

CHALLENGE

vs

OPPORTUNITY

COMPANY OVERVIEW

■ Canfor is a leading 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 oriented strand board (OSB), plywood, remanufactured lumber products, kraft paper, hardboard paneling and a range of specialized wood products, including baled fibre and fibre mat at 29 facilities located in BC, Alberta and Quebec.

Canfor directly employs approximately 7,000 people.

Canfor has an annual production capability of approximately 4.7 billion board feet of lumber, 450 million square feet of plywood, 1.0 billion square feet of OSB, 1.2 million tonnes of pulp, and 135,000 tonnes of kraft paper. Additionally, Canfor has approximately 11 million cubic metres of allowable annual cut under its forest tenures. Canfor (CFP) is listed on the Toronto Stock Exchange. The main operating company is Canadian Forest Products Ltd., from which the name Canfor is derived.

CANFOR BUSINESS UNITS

PRIMARY PRODUCTS

PRIMARY MARKETS

LUMBER	Softwood Lumber	House construction and home repairs and renovations
PANELS	Plywood & OSB	House construction and home repairs and renovations
PULP & PAPER ⁽¹⁾	Premium Pulp	Raw material for paper manufacturing (printing fine, and tissue papers)
	Specialty Kraft Paper	High performance packaging papers and specialty papers
	Specialty Pulp	Raw material for paper manufacturing (base and electrical application papers)
COASTAL OPERATIONS ⁽²⁾	Premium Hemlock, Cypress, Douglas Fir, and Cedar logs	Coastal pulp mills and sawmills

(1) Subject to shareholder approval in the second quarter of 2006 that certain pulp and paper assets are transferred to a Pulp Income Trust. (Refer to financial statement note 30)
(2) Restructuring of assets is expected to close in first quarter of 2006. (Refer to financial statement note 30)

FINANCIAL HIGHLIGHTS

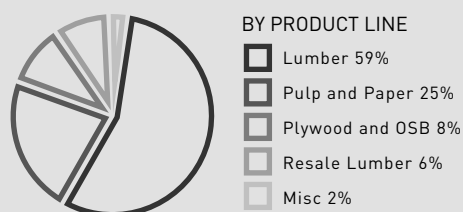
		2005	2004 ⁽¹⁾ (2)
Sales and income (millions of dollars)	Sales	\$ 3,787.8	\$ 3,925.0
	Operating income	\$ 142.4	\$ 494.5
	Net income from continuing operations	\$ 101.8	\$ 398.5
	Net income	\$ 96.0	\$ 415.5
Cash flow (millions of dollars)	Cash flow from operations	\$ 193.3	\$ 708.5
Per common share (dollars)	Net income from continuing operations - diluted	\$ 0.71	\$ 3.09
	Net income - diluted	\$ 0.67	\$ 3.22
	Book value	\$ 14.36	\$ 13.72
	Share price		
	High	\$ 18.30	\$ 17.25
	Low	\$ 11.64	\$ 10.84
	Close - December 31	\$ 13.43	\$ 15.65
	Common shares outstanding - December 31	142,510,395	143,416,280
Financial position (millions of dollars)	Working capital	\$ 756.2	\$ 864.7
	Total assets	\$ 3,830.5	\$ 3,979.6
	Long-term debt	\$ 544.5	\$ 660.5
	Common shareholders' equity	\$ 2,046.6	\$ 1,966.8
	Total capitalization	\$ 3,294.4	\$ 3,377.4
Additional information ⁽³⁾	Return on capital employed	4.9%	19.8%
	Return on common shareholders' equity	4.8%	28.6%
	Ratio of current assets to current liabilities	2.4 : 1	2.4 : 1
	Ratio of net debt to common shareholders' equity	14 : 86	13 : 87
	EBITDA (millions of dollars)	\$ 294.0	\$ 634.8
	EBITDA margin	7.8%	16.2%
	Capital expenditures (millions of dollars)	\$ 334.5	\$ 202.5

(1) Includes the operating results of the former Slocan operations from April 1, 2004.

(2) Certain figures have been reclassified to conform with the current year's presentation.

(3) See Definitions of Selected Financial Terms on page 90.

SALES HIGHLIGHTS



NO MATTER HOW BIG THE challenge, the opportunity is always bigger. It was this attitude that best reflects Canfor in 2005. Without a doubt, 2005 was a year of challenges. But not only did we take on these challenges head on—we made them opportunities. An opportunity to become more efficient. An opportunity to become more resourceful. But most of all, 2005 provided us an opportunity to reveal the collective strength and value of our company.

DEAR FELLOW SHAREHOLDERS,

With every challenge comes opportunity. In 2005, those companies who were able to create opportunities enjoyed some success in what was otherwise a disappointing year for the forest products sector. At Canfor, we made opportunities for ourselves and managed what can be considered a respectable year given the circumstances. It is during these downtimes that one can truly see the value in a company, where its strengths and weaknesses are, and of course, the dedication of its people.

This past year, all of us at Canfor were faced with tackling challenges both external and internal in nature. Indeed, 2005 was not the banner year of 2004. External factors worked against us, such as difficult markets, a high-valued Canadian dollar, and the softwood lumber dispute, which continued to punish the Canadian industry. Internally, the company was in the midst of a transformation that would bring focus to our core businesses and efficiencies to our operations. The combined pressures of these realities reflect in our performance.

In 2005, our complete asset mix was evaluated and significant changes were made to our operations. We sold or shut down what were non-core operations and parted with our Fort St. James mill at the request of the Federal Competition Bureau. At the same time, we invested in others where a future solid return will be achieved. The intent is to streamline our mills to be some of the most efficient and productive operations in the industry. But we are not there yet. We can and will do better.

Significant investments were made at many of our facilities including the new OSB plant in Fort St. John, a JV with Louisiana-Pacific, the rebuild at our Plateau sawmill, the PolarBoard upgrade and the new precipitator at the Prince George Pulp and Paper mill. These investments are taking time to optimize but will be proven to be the right decision. We will continue to consider capital-spending decisions very carefully going forward to ensure high-return investments in our mills. The objective of this capital-spending program is to create low-cost, productive assets manufacturing products to meet our customer needs.

Canfor's transformation further emphasized the importance of market diversification. The results will be more stable operations, providing superior

returns. We pursued this philosophy and announced Canfor's International Distribution Centre to focus on serving our Japanese customer base while allowing us to develop new strategic markets in the Asia Pacific. Our signing of a Memorandum of Understanding with the Chinese Academy of Forestry and the Shanghai Institute of Technology will create a vocational school to train the trades in China to build with wood. This will enable Canfor to develop a market for our products where previously there was relatively none.

At our Annual General Meeting in 2005, we communicated our objective to be the preferred supplier of wood products to the building industry around the world. No easy task. All of the initiatives that Canfor undertook in 2005 were reflective of this strategy. We are making strides in reaching our goals. We have focused on our core business of wood products and worked towards the creation of an Income Trust for our NBSK pulp assets.

We announced our acquisition of the New South Group of Companies in the United States, which closed early in 2006, to diversify our core product base into southern yellow pine and supplement our spruce pine fir supply into the North American market with the addition of a European import business.

We have invested in our core assets. We have done the things to improve our ability to serve an ever-changing marketplace.

While work was done to focus and improve our operations, we struggled as an industry with one of the most important aspects of our business – safety at the workplace. In 2005, the industry witnessed an unacceptable amount of fatalities. We must and will do better. Initiatives undertaken by the industry in 2005 are designed to improve the safety of individuals who work with us.

As an industry leader, Canfor's safety continued to improve thanks to the hard work and diligence of our employees and we will continue to develop best practices to ensure safety at the workplace.

Canfor continued to build relationships with our operating communities, as we do not operate without their support. Canfor made it a priority to engage First Nations in aspects of our business activities developing long-term working relationships rather than short-term agreements as issues arise. A renewed focus on community relations was a priority and the net result will be a more responsive approach to community needs and the encouragement of our employees to be active in the place where they work.

At this time we would like to acknowledge the Board members of the company who retired in 2005 and thank them for all of their contributions and input over the years. Board members Bill Daniel, Marietta Hurst, Ron Riley and Peter Lusztig will always remain a part of the Canfor family.

Also in 2005, Officers Jim Engleson, former Vice-President of Wood Products East, and Jim Williams, former Vice-President Fibre Supply, also stepped down and we wish them well as they embark on their future endeavours.

2005 challenged us to do better, to make opportunities for ourselves and we're proud to say we are making progress. We would like to thank all of the supporters of Canfor including our employees, contractors, communities, and customers. We would also like to thank the Canfor Board for their dedication and valuable guidance. We still have a way to go on our journey to becoming the preferred supplier to customers around the world while operating low-cost, efficient assets. But we are confident that with every one in Canfor committed to the end result, we will get there.

Sincerely,



Jim Shepherd

PRESIDENT AND CHIEF EXECUTIVE OFFICER



Peter Bentley

CHAIRMAN

CHALLENGE

How does one constantly
live up to stakeholder
expectations?



■ All of Canfor's 2005 initiatives were driven by the strategy to be a profitable producer of building materials and the preferred supplier to markets around the world. The restructuring of the Company's assets, the commitment to servicing the Japanese and other developing Asia Pacific markets with the announced Canfor International Distribution Centre and the Memorandum of Understanding with the Chinese



OPPORTUNITY

By clearly defining a strategy and remaining steadfast in our commitment to executing it, we've been able to grow with our customers, develop exciting new markets, diversify our product mix, and make significant operational improvement gains.

Academy of Forestry in Beijing were all elements of this strategy. ■ And in 2006, we are looking forward to the pending purchase of New South Companies Inc. in the southeastern U.S. which will further diversify our market and product mix. Also, by creating the proposed Pulp Income Trust, Canfor continues to focus on the profitability and growth of the wood products business while returning value to shareholders.



CHALLENGE

How do you change the way 1/5 of the world's population build their homes?

■ Every year, more and more people around the world are choosing to build their homes with the North American 2" x 4" construction system because lumber offers more flexibility, not to mention lumber can be used in all climates and ground conditions. ■ Previously unavailable to the Chinese market because of distribution channels, Chinese builders have become accustomed to construction with concrete. To develop a



OPPORTUNITY

By starting with a long-term commitment to provide wood frame construction education, we're developing a Chinese market of over 1.3 billion people.

market where there previously was none, in November 2005 Canfor announced the signing of an historical Memorandum of Understanding with the Chinese Academy of Forestry and the Shanghai School of Construction Engineering to establish a vocational program for wood building practices. Through this program, Canfor will be able to offer high quality product to the Chinese lumber market at its infancy.

CHALLENGE

How do you keep up
with growing customer
demands?



■ Committing to growing with our customers has enabled us to make more informed strategic acquisitions, better product mix decisions, and more sound investments throughout our operations. ■ For instance, working closely with customers has led to both the development of the JadeStar™ lumber brand for the Japanese market as well as to the opening of a new marketing office in Shanghai. ■ This same



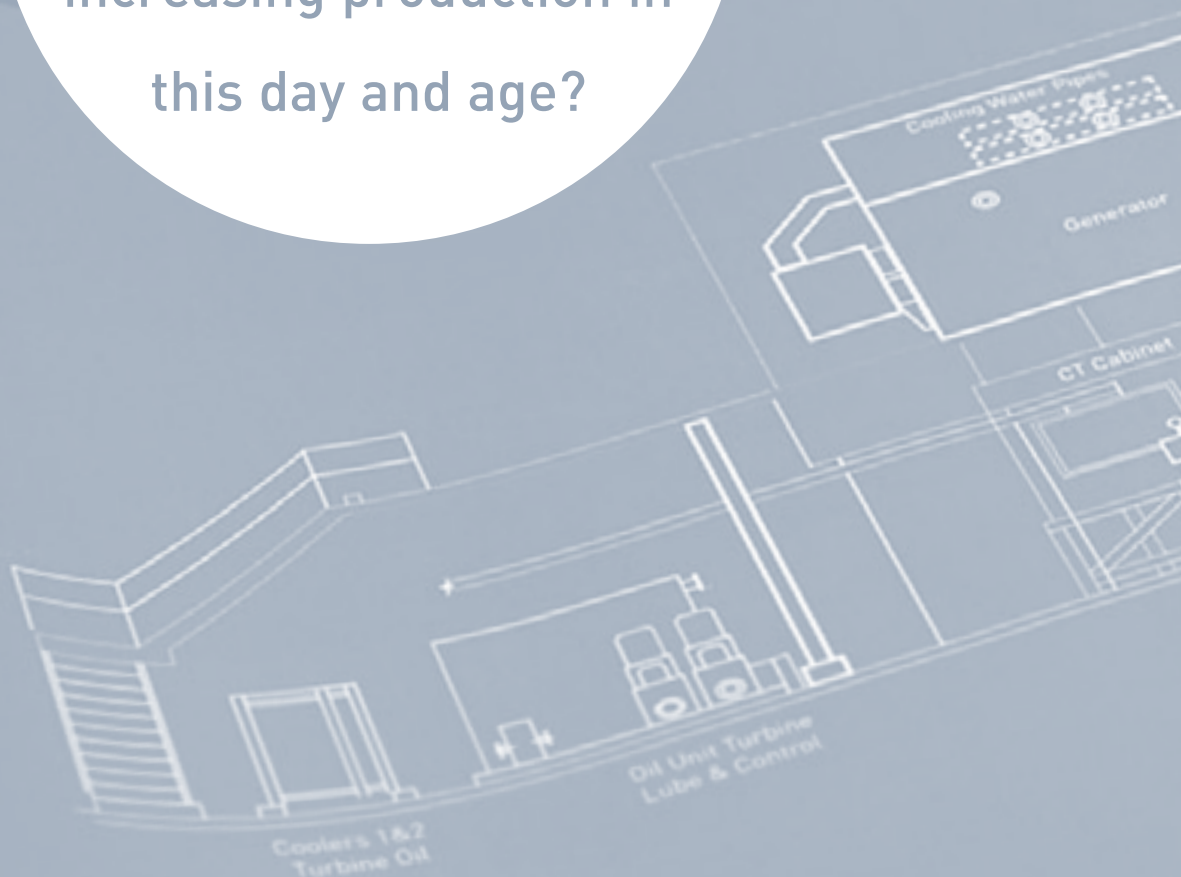
OPPORTUNITY

By listening to and anticipating our customers' needs and committing to growing with them, we are the preferred partner to some of world's biggest building and home center companies.

commitment led to the enhancement of our premium line of Square-Edge lumber for home center customers. Also, on January 18, 2006, Canfor announced the acquisition of New South Companies Inc., which will offer us a new range of products that our customers are seeking; an additional annual capacity of 425 million board feet of southern yellow pine, a finger-joint plant and a European lumber import business.

CHALLENGE

How can you reduce
energy consumption while
increasing production in
this day and age?



■ The co-generation facility at the Prince George Pulp and Paper mill is complete with energy savings of \$7.3 million already realized in 2005. Plus, the precipitator upgrade was completed ahead of schedule in December. On an annual basis the combined benefits of the co-generation and precipitator projects are estimated at \$23 million. ■ Likewise, the recently announced energy/pellet project at Houston will provide an economically viable,



OPPORTUNITY

Our significant co-generation project at the Prince George Pulp and Paper mill has enabled us to maximize resources and use 100% of our wood chip residue, while simultaneously saving almost 20% on rising energy costs.

value-added alternative to the Tier 1 Beehive Burner currently operating. This bark-fired energy system will consume all of the bark produced at the Houston sawmill and will provide the heat required for both lumber and pellet production supporting the growing movement from fossil to renewable fuels. Canfor will continue to invest in energy projects that reduce energy consumption while using the wood residue our sawmills naturally produce.



CHALLENGE

How do you keep up with the continually increasing demands of environmental certification and operate as responsibly as possible?

■ When you expect to be in business for generations to come, committing to sustainable forest practices isn't a cost – it's an investment. This approach has led Canfor to invest significant capital in its mills to not only meet but also exceed provincial and national standards of environmental protection. ■ And it has helped Canfor become one of the first forest products companies in Canada to implement an



OPPORTUNITY

By taking the long-term view in sustainable forest practices, we not only ensure our shareholders and stakeholders returns now, but for years to come.

environmental audit program. Today, over 85% of the annual harvest volume from Canfor's forest tenures is certified to the Canadian Standards Association (CSA) Sustainable Forest Management Standard and all of Canfor's forestry operations have an environmental management system (EMS) in place. ■ Our commitment has also propelled Canfor to become an industry leader in reducing greenhouse gas emissions from fossil fuels.

The background of the page is a photograph of a forest landscape. In the foreground, there is a field of tall, green grass. In the middle ground, there are dark, silhouetted trees. The sky is filled with white, fluffy clouds. A large, white circle is centered on the page, containing the main text.

OPPORTUNITY

By taking the long-term view in sustainable forest practices, we not only ensure our shareholders and stakeholders returns now, but for years to come.

THE ONE COMMON THREAD SHARED by our community activities, our health and safety programs, and our management of the environment is sustainability. How we conduct ourselves in these areas determines the sustainability of our social license to operate in a community, the sustainability of our workplace and employees, and the sustainability of our resources.

We are accountable for our actions and relationships in every aspect of our business and this accountability requires us to be open and transparent about how we have conducted ourselves in these areas. To fulfill this obligation, last year Canfor published its first Sustainability Report to communicate to our employees, shareholders, customers, and stakeholders, Canfor's sustainable practices in the community, at the workplace and in the forests. We received very positive feedback from this publication and are pleased to present our Sustainability Report for 2005 highlighting Canfor's performance in areas relating to our sustainable work practices.

FORESTRY REPORT

WILDLIFE AND HABITAT MANAGEMENT

In 2005, Canfor's Coastal Operations completed a biodiversity conservation plan. The goal of this plan is to keep common species common. The plan outlines measures taken to conserve all species and monitoring strategies to ensure the effectiveness of the plan. The goal for 2006 is to develop a biodiversity conservation plan for at least one BC Northern Interior Division.

Canfor has been actively involved in planning for caribou habitat management throughout our tenures. As an example, we began developing a boreal caribou conservation plan, in partnership with BC Ministry of Environment, for Fort Nelson and Fort St. John Divisions in 2005. The expected completion date is December 2006.

COAST FOREST CONSERVATION INITIATIVE

Canfor has been a member of the Coast Forest Conservation Initiative (CFCI) since it began in 1999. CFCI is a collaboration among four British Columbia-based forest companies dedicated to the sustainable development and conservation of coastal forests. CFCI members have been in dialogue with environmental groups ForestEthics, Greenpeace, Rainforest Action Network and the Sierra Club of Canada, BC Chapter in a forum known as the Joint Solutions Project (JSP).

The CFCI and its environmental group collaborators in the JSP generated a workable package of solutions regarding conservation and forest management which served as the basis of consensus recommendations reached by the Central Coast and North Coast Land and Resource Management Plan planning tables in 2003 and 2004 respectively. The recommendations were forwarded to the provincial government, which entered into discussions with First Nations in the region prior to a final land use plan decision by the provincial Cabinet.

In February 2006, the provincial government announced the land use decision, which will establish over 100 new protected areas, raising the total protected area for the Central and North Coast to 1.8 million hectares. The decision also establishes biodiversity areas to maintain ecological diversity and function while allowing for some resource development. The balance of the plan area (over 65%) will allow the full range of economic uses while applying a new adaptive approach of ecosystem-based management (EBM). The intent of EBM is to support a sustainable economy while protecting ecosystems and to promote stability, certainty and long-term resource use in the region.

CERTIFICATION

Canfor continues to be a leader in third-party sustainable forest management certification of its forestry operations.

During 2005, Canfor maintained existing certification to the CSA Sustainable Forest Management (SFM) standard on its Tree Farm Licence at Prince George, its Forest Licence in the Morice Timber Supply Area (TSA) and its Forest Licence and Pulpwood Agreement in the Fort St. John TSA. Canfor's Tree Farm Licences at Chetwynd and on Vancouver Island and its Grande Prairie Forest Management Agreement were recertified to the CSA SFM standard for another three-year term. New CSA SFM standard certifications were obtained for Canfor's Tree Farm Licence and Forest Licence at Vavenby, its Forest Licence and Pulpwood Agreement at Fort Nelson, and its Forest Licences at Vanderhoof, Prince George and Quesnel.

Currently 85% of the allowable annual cut from Canfor's forest tenures is certified to the CSA SFM standard. Sustainable forest management plans are being developed and implemented at the Radium and Mackenzie Divisions and for the Houston Division's Lakes TSA Forest Licence. All will be certified to the CSA SFM standard during 2006. Canfor is committed to having sustainable forest management certification in place for all of its tenures.

FOREST MANAGEMENT SYSTEMS

Canfor's forestry operations have maintained an Environmental Management System (EMS), initially certified to the ISO 14001 EMS standard in 1999 and re-certified as required for subsequent 3-year terms. The forestry EMS, now referred to as Canfor's Forest Management System (FMS) was reviewed and revised during 2005 to ensure that it remains current and effective. As part of the revision process the FMS, which until now has been certified to the 1996 version of the ISO 14001 standard was recertified to the replacement 2004 version of the ISO standard.

COMPLIANCE WITH REGULATIONS

Canfor is committed to transparency in our environmental reporting and includes compliance reporting as part of this process. The following is an inventory of compliance for Canfor's forestry operations.

During 2005, a total of 23 non-compliance incidents occurred on company tenures. In all cases, Canfor promptly took necessary actions to mitigate any environmental consequences and correct conditions that may have led to the incident.

Canfor forestry operations reported 10 spills to government agencies in 2005, 9 in British Columbia and 1 in Alberta. Eight of the spills were the result of equipment failure, and two were the result of accidents. All spills were minor in nature, and were properly managed and contained.

Canfor forestry operations were assessed administrative penalties by British Columbia government agencies totalling \$7,500 for eleven incidents in 2005. All incidents were related to administrative procedures and did not result in any environmental consequences.

OBJECTIVES AND TARGETS FOR 2006

FOREST MANAGEMENT SYSTEM – We will maintain the Forest Management System during 2006. Surveillance audits to the ISO 14001 standard will be carried out at 8 operations and at the corporate office.

SUSTAINABLE FOREST MANAGEMENT CERTIFICATION – We will maintain existing CSA SFM certifications and complete the certification of the Radium, Mackenzie and Houston operations.

SFM AUDITS – We will provide audit training for forestry staff and conduct internal audits at 11 forestry operations. We will conduct external CSA SFM surveillance audits at 7 operations and recertification audits to the CSA SFM standard at 3 operations.

MANUFACTURING

COMPLIANCE REPORT

Canfor is committed to transparency in our environmental reporting and includes compliance reporting as part of this process. The following is an inventory of compliance for Canfor's wholly owned manufacturing operations.

In 2005, Canfor had the following non-compliance situations (reported in accordance with government non-compliance reporting criteria):

AIR – At sawmills, beehive burners operated below approval temperature as follows: one for thirty-three days, this issue has been largely resolved with installation of a fuel reclaim system for the burner; one for ten days due to inadequate fuel to maintain temperature, this issue has been resolved with changes in operating regime of the burner; one for four days, three of which were due to cold weather; one for two days due to damper controls failure; one for one day. One burner failed to meet the monthly temperature requirement due to problems with cogeneration startup. The burner has since been shut down with operation of the cogeneration facility. One complaint was received regarding flyash from a burner. One burner failed to meet smoke opacity limits due to a power outage. One boiler failed to meet smoke opacity limits due to an equipment issue. One sawmill failed to submit monthly burner reports and dustfall test results for several months in 2005. One sawmill failed to submit an annual report for burner operations for 2004.

At board facilities, one OSB plant was issued a ticket for open burning in the plant yard that occurred when a load of hot board from the press was pulled outside and caught fire.

At pulpmill operations, particulate emissions from a Power Boiler exceeded the Permit limit by 3%.

EFFLUENT – At pulpmills, composite effluent samples were not taken for two days; one monthly QA/QC requirement for total suspended solids was not performed.

At a plywood plant, the annual report required by the Effluent Permit was submitted after the due date.

LANDFILL – At sawmills, one landfill report was submitted after the due date.

At a plywood plant, the annual report required by the Landfill Permit was submitted after the due date.

SPILLS – Canfor manufacturing operations had 9 reportable spills in 2005. All were contained, cleaned up and preventive actions taken. The spills were all to ground and included: four spills of process water; two spills of thermal oil; one spill of hydraulic fluid; one spill of pulp process liquor; and one spill of pulp effluent.

PERFORMANCE VERSUS OBJECTIVES IN 2005

AIR QUALITY

OBJECTIVE – As a result of the Prince George Pulpmill 48MW Power Project, particulate matter and total reduced sulphur emissions will be reduced with the upgrade of environmental controls at the smelt-dissolving stack and with the conversion of the recovery boiler to a low odor-emitting boiler. Two beehive burners in nearby communities will also be shut down as a result of the project.

PERFORMANCE – The last major stage of the Power Project was implemented in December 2005 with installation of a second precipitator on the Recovery Boiler. Preliminary indications are that targets for particulate reduction will be met. Reductions in total reduced sulphur have exceeded expectations. One Tier 1 beehive burner has been permanently shut down and one other burner shut down with provisions to run on an as needed basis to balance wood residue inventories.

EMS FOR WOOD PRODUCTS

OBJECTIVES –

- Hold a one day session in May for Environmental Coordinators that do not have previous EMS experience.
- Begin development of basic elements of EMS at new Canfor Wood Products operations including developing site-specific environmental aspects, environmental objectives and targets and programs, and conducting management reviews.

PERFORMANCE – The EMS session for Environmental Coordinators was attended by representatives from every new Canfor operation and by all that were newly appointed to the position. The program included an overview of an EMS as defined by ISO 14001 as well as an exercise in identifying and ranking site environmental aspects.

All new Canfor Wood Products operations have developed a site-specific registry of ranked environmental aspects, set targets for 2006 and held a Management Review.

EMS FOR TMP MILL

OBJECTIVES –

- Develop an aspect registry
- Set Objectives and Targets
- Develop environmental programs

PERFORMANCE – The TMP mill has developed an aspect registry with environmental risks ranked according to severity, probability and countermeasures. Targets have been set for the higher ranked aspects for completion in 2006. The development of Environmental Programs will continue in 2006 for high priority environmental aspects.

THERMAL OIL SYSTEMS

OBJECTIVE – We will work with Council of Forest Industries toward the development of an approved training program for operators of thermal oil systems.

PERFORMANCE – Increasing sawmill production and increasing energy costs have resulted in more thermal oil systems in the province. Rather than a custom training program for operators of thermal oil systems, the BC Safety Authority has recommended that the Minister endorse a reclassification of these systems. The existing requirements do not reflect the risk level of thermal oil systems.

WOOD RESIDUE MANAGEMENT

OBJECTIVE – We will continue to develop economically viable solutions to meet Tier 1 burner phase out requirements and create value from our wood residue.

PERFORMANCE – In mid-2005, one of Canfor's three remaining Tier 1 burners was permanently shut down with surplus wood residue going to the Prince George Pulpmill Power Project. A second Tier 1 burner will be phased out by the end of 2007 with a \$56 million energy system and joint venture pellet plant project. We are working towards a solution for the final Tier 1 burner involving a bark-fired energy system and whitewood utilization by third parties.

AUDITS

OBJECTIVE – We will conduct corporate environmental audits of three pulp mills, six sawmill operations, one OSB plant, one plywood plant and one remanufacturing plant.

PERFORMANCE – Audits were conducted as planned with the exception of two sawmills, which were sold in early 2005.

