11.8 million was \$2.0 million higher than in the previous quarter as a result of reduced income from temporary investments, an increase in short-term borrowings, and the inclusion of New South's interest payments on their revolving and long-term debt, partially offset by long-term debt reductions and the impact of the stronger Canadian dollar on US dollar denominated interest.

Equity Income and Other

Equity and other income/expense amounted to \$(3.5) million in the current quarter, compared to \$0.9 million in the same quarter last year. \$3.6 million of project costs related to the pulp transaction were expensed in the current quarter.

Discontinued Operations

Coastal Operations

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

Coastal logging operations had been curtailed as of December 15, 2005. A net loss of \$2.3 million from discontinued operations was recognized in the first quarter of 2006, which was comprised of a \$4.3 million loss from the Coastal operations up to March 20th and a \$2.8 million loss on the assets transferred, including a \$2.4 million accrual for road deactivation and other closure costs. These amounts were partially offset by a \$4.8 million tax recovery. Coastal operations contributed after-tax income of \$0.7 million in the second quarter of 2005 (year-to-date net loss – \$0.1 million).

Sawmills

The second quarter 2005 results from discontinued operations include losses from the former Fort St James, Slocan and Valemount sawmills, amounting to \$3.6 million after tax (year-to-date net loss – \$0.7 million). The sale of these sawmills was completed during the second quarter of 2005.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios)	Q2 2006	Q1 2006	YTD 2006	Q2 2005	YTD 2005
Ratio of current assets to current liabilities			2.3 : 1		2.7 : 1
Ratio of net debt to common shareholders' equity			23 : 77		14 : 86
Increase (decrease) in net cash	\$ 12.4	\$ (319.2)	\$ (306.8)	\$ 94.0	\$ (45.4)
– comprised of cash flow from (used in):					
Operating activities	\$ 98.7	\$ (139.2)	\$ (40.5)	\$ 128.9	\$ 97.6
Financing activities	\$ (65.1)	\$ 27.4	\$ (37.7)	\$ (19.2)	\$ (11.4)
Investing activities	\$ (21.2)	\$ (224.0)	\$ (245.2)	\$ (18.2)	\$ (136.4)
Discontinued operations	\$ -	\$ 16.6	\$ 16.6	\$ 2.5	\$ 4.8

Changes in Financial Position

Operating activities generated \$98.7 million in cash in the second quarter, which was a \$237.9 million improvement over the first quarter, mainly due to the reduction in inventories. Log inventories were especially high during the first quarter because of the seasonality of logging activity.

Cash used in financing activities of \$65.1 million in the current quarter was comprised of scheduled long-term debt repayments of \$12.7 million and \$52.3 million of net repayments on revolving credit lines.

The \$21.2 million of cash used in investing activities in the quarter was mainly comprised of capital expenditures.

Liquidity and Financial Requirements

At June 30, 2006, Canfor had \$378.8 million of bank operating lines of credit available, of which \$33.4 million was drawn down and an additional \$43.6 million was reserved for several standby letters of credit. On June 30th, the existing \$325.0 million credit facility was replaced with a five-year revolving line of credit in the same amount.

OUTSTANDING SHARES

With the completion of the Pulp spinout transaction on July 1, 2006, the existing common shares of Canfor Corporation were cancelled and each shareholder received one new Canfor share and 0.1 of a unit of the Canfor Pulp Income Fund in exchange for each Canfor share held prior to July 1.

At July 28, 2006, there were 142,540,058 new common shares of Canfor outstanding.

RISKS AND UNCERTAINTIES

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

Canada/US Softwood Lumber Dispute

Canfor is currently expensing duties at the same rate at which deposits are being paid. Since December 12, 2005, this rate has been 8.70% for countervailing duty (CVD) and 1.36% for anti-dumping duty (ADD), which was subsequently amended by the US Department of Commerce (DOC) to 1.35% on January 21, 2006. The cumulative additional CVD accrued in excess of the cash deposits made at June 30, 2006 is \$64.4 million and is recorded on the balance sheet under "other accruals and provisions". The cumulative ADD cash deposits in excess of the calculated expense accrued at June 30, 2006 is \$108.7 million and is being carried as a receivable under "long-term investments and other".

