BUILDING ON OUR STRATEGY



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FINANCIAL HIGHLIGHTS

		2006 ^{(1) (2)}		2005 ⁽³⁾	
Sales and income	Sales	\$	3,842.3	\$	3,787.1
(millions of dollars)	Operating income	\$	634.5	\$	142.4
	Net income from continuing operations	\$	475.7	\$	101.8
	Net income	\$	471.8	\$	96.0
Cash flow (millions of dollars)	Cash flow from operations	\$	1,140.2	\$	193.3
Per common share	Net income from continuing operations – diluted	\$	3.34	\$	0.71
(dollars)	Net income – diluted	\$	3.31	\$	0.67
	Book value	\$	15.63	\$	14.36
	Share price				
	High	\$	15.20	\$	18.30
	Low	\$	9.54	\$	11.64
	Close - December 31	\$	10.79	\$	13.43
	Common shares outstanding - December 31	142,548,812		142,510,395	
Financial position	Working capital	\$	1,172.3	\$	756.2
(millions of dollars)	Total assets	\$	4,679.2	\$	3,830.1
	Long-term debt	\$	602.8	\$	544.5
	Common shareholders' equity	\$	2,227.7	\$	2,046.6
	Total capitalization	\$	3,715.9	\$	3,294.4
Additional information ^[4]	Return on capital employed		16.0%		4.9%
	Return on common shareholders' equity		22.1%		4.8%
	Ratio of current assets to current liabilities		2.2 : 1		2.4 : 1
	Ratio of net debt to common shareholders' equity	(26) : 126		14 : 86
	EBITDA (millions of dollars)	\$	817.1	\$	294.0
	EBITDA margin		21.0%		8.0%
	Capital expenditures (millions of dollars)	\$	107.1	\$	334.5

 ²⁰⁰⁶ information reflects the operating results of New South Companies, Inc. from March 6, 2006 and also includes a deduction of \$20.7 million to reflect the non-controlling interest in Canfor Pulp Limited Partnership for the period following the spinout on July 1, 2006.
 Includes the countervailing and anti-dumping duty refund (\$717.7 million) plus interest (\$97.7 million).
 Certain figures have been reclassified to conform with the current year's presentation.
 See Definitions of Selected Financial Terms on page 85.



Canfor Corporation is a leading Canadian integrated forest products company based in Vancouver, British Columbia with interests in over 33 facilities in British Columbia, Alberta, Quebec, Washington State and North and South Carolina.

Canfor is the largest producer of softwood lumber in Canada while also producing oriented stand board (OSB), plywood, remanufactured lumber products and specialized wood products. Canfor also owns an 50.2% interest in Canfor Pulp Limited Partnership, one of the largest producers of northern softwood kraft pulp in Canada and a leading producer of high-performance kraft paper.

Canfor has an annual production capability of approximately 5.3 billion board feet of lumber, 450 million square feet of plywood, and 1 billion square feet of OSB. Canfor also has approximately 11 million cubic metres of allowable annual cut under its forest tenures, all of which will be ISO 14001 certified. 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 and Canfor Pulp Income Fund directly employ approx. 7,300 people as well as an additional 2,200 contractors.

OUR PRODUCTS



SPF LUMBER
Dimension Lumber
Studs (Solid & Finger Joined)
Long Length Finger
Joined Lumber
Added value and
Industrial Products



STRUCTURAL PANELS
Plywood
OSB



SYP LUMBER
Dimension Lumber
Studs (Solid & Finger Joined)
Treated Lumber
Added value and
Industrial Products



SILVASTAR
Fascia and trim
Decking
Log Cabin siding
Pattern Stock
Furring Strips



ENGINEERED LUMBER
MSR
Long Length Finger Joined MSR



PANEL AND FIBRE
Hardboard
Ecofibre
Woodmat
Baled fibre

OUR STRATEGY IS SIMPLE

To be a profitable producer of building materials and the preferred supplier to markets around the world. The many successes we've achieved towards this goal is the direct result of hard work, tough decisions, and a relentless commitment to getting closer to our customers through manufacturing quality products and providing unrivaled service.



DEAR FELLOW SHAREHOLDERS

2006 was a very difficult and challenging year. With the decline in housing starts, prices for both lumber and OSB also declined. Our bottom line benefited however, by the refunded softwood lumber duties and the much improved pulp markets, resulting in a profit of \$471.8 million after tax. Although many external challenges impacted our performance, we also experienced internal challenges including two greenfield mill start ups. Our operations are now starting to show their potential as we see improved efficiencies and productivity.

CANFOR CORPORATION ANNUAL REPORT 2006

Upon acknowledging wood products as our core business, Canfor took steps to focus its operations around these products. By establishing Canfor Pulp Income Fund, we were able to concentrate our efforts on offering quality wood products and reliable service to our customers while rewarding our shareholders with shared ownership of Canfor Pulp Income Fund. As a 50.2 % owner, Canfor is also participating in its tremendous success this past year.

Englewood coastal assets, long the backbone of Canfor's coastal operations, were divested in 2006 while establishing a stable long term fibre contract for the Howe Sound Pulp Limited Partnership. This consolidated our forest tenures to the interior of British Columbia and Alberta. Howe Sound continues to be a world class pulp and paper facility operating at record levels.

To be a true supplier to the global market place, we recognized the need to diversify our product mix and expand our manufacturing footprint to have processing facilities closer to our customer base. To this end, we completed the acquisition of the New South Group of Companies in the Carolinas giving Canfor a strong presence in the southern yellow pine and treated lumber businesses and a secure foothold in the southeastern US market place.

In addition, we acknowledge the need to continue investing in our mills. All of our efforts throughout Canfor are directed at improving both operating and financial performance and ensuring the efficient production of logs that, for our interior operations, are declining in quality due to the impacts of the Mountain Pine Beetle.

The negotiated settlement of the softwood lumber dispute will result in more certainty for our industry and the North American marketplace. With the settlement came the return of \$551 million after tax in duties and interest to Canfor leaving us with a strong balance sheet. This favourable position allows Canfor, as a Company, to consider options to provide our shareholders with growth opportunities and ultimately, increase shareholder value.

Canfor continues in its effort for third party Sustainable Forest Management (SFM) certification of its forestry operations. With the recent certification of our Forest Licence in Mackenzie, we can proudly say that 96% of the allowable annual cut from Canfor's forest tenures is certified to the CSA SFM standard. Plans are in place to complete the certification of the remaining operations in Alberta and Quebec during the next year. Canfor is committed to having sustainable forest management certification in place for all of its tenures.

Canfor continues to be a leader in workplace safety. In 2006, the B.C. Forest Safety Council, in conjunction with WorkSafe BC (WCB), introduced its 'Safe Companies'

Sincerely,



Jim Shepherd

PRESIDENT AND CHIEF EXECUTIVE OFFICER

certification program for the Provinces woodlands operations. Two of Canfor's larger woodlands operations Fort Nelson Woodlands and Prince George Woodlands, were among a very small group of Licensees and Contractors (13 Province wide) to successfully pass the stringent health & safety certification audit process and receive their certified 'Safe Companies' designations. While we saw exceptional improvement at some of our operations overall our safety did not meet expectations. Ensuring the health and wellbeing of our employees will remain a priority for all of us at Canfor.

The development of markets outside of North America continues to show good returns. Canfor's college in China has completed two full courses and have graduated 159 trades people in the use of dimension lumber for domestic building projects. In addition, Canfor's International Distribution Centre, designed to service the needs of customers in the Asian market place, has allowed us to improve our customer service levels to these important market places.

2007 will be another extremely challenging year, but with the implementation of our strategy we expect results that reflect improving performance.

The immediate challenge now becomes managing the impacts of the Mountain Pine Beetle in northern B.C. and Alberta and to find the best way to operate our business in this new environment. The epidemic is well known, but the ultimate fibre quality impacts are not. Tremendous resources are being applied to understand what it all means to us so we can map out a future. Understandably the impacts will also help decide where to invest for our future and what tools are needed to most effectively deal with the log deterioration.

The housing market in North America is expected to be slower than recent years, putting downward pressure on lumber and panel pricing. Lower pricing, combined with taxes at the border and a higher Canadian dollar, will make for a challenging year. However, we have a loyal customer base who like our service and quality, so it is important that we supply their needs as we continue to weather the downturn. Markets will improve and we want our customers to know that Canfor is there to support them through the good times and bad.

At Canfor's Annual General Meeting in 2005, we introduced the strategy that will guide our Company's business into the future, a strategy "to become the preferred supplier of building products to the construction industry around the world." 2006 was a year of building on our strategy.

Once again, we would like to extend our gratitude to all of the Canfor employees, contractors and communities who help make our business successful. We would also like to express our appreciation to the Board of Directors for their valued advice.



Peter Bentley

Pets Bently

CHAIRMAN



DIMENSION LUMBER | Through a combination of automated and manual grading, Canfor ensures the production of the highest margin products possible. This commitment, combined with unparalleled service and quality, and the consistent application of technology and expertise, has enabled Canfor to become the largest SPF producer in the world, a significant presence in SYP and the preferred choice for dimension lumber. In 2006, Canfor's lumber capacity reached 5.3 billion fbm – through 18 low cost operations in BC, Alberta, Quebec and North & South Carolina.