OBJECTIVES AND TARGETS FOR 2006

The following are corporate level objectives and targets for 2006.

AIR QUALITY

We will contribute to airshed research in Prince George so that air quality improvement can be accelerated through cost effective management actions.

EMS

We will provide Environmental Coordinators of our operations with the knowledge and resources required to achieve continual improvement, reduce the frequency of noncompliance incidents and minimize impact on the environment.

Three key areas of focus are:

- Training of new Environmental Coordinators
- Support for further development of Environmental Management Systems
- Managing the 2006 audit program for maximum benefit to auditors and operations

DRINKING WATER

We will support Canfor's Drinking Water System Operators with:

- Regulatory updates
- Drinking Water audit protocol used at all environmental audits
- On site inspections for operations that have not previously been visited by engineers qualified to assess potable water systems

WOOD RESIDUE MANAGEMENT

We will finalize and implement phase out plans for Canfor's remaining Tier 1 burners.

AUDITS

We will conduct corporate environmental audits of seven sawmill operations, and two remanufacturing plants.

COMMITMENT TO EMPLOYEES

Canfor operations are all required to conduct comprehensive annual Health & Safety audits using a standard audit process across the entire company.

Each year Canfor holds a Health & Safety Conference in Prince George, BC. In 2005, 260 delegates representing all of Canfor's operating divisions attended the 2-day conference.

For 2005, Canfor revised the criteria for its President's Safety Award, basing it on Medical Incident Rates (MIR). Three categories were established and were won by Howe Sound Pulp and Paper Limited Partnership (1.30, lowest MIR for 2005); Intercontinental Pulp (1.68, lowest MIR for three consecutive years, 2003-2005); and Tackama Division (4.10/9.68, greatest percentage MIR improvement in 2005/2004).

Canfor has set a target MIR of 2.00 or lower for all of its operating divisions to be achieved by the end of 2008.

As a leading integrated forest products company, how we compare within the industry is extremely important to us. Based on the 2005 BC Forest Industry Advisory Service (FIAS) reports, Canfor's interior sawmills ranked first out of six in the Interior Lumber Sector in the Lost Time Frequency Rate and Medical Incident Rates. Furthermore, within its comparative group of five companies in the Panels/Plywood sector, Canfor ranked second in terms of Lost Time Frequency Rate and first in Medical Incident Rate (MIR).

Canfor has been an active participant on the Forest Safety Council. The Council has been working with WorkSafe BC to develop strategies and action plans to eliminate forest industry serious incidents and injuries. Major initiatives of the Council include a Faller Safety Certification Program for hand fallers and 'Truck Safe', a program to improve log truck hauling safety performance.

CORPORATE CITIZENSHIP

THE CHALLENGE TO FOSTER COMMUNITY

At Canfor, we realize that the slogan "Our Roots Are In This Community" carries with it a lot of responsibility. In the communities where we operate, we have a responsibility not only to our employees but also to the community at large. We have a responsibility to support organizations and initiatives that will improve the communities that we call home and the lives of the people who live and work there.

Our corporate giving focuses on the areas of youth and education, community enhancement, forestry and environment, amateur sport and health and wellness – areas our employees told us were most important to them.

Canfor strives to build partnerships with local organizations to enhance the community's social and economic development. Through our community investment program, donation requests are reviewed locally by employees who live and work in the area and funding decisions are based on the specific needs of the community.

AN OPPORTUNITY TO BUILD HOPE

In 2005, Canfor partnered with Habitat For Humanity to help build a home in Prince George, British Columbia and a multi-family development in Edmonton, Alberta. Habitat for Humanity is an independent, non-profit housing program dedicated to the elimination of poverty housing by building homes in partnership with families in need. In addition to a significant corporate contribution of building materials, Canfor employees donated "sweat equity" over many weekends to help construct the homes.

AN OPPORTUNITY TO MAKE A DIFFERENCE

Canfor has a long tradition of supporting the United Way. Through employee contributions and corporate matching, Canfor donated nearly \$460,000 last year to the Prince George United Way, the Thompson Nicola Cariboo United Way, the Grande Prairie and District United Way, and the United Way of the Lower Mainland. In addition, in September 2005, Canfor Head Office employees took part in the United Way's annual "Day of Caring", painting the boardroom and hallway at The Western Institute for the Deaf and Hard of Hearing.

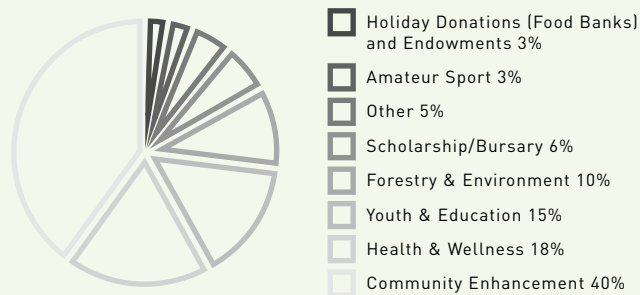
Canfor also renewed its commitment and increased funding for the Canfor: Building Family Foundations initiative. Established in 2001, it funds programs and services to help ensure families have access to the resources they need to construct a healthy, functioning family unit.

AN OPPORTUNITY TO PROMOTE LEARNING

Canfor is committed to making higher education more accessible for students in our operating regions and as part of this commitment, currently offers 54 awards at post-secondary institutions in BC and Alberta and 48 awards to graduating high school students to continue their education.

With a goal of developing leaders of the future, Canfor created the President's Student Program. The President's Student Program takes high performing students and places them in Canfor operations for a work term under the supervision of an employee mentor. The program's objectives are to provide the opportunity to tackle specific projects in our operations and sales and marketing area that could improve performance; to build close working relationships with academic institutions; to transfer knowledge from participating institutions to the Company; to provide high potential students with superior work experiences to supplement their academic studies; and to encourage the best students to look to Canfor for permanent employment upon graduation. In 2005, 18 students worked with Canfor through the President's Student Program.

In 2005, Canfor proudly provided financial support to many diverse community groups, events and initiatives in our operating regions.



BELOW ARE SOME OF THE ORGANIZATIONS WE SUPPORTED

- Alberta Children's Hospital Foundation
- Arts Umbrella
- BC Children's Hospital Foundation
- Blue Lake Forest Education Society
- Canadian Cystic Fibrosis Foundation
- Canadian Institute For Advanced Research
- Canadian Northern Children's Festival
- Chetwynd RCMP Victim Services Program
- CIBC Run For The Cure - Prince George
- Coastal Jazz and Blues Society
- Cypress Ski Club
- Ducks Unlimited
- Fort Nelson RCMP
- Fort St. John High On Ice Winter Carnival
- Fraser-Fort George Regional Museum
- Grande Prairie & District United Way
- Grande Prairie Museum
- Greater Vancouver Food Bank Society
- Green Thumb Theatre for Young People
- Habitat For Humanity
- Houston Figure Skating Club
- Houston Volunteer Firefighters Association
- Hubble Homestead - Giscome Portage Heritage Society
- Kootenay Wildlife Federation
- Mackenzie Physiotherapy Clinic
- North Peace Gymnastics Association
- Penny Salmonid Enhancement Society
- Phoenix Theatre Society (Fort Nelson)
- Prince George Community Foundation
- Prince George Crimestoppers Association
- Prince George Public Library
- Prince George Railway & Forestry Museum
- Prince George United Way
- Prince George Youth Soccer Association
- Queen Elizabeth Theatre
- Quesnel Festival of Performing Arts
- Quesnel Youth Soccer Association
- Spirit of the North Healthcare Foundation
- The Salvation Army - BC North & Yukon
- Theatre Northwest (Prince George)
- Theatre Under The Stars
- Thompson Nicola Cariboo United Way
- United Way of the Lower Mainland
- Vancouver Symphony Orchestra
- Vanderhoof Public Library
- Variety - The Children's Charity

Please visit www.canfor.com to find out more about Canfor's community investment programs.



www.canfor.com



CHALLENGE

How do you retain valuable employees and ensure their safety at the workplace?

■ Beginning with Canfor's partnerships with various post-secondary institutions to attract valuable employees, the company retains them by promoting a culture of continuous improvement where employees take responsibility for setting personal development goals annually. The company supports this process by offering training and work opportunities within the company to broaden their experience.



OPPORTUNITY

Offering competitive compensation and investing in employee training enables Canfor to attract and retain the best employees in the industry. And through our leadership role in the Forest Safety Council and a new rigorous company safety audit program, progressive steps are improving the safety of workers in the forest and at our mills.

■ In 2005, Canfor's President and CEO, took on the responsibility of being the inaugural Chair of BC's Forest Safety Council. During his tenure, major initiatives were introduced such as a faller safety certification program for 'hand fallers' and the 'truck safe' program designed to improve log truck hauling safety performance.



CHALLENGE

How do you maximize
shareholder value,
throughout all market
conditions?

■ Canfor's priority remains to be profitable in any market and to positively influence the controllable elements of our business. To that end, in 2005 Canfor sold or closed six operations that were either underperforming assets or simply not core to our business, while investing over \$300 million into our mills last year to further reduce costs and improve productivity. Projects like the PolarBoard OSB expansion, Plateau



OPPORTUNITY

By focusing on a commitment to operational improvements, lowering costs, and growing our value-added sales, we've steadily improved both profitability and financial stability.

sawmill expansion and Peace Valley OSB joint venture will also reduce our costs going forward. ■ In addition to reducing costs, our balanced, experienced management team has refined our Wood Products focus, improved integration of marketing and manufacturing, remained committed to a disciplined cost focus, identified significant organic growth opportunities, and positioned us with the financial strength to pursue external growth.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted Canfor's performance during 2005 relative to 2004. 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. In addition to the risks and uncertainties discussed at the end of this MD&A, factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; foreign exchange rates; changes in law and public policy; the outcome of trade disputes; and opportunities available to or pursued by Canfor.

This MD&A should be read in conjunction with Canfor's audited consolidated financial statements and accompanying notes. The financial information contained within this report has been prepared in accordance with Canadian generally accepted accounting principles. Throughout this discussion, reference is also made to EBITDA (calculated as 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.

The information in this report is as at February 15, 2006.

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

In this MD&A, Canfor Corporation and its subsidiaries are referred to collectively as "Canfor" or "the Company" unless the context otherwise requires.

OVERVIEW OF 2005

The strong Canadian dollar and poor markets, along with the lingering softwood lumber dispute, combined to negatively impact the 2005 results. Canfor's priority remains the profitability of the Company in any market and to positively influence the controllable elements of the business. In 2005, Canfor sold or closed six operations that were either underperforming assets or simply not core to the business. Over \$300 million was invested into the mills in 2005 and the Company continued to improve its 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 financial performance in 2006.

In 2005, the focus was on positioning the Company for success. 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, are all elements of this strategy. The Company is looking forward to the pending purchase of New South Companies Inc. in the southeastern United States. New South will assist Canfor in diversifying its market and product mix, which is consistent with Canfor's global building products strategy.

HIGHLIGHTS

- On February 15, 2006, Canfor announced its intention to separate its pulp business from its wood products business by transferring its Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill, together with associated management and employees, to an indirectly owned limited partnership (the "Pulp Income Trust"). Canfor will distribute a 20% interest in the Pulp Income Trust to its shareholders and retain an 80% interest. This transaction furthers Canfor's strategy of focusing on the wood products business, while still participating in the improved business fundamentals of the pulp and paper operation. The Trust is expected to pay out the majority of its distributable cash to unit holders on a regular basis. The completion of the Pulp Income Trust is subject to a number of approvals, including approval by Canfor's shareholders at a special meeting expected to occur in June 2006.
- On January 18, 2006, Canfor announced the acquisition of New South Companies Inc. 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 expects to capture annual supply chain related synergies of approximately US \$10 million from this acquisition. The transaction, valued at US \$205 million, is expected to close in the first quarter of 2006.
- In December 2005, Canfor announced the restructuring of its Englewood logging operations, in which the assets will be transferred to Western Forest Products in exchange for a long-term agreement to supply the Howe Sound Pulp and Paper Mill with fibre. The transaction is expected to close in the first quarter of 2006.

- In November 2005, Canfor unveiled its market strategy for Asia, which included the opening of a new marketing office in Shanghai and the signing of an historical Memorandum of Understanding with the Chinese Academy of Forestry and the Shanghai School of Construction Engineering to establish a vocational program for wood building practices. The second pillar of the strategy was for Canfor to increase market share and profitability by working closely with customers and responding to their needs, which has led to the development of the JadeStar™ lumber brand for the Japanese market.
- Construction of the Peace Valley OSB plant, Canfor's joint venture project with Louisiana Pacific Corp. in Fort St John, was substantially completed by the end of 2005, with commercial production beginning in the latter part of December. This plant has an annual production capacity of 820 million square feet.
- Work on the Plateau sawmill modernization project progressed during the year and will be completed in early 2006.
- The co-generation facility at the Prince George Pulp and Paper Mill was completed, with energy savings of \$7.3 million realized in the latter half of 2005. The precipitator upgrade was completed ahead of schedule in December and substantially all of the benefits should be realized in 2006. The combined benefits of the co-generation and precipitator projects are projected by management at \$23 million on an annual basis.
- In the second quarter, Canfor announced that a privately owned International Distribution Centre was being constructed in Richmond, BC. This facility will be dedicated to servicing the Japanese and other developing Asia Pacific markets for Canfor and it will be the Lower Mainland's largest covered lumber reload facility, with storage capacity to accommodate 20 million board feet of lumber. Canfor has committed to approximately 300 million board feet of lumber throughput at the International Distribution Centre for its Japanese and Asia Pacific customers.
- In the second quarter, as part of the Company's strategic realignment of its assets, Canfor completed the sale of three of its higher cost lumber operations and a subsidiary involved in the development and marketing of forest management information systems. Two additional higher cost sawmills were closed in the third quarter.
- Canfor was recognized at the National Forest Leadership Conference in Toronto for its visionary work on the coast of British Columbia. The Forest Leadership Conference brings together companies and certifiers to discuss sustainable forest management and certification. Working with environmental groups, Canfor and its peers designed a sustainable logging strategy for the coast aimed at putting an end to the market campaigns targeting customers of coastal products.
- The Canadian Manufacturers and Exporters Association gave Canfor their top award of "BC's Exporter of the Year", based on Canfor's work with home centres in the US, its strategic initiatives to minimize the impact of the Port of Vancouver strike, and its Asia strategy. Canfor was also awarded "Exporter of the Year" in the Resource Sector, in recognition of its excellence in supply chain management and market development.

CANFOR'S BUSINESS

Canfor is a leading 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 bleached softwood kraft (NBSK) 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 BC, Alberta, Quebec and Washington State.

TENURES

- 10.2 million cubic metres of allowable annual cut (AAC) under forest tenures⁽¹⁾
- 100% ISO 140001 certified
- 67% CSA/SFI certified, with a goal to be 100% certified by the end of 2006

⁽¹⁾ After the take-back of 20% of Canfor's AAC in British Columbia under the Forestry Revitalization Plan, and excluding discontinued operations on the coast of British Columbia.

LUMBER

- Primary lumber capacity of approximately 4.7 billion board feet, increasing to approximately 5.1 billion board feet with the planned acquisition of New South Companies Inc. in 2006.
- 15 sawmills in BC, Alberta and Quebec

PANELS

- Plywood capacity of 450 million square feet (MMsf) 3/8" basis at 2 plywood plants
- OSB capacity of 650 MMsf 3/8" basis at Fort Nelson, BC
- Peace Valley OSB joint venture will add a further 820 MMsf 3/8" basis when fully ramped up (Canfor's share is 50%). The plant is expected to be operating at 90% of capacity by the end of 2006.
- Hardboard, panelboard and erosion control products

PULP

- Pulp capacity of 1.2 million tonnes – comprised of 1.0 million tonnes of northern bleached softwood kraft (NBSK) and 0.2 million tonnes of bleached chemi-thermo mechanical pulp (BCTMP)
- Kraft paper capacity of 135,000 tonnes
- 4 pulp machines and 1 paper machine



BUSINESS STRATEGY

Canfor is focused on increasing its building-products business in global markets, and on making higher-value structural lumber and specialized products for specific customer needs.

Canfor's overall business strategy is to be an industry leader in profit performance, which will be accomplished through:

- achieving and maintaining low cost structure in all business segments,
- maximizing high-margin products and obtaining value from fibre,
- supply chain excellence,
- targeting customers to grow with through long-term partnerships,
- conservative financial management,
- taking advantage of growth opportunities, and
- its motivated, energized employees.

SELECTED ANNUAL INFORMATION ^{(2) (3)}

(millions of dollars, except volumes and per share amounts)

	2005	2004	2003
Sales volume – major products			
Lumber – millions of board feet	5,096.8	4,547.5	2,978.7
Plywood – millions of square feet, 3/8" basis	435.7	343.6	172.3
Oriented strand board – millions of square feet, 3/8" basis	469.3	379.6	-
Pulp – thousands of metric tonnes	1,189.1	1,114.2	999.2
Sales by segment			
Lumber	\$ 2,545.6	\$ 2,640.0	\$ 1,443.4
Panels	365.7	368.8	121.7
Pulp and Paper	876.5	916.2	789.9
Total sales	\$ 3,787.8	\$ 3,925.0	\$ 2,355.0
Operating income (loss)			
Lumber	\$ 131.5	\$ 382.4	\$ 5.9
Panels	25.4	121.0	5.3
Pulp and Paper	22.2	45.1	25.7
Corporate and Other	(36.7)	(54.0)	(25.2)
Total operating income	142.4	494.5	11.7
Non-operating income (expense)			
Net interest expense	(42.2)	(58.8)	(60.2)
Foreign exchange gain on long-term debt	10.0	48.7	110.9
Other income and unusual items	4.0	8.2	25.0
Total non-operating income (expense)	(28.2)	(1.9)	75.7
Income from continuing operations before income taxes	114.2	492.6	87.4
Income tax recovery (expense)	(12.4)	(94.1)	2.0
Income from continuing operations	101.8	398.5	89.4
Income (loss) from discontinued operations, net of taxes	(5.8)	17.0	57.8
Net income	\$ 96.0	\$ 415.5	\$ 147.2
Total assets	\$ 3,830.5	\$ 3,979.6	\$ 2,422.6
Total long-term financial liabilities	\$ 544.5	\$ 660.5	\$ 633.0
Income from continuing operations per common share			
Basic	\$ 0.71	\$ 3.31	\$ 1.10
Diluted	\$ 0.71	\$ 3.09	\$ 1.02
Net income per common share			
Basic	\$ 0.67	\$ 3.45	\$ 1.81
Diluted	\$ 0.67	\$ 3.22	\$ 1.65
Cash dividends declared	\$ -	\$ -	\$ 0.13

(2) 2004 information reflects the operating results of the former Slocan operations from April 1, 2004. The 2003 balances reflect the operating results of Daaquam Lumber Inc. and Produits Forestiers Anticosti Inc. from May 27, 2003.

(3) Prior year figures have been restated throughout this report to reclassify, as discontinued operations, the Fort St James, Slocan and Valemount operations (previously included in the Lumber segment) and the Coastal Operations segment. 2003 information also reflects the results of Canfor's BC Chemicals division until August 29, 2003, which was previously included in the Pulp and Paper segment. The division was sold in 2003, and an after-tax gain on disposal of \$60.2 million was realized. Certain other prior year figures throughout this MD&A have been restated to conform with the current year's presentation.

2005 COMPARED TO 2004

2004 was a year of exceptionally good market conditions, and Canfor achieved record earnings of \$415.5 million. 2005 was a more challenging year, with a stronger Canadian dollar, lower average prices (lumber down 10%, plywood 27% and OSB 14%), transportation challenges, mill closures and other production downtime.

Severe cold weather in early January 2005 created operational difficulties, resulting in lower production and increased unit costs in the sawmills and pulp mills. The Plateau sawmill re-build project resulted in reduced production in the third and fourth quarters. OSB production was significantly reduced in the fourth quarter as a result of a major equipment failure and start-up issues at PolarBoard.

Railcar shortages in the first quarter of 2005 severely limited shipment volumes of all products in that period. In the first half of the third quarter, a strike by the container truckers at the Port of Vancouver hampered offshore shipments of lumber and pulp.

In 2005, pre-tax restructuring costs of \$5.3 million (\$4.2 million after tax) were incurred, which included \$3.8 million of closure costs for the Tackama and Hines Creek sawmills and severance and other costs of \$1.5 million. Restructuring costs of \$36.5 million before tax (\$28.8 million after tax) were incurred in 2004 as a result of the integration of Slocan after its combination with Canfor. These costs included \$18.6 million of severance, \$10.7 million of mill closure costs and \$7.2 million of asset write-downs and lease costs.

Significant factors affecting the comparability of 2005 and 2004 are noted below:

(millions of dollars, after tax)	2005	2004
Favourable / (unfavourable) impact on:		
Operating Income		
Restructuring costs	\$ (4.2)	\$ (28.8)
Long term incentive plan / special incentive awards	(2.6)	(3.2)
Adjustment to countervailing and anti-dumping duties expensed in prior years	5.2	12.6
	\$ (1.6)	\$ (19.4)
Non-Operating / Discontinued Operations		
Foreign exchange gain on US dollar long-term debt	8.2	48.7
Seaboard General Partnership income	8.9	-
Loss on timber take-back	(6.2)	-
Impact of 1.5% reduction to BC corporate income tax rate	21.0	-
Loss on sale of sawmills, severance and closure costs for the Coastal Operations	(7.4)	-
Net favourable impact on net income	\$ 22.9	\$ 29.3
Exchange Rate and Price Factors:		
Average value of the Canadian dollar against the US dollar	\$ 0.8255	\$ 0.7683
Year-end closing value of the Canadian dollar against the US dollar	\$ 0.8577	\$ 0.8308
Average 2x4 Random Lengths #2 & Better lumber price in US dollars	\$ 355	\$ 394
Average lumber price expressed in Canadian dollars *	\$ 430	\$ 513
Average Canadian plywood price, delivered to Toronto, in Cdn \$	\$ 387	\$ 532
Average OSB price, North Central, in US dollars	\$ 319	\$ 369
Average OSB price expressed in Canadian dollars *	\$ 386	\$ 480
Average pulp price delivered to northern Europe, in US\$	\$ 611	\$ 622
Average pulp price expressed in Canadian dollars *	\$ 740	\$ 809

* at the average value of the Canadian dollar for the year, as noted above

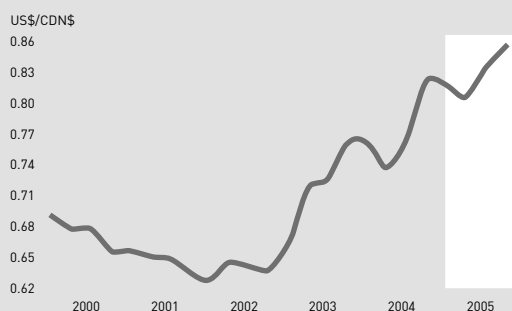
As the majority of Canfor's sales are to US customers, the strengthening of the Canadian dollar since 2003 has significantly reduced revenues and net income, particularly in 2005, when the dollar averaged 82.5 cents, which was its highest level since 1992.

Sales* by market



*Gross sales in Canadian dollars

US/CDN\$ average annual exchange rate



Source: Bank of Canada

SELECTED QUARTERLY FINANCIAL INFORMATION

	2005				2004			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Sales and Income (millions of dollars)								
Sales	\$ 861.0	\$ 932.3	\$ 1,033.3	\$ 961.2	\$ 1,037.7	\$ 1,122.3	\$ 1,143.7	\$ 621.3
Operating income (loss)	\$ (14.7)	\$ (5.8)	\$ 66.0	\$ 96.9	\$ 20.3	\$ 206.0	\$ 206.7	\$ 61.5
Net income (loss) from continuing operations	\$ (10.6)	\$ 20.7	\$ 28.2	\$ 63.5	\$ 45.4	\$ 193.2	\$ 130.1	\$ 29.8
Net income (loss)	\$ (12.3)	\$ 17.4	\$ 25.3	\$ 65.6	\$ 43.0	\$ 200.0	\$ 142.1	\$ 30.4
Per common share (dollars)								
Net income (loss) from continuing operations								
Basic	\$ (0.07)	\$ 0.14	\$ 0.20	\$ 0.44	\$ 0.34	\$ 1.47	\$ 0.99	\$ 0.37
Diluted	\$ (0.07)	\$ 0.14	\$ 0.20	\$ 0.44	\$ 0.32	\$ 1.36	\$ 0.92	\$ 0.34
Net income (loss)								
Basic	\$ (0.09)	\$ 0.12	\$ 0.18	\$ 0.46	\$ 0.31	\$ 1.52	\$ 1.08	\$ 0.37
Diluted	\$ (0.09)	\$ 0.12	\$ 0.18	\$ 0.46	\$ 0.30	\$ 1.40	\$ 1.00	\$ 0.34
Statistics								
Lumber shipments (MMfbm)	1,176	1,334	1,393	1,193	1,345	1,186	1,293	724
Pulp shipments (000 mt)	312	310	299	268	313	275	285	242
Plywood shipments (MMsf 3/8")	98	124	107	106	96	96	109	45
OSB shipments (MMsf 3/8")	118	132	117	103	127	121	133	-
Average exchange rate (Cdn\$/US\$)	\$ 0.852	\$ 0.832	\$ 0.804	\$ 0.815	\$ 0.819	\$ 0.765	\$ 0.736	\$ 0.759
Average 2x4 #2&Btr lumber price (US\$)	\$ 328	\$ 327	\$ 365	\$ 398	\$ 338	\$ 440	\$ 437	\$ 370
Average NBSK final pulp price delivered to Northern Europe (US\$)	\$ 600	\$ 588	\$ 613	\$ 642	\$ 609	\$ 637	\$ 650	\$ 590
Average plywood price-Toronto (Cdn\$)	\$ 387	\$ 362	\$ 361	\$ 439	\$ 444	\$ 548	\$ 592	\$ 528
Average OSB price-North Central (US\$)	\$ 317	\$ 291	\$ 305	\$ 364	\$ 260	\$ 351	\$ 431	\$ 435

The main factors affecting the comparability of the results over the last eight quarters were the integration of the former Slocan operations as of April 1, 2004, changes in the value of the Canadian dollar against the US dollar, which impact US dollar revenues and the translation of US dollar denominated long-term debt, and changes in lumber, pulp, plywood and OSB prices, as highlighted in the table above.

One-time items that had a significant impact on quarterly results include restructuring and mill closure provisions of \$18.3 million, \$0.3 million and \$10.2 million in the second, third and fourth quarters of 2004 respectively, \$1.6 million in the second quarter of 2005, and \$2.5 million in the third quarter of 2005 (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, which was subsequently increased by \$0.7 million in the fourth quarter. The third quarter 2005 results were negatively impacted by an \$8.9 million after-tax write-down of timber licenses, which was subsequently reduced to \$6.2 million after tax in the fourth quarter. 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. The fourth quarter 2005 results were reduced by a \$5.2 million after-tax expense for the executive long-term incentive plan and by \$1.8 million of bad debt, severance and lease terminations costs related to Coastal Operations (\$0.9 million in the second quarter). Favourable items affecting the fourth quarter 2005 results include \$8.9 million of income from the Seaboard General Partnership and \$2.0 million of scientific research and development tax credits claimed.

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 affect demand for lumber and panel products, are 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.

FOURTH QUARTER RESULTS

An operating loss of \$14.7 million and a net loss of \$12.3 million were recorded in the fourth quarter of 2005, compared with operating income of \$20.3 million and net income of \$43.0 million in the fourth quarter of 2004.