On March 17, 2006 the NAFTA panel released its decision on the DOC's challenge to the Fifth Remand Determination issued in November 2005. It upheld its earlier findings and confirmed a CVD rate of 0.8%, which is considered "de minimis", and, as a result, the CVD order should be revoked, even if the negative injury determination is replaced by a new injury finding under Section 129.

On June 1, 2006, the DOC announced the preliminary results of its third administrative review (POR3) covering the period from May 2004 to April 2005 (ADD) and April 2004 to March 2005 (CVD). In these preliminary results, the CVD rate was calculated as 11.23% and the ADD rate for producers that were not reviewed individually was calculated as 3.47%. Canfor has made no adjustment to reflect these preliminary rates because the rates will not be final until they are confirmed in the DOC's Final Determination, which is expected in December 2006, and also because of continuing uncertainty surrounding the outcome of anticipated challenges and appeals, as well as the outcome of the current negotiations in the Canada-US Softwood Lumber Agreement.

As at June 30, 2006, Canfor had paid combined duty deposits of US \$786.4 million (ADD of \$180.6 million and CVD of \$605.8 million) since the inception of CVD and ADD in May 2002. All of these deposits would be eligible for refund

to Canfor with interest if the litigation concerning the effect of the US International Trade Commission (ITC)'s negative remand determination were successful.

On July 1, 2006, representatives of the Canadian and US governments initialed a final text of a softwood lumber agreement that would end the current dispute. Under the terms of the agreement, approximately 80% of duty deposits would be returned, with interest, and future exports to the US would be subject to either a three tiered export tax or a lower tiered export tax combined with quota limits when the benchmark composite price for lumber is at or below US \$355 per thousand board feet. The agreement is subject to a number of conditions before it can come into effect, including approval by the Canadian parliament in September.

On July 21, 2006, the US Court of International Trade (CIT) issued a ruling in the Section 129 litigation the effect of which was to determine that all CVD and ADD deposits from at least November 4, 2004 to the present should be refunded. Whether pre-November 4, 2004 deposits must also be refunded will be determined in a second ruling of the CIT in the case, as early as the fall of 2006.

Canfor and other Canadian forest product companies, the Canadian Federal Government and Canadian provincial governments (Canadian Interests) categorically deny the US allegations and strongly disagree with the final countervailing and dumping determinations made by the DOC in the investigations and reviews, and with the ITC's determination in the Section 129 proceeding. Canadian Interests continue to pursue appeals of the final CVD and ADD determinations with the appropriate courts, NAFTA panels and the World Trade Organization.

NAFTA Lawsuit

Canfor filed a Notice of Arbitration and Statement of Claim against the Government of the United States in July 2002 for damages of not less than US \$250 million under Chapter 11 of the North American Free Trade Agreement (NAFTA), as a result of the DOC's actions in issuing the preliminary and final determinations in the CVD and ADD proceedings. In June 2006, the NAFTA Panel determined that it had jurisdiction to proceed to a hearing on the merits, based on allegations raised by Canfor in relation to the Byrd Amendment. The Panel held that they did not have jurisdiction with respect to other allegations raised by Canfor. A merits hearing date has not yet been set.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Sales and Income (millions of dollars)								
Sales	\$1,059.9	\$ 962.7	\$ 853.8	\$ 934.1	\$1,035.7	\$ 963.5	\$1,037.7	\$1,122.3
Operating income (loss)	\$ (15.3)	\$ 38.5	\$ (14.7)	\$ (5.8)	\$ 66.0	\$ 96.9	\$ 20.3	\$ 206.0
Net income (loss) from continuing operations	\$ 39.2	\$ 21.2	\$ (10.6)	\$ 20.7	\$ 28.2	\$ 63.5	\$ 45.4	\$ 193.2
Net income (loss)	\$ 39.2	\$ 18.9	\$ (12.3)	\$ 17.4	\$ 25.3	\$ 65.6	\$ 43.0	\$ 200.0
Per common share (dollars)								
Net income (loss) from continuing operations								
Basic	\$ 0.28	\$ 0.15	\$ (0.07)	\$ 0.14	\$ 0.20	\$ 0.44	\$ 0.34	\$ 1.47
Diluted	\$ 0.28	\$ 0.15	\$ (0.07)	\$ 0.14	\$ 0.20	\$ 0.44	\$ 0.32	\$ 1.36
Net income (loss)								
Basic	\$ 0.28	\$ 0.13	\$ (0.09)	\$ 0.12	\$ 0.18	\$ 0.46	\$ 0.31	\$ 1.52
Diluted	\$ 0.28	\$ 0.13	\$ (0.09)	\$ 0.12	\$ 0.18	\$ 0.46	\$ 0.30	\$ 1.40