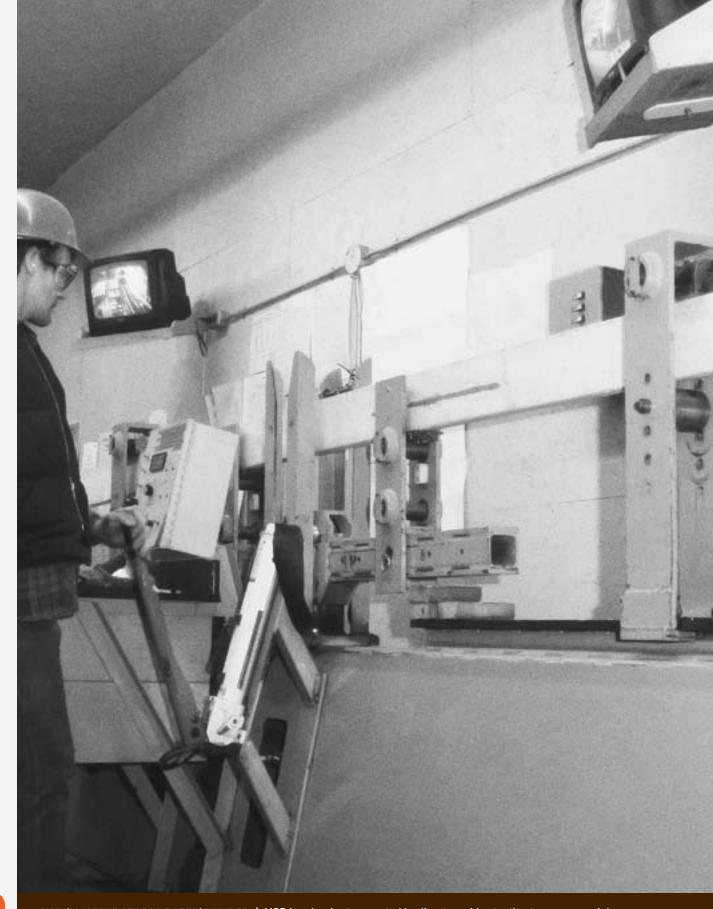
Canfor always strives to deliver A Higher Level of Lumber® – and builders have taken notice. Canfor dimension lumber is graded for strength and stiffness so it can be used for a variety of building purposes and is made to meet the NLGA grade rules for use in the USA and Canada. In addition, Canfor also seeks value added lumber by grading for Square Edge, Canfor's premium grade for North America and our J-Grade for Offshore markets, which meet higher visual standards. Other value added products include Canfor's MSR lumber.



PLYWOOD | Canfor's plywood is an engineered panel made by laminating layers of wood veneer and waterproof resin adhesive under extreme heat and pressure. An odd number of veneers coupled with each ply positioned at a 90° angle to the preceding one gives the finished panel its inherent strength. Canfor's two low-cost operations have a combined annual capacity of 450 million msf 3/8" basis and sell primarily in the Canadian market. Canfor targets premium markets in tongue and groove flooring and roofing applications and the recreational vehicle paneling markets.



Canfor's brand of premium CSP underlayment is called Northern Light™. This product is ideal for construction purposes as it is strong, yet much lighter in weight and easier to use than OSB products. Northern Light™ is manufactured from Western SPF. Its resistance to warping, twisting, cracking, shrinkage, and its overall high degree of strength, make it a favourite for the construction industry. Typical applications include subfloors, underlayment, roof or wall sheathing, as well as industrial low and high pressure laminates.



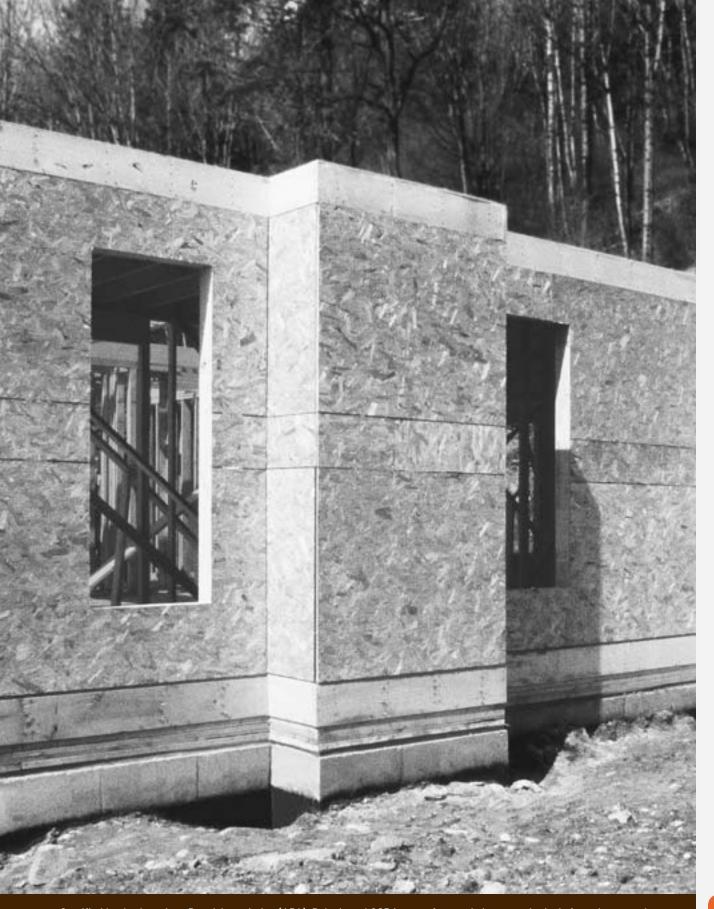
MSR (MACHINE STRESS RATED) LUMBER | MSR Lumber is stress rated by direct machine testing to ensure a minimum strength performance in engineered applications such as trusses and I joists. Because our fibre grows in the cold northern climates, the short growing seasons and cold conditions help to produce straighter and more stable lumber than many other regions of the world. In addition, it provides the ideal fibre for us to make a reliably consistent quality MSR product. The result? Canfor has become North America's dominant producer of SPF MSR.



After Canfor MSR has been graded to exceed minimum design strength for engineering applications it can be called on for demanding applications such as trusses. Canfor produces over 400 MMfbm of quality MSR tailored to the needs of the North America's most successful truss manufacturers. Truss manufacturers are selecting Canfor MSR not only because of our quality, reliable customer service, and excellent supply chain management system, but also because of the inherent advantages of SPF fibre – strength to weight ratio, nail holding ability, and ease of use.



OSB (ORIENTED STRAND BOARD) | Canfor manufactures Oriented Strand Board (OSB) panels for the Canadian, US and overseas markets. Canfor's 2006 capacity grew to over 1 billion msf 3/8" basis thanks to operational efficiencies and capital improvements at our PolarBoard and Peace Valley JV operations. Canfor's quality OSB goes through rigorous random testing for tensile and compressive strength to make sure the OSB is of the highest quality. These tests simulate situations such as a tree falling on a roof or repeated wear of walking on a floor.



Certified by the American Panel Association (APA), Polarboard OSB is manufactured almost exclusively from Aspen and is primarily performance rated sheathing, which is used in wall construction and flooring applications of new homes and in repair and remodeling projects. OSB is also perfect for specialized uses such as engineered stair stock. The rotated orientation of the layered strands combined with the wax and resins pressed together under extreme heat and pressure combine to produce a rigid engineered panel that is both strong and durable.



TREATED LUMBER | Canfor's strategy to be the building products supplier of choice is rounded out by our exceptional value-added wood products. Already with a solid reputation for our SilvaStar® line of fascia, trim, siding, and decking, Canfor's 2006 acquisition of New South bolstered our lineup with two lumber treating plants in North and South Carolina which produce high quality pressure-treated lumber. This strategic acquisition allows Canfor to have a footprint in a fast growing market, as well as diversify regionally and into new products.



Canfor pressure-treated lumber offers the construction industry a quality product that ensures against rot, fungal decay and termite attack, as well as extreme weather elements. In addition, Southern Yellow Pine is the preferred species when pressure treating with preservatives due to its favourable cellular structure which allows for a deep, consistent penetration of the preservatives. Extremely durable, yet easy to work with, Canfor pressure-treated lumber is designed for outdoor construction – specifically structural lumber, sill plates, patios, and decks.



Canfor is committed to the responsible stewardship of the forest resources entrusted to our care. Canfor's forestry operations in British Columbia, Alberta and Québec are located almost exclusively on public land, thus public acceptance of our forestry practices is imperative for us to remain in business. So too is recognition by our customers that Canfor's forest stewardship meets their expectations. At Canfor, we're committed to a process of continually improved forest management and using the best available science to improve our performance.



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Sustainability reaches from individuals to neighbourhoods, from business to customers and from this generation to the next. In 2006 Canfor continued to build on its commitment to a sustainable future. Our strategy places enhanced importance on the role we play as an employer in the communities where we operate, the work we do with our employees to make their workplace safer, and the way in which we sustainably manage our resources.