The main reasons for the decrease in earnings were the strengthening of the Canadian dollar, which averaged 4% stronger in the fourth quarter of 2005 than in the same period in 2004, and lower prices for lumber (3% lower), plywood (14% lower), and pulp (1% lower), partially offset by a 22% increase in OSB prices. Although the dollar strengthened in the fourth quarter, the closing value was weaker than it had been at the end of the third quarter, which resulted in a \$4.7 million loss on the translation of long-term debt for the fourth quarter. In comparison, a \$36.1 million gain on the translation of long-term debt was recorded in the fourth quarter of 2004.

- The Lumber segment reported an operating loss of \$13.1 million in the quarter, compared to operating income of \$16.6 million in the same period in 2004. Lower shipment volumes of Canfor-produced lumber, in addition to the unfavourable exchange and price factors noted above, and lower chip revenues as a result of lower chip prices implemented in the third quarter were the main reasons for the weaker financial performance. Production of 1,049.9 million board feet was 15% lower than in 2004, mainly as a result of the closure of the Tackama and Hines Creek sawmills in 2005, and reduced operations at the Plateau sawmill in order to complete that facility's strategic upgrade project.
- The Panels segment reported an operating loss of \$2.7 million in the quarter, compared to operating income of \$19.9 million in the fourth quarter of 2004. Lower plywood prices and higher energy costs factored into the poor results, and although OSB prices were 25% higher in the fourth quarter of 2005, the impact was more than offset by lower shipment volumes. A major equipment failure at the PolarBoard OSB mill occurred in November 2005, and an 11-day emergency 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, which is proportionately consolidated in Canfor's results, began production in late December 2005, and incurred a loss of \$0.8 million as a result of the low production volumes during the mill's start-up phase.
- The Pulp and Paper segment earned operating income of \$16.8 million in the fourth quarter of 2005, compared with an operating loss of \$10.1 million in the same quarter in 2004. When compared with last year, the impact of lower prices and a stronger Canadian dollar in the fourth quarter of 2005 was more than offset by the favourable impact of the lower chip prices, lower energy costs resulting from the new co-generation facility, a \$2.3 million scientific research and development tax credit and \$1.4 million of forward contract hedging gains.

- Corporate costs were \$15.7 million in the fourth quarter of 2005, compared to \$6.1 million in the fourth quarter of 2004. The main factors contributing to the higher costs in the fourth quarter were a \$6.5 million accrual for the executive long-term incentive plan related to the last two fiscal years, \$1.0 million of severance costs and higher donations, consulting fees and employee relocation costs.
- Other income of \$7.9 million in the fourth quarter of 2005 was mainly comprised of \$8.9 million of Seaboard General Partnership income, partially offset by \$1.3 million of other equity losses. In the fourth quarter of 2004, other expense of \$0.7 million included a \$3.0 million write-off of project costs, partially offset by \$2.3 million of equity income. Also in the fourth quarter of 2005, a \$2.3 million favourable adjustment was recorded to the timber take-back loss of \$11.1 million recorded in the third quarter.

2005 OPERATING RESULTS

The following discussion of Canfor's operating results relates to the operating segments and the non-segmented items as per the Segmented Information note in the Financial Statements. Canfor's operations include the following three operating segments: Lumber, Panels and Pulp and Paper. The former Coastal Operations segment has been reclassified as non-operating, as discussed under the "Discontinued Operations" section, below. When comparing the 2005 operating results with 2004, it should be noted that the 2004 results include the results of the former Slocan operations for the nine months following the acquisition on April 1.

LUMBER

MAJOR ACHIEVEMENTS IN 2005

- Strategic capital investments in margin-added technologies:
 - the strategic upgrade of the Plateau sawmill
 - installation of grade optimization technologies to enhance market profile at the Mackenzie and Radium operations
 - increased focus on products such as PET (precision-end-trim) studs, MSR (machine-stress-rated) and prime shorter lengths
- Quesnel operation experienced a 22% gain in sawmill productivity following the start-up curve on its capital project
- 7% increase in productivity and a 7% increase in prime grade production
- 2% decrease in total manufacturing costs

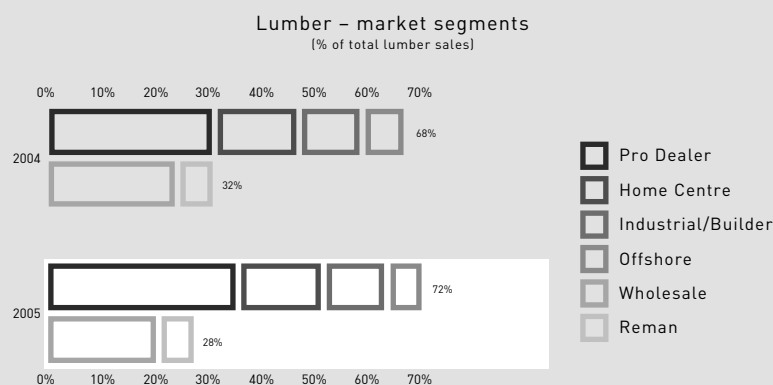
The lumber segment is focused on optimizing profitability from its sawmill assets and fibre resources in order to meet customer needs for high-quality, eco-certified, branded products.

The segment consists of logging and forestry operations, which harvested from approximately 10.2 million¹ cubic metres of allowable annual cut in northern British Columbia, northern Alberta and Quebec in 2005, and operates 13 sawmills in British Columbia, one in Alberta and one in Quebec, which have a combined lumber production capacity of 4.7 billion board feet. Other operations include two lumber remanufacturing facilities, one in British Columbia and one in Washington State, two whole-log chipping plants, which have an annual capacity of over 0.3 million oven-dried tonnes of wood chips (total chip capacity is 2.5 million for all wood products operations), and two finger-joint mills. The segment also includes Canfor's wood products marketing division, located in Vancouver.

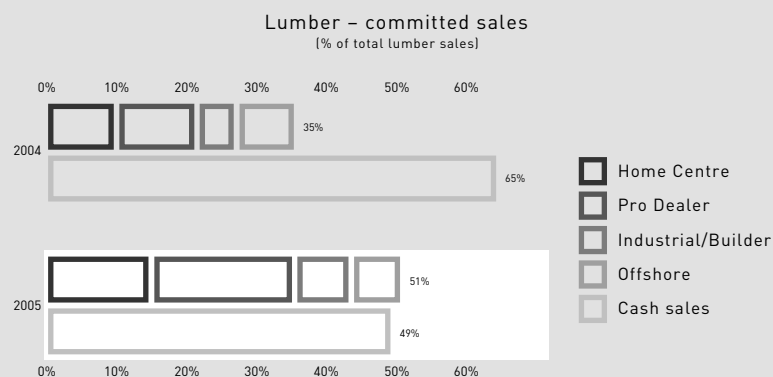
MARKETING STRATEGY

- Continue to align with customers that are close to end users and to reduce the wholesale sales component.
- Increase committed sales volume with key customers
- Increase market share in emerging Asian markets.
- Focus on developing margin-added product opportunities that provide greater returns to Canfor's fibre resources. Higher-value lumber grades include Square Edge, J-grade, machine-stress-rated, fingerjoint studs and Primed Fascia products.
- Explore new distribution opportunities, including Canfor's International Distribution Centre in Richmond, BC, which will enable consolidation of offshore-bound container shipments.

The wholesale component of lumber sales was reduced by 4% in 2005:



Committed sales were increased by 16% in 2005:



OPERATING STRATEGY

To build a world-class lumber franchise

- Optimize profitability from facilities and fibre resources, while aligning with the marketing strategy
- Top quartile cost structure and margins
- Product excellence, including service component

The focus in 2005 was on employing best practices for quality control and value optimization. The Lumber operation's manufacturing strategy is aligned with Canfor's marketing strategy, which is to be diversified into the major customer segments of home centre, "pro dealer", industrial and national builders and to be aligned with the largest and best customers in these segments. Canfor's extensive reload lumber inventory network in key geographic locations in the US provides a distinct competitive advantage. Canfor services its customers through supply chain management (vendor managed inventories and just-in-time delivery), which provides an advantage over its competitors in these markets. Shortages in skilled labour continue to drive changes in house construction trends, with a shift from traditional stick built homes to more component built homes leading to increased engineering and product substitution. As a result, Canfor's manufacturing facilities must have flexibility to produce the full array of products, including PET (precision-end-trimmed) studs, MSR (machine-stress-rated), and shorter length lumber.

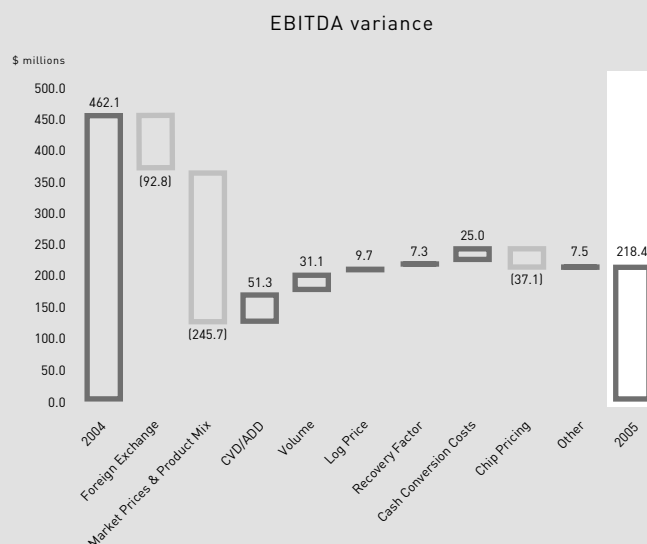
Summarized results for the Lumber segment for 2005 and 2004 are as follows:

(millions of dollars)	2005	2004 ⁽⁴⁾ ⁽⁵⁾
Sales	\$ 2,545.6	\$ 2,640.0
Countervailing and anti-dumping duties expensed	\$ 224.8	\$ 276.2
Operating income	\$ 131.5	\$ 382.4
EBITDA	\$ 218.4	\$ 462.1
EBITDA margin	9%	18%
Capital expenditures	\$ 158.7	\$ 51.1
Lumber shipments (millions of board feet)		
Canfor produced	4,681	4,247
Other producers	416	300
Lumber production (millions of board feet)	4,624	4,235
Average random length Western SPF 2x4 #2 & Better lumber price – US\$ per thousand board feet (source: Random Lengths publication)	\$ 355	\$ 394
Average lumber price expressed in Canadian dollars	\$ 430	\$ 513

(4) Includes the results of the Slocan operations for the nine months following the acquisition on April 1, 2004.

(5) Restated to exclude the Fort St James, Slocan and Valemount sawmills, which were sold in 2005, as discussed under "Discontinued Operations", below.

EBITDA declined by \$243.7 million in 2005 as compared to 2004. Market factors and exchange negatively impacted earnings by \$356.0 million, with the benchmark 2x4 #2 & Better lumber price decreasing by 10% in 2005, or 16% when expressed in Canadian dollars. Adding to these external factors was the negative impact of lower chip market-based pricing implemented on July 1, 2005. This change resulted in an unfavourable income variance of \$32.0 million in the lumber segment as compared to 2004, but was largely offset by the reduced chip costs in the Pulp and Paper segment.



OPERATING PERFORMANCE

Positive trends were experienced in a number of key performance indicators relative to 2004, despite continuing input cost pressures, smaller log size and declining log quality resulting from increased beetle harvest. Improvements were seen in production (9% increase over 2004), prime grade production (improved by 7%), and total manufacturing costs (2% reduction over 2004). The majority of these improvements were realized once the start-up curves associated with capital upgrades at the Houston, Prince George, Quesnel and Fort St John sawmills were complete. Non-capital driven initiatives accounted for the remaining performance improvements, with an emphasis on quality and optimization programs developed through 2004 and implemented early in 2005. Although fuel and energy costs rose by 9% and labour costs increased by 3% as compared to 2004, total unit manufacturing costs were down 2%. This result was driven by a 7% reduction in maintenance spending in combination with the above-noted productivity gains. Log costs decreased by 2% in 2005 over 2004, mainly because of the increased harvesting of lower grade logs. Lumber recovery improved by 1% over 2004, as best practices for quality and optimization are being continually implemented throughout Canfor's operations and are showing positive results.

Extremely cold temperatures in the first two weeks of January affected production volumes and recoveries at most of the sawmills. However, by early February productivity had improved significantly, with production records being set at several mills. Picketing action during the log haulers' dispute in the Prince George area resulted in one-day production stoppages at each of the Houston, Plateau, Isle Pierre and Polar sawmills in the first quarter. Lumber operations performed well in the second quarter, with key performance indicators improving significantly over the first quarter, largely as a result of milder weather conditions and a strong focus on continuous improvement. Production decreased in the third quarter as a result of maintenance shutdowns at several three-shift operations, curtailments at specific locations to balance inventories, and a 10-day shutdown for capital installations at the Plateau sawmill. Work continued through the fourth quarter on the Plateau strategic expansion. Primary equipment was in place and testing substantially complete by the end of the year. Capital spending, start-up and project benefits are all anticipated to be at or near expectation. With the significantly reduced operations at the Plateau sawmill and seasonal downtime at other mills, production in the fourth quarter decreased by 7%.

Railcar supply was a major issue impacting shipment volumes in the first quarter of 2005. However, shipment volumes improved in the second quarter, as a result of increased demand during the active building season and efficiencies in supply through improved rail car availability and the scheduling of marine shipments to transport product to Canfor's major US customers.

MILL CLOSURES / DISPOSITIONS

- The sale of the Fort St James sawmill and related tenures, which was required by the Competition Bureau as a condition to the Slocan acquisition in 2004, was completed in the second quarter.
- The high-cost Valemount and Slocan operations were also sold in the second quarter.
- Because of the increasing demand on Alberta's fibre supply, Canfor determined that the availability of timber for harvest was not sufficient to sustain both of its two operations in that province. As a result, in the third quarter Canfor permanently closed its Hines Creek operation in order to focus the amount of fibre available for processing at its Grande Prairie facility.
- The high-cost Tackama sawmill in Fort Nelson was permanently closed in September.

Mill closure costs of \$3.8 million were recorded in the year, mainly related to the Tackama sawmill as well as some final costs for the closure of the Hines Creek operation. In 2004, mill closure costs of \$16.1 million were recorded, related to the closures of the Taylor, Upper Fraser and Hines Creek sawmills and the Quesnel Specialty mill. Closure costs associated with the Fort St James, Valemount and Slocan operations were recorded in Discontinued Operations.

COUNTERVAILING (CVD) AND ANTI-DUMPING (ADD) DUTIES

In the current year, Canfor expensed combined CVD and ADD duties of \$224.8 million (2004 - \$276.2 million), and has paid combined duty deposits of US \$733.4 million since the inception of CVD and ADD in May 2002.

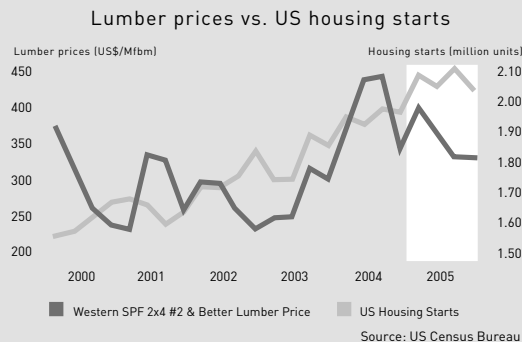
In December 2005, after completing its administrative review for the period from May 2003 to April 2004 (POR2), the US Department of Commerce (DOC) determined a CVD assessment rate of 8.70% for all Canadian companies for POR2 and an ADD assessment rate for Canfor of 1.36% (subsequently corrected by the DOC in January 2006 to 1.35%). Cash deposits on lumber shipments after December 12, 2005 are being made at these lower rates.

At December 31, 2005, Canfor had accrued additional CVD of \$67.4 million in excess of the cash deposits made (included in "other accruals and provisions" on the balance sheet) and had accrued \$113.7 million of cumulative ADD cash deposits in excess of the calculated expense (included in "long-term investments and other" on the balance sheet). Canfor has not adjusted the previously expensed duties to reflect the lower revised rates, as noted above, due to the uncertainty over the timing of receipt of refunds.

A comprehensive discussion of the history and current status of the duties is included in the Risks and Uncertainties section of this document.

MARKETS

2005 was another outstanding year for the US housing market. New records for home sales, single-family starts and residential remodeling were set in 2005. Relatively low interest rates, steady income growth, and positive consumer confidence resulted in the construction of 2.06 million new homes, which is a 6% increase from 2004. This is the highest level since 1972. Single-family housing starts increased to a historical high of 1.7 million units and, as a proportion of total housing starts, increased from 82% in 2004 to 88% in 2005. As a result, sales volumes in 2005 to Canfor's key professional dealer customers increased by 15% over 2004. While the overall demand was strong, supply was readily available throughout most of the distribution channels, resulting in Western SPF 2x4 #2 & Better prices declining by 10% from a year ago to an average price of US\$355 per Mfbm.



Another aspect of the strong housing market was the record amount spent in the repair and remodeling industry, resulting from very high levels of existing home sales. In 2005, continuing low interest rates motivated many homeowners to refinance their mortgages and consequently increase their spending. Even though the refinancing activity was lower than in 2004, the combined increase in spending and the appreciation in housing prices provided strong incentives for homeowners to invest in renovating their existing homes. As a result, Canfor's sales to the growing Home Centre segment remained strong, at 16% of total shipments.

After the two hurricanes in the US Gulf Coast in the third quarter, the immediate focus was on the construction of temporary shelters for those residents who lost their homes. This activity fuelled much of the demand for lumber and panel products during this period. Large-scale reconstruction efforts are expected to continue over the next few years.

Lumber sales to Japan during the second half of 2005 were stronger than during the first half of the year, which contributed to a shortage of J-grade lumber in the fourth quarter. The lengthy independent container truckers' strike in Vancouver during the third quarter prevented container shipments to Japan. Despite this, Canfor's overall market share in Japan increased in 2005. Canfor's continued sales and marketing efforts in China, Malaysia, Indonesia and Vietnam have increased shipments by 10% over 2004. This was achieved despite two months of shipment reductions due to the container strike. In 2005, total offshore sales represented 7% of Canfor's lumber shipments.

Despite the strong demand, the competitive position of Canadian producers was reduced due to the Canadian dollar appreciating by 7% against the US dollar in 2005 and the continuing countervailing and anti-dumping duties on exports to the United States.

RISKS AND UNCERTAINTIES

STUMPAGE RATES – As part of its Forestry Revitalization Plan, the Provincial Government is considering changes to the BC Interior stumpage system, which are expected to come into effect in April 2006. The impact of these changes to Canfor, if any, is not quantifiable at this time.

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

The mountain pine beetle infestation in British Columbia now impacts approximately 411 million cubic metres of lodgepole pine and has spread at a rate that has averaged approximately 59% per year for the last five years. The Quesnel, Prince George, Morice and Lakes timber supply areas (TSAs), all integral to Canfor manufacturing facilities, continue to be the most heavily impacted. In addition, the infestation also impacts at least seven other TSAs in which Canfor operates, including the Kamloops, Mackenzie, and Dawson Creek TSAs. Although the levels of attack are still relatively low, the rate of spread in the Dawson Creek TSA is high and it does present a risk to the Chetwynd operation. There is also a risk of entry of mountain pine beetle into Canfor's Alberta Forest Management Agreement area, which is approximately 40% lodgepole pine. This risk has resulted in an ongoing joint effort by Canfor, the Ministry of Forests & Range, Weyerhaeuser and the Alberta Government to attempt to suppress the beetle in the Dawson Creek TSA.

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

The average diameter of affected lodgepole pine logs tends to be smaller than traditional harvests and requires some realignment and re-tooling of manufacturing facilities in the Prince George region to fit with the changing fibre supply. In the short-term, Canfor is assessing appropriate capital expenditures to realign its Prince George area manufacturing capabilities to accommodate the increase in fibre from beetle-infested logs. If the outbreak continues to spread, the potential implications for Canfor include an eventual reduced fibre supply, a change in lumber product mix, increased costs and a potential decrease in the quality of lumber and chips produced. The general consensus is that beetle-killed timber will remain merchantable for 5 to 15 years, depending on local site conditions. Research to gain more information about "shelf life" is one of the projects relative to the mountain pine beetle that Canfor is supporting.

The Provincial government's focus in the Quesnel, Prince George, Morice and the Lakes TSAs among others has shifted to salvage of beetle-killed timber rather than on suppression activities. In 2004 the Provincial Chief Forester revised the AAC in the Quesnel, Prince George and the Lakes TSAs upward by approximately 4 million cubic metres to encourage salvage activities. Several new non-replaceable forest tenures have been and will be advertised for those areas, inviting proposals for the use of this salvage volume. Managing the potential safety issues associated with this increased harvesting activity continues to be a key focus for Canfor. Eventually (projected by management to be 10 to 20 years from now), the AAC in the affected TSAs will have to be reduced to counter-balance the current increases in AAC. The extent of these future reductions is unknown at this time.

Late in 2004 Canfor, in conjunction with the City of Prince George and local Ministry of Forests & Range representatives, developed recommendations for a salvage strategy for affected lodgepole pine trees on provincial Crown land, city land and private property within the city limits. The Minister of Forests acted on these recommendations by offering community forest tenure to the City of Prince George. Canfor is assisting the city with their efforts to apply for and manage this tenure.

OUTLOOK

MARKETS - In 2006, new home construction and repair and remodeling activity are expected to decline slightly from the record levels in 2005. Higher house prices, rising interest rates and concerns over rising energy costs and inflation may result in a weakening in housing demand and lower consumer spending. However, with the US economy expected to grow moderately in 2006 and the continuing reconstruction of homes in the hurricane-affected states, activity in the housing sector is projected to remain relatively strong.

OPERATIONS - Operating activities in 2006 are designed to enhance Canfor's operating performance and increase the alignment between manufacturing and marketing strategies.

In 2006 the operating focus will be on the completion and start up of capital projects initiated in 2005 including those at the Plateau, Mackenzie, Houston and Radium mills. These capital projects were implemented to target Canfor's strategy of improving margins, reducing costs and aligning production activities with the overall marketing strategy. Additional capital projects will be initiated and completed in 2006 with the aim of further capitalizing on this strategy.

In conjunction with these capital projects the group will continue to focus its attention in the following areas: implementation of quality control and optimization systems developed in 2005; a focus on supply chain initiatives, including forecasting and order fulfillment; the execution of continuous improvement programs in all areas; and the development of people and organizational strength.

PANELS

MAJOR ACHIEVEMENTS IN 2005

Plywood

- North Central Plywood set production records and achieved a 7% improvement in overall plywood productivity

OSB

- Completed capital upgrade at PolarBoard
- Completed construction of the jointly-owned OSB plant in Fort St John, British Columbia

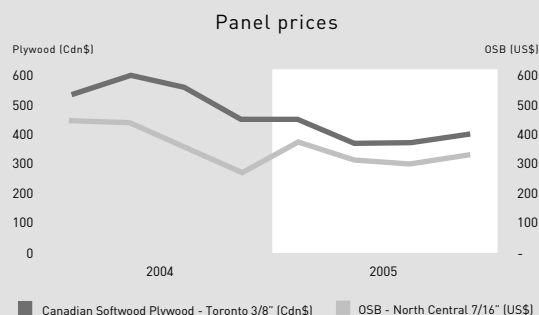
The Panel segment includes two plywood plants, one in Prince George and one in Fort Nelson, British Columbia, with a combined annual production capacity of 450 million square feet (3/8" basis). The segment also includes an oriented strand board (OSB) facility, PolarBoard, located in Fort Nelson, with an annual production capacity of 650 million square feet (3/8" basis). At December 2005, construction of the new OSB mill in Fort St John, jointly owned with Louisiana Pacific Corporation, was substantially complete, with production commencing late in the month. The mill will have the capacity to produce 820 million square feet (3/8" basis), of which Canfor's share is 50%. A panel and fibre operation, located in New Westminster, British Columbia, produces hardboard, refined fibre and wood fibre composite mat products for building, automotive and industrial uses.

Summarized results for the Panels segment for 2005 and 2004 are as follows:

(millions of dollars)	2005	2004 ⁽⁴⁾
Sales	\$ 365.7	\$ 368.8
Operating income	\$ 25.4	\$ 121.0
EBITDA	\$ 37.3	\$ 129.5
EBITDA margin	10%	35%
Capital expenditures	\$ 105.7	\$ 61.8
Plywood shipments (millions of square feet - 3/8" basis)	436	344
Plywood production (millions of square feet - 3/8" basis)	433	357
OSB shipments (millions of square feet - 3/8" basis)	469	380
OSB production (millions of square feet - 3/8" basis)	479	385
Average plywood price - Cdn \$ per Msf 3/8" basis, delivered to Toronto (source: C.C. Crowe's Publications, Ltd.)	\$ 387	\$ 532
Average OSB price - US \$ per Msf 7/16", North Central (source: Random Lengths publication)	\$ 319	\$ 369
Average OSB price expressed in Canadian dollars	\$ 386	\$ 480

(4) Includes the results of the Stocan operations for the nine months following the acquisition on April 1, 2004.

EBITDA decreased by \$92.2 million over 2004, mainly due to the sharp decline in panel prices in the second half of 2005. For the full year, Canadian dollar plywood prices averaged 27% lower than in 2004, and US denominated OSB prices declined by 13%, or 19% when expressed in Canadian dollars. In 2005, 85% of Canfor's plywood production was shipped to Canadian markets, 14% to the U.S., and 1% to Japan. The majority of OSB was shipped to US western markets (78%) and the rest to Canada (22%).



MARKETING STRATEGY

Plywood

- Target higher-value end users – Industrials, VMI (vendor-managed inventory) and Home Centres

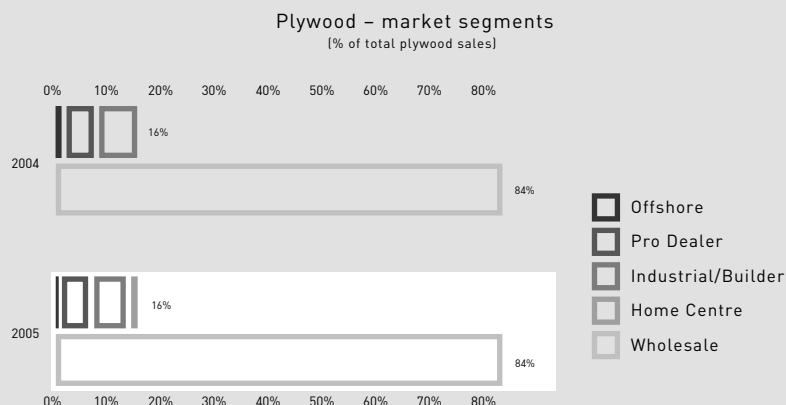
OSB

- Target US West
- Leverage lumber relationships to increase sales into Pro Dealers and Home Centres and to increase committed sales volumes.