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Statistics								
Lumber shipments (MMfbm)	1,597	1,313	1,176	1,334	1,393	1,193	1,345	1,186
Pulp shipments (000 mt)	293	313	312	310	299	268	313	275
Plywood shipments (MMsf 3/8")	118	110	98	124	107	106	96	96
OSB shipments (MMsf 3/8")	188	157	118	132	117	103	127	121
Average exchange rate (Cdn\$/US\$)	\$ 0.891	\$ 0.866	\$ 0.852	\$ 0.832	\$ 0.804	\$ 0.815	\$ 0.819	\$ 0.765
Average Western SPF 2x4 #2&Btr lumber price (US \$)	\$ 316	\$ 343	\$ 328	\$ 327	\$ 365	\$ 398	\$ 338	\$ 440
Average SYP (East) 2x4 #2 lumber price (US \$)	\$ 380	\$ 435	\$ 439	\$ 457	\$ 458	\$ 433	\$ 410	\$ 414
Average NBSK final pulp price delivered to Northern Europe (US \$)	\$ 670	\$ 622	\$ 600	\$ 588	\$ 613	\$ 642	\$ 609	\$ 637
Average plywood price–Toronto (Cdn \$)	\$ 360	\$ 375	\$ 387	\$ 362	\$ 361	\$ 439	\$ 444	\$ 548
Average OSB price–North Central (US \$)	\$ 238	\$ 285	\$ 317	\$ 291	\$ 305	\$ 364	\$ 260	\$ 351

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

One-time items that had a significant impact on quarterly results include restructuring and mill closure provisions of \$0.3 million and \$10.2 million in the third and fourth quarters of 2004 respectively and \$1.6 million and \$2.5 million in the second and third quarters of 2005 respectively (all figures are after tax). The second quarter 2005 results were reduced by a \$4.0 million after-tax loss on the sale of the Fort St James, Slocan and Valemount sawmills and the third quarter 2005 results were reduced by an \$8.9 million after-tax write-down of timber licences, which was subsequently reduced to \$6.2 million in the fourth quarter of 2005. In the third quarter of 2005, the BC Corporate income tax rate was reduced by 1.5%, which resulted in a \$21.0 million favourable adjustment to the current and future income tax liability being recorded in the period. This was partially offset by \$7.7 million of other tax adjustments related to the availability of capital losses and reassessments of prior tax years. The fourth quarter 2005 results include a \$5.2 million after-tax accrual for long-term incentive plan payments, which was reduced by \$1.1 million after tax in the first quarter of 2006. Favourable items affecting the fourth quarter 2005 results include \$8.9 million of income from the Seaboard General Partnership, resulting from asset sales, and \$2.0 million of scientific research and development tax credits claimed. The second quarter 2006 earnings include a \$43.9 million favourable adjustment to the current and future income tax liability to reflect the corporate income tax rate reductions that were substantially enacted in the 2006 Federal Budget. Non-recurring expenses in the second quarter of 2006 included a \$1.4 million after-tax insurance deductible for the fire at PolarBoard, \$2.8 million of after-tax project costs related to the pulp spinout and a \$1.0 million tax expense arising from a reassessment of Slocan's 2003 and 2004 tax years. These expenses were partially offset by a \$3.2 million favourable after-tax adjustment to pulp maintenance costs as a result of a change in accounting policy. The results from the New South operations, which were acquired in March 2006, also impact comparability with prior periods.

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

also in the first three quarters of 2004. A container truckers' strike at the Port of Vancouver impacted offshore shipments in the third quarter of 2005.