WILDLIFE AND HABITAT MANAGEMENT

In 2006, Canfor continued conservation planning for Species at Risk focusing on woodland caribou in our northern BC and Alberta Divisions. Plans designed to conserve key winter and calving habitat have been prepared and were submitted to government for approval for "Northern" caribou in Fort St. John and Chetwynd. Planning is expected to be completed in 2007 for Grande Prairie, Vavenby, and "Boreal" caribou in Fort Nelson. In addition, in 2007 Canfor will be evaluating potential new Species at Risk to determine impacts to fibre supply.

Canfor has made significant progress with the University of British Columbia developing a program designed to keep common species common. This program is a proactive conservation approach for managing biodiversity and minimizing the risk to fibre supply from future Species at Risk on the lands that we manage.

FPAC SUSTAINABILITY INITIATIVE AND REPORT

Canfor is an active member in the Forest Products Association of Canada (FPAC) and supports FPAC's vision of being a leader in advancing the global competitiveness and sustainable stewardship of the Canadian forest products industry. Canfor has been an active participant in the development of the FPAC Sustainability Initiative and subscribes to its principles of operating in a manner that is environmentally responsible, socially desirable and economically viable. Canfor has endorsed the following formal commitment statement:

"It is hereby confirmed that we are participants in the Forest Products Association of Canada's Sustainable Initiative and endorse its visions and principles.

As participants in the initiative we will integrate these principles into our business practices and contribute to sustainable development through continual improvement. We will provide information on our performance to the Forest Products Association of Canada for the development of a biennial, public Sustainability Report."

FPAC has produced its first Sustainability Report, which chronicles progress against a range of environmental, economic and social indicators that will evolve and continually improve over time. The Report is available on the Canfor website at www.canfor.com.

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) is regularly reviewed and maintained by the Sustainable Forestry Group, which includes representatives from all divisional and corporate forestry operations, to ensure that it remains current and effective. The FMS is certified to the latest version of the ISO EMS standard CAN/CSA-ISO 14001:04.

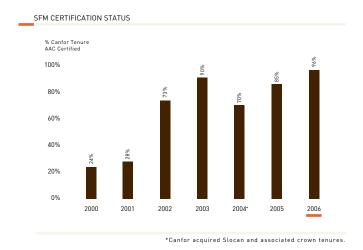
SUSTAINABLE FOREST MANAGEMENT CERTIFICATION

Canfor continues to be a leader in third-party Sustainable Forest Management (SFM) certification of its forestry operations.

Canfor maintains certification under the Canadian Standards Association (CSA) standard for Sustainable Forest Management (CAN/CSA-Z809-02) for its Forest Management Agreement area at Grande Prairie, Alberta, for its Tree Farm Licences at Chetwynd, Prince George and Vavenby, British Columbia, for its Forest Licences at Fort St John, Houston, Prince George, Fort Nelson, Vanderhoof, Vavenby, Quesnel and Radium, British Columbia and for its Pulpwood Agreements at Fort St John and Fort Nelson, British Columbia. A new certification to the CSA SFM standard has been acquired for Canfor's Forest Licence at Mackenzie, British Columbia.

Currently 96% of the allowable annual cut from Canfor's forest tenures is certified to the CSA SFM standard. Plans are in place to complete the certification of the remaining operations in Alberta and Québec during the next year. Canfor is committed to having sustainable forest management certification in place for all of its tenures.

Canfor's forestry operations have implemented 14 SFM plans certified to the CSA SFM standard. Each of these plans has been developed and is maintained with the active participation of a locally based public advisory group, which includes a broad range of stakeholders. The public participation process works according to clearly defined operating rules that have been developed and agreed to by the participants. All elements of the SFM plans including the public process are subject to annual internal and external surveillance audits. The SFM plans, associated reports and audit summaries are available at http://www.canfor.com/sustainability/certification/csa.asp.



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 2006, a total of 28 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 one spill to government agencies in British Columbia in 2006. The minor spill, was the result of an equipment failure and was contained and properly cleaned up.

Canfor forestry operations were not assessed any fines or administrative penalties relating to environmental non-compliances during 2006.

OBJECTIVES AND TARGETS FOR 2007

FOREST MANAGEMENT SYSTEM

We will maintain the Forest Management System during 2007. Surveillance audits to the ISO 14001 standard will be carried out at 5 operations and at the corporate office and re-registration audits will be carried out at a further 3 operations.

SUSTAINABLE FOREST MANAGEMENT CERTIFICATION

We will maintain existing CSA SFM certifications and complete the certification of the remaining operations.

SEM 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 11 operations.

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 majority owned manufacturing operations.

In 2006, Canfor had the following non-compliance situations (reported in accordance with government non-compliance reporting criteria):

AIR

At pulpmills – Particulate emissions from a Power Boiler exceeded the Permit limit on one quarterly stack test. At a pulpmill a small quantity of anhydrous ammonia was leaked to atmosphere as a result of a pinhole in a line.

At wood products operations, one burner was below compliance temperature on seven occasions, one burner was below compliance temperature on three occasions, and two burners exceeded smoke opacity limits on one occasion each. A power boiler exceeded smoke opacity limits on two occasions. Particulate from an OSB drier exceeded permit during three quarterly compliance tests. A wet electrostatic precipitator at a plywood plant was bypassed five times due to mechanical and electrical malfunctions. Weekly inspections on a sawmill planer baghouse were not documented as required by permit for two weeks out of a six month period. At a sawmill visible emissions from two cyclones were observed by the Ministry of Environment.

EFFLUENT

At pulpmills – In October, 2006, Canfor Pulp Limited Partnership (CPLP) observed dark ponded water in an area on the banks of the Fraser River and reported the dark ponded water to the appropriate regulatory agencies. The Partnership also undertook certain remedial work and investigations to determine the source of the dark ponded water. The Partnership's experts have concluded that the source is likely a leak from The Partnership's Intercontinental mill's ash pond.

The Partnership, in conjunction with the BC Ministry of Environment, is considering and developing remedial options. The cost to remediate the ash pond and surrounding area cannot be determined at this time, but The Partnership believes it will not have a material effect on its financial condition.

At a Panel plant a quarterly effluent report was submitted after the due date. At a sawmill significant vegetation growth on a berm surrounding a sanitary lagoon was noted by the Ministry of Environment.

LANDFILL - No issues to report.

SPILLS

At manufacturing operations – Canfor had 11 (4 at pulpmills; 7 at solid wood) reportable spills in 2006. All were contained, cleaned up and preventive actions taken. The spills included: two spills of pulp stock/filtrate; one spill of a pulp process chemical; one spill of untreated pulp mill effluent, one spill of hydraulic oil, two spills of transformer oil as a result of vandalism, one spill of thermal oil, two spills of diesel and one spill of quench water.

PERFORMANCE VERSUS OBJECTIVES IN 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.

PERFORMANCE

Canfor's contribution to airshed research in Prince George in 2006 included staff support and funding for the approved airshed research project. The main elements of this initiative include:

- Development of an emissions inventory with best available information on all significant sources of particulate,
- Modeling of source impacts on ambient levels of particulate, and
- Cost/benefit evaluation of source reduction opportunities.

The outcomes from this project will support the planning of management actions based on predicted benefit to air quality. The models developed will provide a tool to predict impacts from proposed new sources, source reductions and community growth.

(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

PERFORMANCE

A half-day EMS training session was conducted for new Environmental Coordinators in May 2006. Several mills were provided with consultant assistance in developing or updating environmental aspects lists for their sites. All environmental audits included an evaluation of environmental management systems against company EMS targets.

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.

PERFORMANCE

Drinking Water System Operators have been provided with information on the Drinking Water Protection Act and Regulations. The Drinking Water audit protocol has been applied at all sites audited in 2006. Drinking Water systems at all new Canfor operations were inspected by a qualified engineering firm. Most identified risks have been addressed while further works are in progress.

WOOD RESIDUE MANAGEMENT

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

PERFORMANCE

The \$55 million energy system and joint venture pellet project at our Houston sawmill will result in phase out of the Houston Tier 1 burner by the end of March, 2007. Options for Canfor's last Tier 1 burner in Fort St. John are being considered. They include third party utilization, energy systems, and pellet plant construction.

AUDITS

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

PERFORMANCE

Corporate environmental audits were conducted at five sawmill operations and one remanufacturing plant. Audits not conducted as planned in 2006 were deferred to 2007.

OBJECTIVES AND TARGETS FOR 2007

The following are corporate level objectives and targets for 2007.

AIR QUALITY

Research is underway to identify effective particulate reduction strategies for the Prince George airshed. While particulate is considered a risk to human health, ambient levels of odour constitute a nuisance and a potential impediment to community growth. Despite significant emission reductions, these levels have not improved since condensate strippers were installed at the pulpmills in 1989. In order to identify cost effective reduction strategies for odorous emissions we will initiate a study to characterize sources of odour at Canfor operations in the community.

We will finalize and implement a phase out plan for Canfor's one remaining Tier 1 burner.

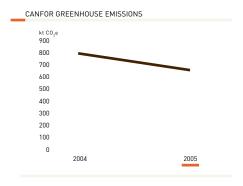
AUDITS

We will conduct corporate environmental audits of seven sawmills, two pulp mills, two panel plants and one remanufacturing plant.