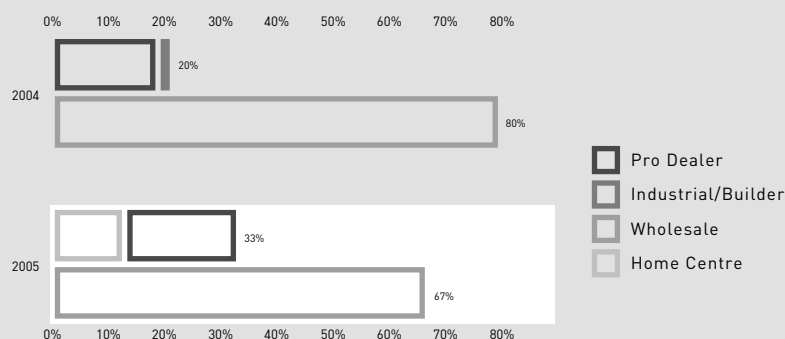
MARKETS

North American structural panel demand rose to record levels in 2005, reflecting the continued strength in new housing starts in the second half of the year and the brisk activity before and after the hurricanes in the US Gulf Coast area. Similar to lumber, supply exceeded demand at various times throughout the year. Consequently, panel prices decreased from last year's high.

Unlike lumber, Canfor sells most of its panels through wholesale channels. To generate higher margins, the marketing focus for the Panels segment is to increase sales to pro dealers, home centres and builders. OSB sales to these market segments increased by 13% in 2005.



OSB – market segments



OPERATING STRATEGY

- Optimize profitability from facilities and fibre resources, while aligning with the marketing strategy
- Top quartile cost structure and margins
- Product excellence, including service component

OPERATING PERFORMANCE

PLYWOOD - After a slow start in January due to the severely cold weather, production milestones were set at the plywood operations in the first quarter. North Central Plywood had excellent performance into the second quarter, increasing productivity and establishing new daily production records. A software upgrade on the scanner was completed in the second quarter and early results indicate that this will have a very positive impact on plywood recovery.

The Tackama operation had over 80 hours of downtime in the first quarter due to mechanical issues on the carousel and lathe. The mill also took a 9-day maintenance shutdown in the third quarter in order to improve reliability and uptime measures.

Aggregate plywood performance included a 7% gain in productivity, along with a 4% improvement in plywood recovery, but these positive results were offset by an 11% increase in log costs, which was primarily as a result of transfer pricing changes due to the Tackama sawmill closure.

OSB - With the exception of a 6% gain in product recovery, 2005 was a disappointing year for OSB performance. Production declined by 8% from 2004, driven almost entirely by a number of downtime occurrences. The PolarBoard OSB mill had some downtime in the first quarter, which arose due to lack of dry flake, maintenance and reliability issues, and power outages. The mill was also shut down in the last week of the first quarter for the installation of two new dryer drums and the completion of the planned capital project to increase capacity. The capital project continued into the second quarter. After starting up, the mill set several daily production records and is continuing to work through the anticipated start-up curve. As noted above, log recovery has improved by 6% as a result of process improvements associated with the new equipment.

In the fourth quarter, a major equipment failure occurred 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 a production loss of 16 million square feet (3/8" basis). These extra repairs and maintenance costs, along with a \$2.2 million write-down of equipment replaced in the mill's capacity upgrade project, cost increases for resins and wax, and the overall lower production, caused manufacturing costs at this mill to increase by 41% over 2004.

CANFOR-LP OSB LIMITED PARTNERSHIP (OPERATING AS PEACE VALLEY OSB)

In 2000, Slocan entered into a shareholders' agreement with Louisiana-Pacific Canada Ltd. to jointly undertake construction and operation of an OSB mill with rated annual capacity of 820 million square feet (3/8" basis) in Fort St John, British Columbia. A limited partnership was formed in 2004 to own the joint venture and carry on the business. 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. A key strategic advantage of the Peace Valley OSB mill is the ability to produce high-value 9' and 10' panels for a growing market.

In 2005, Canfor made contributions of \$102.3 million to the venture (\$140.5 million to date) for construction costs, pre-production expenses and working capital. Canfor has agreed to contribute 50% of the capital to fund the project, which is estimated to have a total funding requirement to both partners of approximately \$288.0 million, of which \$258.0 million is capital related, \$17.0 million is for deferred costs and the balance is for working capital. The original budget for the construction was exceeded by approximately \$41.0 million as a result of scope and design changes (\$11.0 million) and unforeseen cost increases relating to adverse weather conditions and raw materials and labour costs (\$30.0 million). At the end of 2005, construction was substantially complete and the mill had commenced limited production in December. The mill currently estimates that it will be operating at 55% capacity by the end of the first quarter of 2006 and will ramp up to 90% capacity by the end of the year.

Canfor's 50% interest in the joint venture/partnership has been proportionately consolidated at December 31, 2005 and an operating loss of \$0.8 million has been recognized in the year.

OUTLOOK

MARKETS – Demand for both OSB and Canadian softwood plywood is expected to remain fairly strong in 2006, boosted by the large-scale rebuilding from the gulf coast hurricanes. However, supply increases in OSB are expected to result in lower average OSB prices in this period.

OPERATIONS –Canfor's plywood and OSB facilities are focusing on producing more higher-return and value-added panels, which will have a positive impact on margins in the future, with many of the capital and maintenance issues completed in 2005. The panel manufacturing facilities are well-positioned for significantly improved productivity and financial performance in the next year.

PULP AND PAPER

MAJOR ACHIEVEMENTS IN 2005

- Earned EBITDA of \$68.4 million in difficult market conditions
- Set records for annual average daily production at the Northwood, Intercon and Taylor mills
- Achieved record product quality levels at the Northwood and Prince George Pulp mills
- Completed the Co-generation and Precipitator projects at the Prince George Pulp Mill

The Pulp and Paper segment is organized into 3 distinct business units: Premium Pulp, BCTMP and Specialty Paper. Canfor's Premium Pulp, which is produced from long northern British Columbia wood fibres, offers the strength sought by paper makers worldwide, and consists of the Prince George, Intercontinental and Northwood pulp mills. Premium Pulp is also referred to as Northern Softwood Kraft (NSK). NSK is primarily a bleached product; however, unbleached and semi-bleached grades are also produced at the Prince George Pulp Mill. All of the mills are located within five kilometres of each other in Prince George, British Columbia with the exception of Taylor, which is located near Fort St John, British Columbia. The pulp mills have the annual capacity to produce over one million tonnes of NSK pulp. Over 200 thousand tonnes of bleached chemi-thermo mechanical pulp (BCTMP) are produced at the Taylor mill. The paper machine, located at the Prince George Pulp and Paper Mill, has the capacity, at optimum product mix levels, to produce 135 thousand

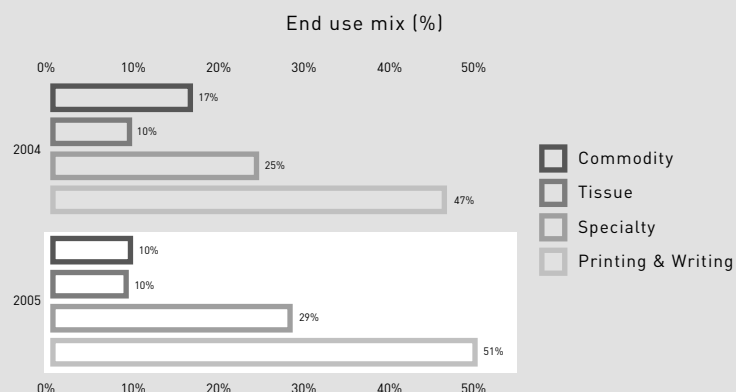
tonnes of kraft paper. Canfor's pulp marketing division is located in Vancouver. During 2005, Canfor reorganized its paper marketing division into a jointly-owned sales and marketing partnership with Tolko Industries Ltd. The partnership is headquartered in Kelowna, British Columbia.

2005 was a challenging year for the premium pulp business. Pulp markets have remained difficult. Benchmark list pricing, combined with a strengthening Canadian dollar, resulted in average Canadian dollar mill nets being near the historical bottom of the market cycle. In spite of these challenges, positive earnings of \$22.2 million and EBITDA of \$68.4 million were generated.

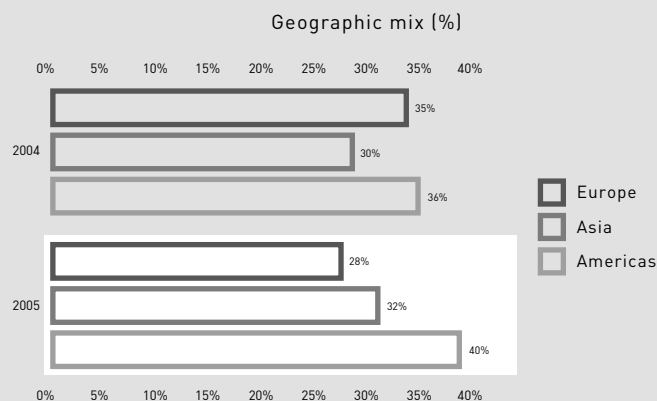
MARKETING STRATEGY

- Within the Premium Pulp sector, to be the supplier of choice due to superior service and quality
- Increase shipments to higher margin pulp users
- Increase sales to North America

Shipments to the higher-margin printing, writing and specialty segments increased by 8% in 2005:



Shipments to North America increased by 4% in 2005:

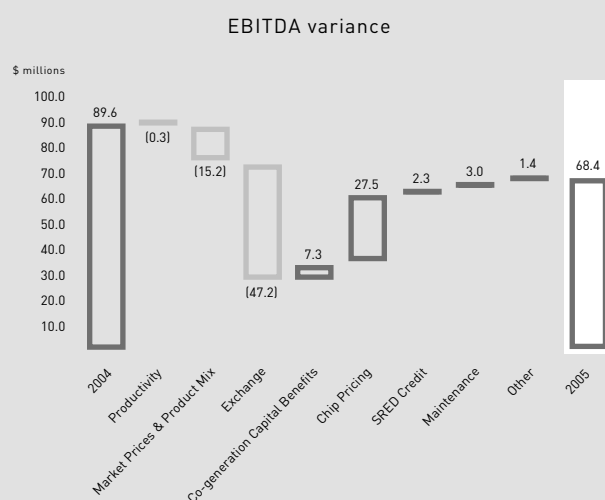


Summarized results of the Pulp and Paper segment for 2005 and 2004 are as follows:

(millions of dollars)	2005	2004 ⁽⁴⁾
Sales	\$ 876.5	\$ 916.2
Operating income	\$ 22.2	\$ 45.1
EBITDA	\$ 68.4	\$ 89.6
EBITDA margin	8%	10%
Capital expenditures	\$ 63.5	\$ 87.1
Average pulp price – delivered to northern Europe (US\$ per tonne)	\$ 611	\$ 622
Average pulp price expressed in Canadian dollars	\$ 740	\$ 809
Pulp shipments (thousands of tonnes)	1,189	1,114
Pulp production (thousands of tonnes)	1,189	1,142
Specialty Kraft paper shipments (thousands of tonnes)	127	140
Specialty Kraft paper production (thousands of tonnes)	127	134

(4) Includes the results of the Slocan operations for the nine months following the acquisition on April 1, 2004.

2005 EBITDA of \$68.4 million was \$21.2 million lower than in 2004. Market factors and exchange negatively impacted earnings by \$62.4 million, as Canfor's average US dollar NBSK price delivered to Northern Europe fell by 2%, or by 9% when expressed in Canadian dollars. Productivity remained relatively flat, with annual records for average daily production at the Intercon and Northwood pulp mills offset by slowed-back production at the Prince George Pulp Mill while a second precipitator was being installed. Positive factors offsetting the external challenges included the benefit of lower chip prices, lower energy costs as a result of the co-generation facility, and lower spending on maintenance and other costs. In addition, when comparing the results to the previous year, it should be noted that there were \$2.1 million of realized gains on forward exchange contracts and \$2.3 million in scientific research and development (SR&ED) tax credits included in the 2005 results.



OPERATING STRATEGY

- To be a low cost producer of superior strength premium pulp

OPERATING PERFORMANCE

Total pulp and paper production for 2005 was 1.316 million tonnes, compared to 2004's production of 1.276 million tonnes.

Combined Northern softwood kraft production averaged 3,165 tonnes per day in 2005 compared to 3,160 tonnes in 2004. Northwood and Intercon set average daily production records in 2005. Northwood struggled early in the year due to cold weather and other operational issues, averaging 1,508 tonnes per day through April. But, with the completion of a maintenance outage in April and extensive maintenance and capital upgrades to the recovery boilers, Northwood has averaged 1,622 tonnes per day from May through December. Production at Prince George Pulp was slowed back due to environmental constraints until the completion of the #1 recovery boiler precipitator upgrade in December. The mill averaged 706 tonnes per day compared to the previous year's rate of 767 tonnes per day.

Taylor's production for 2005 was 205,906 tonnes, which set a new annual production record, beating the 2004 record of 203,893 tonnes.

The Paper machine averaged 354 tonnes per day compared to 375 tonnes per day in 2004. The reduced production resulted from mechanical and operational deficiencies, particularly in the second quarter.

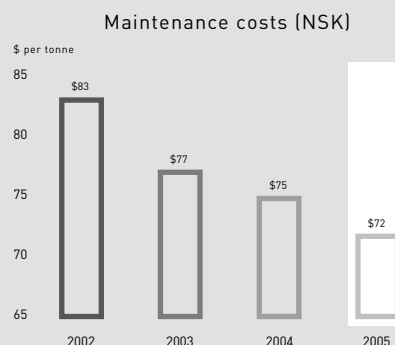
Fibre costs averaged \$81 per oven dried tonne (Odt) in 2005 compared to \$98 per Odt in 2004. Lower chip pricing was implemented on July 1, 2005 as a result of supply/demand dynamics in the interior of BC, which was driven in part by the impact of incremental pine beetle chips. 2005 chip costs were \$39.8 million less than 2004. \$12.3 million of this benefit was unrealized at the end of 2005, as the savings resided in chip and pulp inventories, for a net benefit of \$27.5 million included in the 2005 results.

Significant strides were made in cost reduction in 2005, with cash conversion costs for premium pulp ending the year 2% lower than in 2004. Maintenance costs continue to trend downward due to asset management initiatives and the realization of energy benefits from the new co-generation facility at the Prince George Pulp Mill and the recovery boiler upgrade work at Northwood.

The co-generation project at the Prince George Pulp and Paper Mill was completed mid 2005, with the conversion of the #2 recovery boiler to a power boiler and the commissioning of the turbo generator. The Prince George mill was slowed back in April, running to liquor availability with the limited firing capacity of the #1 recovery boiler, until the new precipitator came online ahead of schedule on December 15th. The main benefits of the co-generation facility are reduced electricity purchases, reduced natural gas consumption and increased productivity. The benefit realized in 2005 from reduced purchased power was approximately \$5.7 million. Going forward savings are estimated to be \$14.2 million annually at current electricity prices. The 2005 benefit of reduced gas usage was approximately \$1.6 million and is expected to be \$5.7 million annually. The precipitator project was completed in December 2005 and substantially all of the benefits should be realized in 2006 as production ramps up and any operational issues are resolved. On an annual basis the combined benefits of the co-generation and precipitator projects are estimated at \$23.0 million.

Annual maintenance shutdowns have been successfully extended to an 18-month cycle for Northwood and Intercon, and Prince George Pulp will complete its first 18-month cycle in early 2006.

Asset management initiatives continue to have a positive impact on maintenance spending, as reliability-centered maintenance, risk-based inspections, defect elimination, planning, scheduling and optimization, and business performance management initiatives provide the tools and resources to positively impact costs. Total maintenance spending for 2005 was \$91.8 million, compared to \$102.5 million in 2003.



Offsetting cost reduction initiatives were inflationary impacts on salary, labour and benefits, materials and supplies, chemicals and energy prices.

MARKETS

PREMIUM PULP – At the beginning of 2005, there were 31 days of supply in inventory in the chemical paper grade market pulp industry^[6], after having completed 2004 with a shipments-to-capacity ratio of 107% in December. The strong finish to 2004 was indicative of restocking by buyers in Asian markets. Stocks of bleached softwood market pulp, Canfor's key grade, stood at only 30 days of supply at the beginning of 2005, which is the level at which producers are likely to have enough pricing power to raise prices. Through December 2005, inventories increased slightly, to 32 days of supply, which included 30 days of bleached softwood market pulp.

2005 started with Northwest European pricing at US \$630 per tonne, and the industry was able to take advantage of a tightening of supply in the first and second quarters of the year to allow pricing to climb into the US \$650 range. This pricing level was not sustainable into the summer months, which is traditionally a slow demand period in the industry. Prices dropped to the US \$585 per tonne level through the summer. A slight resurgence in demand in the fall, coupled with a rapidly strengthening Canadian dollar, allowed producers to push prices back up to US \$600 by the end of the year. This pricing development through the year was similar to that of 2004.

Overall demand for chemical paper grade market pulp through November 2005 was only 1% higher than the same period one year earlier. Most of this gain was attributable to definitional changes in the shipments from some Canadian pulp mills that changed ownership at the end of 2004. Most of the shipments from these mills were not considered market pulp in the past because they shipped pulp to paper mills owned by the same parent company. North American shipments were up by 8% through December, mainly as a result of this definitional change. Western European shipments were down by 2.6%, Japanese shipments were off by 4.1%, and China shipments were unchanged.

During 2005, Canfor faced numerous external disruptions that impacted sales of market pulp. A major challenge to operations was poor and inconsistent delivery of empty railcars to Canfor's pulp mills, particularly during the first and second quarters. This caused the mills to incur extra costs such as outside warehousing costs, and also caused inventories to rise because sales had to be postponed when product could not be shipped.

Another disruption to the mill operations was the withdrawal of container truck services during the strike by the Vancouver Container Truckers Association that began June 27th. Sales were delayed again and the mills had to carry extra inventory as a result of this job action. On some sales, extra logistics costs had to be incurred in order to satisfy customer shipping requirements. As a result, the strike added approximately US \$0.9 million to Canfor's logistics costs during the third quarter.

In 2005, fuel surcharges implemented by rail and shipping carriers amounted to increases of approximately 12%. These fuel increases resulted in approximately US \$1.8 million in incremental shipping costs.

[6] These inventory numbers are as reported by the Pulp and Paper Products Council for the World 19 group of producing countries. This group is estimated to represent 85% of world chemical market pulp capacity.

PAPER – During 2005, changes were made in the sales and marketing of the kraft paper produced in Prince George. A general partnership was formed with Tolko Industries Ltd. to market and sell both companies' kraft paper. By combining the sales efforts of both companies under the new partnership, Premium One Papers, customers' needs are better served with a wider product selection and security of supply.

RISKS AND UNCERTAINTIES

The main business risks for the pulp and paper segment center upon pulp pricing, exchange rates and energy prices.

To counter these risks, Canfor will continue to strive for a low-cost position on the global cost curve for both pulp and paper. Successful implementation of the co-generation project has positioned the Prince George mill to reduce its conversion costs down to the level of Canfor's other mills. Recovery boiler upgrade work completed in 2005 has enabled Northwood to increase black liquor solids throughput, resulting in increased mill capacity and reduced energy costs. An agreement with Shell Global Solutions to implement an asset management process saw continued success in 2005, reducing maintenance costs and increased reliability of production. In addition, the period of time in between maintenance shutdowns has been lengthened to 18 months, and successfully implemented at the Intercon and Northwood mills with PG Pulp to complete its first full cycle in 2006. To address the risk of major breakdowns associated with the increase in the shutdown cycle and to meet regulatory requirements, the mills perform "mini-shuts" within the 18-month period in order to seek to address any issues that may arise.

For paper, the continued focus to counter these risks will also be on increasing sales of higher-value products and phasing out less profitable grades, customers and geographic regions.

OUTLOOK

MARKETS – Looking forward to 2006, markets are expected to be stronger than in 2005. However, a stronger Canadian dollar could more than offset any pricing gains.

Consensus Economics estimates real GDP growth of 3% globally in 2006, the same as 2005. The Asia Pacific region is expected to expand at virtually the same rate as 2005, or about 3.7%. There may be a slight weakening in GDP growth in North America, but forecasts indicate Europe may accelerate its growth rate. These conditions will provide paper markets with demand growth ranging from flat in Japan, to a high of 3.1% in Western Europe. Chinese paper and board output will likely rise in the 8-9% range. The shipments to capacity ratio for market pulp is projected at 94.1% for all chemical paper grades, increasing to 95.2% for softwood sulphate market pulp. Historically this level of shipments implies that the industry is operating at full capacity.

The market is expected to be balanced through the first quarter as Canadian pulp supply is becoming constrained due to mill curtailments resulting from the stronger Canadian dollar and rising costs, particularly fibre costs in eastern Canada. The usual spring maintenance programs at market pulp mills are expected to develop a stronger supply/demand balance into the second quarter, allowing for pricing improvement. By the end of the second quarter, strong pulp production and slowing summer demand will likely lead to another inventory overhang, which will precipitate falling prices into the second half of the year, with seasonal demand in the fall leading to a slight pickup in the latter part of the year. Industry consultants forecast that it is possible the industry will experience further temporary or permanent mill closures of softwood market pulp capacity in 2006, as was the case in 2005. Should this happen, it could have an impact on the supply and demand balance in favour of the remaining producers of softwood market pulp, such as Canfor.

OPERATIONS – All mills are forecasting record performance levels for 2006, with key drivers of improvement being the completion of the precipitator project at Prince George Pulp and the realization of a full year of benefits from the #5 recovery boiler upgrade at Northwood.

Costs are expected to decrease as a result of the lower chip prices implemented July 1, 2005, the co-generator operating at its full rate in early 2006 and benefits from the mills' asset management initiatives.

DISCONTINUED OPERATIONS

COASTAL 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 with a fair value of \$45 million, which approximates book value of the assets transferred. CFLP has agreed to transfer these assets to Western Forest Products (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 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, the former Coastal Operations segment has been reclassified as discontinued operations.

In 2005, Canfor's Coastal Operations incurred a loss of \$4.4 million after tax (2004 - \$1.8 million loss), including \$2.5 million of after-tax charges for severance, lease termination costs and an allowance for bad debts. Log shipments totaled 862.1 thousand cubic metres in the year (2004 - 1,148.3 thousand cubic metres). Weak market conditions persisted throughout the year. As a result, logging operations were curtailed for most of the first quarter and throughout the third quarter. Canfor's Coastal logging operations were shut down as of December 15th.

SAWMILLS - During the second quarter, Canfor completed the sale of its Fort St James, Slocan and Valemound sawmills in British Columbia for total cash proceeds of \$59.0 million. After-tax operating income of \$3.3 million was earned by these operations in 2005 prior to the sale dates and a net after-tax loss of \$4.7 million was recorded on the dispositions.

Lumber shipments from discontinued operations in 2005 totaled 120.5 million board feet^[7] up to the date of disposition of the mills in the second quarter. In 2004, lumber shipments from these three mills totaled 437.0 million board feet for the year.

NON-SEGMENTED ITEMS

CORPORATE AND OTHER

Corporate and other costs of \$36.7 million, which are comprised of corporate, head office and information technology costs, decreased by \$17.3 million in 2005 compared to 2004. The 2004 expense was unusually high as a result of additional costs incurred from the integration of the former Slocan head office, including severance costs of \$9.2 million, asset write downs and lease costs of \$7.2 million and duplicated corporate administration costs of \$3.7 million.

INTEREST EXPENSE

Interest expense was \$42.2 million in 2005, net of interest income of \$12.7 million, compared to interest expense of \$58.8 million, net of interest income of \$8.3 million, in 2004. Long-term debt interest of \$49.6 million decreased by \$12.9 million in 2005 as a result of principal reductions, the impact of the stronger Canadian dollar and the early redemption of the convertible debentures in November 2004. Interest income increased by \$4.4 million as a result of higher interest rates on temporary investments and interest charged to Howe Sound Limited Partnership, as discussed under Related Party Transactions, below. Other interest of \$5.3 million was \$0.7 million higher than in 2004 as a result of increased credit facility, standby and letter of credit fees.

OTHER INCOME

Other income of \$12.8 million in 2005 was comprised of equity income from affiliates of \$2.7 million (2004 - \$11.3 million), Seaboard General Partnership income of \$8.9 million (2004 - nil) and miscellaneous income of \$1.2 million (2004 - \$3.1 million expense).

Canfor's affiliated companies, which are accounted for on an equity basis, consist of Lakeland Mills Ltd., Winton Global Lumber Ltd., Vernon Seed Orchard Co. and Kyahwood Forest Products. Lakeland and Winton Global operate sawmills in the Prince George region and supply wood chips to Canfor's pulp mills. Kyahwood, which is owned 49% by Canfor, is a value-added lumber facility in Moricetown,

[7] These volumes have been excluded from the shipment volumes quoted elsewhere in this report.

British Columbia. The combined income of these affiliates decreased by \$8.6 million from 2004 as a result of market and exchange factors, similar to those discussed in the Lumber segment.

Income of \$8.9 million from the Seaboard General Partnership was recorded in 2005 as a result of asset sales. Canfor has a 19.9% interest in the partnership.

Miscellaneous income of \$1.2 million in 2005 includes \$2.1 million in gains on the sale of property, partially offset by losses on the disposal of investments. Miscellaneous expenses of \$3.1 million in 2004 were mainly comprised of a write-down of deferred costs for the discontinued sawmill project in Maine.

UNUSUAL EXPENSE

In March 2003, the Government of British Columbia (the Crown) introduced the Forestry Revitalization Plan (the Plan) that provided for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan included the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including Canfor, were required to return 20% of their AAC from replaceable tenures to the Crown. The Plan states that approximately half of this volume will be redistributed to create opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. The Crown acknowledged that licensees would be fairly compensated 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 AAC on its replaceable tenures. Canfor worked with the government to identify those licenses and operating areas that were to be returned to the Crown, and negotiations were completed in the fourth quarter of 2005. Canfor received compensation of \$57.0 million for the loss of tenures and a \$5.0 million advance payment against lost infrastructure and road construction costs. A loss of \$8.8 million (\$6.2 million after tax) was recorded on the tenures in 2005. 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.

Canfor does not expect that the take-back will adversely affect its ability to obtain adequate timber supplies for its operations or materially affect the costs of obtaining those supplies.

INCOME TAXES

The income tax expense of \$12.4 million recorded in 2005 (2004 – \$94.1 million) is net of the benefit of utilizing \$12.5 million of deferred tax credits acquired from Howe Sound Pulp and Paper Limited Partnership (HSLP) (2004 – \$68.5 million). In 2004, future income tax savings of \$1.1 million were realized arising from Canfor's share of HSLP's current operating losses (2005 – nil). The history behind these losses is as follows

On March 10, 2001, Canfor and Oji Paper Co., Ltd. (Oji) of Japan, its 50% co-venturer in the Howe Sound Pulp and Paper Limited (Howe Sound) joint venture, transferred the business of Howe Sound into a limited partnership, HSLP. HSLP continues to be jointly owned by Canfor and Oji and continues to carry on the operations of Howe Sound. As a result of the reorganization, Howe Sound was amalgamated with Canadian Forest Products Ltd. (CFP), Canfor's principal operating subsidiary, and approximately \$643 million of tax losses of Howe Sound became available to reduce the future taxable income of CFP. CFP has seven years in which to utilize these losses. As part of the reorganization, CFP made a payment of \$60.2 million to HSLP in 2001, which was applied to reduce its long-term debt. During 2002 and 2004, CFP made additional payments to HSLP of \$5.0 million and \$7.0 million respectively as a result of losses utilized. A final payment of \$50.0 million was made to HSLP on January 2, 2005.

The other significant factor when comparing the 2005 and 2004 tax figures is the impact of a 1.5% reduction in the British Columbia corporate tax rate in 2005, which gave rise to a \$21.0 million favourable adjustment to the tax expense in the year, as a result of revaluing the future income tax liability balance.