DISCLOSURE CONTROLS

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

Consolidated Statements of Income and Retained Earnings

(millions of dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	2006	2005	2006	2005
Sales	\$ 1,059.9	\$ 1,035.7	\$ 2,022.6	\$ 1,999.2
Costs and expenses				
Manufacturing and product costs	814.6	687.1	1,496.0	1,306.9
Freight and other distribution costs	163.4	159.9	315.8	290.6
Countervailing and anti-dumping duties (Note 6)	32.1	67.5	62.3	126.4
Amortization	42.2	35.5	87.0	76.1
Selling and administration costs	22.9	17.7	38.3	34.1
	1,075.2	967.7	1,999.4	1,834.1
Restructuring, mill closure and other severance costs	-	2.0	-	2.2
Operating income (loss) from continuing operations	(15.3)	66.0	23.2	162.9
Equity income of affiliated companies	0.5	2.4	1.1	4.0
Interest expense	(11.8)	(11.1)	(21.6)	(22.9)
Foreign exchange gain (loss) on long-term debt	24.4	(11.7)	23.4	(15.3)
Other expenses	(4.0)	(0.2)	(3.7)	(0.4)
Net income (loss) from continuing operations before income taxes	(6.2)	45.4	22.4	128.3
Income tax recovery (expense) (Note 8)	45.4	(17.2)	38.0	(36.6)
Net income from continuing operations	39.2	28.2	60.4	91.7
Net loss from discontinued operations (Note 3)	-	(2.9)	(2.3)	(0.8)
Net income	\$ 39.2	\$ 25.3	\$ 58.1	\$ 90.9
Per common share (in dollars) (Note 10)				
Net income from continuing operations				
Basic	\$ 0.28	\$ 0.20	\$ 0.42	\$ 0.64
Diluted	\$ 0.28	\$ 0.20	\$ 0.42	\$ 0.64
Net income				
Basic	\$ 0.28	\$ 0.18	\$ 0.41	\$ 0.63
Diluted	\$ 0.28	\$ 0.18	\$ 0.41	\$ 0.63
Retained earnings, beginning of year			\$ 779.5	\$ 691.9
Net income for the period			58.1	90.9
Retained earnings, end of period			\$ 837.6	\$ 782.8

Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	2006	2005	2006	2005
Cash generated from (used in)				
Operating activities				
Net income from continuing operations	\$ 39.2	\$ 28.2	\$ 60.4	\$ 91.7
Items not affecting cash:				
Amortization	42.2	35.5	87.0	76.1
Income taxes	(41.2)	13.9	(41.4)	30.9
Long-term portion of deferred reforestation	(10.9)	(9.9)	10.9	7.9
Employee future benefits	3.7	2.3	7.6	8.1
Foreign exchange loss (gain) on long-term debt	(24.4)	11.7	(23.4)	15.3
Adjustment to accrued duties (Note 6)	2.1	(0.5)	2.1	(7.5)
Other	0.5	(5.2)	(3.2)	(6.2)
Changes in non-cash working capital (Note 12)	87.5	52.9	(140.5)	(118.7)
	98.7	128.9	(40.5)	97.6
Financing activities				
Proceeds from long-term debt	-	-	1.0	0.6
Repayment of long-term debt	(12.7)	(14.3)	(48.2)	(14.6)
Changes in operating bank loans (Note 4)	(52.3)	(4.9)	9.6	1.0
Net proceeds on issuance of common shares (Note 9)	-	0.1	0.3	1.9
Other	(0.1)	(0.1)	(0.4)	(0.3)
	(65.1)	(19.2)	(37.7)	(11.4)
Investing activities				
Business acquisition (Note 2)	-	-	(206.1)	-
Net proceeds from sale of discontinued operations	-	59.0	-	59.0
Property, plant, equipment and timber	(24.4)	(79.8)	(39.4)	(154.9)
Electrical co-generation incentive payments	-	-	-	8.3
Howe Sound Pulp and Paper Limited Partnership	-	-	-	(50.0)
Proceeds from sale of property, plant and equipment	1.2	0.3	1.8	1.0
Other	2.0	2.3	(1.5)	0.2
	(21.2)	(18.2)	(245.2)	(136.4)
Increase (decrease) in net cash from continuing operations	12.4	91.5	(323.4)	(50.2)
Increase in net cash from discontinued operations (Note 3)	-	2.5	16.6	4.8
Increase (decrease) in net cash	12.4	94.0	(306.8)	(45.4)
Net cash (bank indebtedness) at beginning of period (Note 4)	(13.3)	298.9	305.9	438.3
Net cash (bank indebtedness) at end of period	\$ (0.9)	\$ 392.9	\$ (0.9)	\$ 392.9
Cash payments (recoveries) in the period				
Interest, net	\$ 3.4	\$ (1.7)	\$ 22.6	\$ 22.1
Income taxes	\$ 2.2	\$ 4.2	\$ 6.7	\$ 2.2