MANAGING RESPONSIBLY

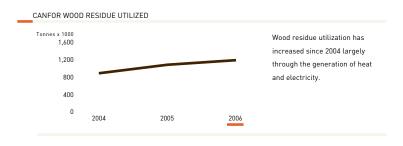
Canfor is a company that is committed to excellence in environmental performance across the company. New technologies, well-trained employees, and third party auditing of operations are all part of a comprehensive and effective environmental management program.

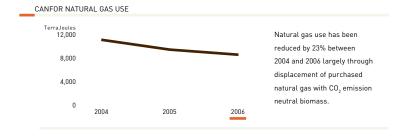
Canfor's GHG Emissions were reduced by 17% between 2004 and 2005 with start-up of the PG Pulp cogeneration project in mid-2005, and the Canadian Gas & Electric Grande Prairie wood residue cogeneration project in late 2004.

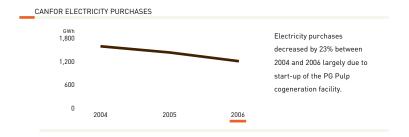


Over the past year Canfor has remained dedicated to reducing emissions and finding innovative energy solutions. By increasing wood residue usage in the production of heat and electricity Canfor was able to lessen the need for traditional energy sources. In 2006 Canfor generated approximately 1.7 million tonnes of byproduct wood residuals of which 70% or about 1.2 million tonnes was utilized for renewable heat and electricity generation, the production of wood pellets, sawdust pulp and fibreboard. Utilization will increase in 2007 with completion of the Houston Energy system Pellet Plant project and improved output of the Prince George Pulp cogeneration facility.

Canfor will continue to actively pursue value added opportunities for our remaining surplus wood residue.







OCCUPATIONAL HEALTH AND SAFETY

Over the course of the past 18 months, all of Canfor's operations completed comprehensive Health & Safety Audits using a standard audit process. The results of and recommendations from these audits make up the basis for designing and implementing action plans to improve the health & safety performance of Canfor's operating divisions.

Canfor continued with its practice of holding an annual Health & Safety Conference in Prince George. Over 270 salaried and hourly delegates from across all of Canfor's Operating Divisions attended the 2006 conference.

Now in its 56th year since inception, the annual President's Safety Awards were presented to four operating divisions to recognize their exceptional health & safety performance. The 2006 recipients were Isle Pierre (lowest Medical Incidence Rate (MIR) for 2006; Uneeda and Quesnel (greatest percentage MIR improvement, 2006/2005); and Intercontinental Pulp (lowest MIR for three consecutive years, 2004-2006)

In 2006, the B.C. Forest Safety Council, in conjunction with WorkSafe BC (WCB), introduced its 'Safe Companies' certification program for the provinces woodlands operations. Two of Canfor's larger woodlands divisions, Fort Nelson Woodlands and Prince George Woodlands, were among a very small group of woodlands Licenecees and Contractors (13 province wide) to successfully pass the stringent health & safety certification audit process and receive their certified 'Safe Companies' designations.



Canfor has set an overall MIR target of 2.00 which it expects its operations to achieve by the end of 2008.

CORPORATE CITIZENSHIP

"Our Roots Are In This Community" is more than just a slogan. At Canfor we believe in building a sustainable future for Canfor and the areas in which we operate. We recognize the importance of supporting local organizations and initiatives that will improve the communities we call home and the lives of the people who live and work there.

To this end 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.

Focused on Community our donation decisions are made by employees at a local level to ensure the specific needs of individual communities can be met.

BUILDING PARTNERSHIPS

In 2006 Canfor partnered with a dynamic group of business leaders to create Canada's Corporate Council on Volunteering. Working to engage employer-supported volunteerism the council established The Corporate Challenge on Volunteering. Canfor employees met the challenge pledging hundreds of hours to park restoration in areas affected by the Mountain Pine Beetle, fundraising for BC and Alberta's hospitals, organizing campaigns for Canadian Blood Services, and working to ensure families and individuals have access to basic resources.

BUILDING SUPPORT FOR OUR COMMUNITIES

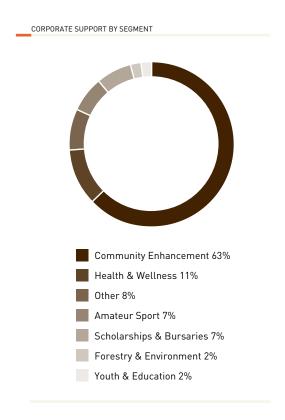
Canfor has a long tradition of supporting the United Way in its efforts to build strong families and strong communities. Recognizing that families across North America are facing tougher challenges than ever, Canfor and its employees donated over \$529,000 to the Prince George United Way, the Thompson Nicola Cariboo United Way, the Grande Prairie and District United Way, the United Way of the Lower Mainland, the United Way of Horry County, and the United Way of Kershaw County.

BUILDING A FOUNDATION FOR THE FUTURE

Canfor is committed to investing in the development of future leaders. By continually contributing to our scholarship programs and partnering with post secondary institutions to provide high quality work placements we are creating a foundation for students to build on.

At Canfor we work with graduating students through our internship program. Canfor offers internships to exceptional students who wish to develop their career in the wood products industry. The program's objective is to provide training and experience throughout all dimensions of our business and develop leaders of tomorrow. Recent graduates of the program are employed with Canfor as a Human Resource Coordinator, a Marketing Account Executive, and a Planer Supervisor.

In 2006, 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
- BC Senior Games
- Big Brothers/Big Sisters of Quesnel
- Blue Lake Forest Education Society
- Canadian Cancer Society
- Central Interior Science Exhibition
- Chetwynd & District Hospital Foundation
- Child Development Centre
- Chilliwack Youth Soccer Association
- Exploration Place
- Fort Nelson General Hospital
- Fort Nelson Public Library
- Fraser Basin Council
- Fraser Lake Medical Centre
- Grande Prairie & District United Way
- Grande Prairie Piranhas Swim Club
- Houston 4-H Club
- Inside Education
- Nechako Valley Historical Society
- Northbreast Passage Dragonboat Team

- Northeast Native Advancing Society
- Northern BC Winter Games
- Northern Environmental Action Team
- Penny Salmonid Enhancement Society
- Prince George & District Senior Activity Centre
- Prince George Music Festival
- Prince George Public Library Summer Reading Club
- Prince George Railway and Forestry Museum
- Prince George Speech Arts & Drama Festival
- Prince George United Way
- Prince George Folkfest
- River Raft Interpretive Salmon Program
- Spirit of the North Health Care Foundation
- STARS Alberta Shock Trauma Air Rescue Society
- Theatre Northwest
- Thompson Nicola Cariboo United Way
- Two Rivers Art Gallery
- United Way of Horry County
- United Way of Kershaw County
- United Way of the Lower Mainland
- Vanderhoof Public Library

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





Canfor is a company that is committed to excellence in environmental performance across the company. New technologies, well-trained employees, and third party auditing of operations are all part of a comprehensive and effective environment program. Specifically, Canfor continues to be a leader in third-party Sustainable Forest Management (SFM) certification of its forestry operations. Currently 96% of the allowable annual cut from Canfor's forest tenures is certified to the CSA SFM standard with plans in place to complete the certification of the remaining operations in the next year.

FINANCIAL REPORT

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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 2006 relative to 2005. 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; interest 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 22, 2007.

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 requires otherwise.

OVERVIEW OF 2006

2006 was an important year for Canfor, with several key accomplishments, but also a year of difficult market conditions and operating challenges. Prices for wood products deteriorated throughout the year, which, combined with the continued strength of the Canadian dollar, contributed to weaker financial results. The Company experienced operating challenges from the beetle-infested wood throughout central BC and in the start-up of new technology and capital in its mills.

In 2006, the Company continued to deliver on its strategy of focussing on the growth of its Wood Products business. To this end, Canfor reorganized its coastal assets and the NBSK pulp and paper assets were separated through the creation of the Canfor Pulp Income Fund. Canfor then distributed fund units representing 49.8% of the pulp and paper business to its shareholders, providing a significant shareholder value return. Canfor acquired the New South group of companies in the Carolinas, diversifying product mix and extending the Company's manufacturing base into the United States. Furthermore, a long-term resolution was negotiated in the softwood lumber dispute, which has provided a framework for greater certainty and, with the duty refunds fully received, financial flexibility going forward with a strong balance sheet.

Markets are expected to continue to be difficult through 2007, but the Company's efforts are focused on reducing costs and improving productivity and efficiency, which, combined with a loyal, growing customer base, will allow Canfor to weather this downturn. Another challenge in 2007 will be to deal with the impact of the mountain pine beetle. The epidemic is well known, but the everchanging fibre quality impacts are not. Significant effort is going into understanding the beetle impacts, both present and future, for the Company.

HIGHLIGHTS

CREATION OF THE CANFOR PULP INCOME FUND

In order to better focus the growth and profitability of the Company on Wood Products and to unlock shareholder value, on July 1, 2006 Canfor transferred its Prince George NBSK pulp and paper business (the Pulp Business) into the Canfor Pulp Limited Partnership and created the Canfor Pulp Income Fund (CPIF). For every Canfor share owned, shareholders received, in a tax-free event, 0.1 units of CPIF. At that point, Canfor shareholders owned all of the outstanding units of CPIF, which represented a 20% indirect interest in the Pulp Business, with Canfor owning the other 80%.