TRANSACTIONS WITH RELATED PARTIES

HOWE SOUND PULP AND PAPER LIMITED PARTNERSHIP (HSLP) – Canfor's Pulp and Paper marketing division markets the pulp production of HSLP, for which in 2005 it received commissions totaling \$2.5 million on sales volume of 372,900 tonnes (2004 – \$3.0 million, on volume of 357,900 tonnes). Based on a separate prepayment agreement between HSLP and Canfor and Oji, the partners of HSLP, at December 31, 2005, Canfor had prepaid \$48.6 million to HSLP in advance of the due date of receivables and pulp inventory for pulp marketed, or to be marketed, and collected on their behalf (2004 – \$44.0 million). This agreement provides for the partners to prepay up to a maximum amount of \$50 million each, which is used as short-term operating funds by HSLP. Canfor charges HSLP a market rate of interest for the period of prepayment, which amounted to \$2.1 million in 2005 (2004 – \$2.1 million) and the prepayment is covered by the assignment of current and future accounts receivable.

Canfor's Coast Fibre Supply group, previously included in the Coastal Operations segment and now classified as Discontinued Operations, sells and trades the log production of the Coastal logging operations to acquire the logs and chips required for HSLP's pulp and newsprint mills. Logs that can be chipped by HSLP's Westcoast Cellulofibre operation are sold to that operation at market value. Logs that cannot be used by Westcoast Cellulofibre are sold to or traded with other coastal operators, with the primary objective of obtaining the pulp logs and chips required by HSLP. In 2005, HSLP purchased logs valued at \$6.5 million from Coast Fibre Supply (2004 – \$14.2 million). In addition, the Coast Fibre Supply group sources logs and chips for HSLP from areas such as southern Alaska, northern Washington and the interior of British Columbia. Coast Fibre Supply provides this management, fibre supply and other services to HSLP at cost, for which it charged \$1.7 million in fees for 2005 (2004 – \$1.9 million). Canfor has agreed to purchase pulp logs and chips in the future for resale to HSLP at Canfor's cost, to meet HSLP's future requirements. In 2005 Canfor purchased and resold \$27.8 million of logs and chips to HSLP (2004 – \$19.0 million). Canfor charges HSLP a market rate of interest for this service, which amounted to \$0.6 million in 2005. Canfor's Prince George area sawmills also sold chips to HSLP in the amount of \$17.8 million in 2005 (2004 – \$22.2 million).

At December 31, 2005 there was a balance receivable from HSLP in the amount of \$21.5 million with respect to the above-noted transactions (2004 – \$10.5 million).

In 2005, Canfor purchased certain land and buildings from HSLP through a new company 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.

As a result of continuing losses at HSLP, Canfor and its partner Oji are evaluating strategic alternatives for this operation. Canfor wrote off its interest in the joint venture in 1998 and no longer reflects its share of HSLP's results. Canfor's method of accounting for its interest in the Partnership did not change as a result of the March 10, 2001 reorganization. As discussed under Discontinued Operations, the transfer of the Englewood logging operation and associated tenures to WFP in exchange for a long-term fibre supply agreement, is expected to result in lower fibre costs for HSLP, which, in conjunction with other marketing and debt restructuring, should assist the mill's efforts to return to profitability in the future.

LAKELAND AND WINTON GLOBAL – Canfor purchases pulp chips and lumber, at market value, from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which it holds a one-third equity interest through its subsidiary 317231 British Columbia Ltd. In 2005, Canfor purchased \$11.1 million in pulp chips and \$9.0 million in lumber from these mills (2004 – \$15.3 million and \$13.0 million, respectively).

KYAHWOOD FOREST PRODUCTS – Canfor has a joint venture, Kyahwood Forest Products, with the Moricetown First Nations. The investment is being accounted for on the equity basis due to its relative size in relation to Canfor's other investments and to the fact that the joint venture is managed by the Band. During 2005, Kyahwood Forest Products provided remanufacturing services, at market value, to Canfor in the amount of \$5.3 million (2004 – \$5.8 million).

OTHER – Other related party transactions include the sale of chips to Fibreco Export Inc., which amounted to \$2.0 million in 2005 (2004 – \$6.7 million) before Canfor disposed of its investment in that company in July. Canfor purchases logs from Takla Track & Timber Ltd., in

which it holds a 22% investment. These purchases amounted to \$4.9 million in 2005 (2004 \$1.0 million). Canfor holds a 19.9% interest in Seaboard General Partnership, which provided shipping services through Seaboard International Shipping Company amounting to \$6.0 million in 2005 (2004 – \$5.4 million).

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at the end of the years 2005 and 2004 and the cash flow related to the changes in financial position for those years.

(millions of dollars, except for ratios)	2005	2004
Net cash	\$ 302.9	\$ 434.0
Operating working capital	565.9	473.4
Current portion of long-term debt	(95.7)	(68.1)
Current portion of deferred reforestation	(43.3)	(44.3)
Income taxes recoverable (payable)	(4.1)	14.7
Net working capital, continuing operations	725.7	809.7
Net working capital of discontinued operations	30.5	55.0
Long-term investments	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	43.7	78.1
Net assets	\$ 3,294.4	\$ 3,377.4
Long-term debt	\$ 544.5	\$ 660.5
Deferred reforestation provision	67.7	66.9
Other long-term provisions and accruals	152.8	151.3
Long-term liabilities of discontinued operations	0.4	5.5
Future income taxes – net	468.3	499.2
Deferred credit	14.1	27.2
Common shareholders' equity	2,046.6	1,966.8
Total capitalization	\$ 3,294.4	\$ 3,377.4
Ratio of current assets to current liabilities	2.4 : 1	2.4 : 1
Ratio of net debt to common shareholders' equity	14 : 86	13 : 87
Cash generated from (used in)		
Operating activities	\$ 193.3	\$ 708.5
Financing activities	(80.0)	49.2
Investing activities	(251.8)	(206.8)
Discontinued Operations	7.4	(19.3)
Increase (decrease) in net cash	\$ (131.1)	\$ 531.6

CHANGES IN FINANCIAL POSITION

Canfor's ratio of current assets to current liabilities, at 2.4:1 at the end of 2005, was unchanged from the prior year.

Canfor's ratio of net debt to equity (defined as the ratio of total debt, net of cash and temporary investments, to shareholders' equity) was at 14:86, compared to 13:87 in 2004.

The changes in the components of these ratios during 2005 are detailed in the Consolidated Cash Flow Statement of the Financial Statements. The more significant changes are discussed below:

OPERATING ACTIVITIES – In 2005, Canfor generated cash of \$193.3 million from operations, compared to \$708.5 million in the prior year. Operating earnings before amortization (EBITDA) decreased by \$340.8 million in the year and changes in non-cash working capital consumed \$55.8 million in cash, as compared to 2004 when changes in these balances generated \$100.7 million in cash.

In 2005, the major changes in non-cash working capital were an \$8.3 million decrease in accounts receivable, a \$27.0 million increase in inventories and a \$41.7 million decrease in accounts payable. The decrease in accounts receivable at year-end is mainly attributable to the effect of the stronger Canadian dollar on US dollar receivables, while the increase in inventories is mainly as a result of accelerated logging in order to take advantage of lower stumpage rates. The decrease in accounts payable was mainly as a result of the January 2005 \$50.0 million payment to HSLP for tax losses, as discussed above, that was included in payables at December 31, 2004. Income tax payments of \$2.8 million were made in the year (2004 – \$5.8 million plus another \$27.7 million for Slocan, which had been accrued by Slocan prior to April 1, 2004 and relate to its pre-acquisition earnings). Interest payments of \$41.9 million were made in the year (2004 – \$56.3 million).

FINANCING ACTIVITIES – In 2005, financing activities consumed \$80.0 million in cash, mainly comprising scheduled long-term debt payments of \$68.4 million, \$13.8 million for the repurchase of Canfor shares for cancellation, and \$1.9 million received on the exercise of stock options. In 2004, financing activities generated \$49.2 million of cash, as a result of new financing obtained in the year, which totaled US \$235 million, of which US \$160 million was utilized to pay down Slocan's debt. Scheduled long-term debt payments of US \$43.8 million were also made in 2004 and a subsidiary made long-term debt repayments of \$7.7 million. No dividends were paid in 2005 or 2004.

INVESTING ACTIVITIES – Cash used in investing activities amounted to \$251.8 million in 2005, which is a \$45.0 million increase over 2004. The main cash outflows in 2005 were \$334.5 million of capital expenditures and a \$50.0 million payment to HSLP for tax losses. Proceeds from investing activities included \$62.0 million in compensation from the Government of British Columbia for timber tenures and associated infrastructure, as discussed under Unusual Expense above, \$59.0 million from the sale of the Fort St James, Slocan and Valemount sawmills, as discussed under Discontinued Operations, \$8.3 million of incentive payments related to the electrical co-generation project at the Prince George Pulp mill, and \$7.5 million from the sale of property, plant and equipment, the majority of which was from the sale of surplus land.

Of the \$334.5 million that Canfor invested in capital assets in 2005, over 75% was strategic in nature, to increase shareholder value by improving the Company's cost position, productivity and production capacity. The other 25% has been to maintain the existing productive capacity of the operations or to ensure Canfor's safety and environmental performance. The largest investments in the year included \$85.0 million for the construction of Peace Valley OSB, \$103.7 million for the Plateau mill modernization project, \$12.9 million for the Prince George Pulp Mill's recovery boiler precipitator upgrade project, and \$26.7 million for the electrical co-generation facility.

In 2004, capital expenditures of \$202.5 million were made, mainly comprised of \$38.2 million in construction costs for Peace Valley OSB, \$37.3 million for the co-generation project, and \$13.6 million to expand production at the PolarBoard OSB plant in Fort Nelson. Also in 2004, \$38.2 million of cash was spent on the Slocan acquisition, \$26.0 million of incentive payments were received for the co-generation project, and \$9.9 million was received from property disposals, the majority of which was from the sale of a corporate jet.

FINANCIAL REQUIREMENTS AND LIQUIDITY

At the end of 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 utilized for several standby letters of credit.

Provisions contained in Canfor's long-term borrowing agreements limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its Common Shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments. As at December 31, 2005, the Company was permitted under these agreements to incur \$1,362.0 million of additional long-term debt (2004 – \$1,214.2 million) and to pay up to \$523.0 million, or \$3.67 per share, in dividends on its Common Shares (2004 – \$458.0 million, or \$3.20 per share).

In 2006, Canfor plans to invest approximately \$180.0 million on capital projects, including \$6.0 million to complete the Plateau project and \$50.0 million for energy projects at the Houston and Chetwynd sawmills, which will reduce natural gas usage by 900,000 gigajoules. The remaining \$124.0 million represents maintenance of business and other improvement projects.

In 2006, \$95.7 million is required for scheduled long-term debt repayments.

Canfor intends to finance its planned capital expenditures, acquisition of New South and scheduled debt repayments from existing cash reserves and cash generated from its operations.

No new financing arrangements were obtained in 2005. In 2004, a new private placement financing of US \$50 million was drawn down on February 2nd and was utilized for general operating purposes and capital expenditures. On April 1st, 2004, the US \$160 million of long-term debt assumed upon the acquisition of Slocan was refinanced with new private placement debt of US \$185 million. The balance was used to pay a make-whole penalty on Slocan's debt and for general corporate purposes. The new debt was in the form of unsecured senior notes, which have the following interest rates and maturities: US \$60 million at 5.66% (2009), US \$50 million at 6.18% (2011), US \$50 million at 6.33% (2012), and US \$75 million at 5.42% (2013).

In October 2004, Canfor entered into a new unsecured and committed \$325 million credit facility to replace its existing demand operating lines of credit. This facility, which is comprised of a \$125 million 364-day amount and a three-year \$200 million amount, is renewable annually and bears interest based on LIBOR or Canadian prime plus a margin based on Canfor's credit rating. The facility was undrawn at December 31, 2005 except for the standby letters of credit referred to above.

On November 15, 2004, Canfor announced its intention to redeem all of its outstanding convertible subordinated debentures at the principal amount of \$155.0 million plus accrued interest. The holders of the debentures exercised their right of conversion under the debentures, which resulted in the Company issuing 11,742,424 Common Shares to them. At the same time, Canfor commenced a Normal Course Issuer Bid, to purchase for cancellation up to 6,578,868 common shares, or approximately 5% of the Company's then outstanding shares over a one-year period. In December 2004, Canfor purchased 104,800 shares on the open market at an average price of \$14.65 per share. During the third quarter of 2005, Canfor purchased another 1,000,000 shares for cancellation at an average price of \$13.84 per share. The Normal Course Issuer Bid expired on October 14, 2005 but a new bid commenced on November 15, 2005. No additional shares had been purchased as of December 31, 2005.

The following table summarizes Canfor's financial contractual obligations for each of the next five years and thereafter:

Contractual Obligations at December 31, 2005 (Cdn \$ millions)	Total	2006	2007	2008	2009	2010	Thereafter
Long-term debt and capital lease obligations	\$ 640.2	\$ 95.7	\$ 87.1	\$ 17.7	\$ 160.3	\$ 37.7	\$ 241.7
Operating leases	55.4	22.5	14.9	8.7	4.8	2.4	2.1
	\$ 695.6	\$ 118.2	\$ 102.0	\$ 26.4	\$ 165.1	\$ 40.1	\$ 243.8

Other contractual obligations not included above are:

- Purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor's requirements in any given year. In 2003, Canfor entered into several long-term agreements with the purchaser of its former BC Chemicals operation to ensure a continued supply of sodium chlorate and processing of the pulp mills' soap skimmings into crude tall oil. The minimum commitment under these agreements is for ten years, at \$29.0 million per year for chlorate and \$4.5 million for soap skimming.
- Deferred reforestation, for which a liability of \$111.0 million has been recorded at December 31, 2005 (2004 —\$111.2 million). The reforestation liability is a fluctuating obligation, based on the volume of timber harvested. The future cash outflows are a function of the actual costs of silviculture programs and of harvesting at the time and are based on, among other things, the location of the harvesting.
- Capital expenditures, as no significant contractual obligations had been entered into at December 31, 2005.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect Canfor's financial position.

EMPLOYEE FUTURE BENEFITS – Canfor has various defined benefit and defined contribution plans providing both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other retirement benefit plans are accrued in accordance with the recommendations of the Canadian Institute of Chartered Accountants (CICA).

Canfor uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other retirement benefit plan obligations. The application of these recommendations requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligation, the expected rate of return on plan assets, the rate of compensation increase and the assumed health care cost trend rates. Management and the Company's Pension Committee evaluate these assumptions annually based on their own experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are amortized over the average remaining service period of the active employee group covered by the plans, only to the extent that the unrecognized net actuarial gains and losses are in excess of 10% of the greater of the accrued benefit obligation and the market-related value of plan assets.

DEFERRED REFORESTATION – Canfor accrues an estimate, in current dollars, of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation. An estimate is recorded in the financial statements based on the number of hectares of timber harvested in the period. The actual costs that will be incurred in the future may vary based on, among other things, the actual costs at the time.

FUTURE INCOME TAXES – In accordance with CICA recommendations, Canfor recognizes future income tax assets when it is more likely than not that the future income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the future income tax assets could be reduced or increased, resulting in an income tax expense or recovery. Canfor reevaluates its future income tax assets on a regular basis.

ANTI-DUMPING DUTY EXPENSE – As discussed in the Lumber segment and below, under Risks and Uncertainties, Canfor has expensed anti-dumping duties at an estimated rate for certain periods, while cash deposits are made at the deposit rate specified by the US Department of Commerce (DOC). The actual rate applicable to Canfor's product shipment profile will be assessed by the DOC during their administrative review process. Canfor regularly reviews its estimate of the effective rate by applying the DOC's calculation methodology to updated sales and cost data. The difference between the estimated rate and the cash deposit rate is recorded as a long-term receivable on the balance sheet. A comprehensive discussion of the softwood lumber duty situation follows in the Risks and Uncertainties section.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2005:

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". Canfor has elected to adopt the standard effective January 1, 2005, which reduced both sales and costs and expenses by \$103.3 million for the year (2004 - \$105.0 million).

Effective January 1, 2004:

ASSET RETIREMENT OBLIGATIONS - Effective January 1, 2004, Canfor retroactively adopted the new recommendations of the CICA for asset retirement obligations, which require that such obligations be measured at fair value. As a result of adopting these new recommendations, Canfor's deferred reforestation liability decreased by \$5.6 million, its net future income tax liability increased by \$2.0 million and retained earnings increased by \$3.6 million at December 31, 2003. The change in accounting for deferred reforestation liabilities resulted in a \$0.2 million increase to the deferred reforestation expense in 2005 (2004 - \$2.2 million). The new recommendations were not applied to retirement obligations for assets with indeterminate useful lives because sufficient information is not presently available to estimate a range of potential settlement dates for these obligations.

IMPAIRMENT OF LONG-LIVED ASSETS - The CICA has issued new recommendations, effective January 1, 2004, related to the recognition, measurement and disclosure of impairment of long-lived assets. An asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. An impairment loss is recognized when the carrying value is not recoverable and exceeds its fair value. Canfor regularly reviews its long-lived assets for impairment and did not experience a material impact upon initial adoption of these recommendations.

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

RISKS AND UNCERTAINTIES

Most companies in the forest industry in North America, including Canfor, face similar business risks and uncertainties. In addition to the specific issues discussed above under each reporting segment, risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, forest land base, government regulations and policy reform, and, for Canadian companies, trade barriers and Aboriginal land claims.

The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments listed above) cannot be quantified or predicted. However, Canfor does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise.

ABORIGINAL ISSUES

In 1997, the Supreme Court of Canada in the *Delgamuukw* decision confirmed the continued existence of Aboriginal title and rights to lands continuously used or occupied by Aboriginal groups. As a result, Aboriginal groups have claimed Aboriginal title and rights over substantial portions of British Columbia, including areas where Canfor's forest tenures are situated. This decision has added to uncertainty regarding property rights in Canada (including forest tenure and other resource rights), particularly in much of British Columbia and other areas where treaties have not been concluded with Aboriginal groups. In 2005, the Supreme Court of Canada made an important decision relevant to the forest industry in the *Bernard and Marshall* case. In this decision, the Supreme Court held that Aboriginal title to forest resources had not been established as claimed by Aboriginal groups in New Brunswick and Nova Scotia. The Supreme Court held that although proof of Aboriginal title must be sensitive to the aboriginal perspective, it must nevertheless meet common law standards of proof of title. Due to the complexity of Aboriginal title issues, it is not expected that the issues of Aboriginal title in British Columbia will be finally resolved in the near to medium term.

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

CANADA/US SOFTWOOD LUMBER DISPUTE

BACKGROUND – The Canada/US Softwood Lumber Agreement expired on March 31, 2001 without being renewed or replaced. On April 2, 2001, countervailing duty (CVD) and anti-dumping duty (ADD) petitions covering certain softwood lumber products from Canada were filed with the US Department of Commerce (DOC) and the US International Trade Commission (ITC) by a US industry group.

On May 16, 2002, the ITC published its final determination on injury, finding that Canadian softwood lumber threatened material injury to the US industry. CVD deposits, estimated at 18.79%, were required of virtually all importers and ADD cash deposits, estimated at 5.96%, were required for imports by Canfor. However, because the ITC ruled that Canadian lumber shipments only threatened material injury and had not already caused material injury, the obligation to make CVD and ADD deposits was made to be effective only prospectively from May 22, 2002. As a result, in the second quarter of 2002 Canfor reversed all preliminary CVD and ADD duties accrued prior to May 22, 2002.

COUNTERVAILING DUTY CASE – From May 22, 2002 to March 9, 2004 Canfor made cash deposits and expensed CVD at the required rate of 18.79%. Canfor filed for an expedited review of its CVD rate on March 31, 2003 to obtain a company-specific rate rather than make deposits under the national rate of 18.79%. The DOC completed this review process in February 2004 and the deposit rate was confirmed at 12.24% and became effective for shipments to the US after March 9, 2004.

The DOC determination that resulted in 18.79% CVD 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 still 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. The first annual administrative review covered the period from May 22, 2002 to March 31, 2003 (POR1). On December 20, 2004 the DOC published its final determination for the first review, 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 was also changed to this rate. Canfor has reduced the CVD expense accrual for POR1 for the difference between the original deposit rate of 18.79% and the rate of 17.18% published on December 20, 2005, and expensed 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 under appeal and are therefore not final.

The second annual administrative review covered the period from May 2003 to April 2004 (POR2). On December 12, 2005, the DOC published its determination for the second review, setting an assessment rate of 8.70% for POR2 entries, which is also applied 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.

Canfor’s subsidiary in Quebec, Daaquam, had a preliminary company-specific CVD rate of 2.99% as a result of the zero rate review process. On October 18, 2004 the DOC announced that Daaquam was not a zero rated company and would have the countrywide rate applied to all US entries. This DOC decision is under appeal as part of the Quebec border mill group action. As a result of the DOC October 18, 2004 decision and the December 14, 2004 determination, Canfor has increased the CVD accrual to recognize the Daaquam CVD liability at the countrywide rate of 16.37% for the period since Canfor’s acquisition of Daaquam in May 2003, and to 8.70% on or after December 12, 2005.

The DOC third administrative review, which is currently under way, will determine the assessment of CVD duties for the period 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.

ANTI-DUMPING CASE – In the case of the ADD, cash deposits were made from May 22, 2002 to December 21, 2004 at the rate then required, 5.96%. Canfor reviews its estimate of the ADD expense rate 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 first annual administrative review of the ADD order covered the period May 22, 2002 to April 30, 2003, and 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 1.83%. The latter rate is a weighted average of Canfor and Slocan final rates from POR1, based on a “changed circumstances” review conducted by the DOC as a result of the combination of the companies. The Canfor POR1 rate was 2.59%, and Slocan’s POR rate was 1.65%. These individual company assessment rates are to be applied to the entries for the period May 22, 2002 to April 30, 2003. 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 under 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, with final results published on December 12, 2005. The DOC determined the ADD assessment rate for Canfor at 1.36% for POR2, which became the rate for cash deposits on lumber shipments after December 12, 2005. On January 23, 2006, the DOC revised the rate from 1.36% to 1.35% due to ministerial errors. This is the currently applicable cash deposit rate. It is anticipated that Canfor's results in this review will be appealed.

In the ADD initial 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 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, the Company 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%, respectively, thereafter. The ADD rate was subsequently amended by the DOC on January 23, 2006 to 1.35%.

THREAT OF INJURY DETERMINATION – The NAFTA Panel hearing the appeal of the 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 U.S. 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. It is expected that the CIT's decision will be appealed to the next higher court, the US Court of Appeals for the Federal Circuit.

The "US Coalition for Fair Lumber Imports" also has challenged the constitutionality of 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 US \$173.5 million and CVD of US \$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 DOC officially announced in the Federal Register that it would be assessing duties in accordance with the rates that it determined in the first and second ADD and CVD reviews, which legal counsel advise would result in the excess CVD and ADD deposits being recoverable, with interest (if the entirety of such deposits were not recoverable, on account of failure of the CIT litigation concerning the ITC's negative remand determination). For a given period of review (POR), assessment of duties and refund of excess deposits will not occur until all subsequent challenges or appeals for that particular POR are finalized.

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.

ENVIRONMENTAL CERTIFICATION

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

Canfor retains an International Organization for Standardization ("ISO") 14001 certification of its environmental management system for its forest operations, first obtained in 1999 and re-certified as required for subsequent 3-year terms. In addition, Canfor maintains certification under the Canadian Standards Association (CSA) standard for sustainable forest management (CAN/CSA Z809) for its Forest Management Agreement area at Grande Prairie, Alberta, for its Tree Farm Licences at Chetwynd, Englewood, Prince George and Vavenby, British Columbia, for its Forest Licences at Fort St John, Houston, Prince George, Fort Nelson, Vanderhoof, Vavenby and Quesnel, British Columbia and for its Pulpwood Agreements at Fort St John and Fort Nelson, British Columbia.

Canfor is committed to having sustainable forest management certification in place for all of its tenures.

ENVIRONMENTAL ISSUES

The Species at Risk Act (SARA) was proclaimed by the Government of Canada in June 2003. The purpose of the Act is to prevent the extinction or extirpation of wildlife species present in Canada for at least 50 years, to provide for the recovery of wildlife species that are extirpated, endangered or threatened as a result of human activity, and encourage the management of other species to prevent them from becoming at risk. The economic implications of SARA are potential reductions in timber harvests and increases in harvesting costs, none of which can be predicted at this time.

In December 2002 the Government of Canada ratified the Kyoto Agreement. The Climate Change Plan for Canada, which sets out Canada's Kyoto implementation strategy, indicates that federal and provincial energy and environment ministers have endorsed the principle that companies that take early action should not be disadvantaged by an output based emissions regime. Canfor was an early signatory to the Climate Change Voluntary Challenge and Registry Program, a federal program introduced in 1997 to encourage companies to inventory and track their greenhouse gas emissions (GHGs) and take actions to stabilize and reduce those emissions. Canfor has implemented projects that have improved energy efficiency and displaced purchased fossil fuel energy with renewable biomass energy, thereby reducing GHG emissions both on absolute and per unit of production bases. Canfor has opportunities to further reduce GHG emissions particularly through increased utilization of sawmill wood residuals. In November 2003, the Forest Products Association of Canada (FPAC), on behalf of Canfor and other forest products companies, signed a "Memorandum of Understanding Respecting Action on Climate Change" (MOU) with the Federal Government. The MOU establishes a framework for upcoming negotiations of a Pulp and Paper Sector covenant with the Federal Government. The MOU specifies that, "the Government of Canada will work with FPAC Parties and other industries to design a system that will not disadvantage those firms that have taken early action to reduce greenhouse gas emissions". The covenant will establish a GHG emissions reduction requirement equivalent to, on average, a reduction of 12% over 2008 to 2012 (the first Kyoto commitment period) relative to business as usual GHG emission projections. Canfor believes that its pulp and paper mills are well-positioned to comply with the likely covenant requirements.

Canada-wide standards have been established by the Government of Canada for respirable particulate (PM 2.5) and ozone levels in the ambient air, which will become effective in 2010. The PM 2.5 standard could require future source reductions of particulate emissions from Canfor's pulp, paper and sawmill facilities, the cost of which cannot yet be determined.

Canfor has two remaining 'Tier 1' burners in British Columbia, and is one of three companies utilizing a third burner located at another company's premises, also in British Columbia. Tier 1 burners are regulated by the Ministry of Environment for phase out by December 31, 2007. Canfor is diligently seeking economically viable solutions for its wood waste and remaining Tier 1 burners including wood-fuelled sawmill energy systems, manufacture of wood pellets and simultaneous electricity and heat co-generation.

FINANCIAL MARKET RISK

Demand for forest products, both pulp and paper and wood products, is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of its products are sold in US dollars. Consequently, foreign currency relationships pose a significant uncertainty. Shifts in these relationships can have a major impact, positive or negative, on profits from operations. The strengthening of the Canadian dollar relative to the US dollar in the last three years has had a negative impact on sales and profits from operations. However, by maintaining a substantial proportion of its debt in US dollars, Canfor has partially mitigated the impact of currency fluctuations.

FINANCIAL INSTRUMENTS – Canfor, from time to time, uses derivative markets to hedge future movements of exchange rates or commodity prices. During 2005, forward exchange contracts totaling US \$97.5 million were exercised and an after-tax gain of \$1.7 million was realized (2004 – after-tax gain of \$1.4 million realized on forward contracts totaling US\$20 million). Forward exchange contracts totaling US \$46.4 million were outstanding at December 31, 2005. These contracts were designated as hedges of specific future pulp sales.