Consolidated Balance Sheets

(millions of dollars)	As at June 30, 2006	As at December 31, 2005
	(unaudited)	(audited)
ASSETS		
Current Assets		
Cash and temporary investments	\$ -	\$ 305.9
Accounts receivable		
Trade	257.4	205.4
Other	87.1	79.8
Income taxes recoverable	0.8	-
Future income taxes	22.8	23.9
Inventories	666.4	600.9
Prepaid expenses	67.5	36.2
Current assets of discontinued operations (Note 3)	-	39.8
Total current assets	1,102.0	1,291.9
Long-term investments and other assets	247.7	186.5
Property, plant, equipment and timber	2,267.0	2,211.1
Goodwill (Note 2)	79.1	-
Deferred charges	87.2	96.9
Non-current assets of discontinued operations (Note 3)	-	43.7
	\$ 3,783.0	\$ 3,830.1
LIABILITIES		
Current Liabilities		
Bank indebtedness (Note 4)	\$ 0.9	\$ -
Operating bank loans (Note 4)	33.4	3.0
Accounts payable and accrued liabilities	301.4	380.3
Current portion of long-term debt	98.3	95.7
Current portion of deferred reforestation	45.3	43.3
Income taxes payable	-	4.1
Current liabilities of discontinued operations (Note 3)	-	9.3
Total current liabilities	479.3	535.7
Long-term debt (Note 4)	491.4	544.5
Other accruals and provisions (Note 5)	239.9	220.5
Long-term liabilities of discontinued operations (Note 3)	-	0.4
Future income taxes, net	459.7	468.3
Deferred credit (Note 8)	14.1	14.1
	\$ 1,684.4	\$ 1,783.5
SHAREHOLDERS' EQUITY		
Share capital – 142,540,058 shares outstanding (Note 14)	1,268.9	1,268.7
Retained earnings	837.6	779.5
Foreign exchange translation adjustment	(7.9)	(1.6)
	2,098.6	2,046.6
	\$ 3,783.0	\$ 3,830.1

Subsequent events (Note 6, 14)

APPROVED BY THE BOARD



Director, R.L. Cliff



Director, J.A. Shepherd

Notes to the Consolidated Financial Statements

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

2. Business Acquisition

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

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

The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the fair values of the assets and liabilities assumed on March 6, 2006. In the second quarter, following the completion of an independent valuation of the assets acquired, the following adjustments were made to the original allocation: a \$1.8 million increase to non-cash working capital, a \$0.6 million decrease to goodwill, a \$1.9 million decrease to other assets and a \$0.7 million decrease to the future income tax liability.

(millions of dollars)

Net assets acquired at March 6, 2006	
Non-cash working capital	\$ 85.2
Property, plant and equipment	96.3
Goodwill	80.6
Other assets	29.4
Long-term debt	(44.6)
Future income taxes, net	(38.3)
Other liabilities	(2.5)
	<hr/>
	\$ 206.1

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

3. Discontinued Operations

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

at \$40.0 million, has been recorded in “long-term investments and other assets” on the balance sheet, and will be amortized as the fibre is supplied to CFLP.