On November 30, 2006, Canfor completed a further distribution to its shareholders consisting of an in-kind taxable dividend of 1.49 Units of CPIF for every 10 shares of Canfor held. Following this dividend, Canfor owns a 50.2% interest in the Pulp Business.

In the 6 months from its inception to December 31, 2006, CPIF declared distributions of \$1.24 per Unit. The Units reached a high price of \$14.75 in January 2007.

SOFTWOOD LUMBER AGREEMENT (SLA) & RETURN OF DUTY DEPOSITS

The governments of Canada and the United States implemented an agreement for the settlement of the softwood lumber dispute, which began in May 2002. The agreement became effective on October 12, 2006, at which time the US Department of Commerce revoked all existing antidumping (ADD) and countervailing (CVD) duty orders on softwood lumber shipped to the US from Canada. Approximately 81% of deposits paid, together with accumulated interest, were returned to Canadian lumber producers. The remaining 19% (US \$1 billion) was retained by the US government for distribution to the US forest industry petitioners and for use in funding "meritorious activities" such as disaster relief, the promotion of sustainable forestry management and low income housing. While the agreement provides a more certain framework for the next seven years, the risk of lumber tax and volume restrictions remains.

At December 31, 2006, Canfor had received almost all of the deposits due and reported in income an amount of \$551.2 million, net of tax, or \$3.87 per share.

NEW SOUTH COMPANIES, INC.

On March 6, 2006, Canfor completed its acquisition of New South Companies, Inc. (New South) at a cost of US \$181.6 million. New South operates three sawmills with an annual capacity of 430 million board feet of southern yellow pine (SYP), one remanufacturing facility and two lumber treating plants located in North and South Carolina and an international lumber import business. New South also operates a lumber-trucking fleet of 55 trucks on the US East Coast. Canfor acquired top quartile assets and an experienced management team, which will provide a footprint for future growth in one of the fastest growing housing regions in North America. The acquisition also allowed Canfor to diversify regionally and into new products and markets.

RESTRUCTURING OF COASTAL LOGGING OPERATIONS

On March 20, 2006, the owners of Howe Sound Pulp and Paper Limited Partnership (HSLP) took another step towards ensuring the viability of HSLP by each contributing \$45 million of assets. Canfor contributed its Englewood logging operation and associated timber licences while Oji Paper Canada Ltd contributed cash to a new limited partnership, Coastal Fibre Limited Partnership (CFLP). CFLP transferred these assets to Western Forest Products Inc. (WFP) in return for a long-term agreement with WFP to supply CFLP with fibre, and CFLP will supply this fibre to HSLP.

HOUSTON PELLET PLANT AND ENERGY PROJECT

Construction of the pellet plant, which is 60% owned by Canfor, was completed in 2006 on time and on budget. The plant has met all expectations on its ramp-up, achieving full capacity (135,000 tonnes of pellets on an annual basis to markets in Japan and Europe) by the end of 2006. The other part of the project, the bark-fired energy system, is expected to be completed in March of 2007. This "green energy" project, upon completion, will take all the bark produced at the Houston Sawmill and will provide the heat required for both lumber and pellet production.

CANFOR'S BUSINESS

Canfor is a leading integrated forest products company based in Vancouver, British Columbia (BC), with interests in 33 facilities in BC, Alberta, Quebec, Washington State and North and South Carolina. The Company is the largest producer of softwood lumber in Canada, while also producing oriented strand board (OSB), plywood, remanufactured lumber products and specialized wood products. Canfor also owns a 50.2% interest in Canfor Pulp Limited Partnership (CPLP), which is one of the largest producers of northern bleached softwood kraft (NBSK) pulp in Canada and a leading producer of high-performance kraft paper.



TENURES

- 10.9 million cubic metres of allowable annual cut (AAC) under forest tenures
- 97% ISO 140001 certified
- 86% of AAC certified to the CSA/SFM standard (a further 12% will be certified in 2007 and the remaining 2% in 2008)

LUMBER

- Primary lumber capacity of approximately 5.3 billion board feet
- 18 sawmills in BC, Alberta, Quebec and North and South Carolina

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 when fully ramped up (Canfor's share is 50%). The plant is anticipated to be operating at its designed capacity in early 2008.
- Hardboard, panelboard and erosion control products

PULP

- CPLP has pulp capacity of 1.0 million tonnes of northern bleached softwood kraft (NBSK), of which Canfor's share is 50.2%. In addition, Canfor produces 0.2 million tonnes of bleached chemi-thermo mechanical pulp (BCTMP) at its wholly owned Taylor mill.
- Kraft paper capacity of 135,000 tonnes through Canfor's investment in CPLP.
- CPLP markets the pulp production of HSLP, which amounted to 374,600 tonnes in 2006, and the pulp production of the Taylor mill.

BUSINESS STRATEGY

Canfor's objective is to be the preferred supplier of wood products to the building industry around the world. 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 a low cost structure in all business segments,
- maximizing high-margin products and obtaining maximum 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 INFORMATION¹

(millions of dollars, except volumes and per share amounts)	2006	2005	2004
Sales volume - major products			
Lumber – millions of board feet	5,677.9	5,096.8	4,547.5
Plywood – millions of square feet, 3/8" basis	441.5	435.7	343.6
Oriented strand board millions of square feet, 3/8" basis	722.6	469.3	379.6
Pulp – thousands of metric tonnes	1,206.1	1,189.1	1,114.2
Sales by segment			
Lumber	\$ 2,521.5	\$ 2,544.9	\$ 2,640.0
Panels	367.9	365.7	368.8
Pulp and Paper	952.9	876.5	916.2
Total sales	\$ 3,842.3	\$ 3,787.1	\$ 3,925.0
Operating income (loss)			
Lumber ²	\$ 585.2	\$ 131.5	\$ 382.4
Panels	(53.3)	25.4	121.0
Pulp and Paper	141.9	22.2	45.1
Corporate and Other	(39.3)	(36.7)	(54.0)
Total operating income	634.5	142.4	494.5
Non-operating income (expense)			
Net interest income (expense) ²	56.2	(42.2)	(58.8)
Foreign exchange gain on long-term debt and temporary investments	4.7	10.0	48.7
Other income (expense) and unusual items	(29.6)	4.0	8.2
Total non-operating income (expense)	31.3	(28.2)	(1.9)
Net income from continuing operations before income taxes			
and non-controlling interests	665.8	114.2	492.6
Income tax expense	(169.4)	(12.4)	(94.1)
Non-controlling interests	(20.7)	-	-
Net income from continuing operations	475.7	101.8	398.5
Net income (loss) from discontinued operations, net of taxes	(3.9)	(5.8)	17.0
Net income	\$ 471.8	\$ 96.0	\$ 415.5
Total assets	\$ 4,679.2	\$ 3,830.5	\$ 3,979.6
Total long-term financial liabilities	\$ 602.8	\$ 544.5	\$ 660.5
Income from continuing operations per common share			
Basic	\$ 3.34	\$ 0.71	\$ 3.31
Diluted	\$ 3.34	\$ 0.71	\$ 3.09
Net income per common share			
Basic	\$ 3.31	\$ 0.67	\$ 3.45
Diluted	\$ 3.31	\$ 0.67	\$ 3.22
Cash dividends declared ³	\$ -	\$ -	\$ -

^{[1] 2006} information reflects the operating results of New South Companies, Inc. from March 6, 2006 and 2004 information reflects the operating results of the former Slocan operations from April 1, 2004. 100% of the results of CPLP are included, with an appropriate deduction, in 2006, in the non-controlling interests line.

^{[2] 2006} operating income includes the countervailing and anti-dumping duty refund (\$717.7 million) and net interest income includes the associated interest income (\$97.7 million).

^[3] In 2006 Canfor paid distributions to its shareholders consisting of a return of capital in the form of 0.1 of a Fund Unit of Canfor Pulp Income Fund (CPIF) for every Canfor share and an in-kind taxable dividend consisting of 1.49 Fund Units of CPIF for every 10 Canfor shares.

2006 COMPARED TO 2005

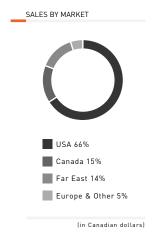
2006 was a challenging year, with difficult market conditions affecting the profitability of Canfor's Lumber and Panels segments. Lumber prices averaged 17% lower in 2006 than in 2005 and ended the year 37% lower than at the start of the year. OSB prices averaged 32% lower in 2006 and ended the year at 51% less than at the start of the year. The decline in plywood prices was less dramatic, with prices averaging 5% lower in the year. As a result of the poor pricing environment, market curtailments were taken in the year, which reduced production by 116 million board feet of lumber, 84 million square feet of OSB and 6 million square feet of plywood. The results (excluding the duty refund) for the Lumber and Panels segments decreased by \$342.7 million in 2006, to a combined operating loss of \$185.8 million.