Canfor also uses financial instruments to reduce its exposure to risk associated with lumber and pulp prices. There were 186 lumber futures contracts outstanding at December 31, 2005, 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 swaps at year end.

Through a combination of process improvements and capital spending, operations are reducing natural gas and electricity consumption. Canfor also uses financial instruments to reduce its exposure to rising energy costs and, at December 31, 2005, had entered into commodity swaps hedging future natural gas purchases of 5.6 million gigajoules, at an average price of \$6.53 per gigajoule. There was an unrealized gain of \$18.6 million on these swaps at December 31, 2005.

Since Canfor's long-term debt is primarily fixed in rate, there is no significant impact to net income when interest rates change.

SENSITIVITIES – The sensitivity of Canfor's results to currency swings and prices for its principal products, when operating at full capacity, is estimated to be approximately as follows:

(millions of dollars)	Impact on annual after-tax earnings
Canadian dollar - US \$0.01 change per Canadian dollar (net of revaluation of US\$ long-term debt)	\$ 28
Lumber – US \$10 change per Mfbm	36
Duties – 1% change in combined duty rate	9
Plywood – US \$10 change per Msf 3/8"	3
OSB – US \$10 change per Msf 3/8" (excluding future earnings from OSB limited partnership)	5
Pulp – US \$10 change per tonne	9
Log costs – Cdn \$1 change per cubic metre	12
Natural gas costs – \$1 change per gigajoule	6
Diesel costs – 10¢ change per litre	7

The above sensitivities do not reflect the correlation that Canfor believes exists between US dollar denominated commodity prices and the US dollar exchange rate.

LABOUR AGREEMENTS

The labour agreement with the USWA (United Steelworkers of America), formerly the Industrial, Wood and Allied Workers of Canada, covering their BC Interior certified solid wood operations that expired in June 2003 was ratified by all of Canfor's BC Interior sawmill operations in 2004. Negotiations were also successfully concluded with the Pulp, Paper and Woodworkers of Canada (PPWC) at North Central Plywood and Mackenzie. The agreements provide for wage increases totaling 11% over a six-year term, expiring June 30, 2009. Most of the agreements also contain a provision for a bonus plan based on a "return on capital employed" formula. There were very few benefit plan improvements included in the agreements and most contain benefit plan changes that will either control or minimize some of the future employer-paid benefit plan premium cost increases. There are also provisions for increased employee (ongoing) and employer (2 years) pension plan contributions as well as increased employee and employer long-term disability premium contributions.

The CEP (Communications, Energy and Paperworkers Union) contract with the Grande Prairie, Alberta operation expired at the end of February 2004. Negotiations for the renewal of this contract were concluded in early 2005. The agreement is similar to Canfor's BC Lumber Operations agreements

NAFTA LAWSUIT

On July 11, 2002, Canfor filed a Notice of Arbitration and Statement of Claim against the Government of the United States 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 countervailing and anti-dumping proceedings. Canfor has asserted that the actions of the US Government have amounted to breaches of certain provisions of NAFTA, including the failure to provide Canfor with fair and equitable treatment in accordance with international law. Canfor and the US Government selected a three-member panel to hear the dispute and a hearing on jurisdiction occurred in November 2004. However, a decision from the panel on jurisdiction was stayed pending the US Government's request to consolidate Canfor's action with other lumber companies that have sought Chapter 11 proceedings. The US Government's consolidation application was heard by a separate three-member panel in June 2005 (the "New Panel"). The New Panel ruled that the Chapter 11 actions of Canfor, Tembec and Terminal Forest Products should be consolidated and heard together. In January 2006 a hearing on jurisdiction occurred before the New Panel and a decision is expected in the next two to three months.

OUTSTANDING SHARE DATA

At February 15, 2006, there were 142,512,395 common shares issued and outstanding. In addition, at February 15, 2006, there were 298,386 stock options outstanding with prices ranging from \$7.57 to \$11.80 per share.

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. The Company's chief executive officer and chief financial officer have evaluated and are satisfied with the effectiveness of these disclosure controls and procedures for the period ending December 31, 2005.

Additional information about the Company, including its 2005 Annual Information Form, is available at www.sedar.com or at www.canfor.com.

MANAGEMENT'S RESPONSIBILITY

The information and representations in this Annual Report are the responsibility of Management and have been approved by the Board of Directors. The consolidated financial statements were prepared by Management in accordance with accounting principles generally accepted in Canada and, where necessary, reflect Management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material. The financial information presented throughout this report is consistent with that contained in the consolidated financial statements.

Canfor maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. The Internal Audit Department performs independent reviews of the accounting records and related procedures. The Internal Audit Department reports its findings and recommendations both to Management and the Audit Committee.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and Management's Discussion and Analysis. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of 4 Directors who are not employees of the company. The Committee meets periodically throughout the year with Management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements and Management's Discussion and Analysis have been reviewed by the Audit Committee, which recommended their approval by the Board of Directors. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, whose report follows.

February 13, 2006



James A. Shepherd

President and
Chief Executive Officer



Scott R. Wilson

Vice-President Finance and
Chief Financial Officer

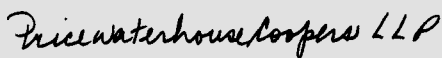
AUDITOR'S REPORT

To the Shareholders of Canfor Corporation

We have audited the consolidated balance sheets of Canfor Corporation as at December 31, 2005 and December 31, 2004, and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and December 31, 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, BC

February 13, 2006

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Year ended December 31 (millions of dollars)	2005	2004
Sales (Note 2)	\$ 3,787.8	\$ 3,925.0
Costs and expenses		
Manufacturing and product costs	2,598.4	2,382.8
Freight and other distribution costs (Note 2)	593.3	525.8
Countervailing and anti-dumping duties (Note 16)	224.8	276.2
Amortization	151.6	140.3
Selling and administration	72.0	68.9
	3,640.1	3,394.0
Restructuring, mill closure and other severance costs (Note 17)	5.3	36.5
Operating income from continuing operations	142.4	494.5
Interest expense (Note 18)	(42.2)	(58.8)
Foreign exchange gain on long-term debt	10.0	48.7
Other income (Note 19)	12.8	8.2
Unusual expense (Note 20)	(8.8)	-
Net income from continuing operations before income taxes	114.2	492.6
Income tax expense (Note 21)	(12.4)	(94.1)
Net income from continuing operations	101.8	398.5
Net income (loss) from discontinued operations net of income taxes (Note 3)	(5.8)	17.0
Net income	\$ 96.0	\$ 415.5
Per common share <small>(in dollars)</small> (Note 22)		
Net income from continuing operations		
Basic	\$ 0.71	\$ 3.31
Diluted	\$ 0.71	\$ 3.09
Net income		
Basic	\$ 0.67	\$ 3.45
Diluted	\$ 0.67	\$ 3.22
Retained earnings, beginning of year	\$ 691.9	\$ 277.0
Net income for the year	96.0	415.5
Premium paid on common shares purchased for cancellation (Note 13)	(4.9)	(0.6)
Excess of fair market value over cost of property purchased from related party (Note 25)	(3.5)	-
Retained earnings, end of year	\$ 779.5	\$ 691.9

CONSOLIDATED CASH FLOW STATEMENTS

Year ended December 31 (millions of dollars)	2005	2004
Cash generated from (used in)		
Operating activities		
Net income from continuing operations	\$ 101.8	\$ 398.5
Items not affecting cash:		
Amortization	151.6	140.3
Income taxes	(0.6)	89.6
Long-term portion of deferred reforestation	0.8	2.1
Employee future benefits	8.5	25.1
Unrealized foreign exchange gain on long-term debt	(1.9)	(46.7)
Adjustment to accrued duties (Note 16)	(6.2)	3.6
Other	(4.9)	(4.7)
	249.1	607.8
Changes in non-cash working capital (Note 23)	(55.8)	100.7
	193.3	708.5
Financing activities		
Proceeds from long-term debt	0.6	311.6
Repayment of long-term debt	(68.4)	(269.6)
Net proceeds on issuance of common shares (Note 13)	1.9	9.5
Common shares purchased for cancellation (Note 13)	(13.8)	(1.5)
Other	(0.3)	(0.8)
	(80.0)	49.2
Investing activities		
Proceeds from timber take-back (Note 20)	62.0	-
Net proceeds from sale of discontinued operations (Note 3)	59.0	-
Property, plant, equipment and timber	(334.5)	(202.5)
Electrical co-generation incentive payments (Note 29)	8.3	26.0
Howe Sound Pulp and Paper Limited Partnership (Note 26)	(50.0)	-
Business acquisition costs, net of cash acquired (Note 3)	-	(38.2)
Proceeds from sale of property, plant and equipment	7.5	9.9
Other	(4.1)	(2.0)
	(251.8)	(206.8)
Increase (decrease) in net cash from continuing operations	(138.5)	550.9
Increase (decrease) in net cash generated from discontinued operations (Note 3)	7.4	(19.3)
Increase (decrease) in net cash	(131.1)	531.6
Net cash (short-term indebtedness) at beginning of year	434.0	(97.6)
Net cash at end of year	\$ 302.9	\$ 434.0
Net cash comprises		
Cash and temporary investments (Note 2)	\$ 306.3	\$ 438.5
Operating bank loans	(3.4)	(4.5)
	\$ 302.9	\$ 434.0

Non-cash investing and financing activities (Notes 3 and 10)

Net Interest paid in 2005 was \$41.9 million (2004 – \$56.3 million) and net taxes paid were \$2.8 million (2004 – \$5.8 million).

CONSOLIDATED BALANCE SHEETS

As at December 31 (millions of dollars)

	2005	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 (Note 21)	23.9	32.5
Inventories (Note 4)	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 (Note 5)	186.5	196.8
Property, plant, equipment and timber (Note 6)	2,211.1	2,141.7
Deferred charges (Note 7)	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 8)	\$ 3.4	\$ 4.5
Accounts payable and accrued liabilities	380.3	455.0
Current portion of long-term debt (Note 9)	95.7	68.1
Current portion of deferred reforestation (Note 12)	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 9)	544.5	660.5
Other accruals and provisions (Note 11)	220.5	218.2
Long-term liabilities of discontinued operations (Note 3)	0.4	5.5
Future income taxes, net (Note 21)	468.3	499.2
Deferred credit (Note 26)	14.1	27.2
	\$ 1,783.9	\$ 2,012.8
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	\$ 1,268.7	\$ 1,275.7
Retained earnings	779.5	691.9
Foreign exchange translation adjustment	(1.6)	(0.8)
Total shareholders' equity	2,046.6	1,966.8
	\$ 3,830.5	\$ 3,979.6
Commitments and contingencies (Notes 16 and 29)		
Subsequent events (Note 30)		

APPROVED BY THE BOARD



Director, R.L. Cliff



Director, J.A. Shepherd

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

These financial statements include the accounts of Canfor Corporation (the Company) and its subsidiary companies, hereinafter referred to as "Canfor". Investments over which the Company exercises significant influence are accounted for using the equity method, in which the original investment is recorded at cost and is subsequently adjusted for the Company's share of post acquisition earnings. Joint ventures are proportionately consolidated.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect Canfor's financial position.

Significant areas requiring the use of management estimates are deferred reforestation costs, inventory valuations, amortization rates, accrued anti-dumping and countervailing duties and pension and other benefit plan assumptions.

TEMPORARY INVESTMENTS

Temporary investments comprise bankers acceptances, commercial paper and other short-term instruments with maturities of three months or less, and are valued at cost, which approximates fair value.

VALUATION OF INVENTORIES

Inventories of lumber, panels, pulp and kraft paper are valued at the lower of average cost and net realizable value. Logs and chips are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost. Processing materials and supplies are valued at the lower of average cost and replacement cost.

PROPERTY, PLANT, EQUIPMENT AND TIMBER

Canfor capitalizes the costs of major replacements, extensions and improvements to plant and equipment, together with related interest incurred during the construction period on major projects.

Assets are amortized over the following estimated productive lives:

Buildings	10 to 50 years
Mobile equipment	3 to 20 years
Pulp and kraft paper machinery and equipment	20 years
Sawmill machinery and equipment	5 to 15 years
Oriented strand board machinery and equipment	20 years
Plywood machinery and equipment	5 to 15 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	5 to 20 years
Other machinery and equipment	3 to 20 years

Amortization of logging and manufacturing assets is calculated on a unit of production basis. Amortization of plant and equipment not employed in logging and manufacturing is calculated on a straight-line basis. Logging roads are amortized on a basis related to the volume of timber harvested. For those tree farm licenses and timber licenses which are renewable with the Province of British Columbia, amounts capitalized as timber are amortized over the estimated tree growth cycle as volume is harvested. Non-renewable licenses are amortized over the period of the license.

DEFERRED CHARGES

Software development costs relating to major systems are deferred and amortized over periods not longer than five years. Start-up costs for the newly constructed oriented strand board mill are being amortized over a period of three years.

DEFERRED REFORESTATION

Canfor accrues the undiscounted cost of the reforestation required under its timber harvest agreements at the time that the timber is harvested. The liability is re-measured at fair value at the end of the fiscal period, as discussed in Note 2.

EMPLOYEE BENEFIT PLANS

Canfor has various defined benefit and defined contribution plans that provide both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees.

Canfor accrues the costs and related obligations of the defined benefit pension and other retirement benefit plans using the projected benefit actuarial method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) arise from the difference between the actual and expected long-term rates of return on plan assets for a period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees, which is 15 years for both pension and other benefit plans. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. On January 1, 2000, Canfor adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the accounting for pensions and other post employment benefits using the prospective application method. Canfor is amortizing the transitional obligation on a straight-line basis over 15 years, which was the average remaining service period of employees expected to receive benefits under the benefit plan as of January 1, 2000.

Pension expense for the defined contribution plans is based on a percentage of employees' salaries or on a contribution required under collective agreements.

For hourly employees covered by forest industry union defined benefit pension plans, earnings are charged with Canfor's contributions required under the collective agreements.

REVENUE RECOGNITION

Canfor's revenues are derived from the following major product lines: lumber, pulp, kraft paper, panel products and raw logs. Revenue is recognized from product sales when persuasive evidence of a sale exists, the sales price is fixed and determinable, goods have been delivered and collectibility is reasonably assured. Sales are reported net of discounts and allowances. Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by the company are reported as cost of sales. Lumber duties are recorded as a component of costs of sales.

FOREIGN CURRENCY TRANSLATION

The majority of Canfor's sales and long-term debt are denominated in foreign currencies. Foreign currencies are translated into Canadian dollars using the temporal method as follows: monetary assets and liabilities at year-end exchange rates; non-monetary assets and liabilities at historical rates; and revenues and expenses at exchange rates prevailing at the time the transaction occurs. Exchange gains and losses are reflected in income immediately. However, prior to January 1, 2003, Canfor hedged its US dollar long-term debt with its US dollar revenue streams. Exchange losses deferred prior to Canfor's termination of this hedging relationship are recognized into income in the same periods as the corresponding debt repayments.

Canfor's foreign operations are considered to be self-sustaining and the assets and liabilities are translated using the current rate method. The translation gain or loss is included as a component of shareholders' equity.

INCOME TAXES

Canfor accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the accounting basis and the tax basis of assets and liabilities. These temporary differences are measured using the current tax rates and laws expected to apply when these differences reverse. Future tax benefits, such as capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in income tax rates is recognized in earnings in the period that the substantive enactment date of the change occurs.

DERIVATIVE FINANCIAL INSTRUMENTS

Canfor utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and commodity price risk. For example, from time to time, Canfor purchases foreign exchange forward contracts to hedge anticipated sales to customers in the United States and the related accounts receivable and also enters into swap transactions to reduce its exposure to fluctuating natural gas prices. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Canfor formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities or to specific firm commitments or forecasted transactions. Canfor also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Gains and losses on forward foreign exchange contracts used to hedge US dollar denominated sales are recognized as an adjustment to revenue at the time that the contract is exercised. Gains and losses on natural gas swaps are recognized as an adjustment to manufacturing costs when the contracts are settled.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment when the occurrence of events or changes in circumstances indicate that the carrying value of the assets may not be recoverable, as measured by comparison of their net book value to the estimated future cash flows generated by their use. Impaired assets are recorded at fair value, determined principally using discounted future cash flows expected from their use and eventual disposition.

STOCK-BASED COMPENSATION PLANS

Canfor has three stock-based compensation plans, as described in Note 14.

When stock options are granted to employees under the Stock Option Performance Plan, compensation expense is recorded based on a fair value method of accounting. The fair value of the options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting fair value of the options is amortized over their vesting periods. Cash consideration received from employees when they exercise the options is credited to share capital.

Compensation expense is recognized for Canfor's contributions to the Employee Share Purchase Plan when they are made.

Compensation expense is recognized for Canfor's Deferred Share Unit Plan when the deferred share units are granted, and changes in market value of the underlying shares are reflected in earnings at the end of each period.

2. CHANGE IN ACCOUNTING POLICIES

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". 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).

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.

ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2004, Canfor retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) for asset retirement obligations, which require that such obligations be measured at fair value. The change in accounting for deferred reforestation resulted in a \$0.2 million increase to the deferred reforestation expense in 2005 (2004 – \$2.2 million). The new recommendations were not applied to retirement obligations for assets with indeterminate useful lives because sufficient information is not presently available to estimate a range of potential settlement dates for the obligations.

SHIPPING AND HANDLING COSTS

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

3. ACQUISITIONS AND DIVESTITURES

ACQUISITION OF SLOCAN FOREST PRODUCTS LTD.

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

Slocan was amalgamated with Canadian Forest Products Ltd., Canfor's principal operating subsidiary, on April 1, 2004. The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the estimated fair values of the assets and liabilities assumed as of April 1, 2004. The amounts assigned to the net assets and liabilities acquired was based on their estimated fair values at April 1, 2004, as follows:

(millions of dollars)

Net assets acquired	
Cash	\$ 20.5
Non-cash working capital	162.7
Property, plant, equipment and timber	761.4
Other assets	20.1
Long-term debt	(209.7)
Other long-term liabilities	(60.7)
Future income tax liabilities	(182.7)
Fair value of net assets acquired	\$ 511.6
Consideration paid	
Common shares issued to Slocan shareholders	\$ 452.9
Make-whole penalty on Slocan's long-term debt	28.6
Transaction costs	30.1
	\$ 511.6

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 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 operation and all comparative figures have been restated.

During the second quarter of 2005, 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 \$4.7 million was recorded on the dispositions. 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 16) paid prior to the dispositions.

The following table presents selected financial information related to discontinued operations:

(millions of dollars)	2005			2004		
	Coastal Operations	Sawmills	Total	Coastal Operations	Sawmills	Total
Sales to external customers	\$ 67.9	\$ 61.7	\$ 129.6	\$ 105.7	\$ 206.2	\$ 311.9
Operating income						
(loss) before income taxes	\$ (6.8)	\$ 5.1	\$ (1.7)	\$ (2.9)	\$ 29.2	\$ 26.3
Loss on disposal before income taxes	-	(9.2)	(9.2)	-	-	-
Income tax recovery (expense)	2.4	2.7	5.1	1.1	(10.4)	(9.3)
Net income (loss)	\$ (4.4)	\$ (1.4)	\$ (5.8)	\$ (1.8)	\$ 18.8	\$ 17.0
Net income (loss) per share - diluted	\$ (0.03)	\$ (0.01)	\$ (0.04)	\$ (0.01)	\$ 0.14	\$ 0.13

4. INVENTORIES

(millions of dollars)	2005	2004
Lumber	\$ 212.1	\$ 237.2
Logs	199.0	144.3
Pulp	51.8	56.2
Panel products	20.9	20.7
Chips	9.4	15.3
Paper	11.5	10.7
Processing materials and supplies	96.2	89.4
	\$ 600.9	\$ 573.8

5. LONG-TERM INVESTMENTS AND OTHER

(millions of dollars)	2005	2004
Anti-dumping duties receivable (Note 16)	\$ 113.7	\$ 116.9
Investment in 317231 British Columbia Ltd. ^a		
Cost of common shares	45.1	45.1
Accumulated equity income	9.4	9.1
Other investments	7.4	13.9
Mortgage receivable from sale of property	5.8	5.8
Other deposits and loans	5.1	6.0
	\$ 186.5	\$ 196.8

a. Through its investment in 317231 British Columbia Ltd., Canfor owns a one-third interest in Lakeland Mills Ltd. and Winton Global Lumber Ltd., which own sawmills in the Prince George, British Columbia region (Note 25). The combined assets and liabilities of the two mills are \$170.8 million (2004 - \$162.3 million) and \$81.6 million (2004 - \$78.2 million), respectively.

6. PROPERTY, PLANT, EQUIPMENT AND TIMBER

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
(millions of dollars)						
Land	\$ 24.0	\$ -	\$ 24.0	\$ 22.9	\$ -	\$ 22.9
Pulp and kraft paper mills	1,260.5	629.8	630.7	1,224.7	590.2	634.5
Sawmills, plywood and oriented strand board plants	1,027.1	338.2	688.9	837.0	315.2	521.8
Logging buildings and equipment	15.4	0.9	14.5	13.0	1.1	11.9
Logging roads and bridges	141.1	92.7	48.4	137.2	76.9	60.3
Other equipment and facilities	42.0	25.3	16.7	37.4	23.3	14.1
Timber	839.9	52.0	787.9	925.3	49.1	876.2
	\$ 3,350.0	\$ 1,138.9	\$ 2,211.1	\$ 3,197.5	\$ 1,055.8	\$ 2,141.7

Included in the above are assets under construction in the amount of \$9.7 million (2004 – \$85.6 million), which are not being amortized.

7. DEFERRED CHARGES

(millions of dollars)	2005	2004
Prepaid pension benefits (Note 15)	\$ 49.7	\$ 46.4
Unrealized foreign exchange loss on long-term debt	25.6	35.9
Software development costs	8.3	9.0
Canfor-LP OSB Limited Partnership (Note 27)	8.6	3.0
Other	4.7	1.8
	\$ 96.9	\$ 96.1

Deferred charges expensed during the year amounted to \$32.8 million (2004 – \$32.7 million), including foreign exchange losses of \$10.3 million recognized on the repayment of US dollar long-term debt (2004 – \$8.7 million), pension benefits of \$19.5 million (2004 – \$19.6 million), and software development costs of \$2.3 million (2004 – \$3.8 million).

8. BANK LOANS

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.

In October 2004, Canfor entered into a new unsecured and committed \$325 million credit facility to replace most of its existing demand operating credit lines. This facility, which is comprised of a \$125 million 364-day amount and a three-year \$200 million amount, is renewable annually and bears interest based on LIBOR or Canadian prime plus a margin based on Canfor's credit rating.

9. LONG-TERM DEBT

SUMMARY OF LONG-TERM DEBT

(millions of dollars)	2005	2004
Privately placed senior notes		
US \$62.6 million (2004 – US \$93.8 million), interest at 8.24%, repayable in 4 equal annual instalments commencing September 1, 2004	\$ 72.9	\$ 112.8
US \$30 million (2004 – US \$50 million), interest at 6.82%, repayable in 5 equal semi-annual instalments commencing April 1, 2005	35.0	60.2
US \$30 million, interest at 7.64%, repayable March 1, 2006	35.0	36.1
US \$33 million, interest at 7.74%, repayable March 1, 2007	38.5	39.7
US \$15 million, interest at 7.88%, repayable March 1, 2008	17.5	18.0
US \$45 million, interest at 7.98%, repayable March 1, 2009	52.5	54.2
US \$97 million, interest at 8.03%, repayable in 3 equal annual instalments commencing March 1, 2009	113.1	116.7
US \$60 million, interest at 5.66%, repayable April 1, 2009	70.0	72.2
US \$50 million, interest at 6.18%, repayable April 1, 2011	58.3	60.2
US \$50 million, interest at 6.33%, repayable February 2, 2012	58.3	60.2
US \$75 million, interest at 5.42%, repayable April 1, 2013	87.4	90.3
Canadian dollar revolving facilities, bearing interest at various fixed and floating rates with various maturity dates	1.3	7.2
Other long-term obligations	0.4	0.8
	640.2	728.6
Less current portion	95.7	68.1
	\$ 544.5	\$ 660.5

The agreements relative to the privately placed senior notes contain provisions limiting the amount of indebtedness that the Company and its designated subsidiaries can incur and the amount of dividends payable on its common shares. Under these agreements, the Company and its designated subsidiaries can presently incur approximately \$1,362.0 million in additional long-term debt (2004 – \$1,214.2 million) and pay up to \$523.0 million or \$3.67 per share in dividends on its common shares (2004 – \$458.0 million or \$3.20 per share).

FAIR VALUE OF TOTAL LONG-TERM DEBT

The fair value of total long-term debt at December 31, 2005 was \$664.2 million (2004 – \$778.4 million).

SCHEDULED LONG-TERM DEBT REPAYMENTS

Long-term debt repayments for the next five years are as follows:

(millions of dollars)	
2006	\$ 95.7
2007	87.1
2008	17.7
2009	160.3
2010	37.7

10. CONVERTIBLE SUBORDINATED DEBENTURES

On November 23, 1999, the Company issued \$155.0 million of unsecured convertible subordinated debentures as part of the purchase price for all of the outstanding shares of Northwood Inc. The debentures bore interest at 6.25% per annum, payable semi-annually, and had a maturity date of November 23, 2006.

On November 15, 2004, the Company announced its intention to redeem all of the outstanding debentures at the principal amount of \$155.0 million plus accrued interest. The holders of the debentures exercised their right of conversion, which resulted in the Company issuing 11,742,424 Common Shares to them (Note 13).

11. OTHER ACCRUALS AND PROVISIONS

(millions of dollars)	2005	2004
Deferred reforestation (Note 12)	\$ 67.7	\$ 66.9
Countervailing duty provision (Note 16)	67.4	76.7
Accrued pension obligations (Note 15)	20.8	17.7
Post-employment benefits (Note 15)	63.1	54.7
Other long-term liabilities	1.5	2.2
	\$ 220.5	\$ 218.2

12. DEFERRED REFORESTATION

The Company's reforestation obligation and expense are as follows:

(millions of dollars)	2005	2004
Reforestation obligation – beginning of year	\$ 111.2	\$ 64.9
Slocan Forest Products Ltd. – April 1, 2004 balance (Note 3)	-	43.3
Expense for the year	44.4	41.0
Less: paid during the year	(44.6)	(38.0)
Reforestation obligation – end of year	\$ 111.0	\$ 111.2
Current	\$ 43.3	\$ 44.3
Long-term (Note 11)	67.7	66.9
	\$ 111.0	\$ 111.2

The total undiscounted amount of the estimated cash flows required to settle the obligation at December 31, 2005 was \$121.7 million (2004 – \$122.0 million) with payments spread over 18 years. The estimated cash flows have been adjusted for inflation and discounted using credit-adjusted risk-free rates ranging from 4 to 6%.

13. SHARE CAPITAL

AUTHORIZED

10,000,000 preferred shares, with a par value of \$25 each

1,000,000,000 common shares without par value

(millions of dollars)	2005		2004	
Common shares, beginning of year	143,311,477	\$ 1,275.7	81,267,281	\$ 659.2
Issued to former Slocan shareholders (Note 3)	-	-	49,333,561	452.9
Issued on redemption of convertible debentures (Note 10)	-	-	11,742,424	155.0
Stock options exercised (Note 14)	198,918	1.9	1,073,011	9.5
Shares repurchased under Normal Course Issuer Bid ^a	(1,000,000)	(8.9)	(104,800)	(0.9)
Common shares, end of year	142,510,395	\$ 1,268.7	143,311,477	\$ 1,275.7

a. The shares repurchased in 2004 were cancelled in January 2005.