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

(millions of dollars)	3 months ended June 30,					
	2006			2005		
	Coastal Operations	Sawmills	Total	Coastal Operations	Sawmills	Total
Sales to external customers	\$ -	\$ -	\$ -	\$ 28.5	\$ 13.8	\$ 42.3
Operating income (loss) before income taxes	\$ -	\$ -	\$ -	\$ 1.1	\$ 0.6	\$ 1.7
Loss on disposal before income taxes	-	-	-	-	(6.2)	(6.2)
Income tax recovery	-	-	-	(0.4)	2.0	1.6
Net loss	\$ -	\$ -	\$ -	\$ 0.7	\$ (3.6)	\$ (2.9)
Net loss per share - diluted			\$ -			\$ (0.02)

(millions of dollars)	6 months ended June 30,					
	2006			2005		
	Coastal Operations	Sawmills	Total	Coastal Operations	Sawmills	Total
Sales to external customers	\$ 9.5	\$ -	\$ 9.5	\$ 34.9	\$ 61.7	\$ 96.6
Operating income (loss) before income taxes	\$ (4.3)	\$ -	\$ (4.3)	\$ (0.2)	\$ 5.1	\$ 4.9
Loss on disposal before income taxes	(2.8)	-	(2.8)	-	(6.2)	(6.2)
Income tax recovery	4.8	-	4.8	0.1	0.4	0.5
Net loss	\$ (2.3)	\$ -	\$ (2.3)	\$ (0.1)	\$ (0.7)	\$ (0.8)
Net loss per share - diluted			\$ (0.01)			\$ (0.01)

4. Bank Indebtedness, Operating Bank Loans and Long-Term Debt

At June 30, 2006, Canfor had \$378.8 million of bank operating lines of credit available, of which \$33.4 million was drawn down and an additional \$43.6 million was reserved for several standby letters of credit. On June 30th, the existing \$325.0 million credit facility was replaced with a five-year revolving line of credit in the same amount.

These credit facilities, which are presented as “operating bank loans” on the Consolidated Balance Sheet, were previously included as a component of “net cash (short-term indebtedness)” on the Consolidated Cash Flow Statement. In the current quarter, the cash flow presentation was restated to include changes in these balances as financing activities. Prior periods have been restated for comparability.

At June 30, 2006, the fair value of Canfor's long-term debt was \$622.5 million.

5. Other Accruals and Provisions

(millions of dollars)	June 30, 2006	December 31, 2005
Deferred reforestation	\$ 79.4	\$ 67.7
Countervailing duty provision (Note 6)	64.4	67.4
Accrued pension obligations	21.7	20.8
Post employment benefits	69.5	63.1
Other long-term liabilities	4.9	1.5
Total other accruals and provisions	\$ 239.9	\$ 220.5

6. Countervailing and Anti-dumping Duties

Canfor is currently expensing duties at the same rate at which deposits are being paid. Since December 12, 2005, this rate has been 8.70% for countervailing duty (CVD) and 1.36% for anti-dumping duty (ADD), which was subsequently amended by the US Department of Commerce (DOC) to 1.35% on January 21, 2006. The cumulative additional CVD accrued in excess of the cash deposits made at June 30, 2006 is \$64.4 million and is included in "other accruals and provisions" (Note 5). The cumulative ADD cash deposits in excess of the calculated expense accrued at June 30, 2006 is \$108.7 million and is being carried as a receivable under "long-term investments and other assets".

On March 17, 2006 the NAFTA panel released its decision on the DOC's challenge to the Fifth Remand Determination issued in November 2005. It upheld its earlier findings and confirmed a CVD rate of 0.8%, which is considered "de minimis", and, as a result, the CVD order should be revoked, even if the negative injury determination is replaced by a new injury finding under Section 129.

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As at June 30, 2006, Canfor had paid combined duty deposits of US \$786.4 million (ADD of \$180.6 million and CVD of \$605.8 million) since the inception of CVD and ADD in May 2002. All of these deposits would be eligible for refund to Canfor with interest if the litigation concerning the effect of the US International Trade Commission (ITC)'s negative remand determination were successful.

On July 21, 2006, the US Court of International Trade (CIT) issued a ruling in the Section 129 litigation the effect of which was to determine that all CVD and ADD deposits from at least November 4, 2004 to the present should be refunded. Whether pre-November 4, 2004 deposits must also be refunded will be determined in a second ruling of the CIT in the case, as early as the fall of 2006.