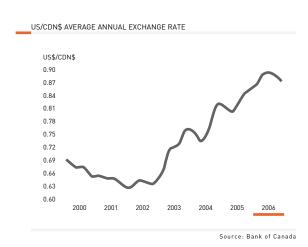
In contrast, strong pulp markets in 2006 resulted in an excellent year for the Pulp and Paper segment. Pulp prices rose throughout the year, averaging 12% higher than 2005 and closing the year 22% higher than at the start of the year. As a result, the Pulp and Paper segment's operating income increased by \$119.7 million, to \$141.9 million in 2006.

Exchange Rates and Prices:	2006	2005		
Average value of the Canadian dollar against the US dollar	\$ 0.882	\$ 0.826		
Year-end closing value of the Canadian dollar against the US dollar	\$ 0.858	\$ 0.858		
Average 2x4 Random Lengths #2 & Better lumber price in US dollars	\$ 295	\$ 355		
Average lumber price expressed in Canadian dollars *	\$ 334	\$ 430		
Average Canadian plywood price, delivered to Toronto, in Cdn \$	\$ 367	\$ 387		
Average OSB price, North Central, in US dollars	\$ 217	\$ 319		
Average OSB price expressed in Canadian dollars *	\$ 246	\$ 386		
Average pulp price delivered to northern Europe, in US\$	\$ 683	\$ 611		
Average pulp price expressed in Canadian dollars *	\$ 774	\$ 740		

 $[\]ensuremath{^*}$ 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. In 2006, the dollar averaged 88.2 cents, or nearly 7% higher than in 2005.





SELECTED QUARTERLY FINANCIAL INFORMATION

		200	06				20	105		
	Q4	Q3		Q2	Q1	Q4	Q3		Q2	Q1
Sales and Income (millions of dollars)										
Sales	\$ 892.0	\$ 927.7	\$	1,059.9	\$ 962.7	\$ 853.8	\$ 934.1	\$	1,035.7	\$ 963.5
Operating income (loss)	\$ 656.1	\$ (44.8)	\$	(15.3)	\$ 38.5	\$ (14.7)	\$ (5.8)	\$	66.0	\$ 96.9
Net income (loss) from continuing operations	\$ 466.9	\$ (51.6)	\$	39.2	\$ 21.2	\$ (10.6)	\$ 20.7	\$	28.2	\$ 63.5
Net income (loss)	\$ 465.3	\$ (51.6)	\$	39.2	\$ 18.9	\$ [12.3]	\$ 17.4	\$	25.3	\$ 65.6
Per common share (dollars)										
Net income (loss) from continuing operations										
Basic	\$ 3.28	\$ (0.36)	\$	0.28	\$ 0.15	\$ (0.07)	\$ 0.14	\$	0.20	\$ 0.44
Diluted	\$ 3.27	\$ (0.36)	\$	0.28	\$ 0.15	\$ (0.07)	\$ 0.14	\$	0.20	\$ 0.44
Net income (loss)										
Basic	\$ 3.26	\$ (0.36)	\$	0.28	\$ 0.13	\$ (0.09)	\$ 0.12	\$	0.18	\$ 0.46
Diluted	\$ 3.26	\$ (0.36)	\$	0.28	\$ 0.13	\$ (0.09)	\$ 0.12	\$	0.18	\$ 0.46
Statistics Lumber shipments (MMfbm) Plywood shipments (MMsf 3/8") OSB shipments (MMsf 3/8") Pulp shipments (000 mt)	1,352 110 184 292	1,416 103 193 308		1,597 118 188 293	1,313 110 157 313	1,176 98 118 312	1,334 124 132 310		1,393 107 117 299	1,193 106 103 268
Average exchange rate (Cdn\$/US\$)	\$ 0.878	\$ 0.892	\$	0.891	\$ 0.866	\$ 0.852	\$ 0.832	\$	0.804	\$ 0.815
Average Western SPF 2x4 #2&Btr										
lumber price (US \$)	\$ 245	\$ 278	\$	316	\$ 343	\$ 328	\$ 327	\$	365	\$ 398
Average SYP (East) 2x4 #2										
lumber price (US \$)	\$ 272	\$ 304	\$	380	\$ 435	\$ 439	\$ 457	\$	458	\$ 433
Average plywood price-Toronto (Cdn \$)	\$ 366	\$ 364	\$	360	\$ 375	\$ 387	\$ 362	\$	361	\$ 439
Average OSB price-North Central (US \$)	\$ 166	\$ 181	\$	238	\$ 285	\$ 317	\$ 291	\$	305	\$ 364
Average NBSK final pulp price delivered to										
Northern Europe (US \$)	\$ 730	\$ 711	\$	670	\$ 622	\$ 600	\$ 588	\$	613	\$ 642

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

Other factors that impact the comparability of the quarters are noted below:

		20	06				20	05		
(millions of dollars, after tax)	Q4	Q3		Q2	Q1	Q4	Q3		Q2	Q1
Foreign exchange gain (loss) on long-term										
debt and temporary investments	\$ (9.9)	\$ (5.6)	\$	20.2	\$ (0.8)	\$ (3.8)	\$ 24.7	\$	(9.7)	\$ (3.0)
Duty refund and interest ⁴	551.2	-		_	-	_	_		-	-
Adjustment to prior year's duty costs										5.2
Mill closure and severance costs	(4.3)	-		-	-	-	(2.5)		(1.7)	-
Loss on timber take back	-	-		-	-	2.7	(8.9)		-	-
Insurance deductible on fire at										
PolarBoard OSB plant	-	-		[1.4]	-	-	-		-	-
Corporate development costs related to										
segregation of pulp and paper business	-	-		(2.4)	-	-	-		-	-
Spinout costs incurred directly by CPLP	-	(3.1)		-	-	-	-		-	-
Change in accounting practice for										
pulp maintenance costs	-	-		2.6	-	-	-		-	-
Adjustment to prior period's incentive costs	-	-		_	1.1	(2.6)	_		_	-
Write down of equity and other investments	(16.2)	-		_	-	_	_		_	-
Distribution from Seaboard General										
Partnership arising from asset sales	-	-		-	-	8.9	-		-	-
Corporate income tax rate reductions	-	-		43.9	-	_	21.0		_	-
Prior year tax reassessments and										
other tax adjustments	0.5	-		(1.0)	-	_	_		_	-
Net income (loss) from										
discontinued operations	(1.6)	-		-	(2.3)	(1.7)	(3.3)		(2.9)	2.1
Net favourable (unfavourable) impact on										
quarterly earnings	\$ 519.7	\$ (8.7)	\$	61.9	\$ (2.0)	\$ 3.5	\$ 31.0	\$	[14.3]	\$ 4.3

^[4] The refund of \$717.7 million is included in the Lumber segment's operating income and the interest income of \$97.7 million is offset against the interest expense line on the income statement.

Following the spinout of the Pulp Business on July 1, 2006, Canfor is continuing to consolidate 100% of the earnings from CPLP, however, the 20% non-controlling interest is reversed on the income statement beginning in the third quarter of 2006, and a further 29.8% at the end of November, 2006, which affects comparability of net income of prior periods. The results from the New South operations, which were acquired in March 2006, also impact the comparability of the quarterly results.

FOURTH QUARTER RESULTS

Operating income of \$656.1 million and net income of \$465.3 million were recorded in the fourth quarter of 2006, compared with an operating loss of \$14.7 million and a net loss of \$12.3 million in the fourth quarter of 2005. Diluted earnings per share was \$3.26 in the fourth quarter of 2006, compared to \$(0.09) in the fourth quarter of 2005.

The fourth quarter 2006 results include the CVD and ADD refund (\$717.7 million) and associated interest income (\$97.7 million), which together amounted to \$551.2 million after tax. This was partially offset by restructuring, mill closure and severance costs of \$4.3 million after tax (2005 – \$0.1 million), a write down of equity and other investments totaling \$16.2 million after tax (2005 – nil), a \$9.9 million after-tax foreign exchange loss on long-term debt and temporary investments (2005 – \$3.9 million), and \$1.1 million of tax adjustments related to prior year reassessments.

The comparability of the fourth quarter results in 2006 and 2005 was also impacted by the strengthening of the Canadian dollar, which averaged 3% stronger in the fourth quarter of 2006 than in the same period in 2005, and weaker prices for lumber (25% lower), OSB (48% lower) and plywood (5% lower), partially offset by a 22% increase in pulp prices.

The fourth quarter results by business segment were as follows:

LUMBER

The Lumber segment reported operating income of \$645.2 million, or, excluding the duty refund, an operating loss of \$72.5 million in the fourth quarter, compared to an operating loss of \$13.1 million in the same period in 2005. As a result of the weak market conditions, a number of curtailments were taken in the quarter, primarily over the Christmas period, which, in combination with the early onset of winter weather, resulted in a 2% decline in production, to 1,028.7 million board feet, compared to the fourth quarter of 2005.

The New South operations, which were acquired on March 6, 2006, produced 92.4 million board feet of lumber in the fourth quarter of 2006 and contributed operating income of \$3.3 million, which includes \$8.0 million received from the Coalition for Fair Lumber Imports following the implementation of the SLA in October.