During 2005, the Company purchased 1,000,000 common shares (2004 – 104,800) 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 (2004 – \$14.65), and the excess of the purchase price over the average book value per share, in the amount of \$4.9 million (2004 – \$0.6 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. STOCK-BASED COMPENSATION

The Company has three stock-based compensation plans, which are described below.

STOCK OPTION PERFORMANCE PLAN

The Company has a stock option performance plan pursuant to which stock options are granted to selected officers and senior managers. No new stock options were granted in 2005 or 2004. The stock option performance plan provides for the issuance of up to a maximum of 5.8 million common shares at an exercise price equal to the market price of the Company's common shares on the date of grant. However, there are various criteria that limit the amount of options exercisable during each option year within the option period. A summary of the status of the plan as of December 31, 2005 and 2004, and changes during the years ending on those dates is presented below:

	2005		2004	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at the beginning of year	499,304	\$ 9.39	1,667,316	\$ 8.94
Exercised	(198,918)	9.56	(1,073,011)	8.86
Cancelled	-		(95,001)	7.44
Outstanding at the end of the year	300,386	\$ 9.28	499,304	\$ 9.39

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$7.57 to \$8.30	108,384	5.12	\$ 8.28	108,384	\$ 8.28
\$9.80 to \$11.80	192,002	6.08	9.84	192,002	9.84
	300,386		\$ 9.28	300,386	\$ 9.28

EMPLOYEE SHARE PURCHASE PLAN

Canfor has a share purchase plan, which is available to all employees. Purchases of common shares under this plan occur on the open market. Under the plan the employees can purchase up to 10% of their base salary or wage. Canfor matches 30% of the first 5% of the amount contributed by the employee and pays the share purchase plan brokerage fees. In 2005, contributions of \$1.8 million were made towards the purchase of the Company's common shares under the terms of the plan (2004 – \$1.6 million).

DEFERRED SHARE UNIT PLAN

On January 1, 2002, the Company implemented a Deferred Share Unit Plan for non-employee directors of the Company. A Deferred Share Unit (DSU) is a right granted to a non-employee director to receive one common share of the Company, purchased on the open market, or the cash equivalent, on a deferred payment basis. The maximum number of DSUs outstanding under the plan is 1,000,000, and currently each non-employee director is entitled to 2,500 DSUs per year. The value of the DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity. The value of the outstanding DSUs at December 31, 2005 was \$1.0 million (2004 – \$1.2 million).

15. EMPLOYEE FUTURE BENEFITS

Canfor has several funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and certain hourly employees. The defined benefit plans are based on years of service and final average salary. Canfor's other post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Canfor acquired Slocan Forest Products Ltd. in April 2004 (Note 3), including its pension and other employee benefit plans. Subsequent restructuring in 2004 included termination of employees, which resulted in the recognition of special termination benefits of \$1.8 million.

The Company is in the process of winding up its Taylor sawmill pension plan, following the closure of the mill in 2004 (Note 17), and, as a result, a settlement loss of \$1.3 million has been recognized in the current year's expense (2004 – \$5.3 million curtailment loss).

Total cash payments for employee future benefits for 2005 were \$49.7 million (2004 – \$45.9 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, cash contributed to its defined contribution plans, and cash contributed to its forest industry union defined benefit plans.

DEFINED BENEFIT PLANS

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30th of each year. In 2005, Canfor had 10 registered defined benefit plans, for which actuarial valuations are performed every three years. The most recent actuarial valuation for funding purposes of Canfor's single largest pension plan was on December 31, 2004.

Information about Canfor's defined benefit plans, in aggregate, is as follows:

DEFINED BENEFIT PLAN ASSETS

	2005		2004	
(millions of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets				
Beginning of year	\$ 450.5	\$ -	\$ 362.7	\$ -
Acquisition of Slocan	-	-	62.8	-
Actual gain on plan assets	64.9	-	35.1	-
Canfor contributions	13.3	2.7	11.9	2.6
Employee contributions	2.8	-	2.4	-
Benefit payments	(32.2)	(2.7)	(24.4)	(2.6)
Settlement of Taylor plan	(7.9)	-	-	-
End of year	\$ 491.4	\$ -	\$ 450.5	\$ -

Plan assets consist of the following

	Percentage of Plan Assets	
	2005	2004
Equity securities	60 %	59 %
Debt securities	34 %	35 %
Real estate	2 %	2 %
Other	4 %	4 %
	100 %	100 %

DEFINED BENEFIT PLAN OBLIGATIONS

	2005		2004	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation				
Beginning of year	\$ 496.1	\$ 98.8	\$ 359.6	\$ 105.5
Acquisition of Slocan	-	-	84.9	8.8
Current service cost	15.2	2.5	13.1	2.9
Interest cost	30.7	6.5	27.1	7.3
Employee contributions	2.8	-	2.4	-
Benefit payments	(32.2)	(2.7)	(24.4)	(2.6)
Plan amendments	(0.1)	1.6	-	-
Actuarial loss (gain)	61.9	26.7	31.6	(23.1)
Special termination benefits arising from corporate restructuring	-	-	1.8	-
End of year	\$ 574.4	\$ 133.4	\$ 496.1	\$ 98.8

RECONCILIATION OF THE FUNDED STATUS OF THE BENEFIT PLANS TO THE AMOUNTS RECORDED IN THE FINANCIAL STATEMENTS

	2005		2004	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets	\$ 491.4	\$ -	\$ 450.5	\$ -
Accrued benefit obligation	574.4	133.4	496.1	98.8
Funded status of plans – deficit	(83.0)	(133.4)	(45.6)	(98.8)
Employer contributions after measurement date	9.2	0.7	2.0	-
Unamortized transitional amount	(28.6)	19.9	(32.5)	21.8
Unamortized past service costs	3.5	1.5	3.9	-
Unamortized net actuarial loss	136.8	48.2	109.2	22.3
Accrued benefit asset (liability)	37.9	(63.1)	37.0	(54.7)
Valuation allowance	(2.0)	-	(1.8)	-
Accrued benefit asset (liability), net of valuation allowance	\$ 35.9	\$ (63.1)	\$ 35.2	\$ (54.7)
The accrued benefit asset (liability) is included in the Company's balance sheet as follows:				
Deferred charges (Note 7)	\$ 49.7	\$ -	\$ 46.4	\$ -
Other accruals and provisions (Note 11)	(13.8)	(63.1)	(11.2)	(54.7)
	\$ 35.9	\$ (63.1)	\$ 35.2	\$ (54.7)

Included in the above pension and other retirement benefit provisions and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	2005		2004	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plan assets	\$ 462.6	\$ -	\$ 365.5	\$ -
Accrued benefit obligation	553.5	(133.4)	421.3	(98.8)
Funded status of plans - deficit	\$ (90.9)	\$ (133.4)	\$ (55.8)	\$ (98.8)

Of the \$90.9 million of pension plan deficit noted above, \$22.0 million relates to unregistered plans for which funding is not required (2004 – \$31.4 million). \$8.3 million of the unregistered pension liabilities are secured by a letter of credit.

“Other benefit plans” are not funded, except to the extent that expenditures are incurred.

Canfor's expense for company-sponsored benefit plans is as follows:

	2005			2004		
(millions of dollars)	Incurring in Year	Matching Adjustments ^a	Recognized in Year	Incurring in Year	Matching Adjustments ^a	Recognized in Year
Pension Benefit Plans						
Current service cost, net of employee contributions	\$ 15.2	\$ -	\$ 15.2	\$ 13.1	\$ -	\$ 13.1
Interest cost	30.7	-	30.7	27.1	-	27.1
Return on plan assets	(64.9)	34.9	(30.0)	(35.1)	6.0	(29.1)
Actuarial loss (gain)	61.9	(56.2)	5.7	31.6	(27.0)	4.6
Settlement/curtailment loss	1.3	-	1.3	5.3	-	5.3
Special termination benefits	-	-	-	1.8	-	1.8
Plan amendments		0.4	0.4	-	0.4	0.4
Valuation allowance provided against accrued benefit asset	-	0.2	0.2	-	0.2	0.2
Amortization of transitional obligation (asset)	-	(3.9)	(3.9)	-	(3.8)	(3.8)
	\$ 44.2	\$ (24.6)	\$ 19.6	\$ 43.8	\$ (24.2)	\$ 19.6
Other Benefit Plans						
Current service cost, net of employee contributions	\$ 2.5	\$ -	\$ 2.5	\$ 2.9	\$ -	\$ 2.9
Interest cost	6.5	-	6.5	7.3	-	7.3
Actuarial loss (gain)	26.7	(25.9)	0.8	(23.1)	25.5	2.4
Amortization of transitional obligation (asset)	-	1.9	1.9	-	1.9	1.9
	\$ 35.7	\$ (24.0)	\$ 11.7	\$ (12.9)	\$ 27.4	\$ 14.5

a. Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits

Canfor also provides pension bridge benefits to certain eligible former employees. At December 31, 2005, the actuarially determined obligation for these benefits was \$13.8 million (2004 – \$11.1 million). The accrued benefit liability for these benefits, included in "other accruals and provisions" (Note 11) on the balance sheet at December 31, 2005, was \$7.0 million (2004 – \$6.5 million) and the related expense recognized in the current year was \$1.4 million (2004 – \$1.2 million).

SIGNIFICANT ASSUMPTIONS

The actuarial assumptions used in measuring Canfor's benefit plan provisions are as follows:

	2005		2004	
(weighted average assumptions)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation as of December 31:				
Discount rate	5.25 %	5.25 %	6.25 %	6.5 %
Rate of compensation increase	3.0 %	3.0%	3.5 %	5.0%
Benefit costs for year ended December 31:				
Discount rate	6.25 %	6.5 %	6.5 %	6.5 %
Expected long-term rate of return on plan assets	7.0 %	n/a	7.15 %	n/a
Rate of compensation increase	3.5 %	5.0 %	3.0 %	5.0%

ASSUMED HEALTH CARE COST TREND RATES

(weighted average assumptions)	2005	2004
Initial health care cost trend rate	6.10%	6.12%
Ultimate health care trend rate	4.28%	4.28%
Year ultimate rate is reached	2011	2011

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2005:

	1% Increase	1% Decrease
Accrued benefit obligation	\$ 26.5	\$ (20.8)
Total of service and interest cost	\$ 2.1	\$ (1.4)

DEFINED CONTRIBUTION AND OTHER PLANS

The total cost recognized in 2005 for the Company's defined contribution plans was \$2.1 million (2004 – \$1.2 million).

Canfor contributes to various forest industry union defined benefit pension plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the cost recognized for defined contribution plans above, amounted to \$30.4 million in 2005 (2004 – \$29.5 million).

16. 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 11). 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" (Note 5).

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 U.S. 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.

17. RESTRUCTURING, MILL CLOSURE AND OTHER SEVERANCE COSTS

Restructuring costs of \$5.3 million were recorded in 2005. The expense includes 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 \$36.5 million were recorded in 2004. The expense 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 table provides a reconciliation of the restructuring, mill closure and other severance provision for the year ended December 31, 2005:

	Integration Costs	Mill Closure & Other Restructuring Costs	Total
Balance of liability at beginning of period	\$ 10.8	\$ 13.5	\$ 24.3
Accrued in the period *	-	5.3	5.3
Asset write-downs and other non-cash items	-	(3.0)	(3.0)
Payments in the period	(7.3)	(9.6)	(16.9)
Balance of liability at end of period	\$ 3.5	\$ 6.2	\$ 9.7
* reported in the following segments:			
Lumber	\$ -	\$ 4.9	\$ 4.9
Pulp and Paper	-	0.4	0.4
	\$ -	\$ 5.3	\$ 5.3

The majority of the remaining liability will be paid in 2006.

The following table provides a reconciliation of the restructuring, mill closure and other severance provision for the year ended December 31, 2004:

	Integration Costs	Mill Closure & Other Restructuring Costs	Total
Balance of liability at beginning of period	\$ -	\$ 16.9	\$ 16.9
Accrued in the period *	20.4	16.1	36.5
Asset write-downs and other non-cash items	(5.3)	(9.9)	(15.2)
Payments in the period	(4.3)	(9.6)	(13.9)
Balance of liability at end of period	\$ 10.8	\$ 13.5	\$ 24.3
* reported in the following segments:			
Lumber	\$ 4.1	\$ 16.1	\$ 20.2
Corporate	16.3	-	16.3
	\$ 20.4	\$ 16.1	\$ 36.5

18. INTEREST EXPENSE

(millions of dollars)	2005			2004		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Total interest cost	\$ 49.6	\$ 5.9	\$ 55.5	\$ 62.5	\$ 5.1	\$ 67.6
Less: Interest income	(0.3)	(12.4)	(12.7)	(0.6)	(7.7)	(8.3)
Interest capitalized	-	(0.6)	(0.6)	-	(0.5)	(0.5)
	\$ 49.3	\$ (7.1)	\$ 42.2	\$ 61.9	\$ (3.1)	\$ 58.8

19. OTHER INCOME

(millions of dollars)	2005	2004
Equity income of affiliated companies	\$ 2.7	\$ 11.3
Seaboard General Partnership ^a	8.9	-
Other income (expense)	1.2	(3.1)
	\$ 12.8	\$ 8.2

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

20. 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.

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. A loss of \$8.8 million was recorded on the tenures taken back. 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.

21. INCOME TAXES

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities are as follows:

	2005		2004	
(millions of dollars)	Current	Long-term	Current	Long-term
Future income tax assets				
Capital loss carry forward	\$ -	\$ -	\$ -	\$ 2.9
Non capital losses	-	21.1	-	-
Accruals not currently deductible	22.4	27.3	28.0	35.7
Post employment benefits	-	28.6	-	25.7
Countervailing duty liability	1.3	21.4	3.6	27.1
Loss carry forward arising from restructuring of Howe Sound Limited Partnership (Note 26)	-	18.0	-	48.9
Other	0.2	2.8	0.9	1.1
	\$ 23.9	\$ 119.2	\$ 32.5	\$ 141.4
Future income tax liabilities				
Depreciable capital assets	\$ -	\$ (512.3)	\$ -	\$ (567.0)
Deferred pension costs	-	(16.9)	-	(16.5)
Anti-dumping duty receivable	-	(37.7)	-	(42.1)
Other	-	(20.6)	-	(15.0)
	\$ -	\$ (587.5)	\$ -	\$ (640.6)
Future income taxes, net	\$ 23.9	\$ (468.3)	\$ 32.5	\$ (499.2)

The components of income tax expense are as follows:

(millions of dollars)	2005	2004
Current	\$ (12.1)	\$ (8.1)
Future	(11.8)	(151.5)
Tax benefit of current Howe Sound Limited Partnership losses	-	1.1
Tax on equity earnings	(1.0)	(4.1)
	(24.9)	(162.6)
Amortization of deferred credit on utilization of acquired tax losses	12.5	68.5
	\$ (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)	2005	2004
Net income before income taxes:	\$ 114.2	\$ 492.6
Income tax expense at statutory tax rate	\$ (39.7)	\$ (174.9)
Large corporation tax	(4.8)	(6.2)
Amortization of deferred credit on utilization of acquired tax losses	12.5	68.5
Benefit of losses not previously recognized	2.3	8.6
Permanent difference from capital gains and losses	2.4	8.6
Permanent difference from dividend income	3.1	-
Change in estimate of available capital losses	(8.6)	-
1.5% reduction in British Columbia corporate tax rate	21.0	-
Howe Sound Limited Partnership losses (Note 26)	-	1.1
Other permanent differences and tax adjustments	(0.6)	0.2
Income tax expense	\$ (12.4)	\$ (94.1)

22. EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are based on the weighted average number of common shares, convertible subordinated debentures and stock options outstanding at the beginning of or granted during the period.

(millions of dollars, except for number of shares and per share amounts)	2005	2004
Earnings per share from continuing operations		
Net income from continuing operations	\$ 101.8	\$ 398.5
Basic earnings per share from continuing operations	\$ 0.71	\$ 3.31
Net income from continuing operations – diluted earnings per share ^a	\$ 101.8	\$ 403.9
Diluted earnings per share from continuing operations	\$ 0.71	\$ 3.09
Earnings per share		
Net income	\$ 96.0	\$ 415.5
Basic earnings per share	\$ 0.67	\$ 3.45
Net income – diluted earnings per share ^a	\$ 96.0	\$ 420.9
Diluted earnings per share	\$ 0.67	\$ 3.22
Weighted average number of common shares	143,092,157	120,452,437
Incremental shares from stock options	163,120	226,625
Shares issuable upon conversion of convertible debentures	-	10,234,517
Diluted number of common shares	143,255,277	130,913,579

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

23. CHANGES IN NON-CASH WORKING CAPITAL

(millions of dollars)	2005	2004
Accounts receivable	\$ 8.3	\$ 58.0
Income taxes	1.7	(2.9)
Inventories	(27.0)	70.3
Prepaid expenses	2.9	(7.8)
Accounts payable, accrued liabilities and current portion of deferred reforestation	(41.7)	(16.9)
	\$ (55.8)	\$ 100.7

24. FINANCIAL INSTRUMENTS

COMMODITY PRICE RISK

Canfor uses financial instruments to reduce its exposure to risks associated with lumber and pulp prices and energy costs. At December 31, 2005, there were 186 lumber futures contracts outstanding, (2004 – 195) which had an unrealized loss of \$0.2 million. Canfor also 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 were outstanding at the end of the year (2004 – 2.6 million) at an average price of \$6.53 per gigajoule. There was an unrealized gain of \$18.6 million on these swaps at December 31, 2005 (2004 – \$0.1 million).

CREDIT RISK

Canfor does not have a significant concentration of credit risk as no one individual customer accounts for 10% or more of total company sales. Canfor reviews the credit history of all new customers before extending credit and also performs regular reviews of the credit performance of existing customers. Canfor may require payment guarantees, such as letters of credit, or obtains credit insurance coverage. The allowance for doubtful accounts as at December 31, 2005 was \$0.2 million (2004 – \$0.6 million).

CURRENCY RISK

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. In 2005, contracts totaling \$97.5 million were exercised and a gain of \$2.1 million was realized (2004 – contracts totaling \$20.0 million at a gain of \$1.8 million).

INTEREST RATE RISK

Canfor is exposed to interest rate risk arising from fluctuations in interest rates on its cash, cash equivalents, and short-term investments. The Company has considered, but does not use, derivative instruments to reduce its exposure to interest rate risk.

25. RELATED PARTY TRANSACTIONS

Transactions with related parties occur at fair market value, unless otherwise noted below.

Canfor markets the pulp production of Howe Sound Pulp and Paper Limited Partnership (HSLP) (Note 26) for which it received commissions totaling \$2.5 million in 2005 (2004 – \$3.0 million) under the terms of its agency sales agreement. Based on a separate prepayment agreement between Canfor and Oji, the partners of HSLP, at December 31, 2005, Canfor had prepaid \$48.6 million to HSLP in advance of the due date of receivables and pulp inventory for pulp marketed, or to be marketed, and collected on their behalf (2004 – \$44.0 million). Canfor charges a market rate of interest to HSLP for the period paid in advance, which amounted to \$2.1 million in 2005 (2004 – \$2.1 million) and the prepayment is covered by the assignment of current or future accounts receivable. The agreement provides for the partners to prepay up to a maximum amount of \$50 million each, which is used as short-term operating funds by HSLP.

Canfor has agreed to purchase pulp logs and chips for resale to HSLP at Canfor's cost, to meet HSLP's future requirements. In 2005, Canfor purchased and resold \$27.8 million of chips and logs to HSLP (2004 – \$19.0 million). There was a balance outstanding of \$4.7 million at December 31, 2005 (2004 – \$2.7 million). Canfor charges HSLP a market rate of interest for this service, which amounted to \$0.6 million in 2005 (2004 – nil). Canfor's Englewood operation sold logs and chips to HSLP amounting to \$6.5 million in 2005 (2004 – \$14.2 million), and purchased \$0.8 million of boomsticks and other gear (2004 – \$0.7 million). There was a balance outstanding at December 31, 2005 of \$2.6 million (2004 – \$0.5 million). Canfor sawmills sold chips to HSLP in the amount of \$17.8 million in 2005 (2004 – \$22.2 million). There was a balance outstanding at December 31, 2005 of \$7.6 million (2004 – \$2.7 million). Canfor provides management, fibre supply and other services to HSLP at cost, for which it charged \$1.7 million in fees for 2005 (2004 – \$1.9 million). There was a

balance outstanding of \$6.5 million at December 31, 2005 with respect to these fees and other receivables (2004 – \$4.6 million).

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.

Canfor purchases chips and lumber from Lakeland Mills Ltd. and Winton Global Lumber Ltd. During 2005, Canfor purchased \$11.1 million in chips and \$9.0 million in lumber (2004 – \$15.3 million and \$13.0 million respectively).

Canfor sold \$2.0 million in chips to Fibreco Export Inc. during 2005 (2004 – \$6.7 million), before disposing of its investment in that company in July.

During 2005, Kyahwood Forest Products Ltd. provided remanufacturing services to Canfor in the amount of \$5.3 million (2004 – \$5.8 million).

Canfor purchased logs from Takla Track & Timber Ltd. in the amount of \$4.9 million in 2005 (2004 – \$1.0 million). There was a balance outstanding at December 31, 2005 of \$2.6 million (2004 – \$2.7 million).

Shipping services provided by Seaboard International Shipping Company, which is owned by the Seaboard General Partnership, amounted to \$6.0 million in 2005 (2004 – \$5.4 million).

26. HOWE SOUND PULP AND PAPER LIMITED PARTNERSHIP (HSLP)

On March 10, 2001, Canfor and Oji Paper Co., Ltd. (Oji), its 50% co-venturer in the Howe Sound Pulp and Paper Limited (Howe Sound) joint venture, transferred the business of Howe Sound into a limited partnership, HSLP. The Partnership continues to be jointly owned by Canfor and Oji and continues to carry on the existing operations of Howe Sound.

As part of the reorganization, Howe Sound was amalgamated with Canadian Forest Products Ltd. (CFP), Canfor's principal operating subsidiary, and approximately \$643 million of tax losses of Howe Sound became available to reduce the future taxable income of CFP. In 2001, as part of the reorganization, CFP made a payment of \$60.2 million to the Partnership, which was applied to reduce the long-term debt of Howe Sound assumed by the Partnership. Further payments were made to the partnership in 2002 and 2004 of \$5.0 million and \$7.0 million respectively as a result of losses utilized, and a further, final payment of \$50.0 million was made to the Partnership on January 2, 2005.

As a result of this reorganization, CFP recorded a future income tax asset and a deferred credit, which were \$18.0 million and \$14.1 million, respectively, at December 31, 2005 (\$48.9 million and \$27.2 million at December 31, 2004). The deferred credit is being recognized in income on a systematic basis.

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

While Canfor does not reflect the Partnership's results in its earnings, it is required to include its share of the limited partner's income or loss, within the limits imposed by the Income Tax Act (Canada), in the calculation of taxable income. There was no impact on Canfor's future income tax recovery in 2005 but in 2004 this had the effect of increasing Canfor's future income tax recovery by \$1.1 million. Any income tax expense incurred by Canfor will be reimbursed by the Partnership.

27. 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 2005, Canfor made capital contributions of \$102.3 million to the venture (2004 – \$38.2 million). In order to retain its 50% interest, Canfor has agreed to contribute 50% of the capital to fund the project, which is estimated to have a total 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)	2005	2004
Income Statement		
Sales	\$ 0.5	\$ -
Costs and expenses	(1.3)	-
Net income	\$ (0.8)	\$ -
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 from continuing operations	\$ (101.5)	\$ (39.1)
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

28. SEGMENTED INFORMATION ^a

(millions of dollars)	Lumber ^e	Panels	Pulp & Paper	Corporate & Other	Consolidated
Year ended December 31, 2005					
Sales to external customers ^b	\$ 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 ^f	\$ 1,718.3	345.8	895.3	871.1	\$ 3,830.5
Year ended December 31, 2004 ^d					
Sales to external customers ^b	\$ 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 ^f	\$ 1,715.1	233.5	910.6	1,120.4	\$ 3,979.6

	2005	2004
Sales by location of customer		
Canada	\$ 572.2	\$ 540.3
United States	2,485.8	2,611.3
Europe	233.2	289.1
Far East and Other	496.6	484.3
	\$ 3,787.8	\$ 3,925.0

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. No single customer accounted for 10% or more of the Company's total sales.

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. Sales include sales of Canfor produced lumber of \$2,216.2 million (2004 - \$2,369.7 million). Excludes discontinued operations (Note 3).

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

29. COMMITMENTS AND CONTINGENCIES

The company has committed to the following operating leases for property, plant and equipment. As at December 31, 2005, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)	
2006	\$ 22.5
2007	14.9
2008	8.7
2009	4.8
2010	2.4
Thereafter	2.1
Total minimum lease payments	\$ 55.4

Canfor's investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. is pledged as security for the bank debt of those mills.

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.

30. SUBSEQUENT EVENTS

On January 18th, 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 million, including working capital of approximately US \$55 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.

31. COMPARATIVE FIGURES

Certain 2004 figures have been reclassified to conform to the current year's presentation.