Canfor and other Canadian forest product companies, the Canadian Federal Government and Canadian provincial governments (Canadian Interests) categorically deny the US allegations and strongly disagree with the final countervailing and dumping determinations made by the DOC in the investigations and reviews, and with the ITC's determination in the Section 129 proceeding. Canadian Interests continue to pursue appeals of the final CVD and ADD determinations with the appropriate courts, NAFTA panels and the World Trade Organization.

7. Employee Future Benefits

Total employee future benefit costs were as follows:

(millions of dollars)	3 months ended June 30,		6 months ended June 30,	
	2006	2005	2006	2005
Defined benefit pension plans	\$ 4.0	\$ 4.1	\$ 8.0	\$ 8.1
Other employee future benefit plans	4.1	2.1	8.4	4.2
Defined contribution pension plans and 401(k) plans	1.1	0.3	1.7	0.8
Contributions to forest industry union plans	6.3	7.6	12.7	15.2
	\$ 15.5	\$ 14.1	\$ 30.8	\$ 28.3

8. Income Tax Recovery (Expense)

(millions of dollars)	3 months ended June 30,		6 months ended June 30,	
	2006	2005	2006	2005
Current	\$ 3.6	\$ (2.2)	\$ (2.4)	\$ (5.1)
Future	46.1	(22.4)	40.8	(50.8)
Tax on equity earnings	(0.2)	(0.9)	(0.4)	(1.5)
	49.5	(25.5)	38.0	(57.4)
Amortization of deferred credit on utilization of acquired tax losses	(4.1)	8.3	-	20.8
	\$ 45.4	\$ (17.2)	\$ 38.0	\$ (36.6)

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 June 30,		6 months ended June 30,	
	2006	2005	2006	2005
Income tax expense at statutory tax rate	\$ 2.2	\$ (15.8)	\$ (7.7)	\$ (44.6)
Large corporation tax	0.9	(1.2)	-	(2.5)
Amortization of deferred credit on utilization of acquired tax losses	(4.1)	8.3	-	20.8
Permanent difference from capital gains and losses	4.2	(3.6)	4.0	(4.9)
Change in estimate of available capital losses	-	(3.9)	-	(3.9)
Change in federal general corporate income tax rate	42.4	-	42.4	-
Other permanent differences and adjustments	(0.2)	(1.0)	(0.7)	(1.5)
Income tax recovery (expense)	\$ 45.4	\$ (17.2)	\$ 38.0	\$ (36.6)

9. Share Capital

No stock options were exercised or granted in the current quarter (year to date: 29,667 stock options exercised at an average price of \$9.19 per share).

10. Earnings Per Share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares

during the period using the treasury stock method. Under this method, proceeds from the potential exercise of stock options are assumed to be used to purchase the Company's common shares.

	3 months ended June 30,		6 months ended June 30,	
	2006	2005	2006	2005
Weighted average number of common shares	142,540,062	143,502,439	142,529,128	143,451,818
Incremental shares from stock options	81,474	174,554	84,839	211,222
Diluted number of common shares	142,621,536	143,676,993	142,613,967	143,663,040

11. 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 June 30, 2006, Canfor had US \$49.3 million of forward contracts outstanding, which were designated as hedges of specific future revenues. These contracts were fixed at an average rate of 1.124 and have option periods extending through to March 2007. There was an unrecognized gain of \$0.6 million on these contracts at June 30, 2006. Contracts totaling US \$56.5 million were exercised in the current quarter and a gain of \$2.2 million was realized (year-to-date gain: \$2.9 million on contracts totaling US \$104.5 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 June 30, 2006, there was an unrealized loss of \$1.7 million on pulp swaps and an unrealized gain of \$3.1 million on natural gas swaps. There were no open lumber futures contracts at June 30, 2006.