PANELS

The Panels segment reported an operating loss of \$26.5 million in the quarter, compared to an operating loss of \$2.7 million in the fourth quarter of 2005, mainly as a result of the sharp decline in OSB prices.

OSB production was 184.8 million square feet in the fourth quarter of 2006, or 63% higher than the same period in 2005, primarily as a result of the new OSB joint venture in Fort St. John (Peace Valley OSB), which began production in late December 2005. Production at the PolarBoard operation was 8% lower than in the fourth quarter of 2005 as a result of taking four weeks of market-related downtime.

Plywood production of 105.7 million square feet was 4% lower than in the fourth quarter of 2005 as a result of taking 8 days of market-related downtime at the two plywood plants over Christmas, and other downtime totaling approximately 3 days due to various mechanical issues in the quarter.

PULP AND PAPER

The Pulp and Paper segment earned operating income of \$50.1 million in the quarter, compared to operating income of \$16.8 million in the fourth quarter of 2005, mainly as a result of higher pulp prices. Pulp production of 310,800 tonnes was 2% higher in the fourth quarter of 2006, primarily as a result of maintenance downtime taken in the fourth quarter of 2005.

CORPORATE COSTS

Corporate costs were \$12.7 million in the fourth quarter of 2006, compared to \$15.7 million in the fourth quarter of 2005. The fourth quarter 2006 expense includes \$2.9 million of additional severance and lease costs related to the integration of Slocan and Canfor. Corporate costs in the fourth quarter of 2005 were higher than usual due to a \$6.5 million accrual for the executive long-term incentive plan related to the 2005 and 2004 fiscal years, \$1.0 million of severance costs and higher donations, consulting fees and employee relocation costs.

NON-OPERATING ITEMS

Interest income of \$88.6 million was recorded in the fourth quarter of 2006, compared to interest expense of \$9.3 million in the fourth quarter of 2005. As mentioned above, the 2006 quarter included interest on the duty refund of \$97.7 million.

Equity losses and other expenses amounted to \$20.8 million in the fourth quarter of 2006, mainly comprising a \$0.9 million loss from equity investees, a \$19.1 million write-down of the equity investment in Lakeland Mills and Winton Global Lumber, and \$0.4 million of other write-downs. Equity and other income in 2005 amounted to \$7.9 million and was comprised of equity losses from affiliates of \$1.3 million, Seaboard General Partnership income of \$8.9 million and miscellaneous income of \$0.3 million. In the fourth quarter of 2005, a \$2.3 million favourable adjustment was recorded to the loss on the timber take-back recorded in an earlier quarter.

Although the results from CPLP continue to be consolidated in the Pulp segment's operating income, above, the non-controlling interest is backed out on the income statement, which amounted to \$12.3 million in the fourth quarter of 2006, and, therefore affects the comparability of net income in the fourth quarter of 2005.

EBITDA RECONCILIATION

The following table reconciles the Company's net income (loss) from continuing operations, as reported in accordance with GAAP, to EBITDA:

EBITDA excluding duty refund	\$ (14.1)	\$ 99.4	\$ 23.7	\$ 294.0
Countervailing and anti-dumping duty refund	(717.7)	(717.7)	-	_
EBITDA (operating income before amortization)	703.6	817.1	23.7	294.0
Amortization	47.5	182.6	38.4	151.6
Equity (income) loss of affiliated companies	0.9	0.2	(7.6)	(11.6)
Interest (income) expense	(88.6)	(56.2)	9.3	42.2
debt and temporary investments	12.0	(4.7)	4.7	(10.0)
Foreign exchange (gain) loss on long-term		27	(0.0)	(,
Other (income) expense	19.9	29.4	(0.3)	(1.2)
Unusual items	_	_	(2.3)	8.8
Income tax (recovery) expense	232.7	169.4	(7.9)	12.4
Non-controlling interests	12.3	20.7	-	_
Add (subtract):		,	, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	,
Net income (loss) from continuing operations	\$ 466.9	\$ 475.7	\$ [10.6]	\$ 101.8
(millions of dollars, except for per share amounts)	2006	2006	Q4 2005	YTD 2005
	Q4	YTD	Q4	

2006 RESULTS BY BUSINESS SEGMENT

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 Company's Financial Statements. Canfor's operations include the following three operating segments: Lumber, Panels and Pulp and Paper.

LUMBER

The segment consists of logging and forestry operations, which harvested from approximately 10.9 million cubic metres of allowable annual cut in northern British Columbia, northern Alberta and Quebec in 2006, and operates 13 sawmills in British Columbia, one in Alberta, one in Quebec, two in South Carolina and one in North Carolina. The combined lumber production capacity of these sawmills is 5.3 billion board feet. Other operations include two lumber remanufacturing facilities, one in British Columbia and one in Washington State, two whole-log chipping plants and two finger-joint mills. The South Carolina operations include two lumber treating plants, a finger joint plant, an international lumber import business and a trucking division. The segment also includes Canfor's wood products marketing division, located in Vancouver. Canfor has a 60% interest in the Houston Pellet Plant, which commenced operations late in 2006 and has an annual capacity to produce 135,000 oven-dried tonnes of wood pellets.

Summarized results for the Lumber segment for 2006 and 2005 are as follows:

(millions of dollars)		20065	20		
Sales	\$:	2,521.5	\$ 2	2,544.9	
Countervailing/anti-dumping duties & export tax expensed	\$	109.8	\$	224.8	
Countervailing/anti-dumping duties refunded	\$	717.7	\$	-	
Operating income	\$	585.2	\$	131.5	
EBITDA	\$	686.2	\$	218.4	
EBITDA before duty refund	\$	(31.5)	\$	218.4	
EBITDA margin		(1)%		9%	
Capital expenditures	\$	76.9	\$	158.7	
Lumber shipments (millions of board feet)					
Canfor produced SPF		4,432		4,681	
Canfor produced SYP		381		-	
Other producers (SPF and SYP)		865		416	
Lumber production (millions of board feet)					
SPF		4,460		4,624	
SYP		341		-	
Average SPF 2x4 #2 & Better lumber price in US \$6	\$	295	\$	355	
Average SPF price expressed in Cdn \$	\$	334	\$	430	
Average SPF composite price in US \$6	\$	326	\$	387	
Average SYP 2x4 #2 lumber price in US \$7	\$	348	\$	447	
Average SYP price expressed in Canadian dollars	\$	395	\$	541	

- (5) Includes the results of New South from March 6, 2006.
- (6) Western Spruce/Pine/Fir, per thousand board feet [Source Random Lengths Publications, Inc.]
- [7] Southern Yellow Pine, Eastside, per thousand board feet (Source Random Lengths Publications, Inc.)

The segment's operating income before the duty recovery declined by \$264 million from 2005, driven largely by the impact of unfavourable changes in both market prices and the US exchange rate. The aggregate negative impact of market-related indicators totalled just over \$186 million when comparing 2006 with 2005, and the resulting market-related curtailments contributed to a 4% unfavourable production variance to 2005. Further impacting financial performance relative to 2005 was the impact of a 13% reduction in chip prices.

SOFTWOOD LUMBER AGREEMENT (SLA) & RETURN OF DUTY DEPOSITS

Effective October 12, 2006, the governments of Canada and the United States implemented an agreement for the settlement of the softwood lumber dispute, which began in May 2002. The Softwood Lumber Agreement (SLA), which received formal approval by the Canadian Parliament on December 14, 2006, has a term of seven years and provides for an extension of two years. Either government can give notice to terminate the SLA after 23 months, but there is an additional 12-month notice period before the agreement can be terminated.

Under the terms of the SLA, the US Department of Commerce revoked all existing antidumping (ADD) and countervailing (CVD) duty orders on softwood lumber shipped to the US from Canada. Approximately 81% of deposits paid, together with accumulated interest, were to be returned to Canadian lumber producers. The remaining 19% (US \$1 billion) was to be retained by the US government for distribution to the US forest industry petitioners and for use in funding "meritorious activities" such as disaster relief, the promotion of sustainable forestry management and low income housing. Approximately US \$40 million will be utilized for a joint US/Canada committee designed to strengthen and build the North American lumber market.

In the fourth quarter, the full amount of the duty deposits and accumulated interest was refunded by the US government, with the US \$1 billion repayable by the Canadian producers as a special assessment to be collected by the Canadian government. At December 31, 2006, Canfor had received cash of US \$921.5 million and had accrued US \$164.0 million for this assessment, which was paid to the Canadian government on January 31, 2007. The net duty refund recognized in the Lumber segment's operating income was \$717.7 million.

NEW EXPORT TAX STRUCTURE UNDER THE SLA

The SLA requires that, effective October 12, 2006, an export tax on lumber shipped to the US be collected by the government of Canada and returned to the province of origin of the lumber. The Province of BC had the right to choose between an export charge only (Option A) or a lower export charge with a quota (Option B) for each of the BC Coast and BC Interior regions. The Province of BC chose Option A for both the BC Coast and the BC Interior and will have the opportunity to change options on January 1, 2010 and January 1, 2013.