SUMMARY OF CONSOLIDATED PRODUCTION AND SHIPMENTS*

(unaudited)

PRODUCTION

2005	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm	1,205.4	1,242.7	1,126.4	1,049.9	4,624.4
Plywood – MMsf 3/8" basis	108.3	110.9	104.2	109.9	433.3
Oriented strand board – MMsf 3/8" basis	120.6	114.9	129.8	113.5	478.8
Pulp – 000 mt	299.6	286.0	298.8	304.7	1,189.1
Kraft paper – 000 mt	33.4	30.8	31.7	31.5	127.4

2004	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm	748.5	1,166.4	1,090.6	1,229.4	4,234.9
Plywood – MMsf 3/8" basis	44.0	109.1	98.6	104.9	356.6
Oriented strand board – MMsf 3/8" basis	-	125.8	126.4	132.6	384.8
Pulp – 000 mt	249.0	297.5	286.7	309.1	1,142.3
Kraft paper – 000 mt	34.0	33.5	34.7	31.9	134.1

SHIPMENTS

2005	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm					
Canfor produced	1,116.6	1,291.3	1,219.9	1,053.3	4,681.1
Purchased from other wholesale producers	76.6	102.0	114.4	122.7	415.7
Total Lumber	1,193.2	1,393.3	1,334.3	1,176.0	5,096.8
Plywood – MMsf 3/8" basis	106.0	107.1	124.3	98.3	435.7
Oriented strand board – MMsf 3/8" basis	102.5	117.1	131.7	118.0	469.3
Pulp – 000 mt					
Canfor produced	268.1	299.0	309.6	312.4	1,189.1
Marketed on behalf of HSLP*	82.1	102.5	90.9	97.4	372.9
Total Pulp	350.2	401.5	400.5	409.8	1,562.0
Kraft paper – 000 mt	32.5	33.0	31.1	30.7	127.3

2004	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm					
Canfor produced	662.4	1,205.6	1,113.8	1,265.5	4,247.3
Purchased from other wholesale producers	61.5	87.2	72.5	79.0	300.2
Total Lumber	723.9	1,292.8	1,186.3	1,344.5	4,547.5
Plywood – MMsf 3/8" basis	45.4	108.9	93.0	96.3	343.6
Oriented strand board – MMsf 3/8" basis	-	132.6	120.5	126.5	379.6
Pulp – 000 mt					
Canfor produced	241.7	284.5	275.2	312.8	1,114.2
Marketed on behalf of HSLP*	73.6	89.9	85.4	109.0	357.9
Total Pulp	315.3	374.4	360.6	421.8	1,472.1
Kraft paper – 000 mt	35.3	39.4	34.1	31.0	139.8

*Continuing operations

2005 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of dollars)					
Sales	\$ 961.2	\$ 1,033.3	\$ 932.3	\$ 861.0	\$ 3,787.8
Manufacturing and product costs	617.5	684.8	666.9	629.2	2,598.4
Freight and other distribution costs	130.7	159.8	157.7	145.1	593.3
Countervailing and anti-dumping duties	58.9	67.5	58.5	39.9	224.8
Amortization	40.6	35.5	37.1	38.4	151.6
Selling and administration	16.4	17.7	14.9	23.0	72.0
Restructuring costs	0.2	2.0	3.0	0.1	5.3
Operating income (loss)	96.9	66.0	(5.8)	(14.7)	142.4
Equity income	1.6	2.4	-	7.6	11.6
Interest expense	(11.8)	(11.1)	(10.0)	(9.3)	(42.2)
Foreign exchange gain (loss) on long-term debt	(3.6)	(11.7)	30.0	(4.7)	10.0
Other income (expense)	(0.2)	(0.2)	1.3	0.3	1.2
Unusual item	-	-	(11.1)	2.3	(8.8)
Net income (loss) from continuing operations before income taxes	82.9	45.4	4.4	(18.5)	114.2
Income tax recovery (expense)	(19.4)	(17.2)	16.3	7.9	(12.4)
Net income (loss) from continuing operations	63.5	28.2	20.7	(10.6)	101.8
Net income (loss) from discontinued operation after income taxes	2.1	(2.9)	(3.3)	(1.7)	(5.8)
Net income (loss)	\$ 65.6	\$ 25.3	\$ 17.4	\$ (12.3)	\$ 96.0
Per common share (dollars)					
Net income (loss) from continuing operations					
Basic	\$ 0.44	\$ 0.20	\$ 0.14	\$ (0.07)	\$ 0.71
Diluted	0.44	0.20	0.14	(0.07)	0.71
Net income (loss)					
Basic	0.46	0.18	0.12	(0.09)	0.67
Diluted	0.46	0.18	0.12	(0.09)	0.67
Cash generated from (used in) (millions of dollars)					
Operating activities	\$ (31.3)	\$ 128.9	\$ 51.6	\$ 44.1	\$ 193.3
Financing activities					
Long-term debt	0.3	(14.3)	(42.0)	(11.8)	(67.8)
Other	1.6	-	(13.8)	-	(12.2)
	1.9	(14.3)	(55.8)	(11.8)	(80.0)
Investing activities					
Property, plant, equipment and timber	(75.1)	(79.8)	(83.7)	(95.9)	(334.5)
Other	(43.1)	61.6	3.1	61.1	82.7
	(118.2)	(18.2)	(80.6)	(34.8)	(251.8)
Cash generated by discontinued operations	2.3	2.5	2.7	(0.1)	7.4
Increase (decrease) in net cash	\$ (145.3)	\$ 98.9	\$ (82.1)	\$ (2.6)	\$ (131.1)

Certain previously published figures have been reclassified to conform to the current presentation.

2004 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of dollars)					
Sales	\$ 621.3	\$ 1,143.7	\$ 1,122.3	\$ 1,037.7	\$ 3,925.0
Manufacturing and product costs	397.3	633.7	645.9	705.9	2,382.8
Freight and other distribution costs	84.5	128.1	139.5	173.7	525.8
Countervailing and anti-dumping duties	35.3	95.8	73.8	71.3	276.2
Amortization	27.6	34.2	38.2	40.3	140.3
Selling and administration	15.1	22.1	18.4	13.3	68.9
Restructuring costs	-	23.1	0.5	12.9	36.5
Operating income	61.5	206.7	206.0	20.3	494.5
Equity income	0.6	3.5	4.9	2.3	11.3
Interest expense	(14.8)	(18.0)	(14.4)	(11.6)	(58.8)
Foreign exchange gain (loss) on long-term debt	(6.0)	(21.9)	40.5	36.1	48.7
Other income (expense)	0.3	0.4	(0.8)	(3.0)	(3.1)
Net income from continuing operations					
before income taxes	41.6	170.7	236.2	44.1	492.6
Income tax recovery (expense)	(11.8)	(40.6)	(43.0)	1.3	(94.1)
Net income from continuing operations	29.8	130.1	193.2	45.4	398.5
Net income (loss) from discontinued operation					
after income taxes	0.6	12.0	6.8	(2.4)	17.0
Net income	\$ 30.4	\$ 142.1	\$ 200.0	\$ 43.0	\$ 415.5
Per common share (dollars)					
Net income from continuing operations					
Basic	\$ 0.37	\$ 0.99	\$ 1.47	\$ 0.34	\$ 3.31
Diluted	0.34	0.92	1.36	0.32	3.09
Net income					
Basic	0.37	1.08	1.52	0.31	3.45
Diluted	0.34	1.00	1.40	0.30	3.22
Cash generated from (used in) (millions of dollars)					
Operating activities	\$ 6.8	\$ 290.4	\$ 211.5	\$ 199.8	\$ 708.5
Financing activities					
Long-term debt	66.1	16.4	(41.6)	1.1	42.0
Other	5.7	2.0	0.7	(1.2)	7.2
	71.8	18.4	(40.9)	(0.1)	49.2
Investing activities					
Property, plant, equipment and timber	(14.3)	(35.0)	(61.0)	(92.2)	(202.5)
Other	(1.4)	(24.8)	14.6	7.3	(4.3)
	(15.7)	(59.8)	(46.4)	(84.9)	(206.8)
Cash generated by discontinued operation	(3.1)	11.1	41.5	(68.8)	(19.3)
Increase in net cash	\$ 59.8	\$ 260.1	\$ 165.7	\$ 46.0	\$ 531.6

Certain previously published figures have been reclassified to conform to the current presentation.

FIVE-YEAR COMPARATIVE REVIEW

	2005	2004	2003	2002	2001
Sales and income (millions of dollars)					
Sales	\$ 3,787.8	\$ 3,925.0	\$ 2,355.0	\$ 2,343.2	\$ 2,257.7
Manufacturing and product costs	2,598.4	2,382.8	1,712.6	1,694.7	1,561.4
Freight and other distribution costs	593.3	525.8	329.5	406.0	433.6
Countervailing and anti-dumping duties	224.8	276.2	146.6	51.9	47.4
Amortization	151.6	140.3	99.3	98.3	89.9
Selling and administration	72.0	68.9	55.3	64.8	59.0
Reversal of duties accrued in prior year	-	-	-	(45.8)	-
Restructuring costs	5.3	36.5	-	30.4	-
Operating income	142.4	494.5	11.7	42.9	66.4
Interest expense	(42.2)	(58.8)	(60.2)	(68.4)	(72.7)
Foreign exchange gain on translation of long-term debt	10.0	48.7	110.9	-	-
Other income	12.8	8.2	25.0	14.0	0.8
Unusual items	(8.8)	-	-	-	8.5
Net Income (loss) from continuing operations					
before income taxes	114.2	492.6	87.4	(11.5)	3.0
Income tax recovery (expense)	(12.4)	(94.1)	2.0	9.8	21.7
Net income (loss) from continuing operations	101.8	398.5	89.4	(1.7)	24.7
Net income (loss) from discontinued operations					
after income taxes	(5.8)	17.0	57.8	7.7	(3.0)
Net income	\$ 96.0	\$ 415.5	\$ 147.2	\$ 6.0	\$ 21.7
Per common share (dollars)					
Net income (loss) from continuing operations					
Basic	\$ 0.71	\$ 3.31	\$ 1.10	\$ (0.03)	\$ 0.31
Diluted	0.71	3.09	1.02	(0.03)	0.31
Net income					
Basic	0.67	3.45	1.81	0.07	0.27
Diluted	0.67	3.22	1.65	0.07	0.27
Book value per share	14.36	13.72	13.44	11.85	11.85
Assets and capitalization (millions of dollars)					
Working capital	\$ 725.7	\$ 809.7	\$ 237.3	\$ 298.0	\$ 330.5
Long-term investments	186.5	196.8	98.8	84.1	70.4
Property, plant, equipment and timber	2,211.1	2,141.7	1,371.5	1,292.0	1,361.8
Other assets and deferred charges	96.9	96.1	131.0	142.6	160.2
Net assets of discontinued operations	73.8	127.6	81.8	109.4	117.5
Net assets	\$ 3,294.0	\$ 3,371.9	\$ 1,920.4	\$ 1,926.1	\$ 2,040.4
Long-term debt	\$ 544.5	\$ 660.5	\$ 633.0	\$ 798.4	\$ 861.5
Other accruals and provisions	220.5	218.2	78.4	78.6	114.2
Future income taxes	468.3	499.2	175.7	154.5	147.0
Deferred credit	14.1	27.2	95.7	95.7	104.0
Common shareholders' equity	2,046.6	1,966.8	937.6	798.9	813.7
Total capitalization	\$ 3,294.0	\$ 3,371.9	\$ 1,920.4	\$ 1,926.1	\$ 2,040.4
Additions to property, plant, equipment and timber (millions of dollars)	\$ 334.5	\$ 202.5	\$ 114.2	\$ 55.9	\$ 42.2

Certain prior years' figures have been reclassified to conform to the 2005 presentation.

FIVE-YEAR COMPARATIVE REVIEW

	2005	2004	2003	2002	2001
Cash generated from (used in) (million of dollars)					
Operating activities	\$ 193.3	\$ 708.5	\$ (62.2)	\$ 135.3	\$ 98.9
Financing activities					
Long-term debt	(67.8)	42.0	(52.9)	(49.9)	66.0
Common shares	(11.9)	8.0	0.9	0.6	-
Dividends paid	-	-	(10.6)	(21.1)	(21.1)
Interest on convertible subordinated debentures, net of income tax	-	-	-	-	-
Other	(0.3)	(0.8)	(0.4)	(0.4)	8.5
	(80.0)	49.2	(63.0)	(70.8)	53.4
Investing activities					
Property, plant, equipment and timber, net	(327.0)	(192.6)	(86.0)	(34.2)	(38.8)
Howe Sound Pulp and Paper Limited Partnership	(50.0)	-	-	(5.0)	(60.2)
Investment in subsidiaries and affiliates	-	(38.2)	(30.6)	-	-
Mortgage receivable on sale of property	-	-	(5.8)	(15.7)	-
Other	125.2	24.0	(1.5)	(2.9)	(11.4)
	(251.8)	(206.8)	(123.9)	(57.8)	(110.4)
Increase (decrease) in net cash					
From continuing operations	(138.5)	550.9	(249.1)	6.7	41.9
From discontinued operations	7.4	(19.3)	168.8	(14.0)	11.9
	\$ (131.1)	\$ 531.6	\$ (80.3)	\$ (7.3)	\$ 53.8
Financial statistics					
EBITDA	294.0	634.8	111.0	141.2	156.3
Return on capital employed	4.9%	19.8%	10.3%	2.7%	3.5%
Return on common shareholders' equity	4.8%	28.6%	17.0%	0.7%	3.3%
Ratio of current assets to current liabilities	2.4:1	2.4:1	1.5:1	1.7:1	2.0:1
Ratio of net debt to shareholders' equity	14:86	13:87	46:54	52:48	53:47
Production statistics ^a					
Lumber – MMfbm	4,624.4	4,234.9	2,632.6	2,695.3	2,090.2
Plywood – MMsf 3/8" basis	433.3	356.6	175.6	165.4	168.7
Oriented strand board – MMsf 3/8" basis	478.8	384.8	-	-	-
Pulp – 000 mt	1,189.1	1,142.3	992.1	1,001.5	900.1
Kraft paper – 000 mt	127.4	134.1	128.5	107.6	108.8
Hardboard – MMsf 3/8" basis	29.4	29.4	28.3	26.3	24.8
Refined fibre – 000 mt	35.9	37.4	37.3	39.5	40.2
Sales by product line ^a					
Lumber – Canfor produced	59%	60%	53%	55%	52%
Pulp and kraft paper	25	25	35	33	36
Plywood	4	4	3	3	3
Lumber – other producers	6	5	6	6	6
Oriented Strand Board	4	4	0	0	0
Miscellaneous	2	2	3	3	3
	100%	100%	100%	100%	100%
Sales by market					
United States	67%	61%	55%	57%	55%
Canada	12	20	21	20	21
Far East	13	12	13	12	12
Europe	7	7	10	10	11
Other	1	0	1	1	1
	100%	100%	100%	100%	100%

a. Excludes discontinued operations.
Certain prior years' figures have been reclassified to conform to the 2005 presentation.

SUBSIDIARY COMPANIES (Wholly-owned)

OPERATING COMPANIES

Canadian Forest Products Ltd.
Canfor Europe
Canfor Japan Corporation
Daaquam Maine Inc.
Canfor Panel and Fibre Marketing Ltd.
Canfor Pulp and Paper Marketing Ltd.
Canfor U.S.A. Corporation
Canfor Wood Products Marketing Ltd.
Howe Sound Transportation Company Limited
Nanika Timber Limited
Bois Daaquam Inc.
Produits Forestiers Anticosti Inc.
Canfor Georgia-Pacific Japan Corporation
Canfor (Asia) Corporation Limited

INACTIVE/HOLDING COMPANIES

317231 British Columbia Ltd.
615157 B.C. Ltd.
9129-1211 Quebec Inc.
B.C. Chemicals Ltd.
Canfor Hong Kong Corporation
Canfor Limited
Canfor US Holdings Inc.
Eburne Sawmills Limited
Northwood Properties Limited
Willowdale Storage Inc.
Slocan Forest Products Ltd.

PARTNERSHIPS AND JOINTLY OWNED COMPANIES

Canfor -LP OSB Limited Partnership (49.99% interest)
Canfor -LP OSB G.P. Corporation (50% interest)
Howe Sound Pulp & Paper Limited Partnership (49.99% interest)
HSPP General Partner Ltd. (50% interest)
Seaboard General Partnership (19.9% interest)
0732311 BC Ltd. (50% interest)
Canfor April Corporation (50% interest)

INVESTMENTS

Kyahwood Forest Products
Lakeland Mills Ltd.
Winton Global Lumber Ltd.
Vernon Seed Orchard Co.
Takla Track & Timber Ltd.

DEFINITIONS OF SELECTED FINANCIAL TERMS

Book Value per Share is the shareholders' equity, including the equity component of the convertible subordinated debentures (prior to their conversion in 2004), at the end of the year, divided by the number of common shares outstanding at the end of the year plus the number of common shares exchangeable for the convertible subordinated debentures.

Capital Employed consists of the funds invested or retained in Canfor in the form of shares or liabilities. It is composed of unrepresented cheques, current bank loans (net of cash and temporary investments), current portion of long-term debt, long-term debt, future income taxes arising from timing differences and shareholders' equity. Long-term liabilities and other accruals such as deferred reforestation costs, unfunded pension and post employment benefits, countervailing and anti-dumping duty provisions and unrealized foreign exchange losses on long-term debt are specifically excluded because they do not represent borrowed funds or funds invested by shareholders.

Earnings Before Interest, Taxes and Amortization (EBITDA) represents operating income before amortization.

Net Debt is total debt less cash and temporary investments.

Net Income per Common Share is calculated as described in Note 22 to the Consolidated Financial Statements.

Return on Assets is equal to net income plus interest, after tax, divided by the average of the total assets at the beginning and end of the year.

Return on Capital Employed is equal to net income plus interest, after tax, divided by the average of the capital employed during of the year.

Return on Common Shareholders' Equity is equal to net income for the year, divided by the average of total shareholders' equity at the beginning and end of the year.

DIRECTORS AND OFFICERS

DIRECTORS

The names, principal occupations, municipalities of residence, and the periods during which they have been Directors of the Company are as below. For more information visit www.canfor.com.

P.J.G. Bentley, O.C., LL.D. ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾
Chairman of the Board
Canfor Corporation
Vancouver, British Columbia
Director since 1966

R.L. Cliff, C.M., F.C.A. ⁽¹⁾⁽⁵⁾
Chairman of the Board,
Heathcliff Properties Ltd.
West Vancouver, British Columbia
Director since 1983

S.A. Jarislowsky, O.C., C.P.Q., LL.D. ⁽²⁾⁽⁴⁾
Chairman and Chief Executive Officer
Jarislowsky Fraser Limited
Montreal, Quebec
Director since 2004

M.J. Korenberg ⁽¹⁾⁽³⁾⁽⁶⁾
Managing Director, Vice-Chairman
The Jim Pattison Group
West Vancouver, British Columbia
Director since 2003

B.C. Louie, F.C.A., LL.D. ⁽³⁾⁽⁵⁾
Vice-Chairman of the Board
President and Chief Executive Officer
H.Y. Louie Co. Limited
Chairman and Chief Executive Officer
London Drugs Limited
West Vancouver, British Columbia
Director Since 2004

E.P. Newell, O.C., LL.D. ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾
Chancellor, University of Alberta
Edmonton, Alberta
Director since 1999

J.A. Pattison, O.C., O.B.C. ⁽²⁾
President, Managing Director,
Chief Executive Officer and Chairman
The Jim Pattison Group
West Vancouver, British Columbia
Director since 2003

M.E.J. Phelps, O.C., LL.M., LL.D. ⁽²⁾⁽³⁾⁽⁵⁾
Chairman, Dornoch Capital Inc.
West Vancouver, British Columbia
Director since 1990

D.C. Selman, F.C.A. ⁽¹⁾⁽⁵⁾
Senior Partner, Wolrige Mahon
Richmond, British Columbia
Director since 2004

J.A. Shepherd, P.Eng. ⁽⁴⁾⁽⁶⁾
President and Chief Executive Officer
Canfor Corporation
Surrey, British Columbia
Director since 2004

OFFICERS

The names, offices held, and municipalities of residence of the officers of the Company and the offices held by them are as below. For more information visit www.canfor.com.

P.J.G. Bentley
Chairman
Vancouver, British Columbia

B.C. Louie
Vice-Chairman
West Vancouver, British Columbia

J.A. Shepherd
President and Chief Executive Officer
Surrey, British Columbia

S.R. Wilson
Vice-President Finance and
Chief Financial Officer
Vancouver, British Columbia

D.M. Calabrio
Vice-President, Corporate Development,
General Counsel and Corporate Secretary
Surrey, British Columbia

K.O. Higginbotham
Vice-President, Forestry and Environment
Surrey, British Columbia

C.T. James
Vice-President, Human Resources
West Vancouver, British Columbia

D.B. Kayne
Vice-President, Wood Products Marketing
and Sales
Tsawwassen, British Columbia

D.W. Madlung
Vice-President,
Solid Wood Operations, West
Surrey, British Columbia

M. Palmiere
Vice-President,
Solid Wood Operations, East
Vancouver, British Columbia

P. Richards
Vice-President, Pulp and Paper
West Vancouver, British Columbia

(1) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.

(2) Member of the Management Resources and Compensation Committee, which oversees human resources and compensation policies and ensures management development and succession programs are in place.

(3) Member of the Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.

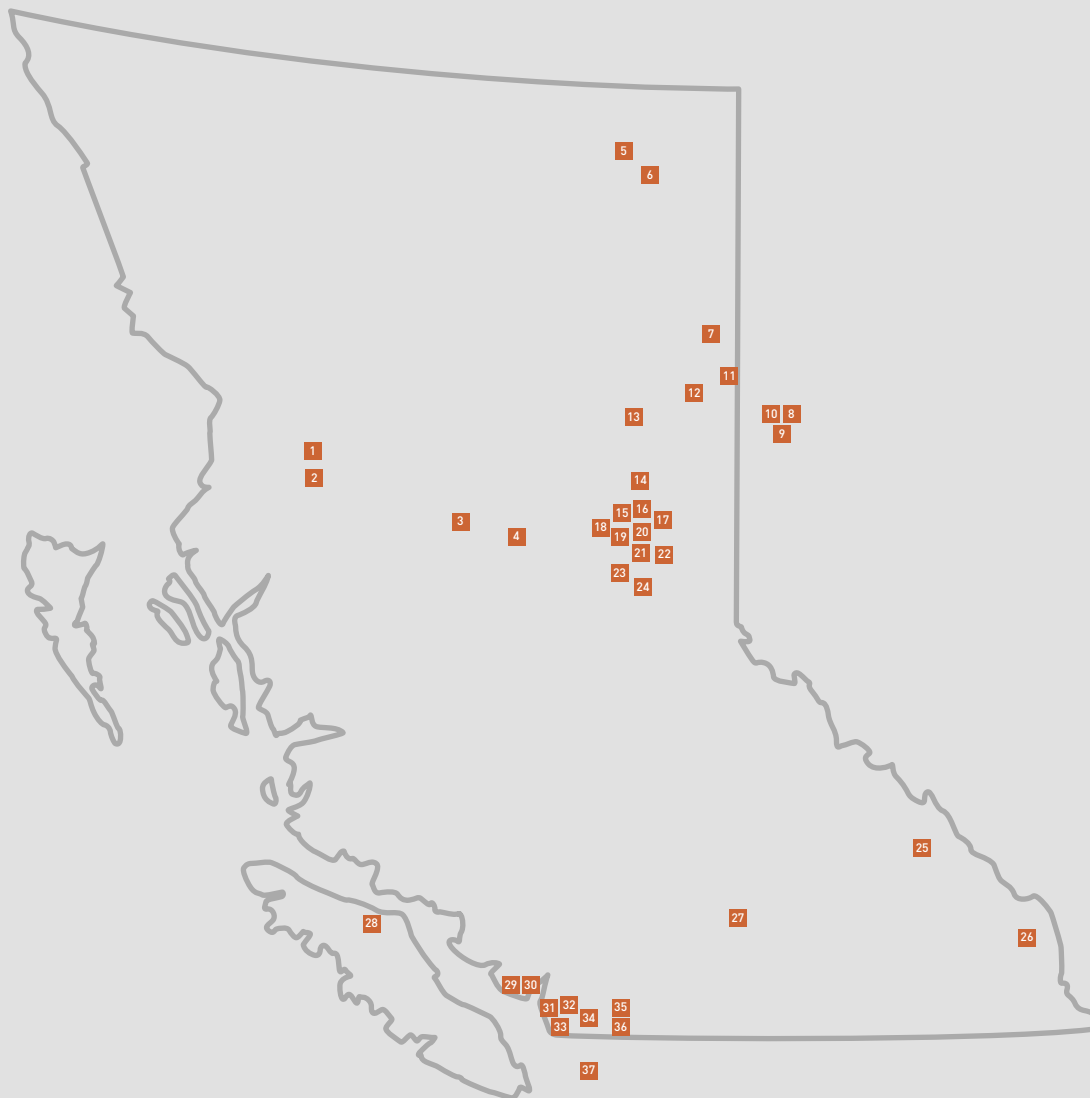
(4) Member of the Environmental, Health and Safety Committee, which develops, reviews and makes recommendations on matters related to the Company's environmental, health and safety policies, and monitors compliance with those policies and with government regulations.

(5) Member of the Pension Committee, which oversees the administration, financial reporting and investment activities of the Company's pension plans.

(6) Member of the Capital Expenditure Committee, which reviews proposed capital expenditures.

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

MAP OF WESTERN CANADA OPERATIONS



SAWMILLS

Chetwynd	12
Clear Lake	23
Fort St. John	7
Grande Prairie	8
Houston	2
Isle Pierre	4
Mackenzie	13
Plateau	3
Polar	14
Prince George	16
Quesnel	24
Radium	26
Rustad	22
Vavenby	25

PULP & PAPER

Howe Sound	30
Intercontinental ⁽¹⁾	20
Northwood ⁽¹⁾	19
Prince George	
Pulp & Paper ⁽¹⁾	17
Taylor	11

REMANUFACTURING

Canfor USA	37
Clear Lake	23
Grande Prairie	9
Kyahwood	1
Uneeda	36

PANELS

North Central Plywood	21
Panel and Fibre	34
Peace Valley OSB	7
PolarBoard OSB	5
Tackama Plywood	6

NURSERIES/SEED ORCHARDS

Grande Prairie	10
J.D. Little	
Forest Centre	15
Sunshine Coast	29
Vernon Seed Orchard	27

COASTAL LOGGING

Englewood ⁽²⁾	28
Harrison	35

OTHER

Administration Centre	18
Canfor Pulp & Paper Marketing ⁽¹⁾	32
Canfor Wood Products Marketing	33
Corporate Office	31

NOT SHOWN

Daaquam, PQ Sawmill
North American
Distribution Centres
Worldwide Sales Offices &
Agencies

(1) Subject to shareholder approval in the second quarter of 2006 that certain pulp and paper assets are transferred to a Pulp Income Trust. [Refer to financial statement note 30]

(2) Restructuring of assets is expected to close in first quarter of 2006. [Refer to financial statement note 30]

MILL OPERATIONS

	2005 Production	2006 Forecast Production
LUMBER ^(Mfbm)		
Primary Mills		
Chetwynd	234,100	244,000
Clear Lake	145,397	186,000
Daaquam	113,847	120,000
Fort St John	243,053	217,000
Grande Prairie	221,480	240,000
Houston	577,465	600,000
Isle Pierre	266,552	275,000
Mackenzie	471,754	512,000
Plateau	336,975	506,000
Polar	260,594	275,000
Prince George	319,225	360,000
Quesnel	351,625	387,000
Radium	157,832	170,000
Rustad	379,115	383,000
Vavenby	230,418	235,000
Mills closed or sold in 2005	186,401	–
subtotal	4,495,833	4,710,000
Remanufacturing		
Canfor USA	215,281	215,000
Finger-joint	33,829	55,000
Uneeda	153,756	200,000
subtotal	402,866	470,000
TOTAL	4,898,699	5,180,000
PLYWOOD ^(Msf)		
North Central Plywood	188,059	185,000
Tackama	245,255	267,000
TOTAL	433,314	452,000
OSB ^(Msf)		
Peace Valley ⁽³⁾	6,544	680,000
PolarBoard	475,525	605,000
TOTAL	482,069	1,285,000
PULP ^(Mt)		
Howe Sound ⁽³⁾	372,197	392,000
Intercontinental	308,228	312,400
Northwood	549,822	570,500
Prince George Pulp	125,152	153,000
Taylor	205,906	212,300
TOTAL	1,561,305	1,640,200
PAPER ^(Mt)		
Specialty Paper Mill	127,424	135,000
NEWSPRINT ^(Mt)		
Howe Sound ⁽³⁾	206,462	219,000

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting

Canfor's Annual General Meeting will be held at the Hyatt Regency Hotel, Plaza Ballroom, 655 Burrard Street, Vancouver, BC, on Friday, April 28, 2006 at 11:30 a.m.

Transfer Agent and Registrar

CIBC Mellon Trust Company
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax

Stock Listing

Toronto Stock Exchange
Symbol: CFP

Investor Contact

David Jan
Manager, Investor Relations
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Fax: (604) 661-5429
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PricewaterhouseCoopers
Vancouver, BC

Canfor Corporation Head Office

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Web: www.canfor.com

Canfor also produces an Annual Information Form.

To obtain this publication or more information about the company, please contact Canfor Corporation, Public Affairs or visit our website at www.canfor.com

Lee Coonfer

Manager, Public Affairs & Corporate Communications

Telephone: (604) 661-5225

Fax: (604) 661-5219

[3] Includes 100% of production



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