12. Changes in Non-Cash Working Capital

(millions of dollars)	3 months ended June 30,		6 months ended June 30,	
	2006	2005	2006	2005
Accounts receivable	\$ 30.9	\$ 2.8	\$ (0.1)	\$ (26.3)
Income taxes	(5.5)	(2.3)	(6.3)	(0.8)
Inventories	248.5	149.5	(4.4)	(23.3)
Prepaid expenses	(41.3)	(24.8)	(29.8)	(15.5)
Accounts payable, accrued liabilities and deferred reforestation	(145.1)	(72.3)	(99.9)	(52.8)
	\$ 87.5	\$ 52.9	\$ (140.5)	\$ (118.7)

13. Segmented Information ^(a)

(millions of dollars)	Lumber ^(b)	Panels	Pulp & Paper	Corporate & Other ^(d)	Consolidated
3 months ended June 30, 2006					
Sales to external customers	\$ 736.1	100.8	223.0	-	\$ 1,059.9
Sales to other segments ^(c)	\$ 22.0	0.9	-	-	\$ 22.9
Operating income (loss)	\$ (10.3)	(10.6)	17.3	(11.7)	\$ (15.3)
Amortization	\$ 22.6	7.0	10.9	1.7	\$ 42.2
Capital expenditures	\$ 19.0	1.9	4.9	(1.4)	\$ 24.4

(millions of dollars)	Lumber ^(b)	Panels	Pulp & Paper	Corporate & Other ^(d)	Consolidated
3 months ended June 30, 2005					
Sales to external customers	\$ 719.0	88.9	227.8	-	\$ 1,035.7
Sales to other segments ^(c)	\$ 38.9	1.4	-	-	\$ 40.3
Operating income (loss)	\$ 67.4	9.0	(2.5)	(7.9)	\$ 66.0
Amortization	\$ 20.1	2.8	10.8	1.8	\$ 35.5
Capital expenditures	\$ 25.8	28.6	23.5	1.9	\$ 79.8
6 months ended June 30, 2006					
Sales to external customers	\$ 1,372.4	200.1	450.1	-	\$ 2,022.6
Sales to other segments ^(c)	\$ 38.6	1.6	-	-	\$ 40.2
Operating income (loss)	\$ 11.5	(9.5)	39.7	(18.5)	\$ 23.2
Amortization	\$ 47.2	12.8	23.1	3.9	\$ 87.0
Capital expenditures	\$ 32.4	4.5	8.7	(6.2)	\$ 39.4
Identifiable assets	\$ 2,017.4	364.6	877.6	523.4	\$ 3,783.0
6 months ended June 30, 2005					
Sales to external customers	\$ 1,379.2	182.4	437.6	-	\$ 1,999.2
Sales to other segments ^(c)	\$ 71.0	2.7	-	-	\$ 73.7
Operating income (loss)	\$ 143.4	26.8	7.5	(14.8)	\$ 162.9
Amortization	\$ 45.4	5.6	22.1	3.0	\$ 76.1
Capital expenditures	\$ 34.7	64.3	52.5	3.4	\$ 154.9
Identifiable assets	\$ 1,715.5	311.2	946.8	993.0	\$ 3,966.5

(a) Operations are presented by product line.

(b) Sales for the quarter include sales of Canfor-produced lumber of \$565.4 million (2005 – \$638.2 million) and \$1,085.4 million for the year to date (2005 – \$1,223.9 million).

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

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

14. Subsequent Event

On July 1, 2006, Canfor completed the spinout of 20% of its NBSK pulp and paper business, after having received the approval of its shareholders on June 9, 2006 and the Supreme Court of British Columbia on June 15, 2006. Upon the completion of the spinout, the existing Common Shares of Canfor Corporation were cancelled and Canfor shareholders were entitled to receive one New Common Share of Canfor Corporation and 0.1 of a Unit of Canfor Pulp Income Fund (CPIF), with the distribution of the Fund Units being structured as a return of capital on the Canfor Shares. As a result, on the date of the spinout Canfor Shareholders owned all of the issued and outstanding New Common Shares and all of the issued and outstanding Fund Units, with the outstanding Fund Units representing a 20% indirect interest in the Pulp Business. Through its interest in the Canfor Pulp Limited Partnership (CPLP), which is indirectly exchangeable for Fund Units, Canfor owns the remaining 80% interest in the Pulp Business.

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