The export tax rate is determined monthly, and is based on the "Random Lengths Framing Lumber Composite Price" as follows:

Export Tax Trigger Price	Tax Rate
Over US \$355	0%
US \$336-\$355	5%
US \$316-\$335	10%
US \$315 and under	15%

The SLA also includes a "Surge Mechanism", which increases the export tax rate for the month by 50% when the monthly volume of exports from a region exceeds a certain "Trigger Volume" as defined in the SLA.

With the exception of Daaquam, which, as a border mill, benefits from tax-exempt status under the SLA, Canfor's exports to the US have been subject to the highest export tax bracket of 15% (with no applicable surge increase) since the agreement began as a result of the current low composite pricing levels. Canfor expensed export taxes of \$22.0 million in 2006, subsequent to the implementation of the SLA.

MARKETS

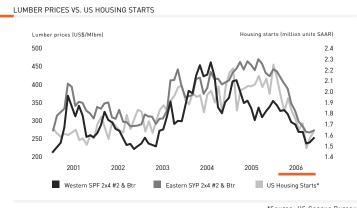
Canfor markets lumber products throughout North America and overseas. In addition to its own production, Canfor also markets lumber produced from independent mills in North America and offshore countries to complement its product line. In 2006, approximately 78% of Canfor's lumber sales were made to the US market and 13% to the Canadian market. Virtually all lumber destined for North America was shipped by rail and truck. The remaining 9% of shipments went offshore, principally to Japan, but also to Korea, China, Taiwan and Europe. Offshore modes of transportation consisted of 85% by container ship and 15% by break-bulk vessel.

With the addition of New South Companies in March of 2006, Canfor expanded its product mix with the introduction of Southern Yellow Pine (SYP) lumber and established a base for lumber imports from overseas. Sales of SPF lumber produced by Canfor were down by 5% over 2005, as a result of lower production. However, the acquisition of New South Companies increased the total sales of lumber by 11% for the year.

Lumber markets deteriorated from the pace set in 2005. Market demand declined slightly in the first half of the year and deteriorated further during the second half of the year as the number of new homes constructed dropped significantly. Home prices have been steadily rising in the past two years, with recent increases largely fueled by housing investment speculators. As housing affordability declined, many consumers were forced out of the market. As a result, inventories of new homes increased and new home construction declined in many parts of the US, particularly in the second half of 2006. Total annual housing starts were 1.8 million units⁸ for 2006, a decrease of 13% over 2005. Construction of single-family units decreased by 15% to 1.5 million units⁸. Canadian housing starts increased slightly in 2006, from 225.5 million units to 227.4 million units⁹.

The repair and remodeling sector of the housing market remained strong throughout 2006. Although the two sectors typically follow each other, repair and remodeling expenditures were buoyed by high levels of existing home sales during 2005 and 2006. Canfor's lumber sales to Home Centre retailers increased in 2006 compared to 2005 and sales to the other market segments were down slightly.

The price of SPF 2x4 #2 & Better lumber followed the same trend as housing starts throughout 2006. The yearly average was US \$295, a decrease of 17% from 2005. The average price of Southern Yellow Pine 2x4 East was US \$348 for 2006, down 22% from the average of US \$447 in 2005.



*Source: US Census Bureau

Offshore lumber demand was relatively strong for 2006, and Canfor's total offshore sales volumes increased by 14% over the previous year. The Japanese economy remained strong and consequently total housing starts increased from 1.236 million units in 2005 to 1.289 million units in 2006. Western style 2x4 wooden housing construction was particularly strong, exceeding 100,000 units for the year. Canfor's sales to China increased by 112% over 2005, to 34.7 million board feet, as a result of increased sales and marketing efforts. Major initiatives in China include the opening of Canfor's China office and the establishment of the Canfor Training Center for Wood Frame House Construction, a school to teach North American style house construction to Chinese builders.

OPERATING PERFORMANCE

SPF lumber production decreased by 164 million board feet, or 4%, from the prior year. As a result of the unfavourable market environment, production curtailments representing approximately 116 million board feet of lumber were taken in 2006. The other significant factors in the lower production are the effects of shift reductions and the Plateau mill's 9-day shutdown in the second quarter of 2006 to complete work on the capital project.

One of Canfor's key operating performance indicators is the percentage of prime lumber (or higher grade, such as Square Edge, J-Grade, Machine Stress Rated Lumber and select Studs) that its mills produce. In 2006 this percentage improved moderately over 2005. However, two other key performance indicators in the areas of fibre recovery and mill productivity were both down slightly from 2005 levels. Fibre recovery is a measure that looks at the volume of lumber returned per cubic meter of log processed, and productivity is a measure of lumber production per labour hour. This combination of lower productivity and market curtailments contributed to an increase in unit conversion costs. The most significant factors in the decrease in recovery and productivity in 2006 were the impact of the smaller, dryer beetle infested logs and the longer than expected start-up curve at the Plateau mill following the mill rebuild.

During the fourth quarter, the Grande Prairie fingerjoint line, which had an annual capacity of 9 million board feet of lumber, was closed indefinitely due to the difficult operating and market conditions.

Capital spending in 2006 totalled \$76.9 million compared to \$158.7 million in 2005. The major project in 2006, the Houston Pellet Plant, commenced operation in the fourth quarter. The second phase of the project includes a new energy system, which has an anticipated start-up date of March 2007.

NEW SOUTH

The New South operations produced 341.4 million board feet of SYP for the period after the acquisition date of March 6, 2006. The annual capacity of the Graham sawmill in Burlington, North Carolina, is being expanded by 65 million board feet, to 170 million board feet. The project, which is expected to be completed and fully ramped up by July 2008, includes a new second shift, a new kiln and additional storage capacity at the mill location

PANELS

The Panels segment includes two plywood plants, one in Prince George and one in Fort Nelson, British Columbia, with a combined annual production capacity of 440 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) of OSB and Peace Valley OSB in Fort St. John, which is jointly owned with Louisiana Pacific Corporation, and has an annual capacity of 820 million square feet (3/8" basis) of OSB, of which Canfor's share is 50%. A panel and fibre operation, located in New Westminster, British Columbia, produces hardboard paneling, refined fibre and wood fibre composite mat products for building, automotive and industrial uses.

Summarized results for the Panels segment for 2006 and 2005 are as follows:

(millions of dollars)	2006	_	2005
Sales	\$ 367.9	\$	365.7
Operating income (loss)	\$ (53.3)	\$	25.4
EBITDA	\$ (27.3)	\$	37.3
EBITDA margin	(7)%		10%
Capital expenditures	\$ 11.0	\$	105.7
Plywood shipments (millions of square feet - 3/8" basis)	442		436
Plywood production (millions of square feet - 3/8" basis)	439		433
OSB shipments (millions of square feet - 3/8" basis)	723		469
OSB production (millions of square feet - 3/8" basis)	734		479
Average plywood price – Cdn \$10	\$ 367	\$	387
Average OSB price – US \$ 11	\$ 217	\$	319
Average OSB price expressed in Canadian dollars	\$ 246	\$	386

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

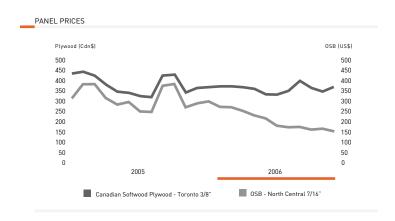
[11] Oriented strand board, per Msf 7/16" North Central (Source – Random Lengths Publications, Inc.)

Operating income in the Panels segment declined by \$78.7 million in 2006, primarily as a result of the sharp decline in OSB prices, combined with the impact of the strengthened Canadian dollar.

MARKETS

Canfor's OSB production is primarily performance rated sheathing, which is used in wall construction of new homes and in repair and remodeling projects. Canfor's plywood production is primarily sheathing, which is used to frame walls in new home construction. The majority of Canfor's OSB sales are to the US market and the majority of its plywood sales are to the Canadian market. Virtually all panel products destined for North America were shipped by truck, rail and ocean vessel.

The North American structural panel market was, like the lumber market, affected by the decline in the housing market, particularly during the latter half of 2006. Considerable OSB capacity has come on stream during the past two years, and, although there were mill curtailments in the fourth quarter, there was still a surplus of supply in the market. Consequently the 2006 price of OSB averaged US \$217 per thousand square feet 3/8" basis (delivered to the North Central region), down 32% from the 2005 average of US \$319. There was also a surplus supply of plywood in 2006. However, fourth quarter shutdown announcements of two Canadian plants helped balance supply with demand and resulted in higher prices for the fourth quarter of 2006. The average price during 2006 for 3/8" plywood delivered to Toronto was Cdn \$367 per thousand square feet, down 5% from last year's average price of Cdn \$387 per thousand square feet.



Plywood shipments were 442 million square feet in 2006, a slight increase from 2005. Plywood sales to industrial customers increased significantly over the level reached in 2005.

OSB shipments were 441 million square feet, down 6% from last year. Canfor has focused its marketing efforts on directing more sales directly to the Home Centre, Pro Dealer, and Industrial segments. These strategic customers were targeted in order capitalize on better returns, geographical advantages, and potential customer growth.

OPERATING PERFORMANCE

PLYWOOD - EBITDA as a percentage of sales dropped 3% from 2005 driven largely by market prices and chip prices. Despite scheduled maintenance downtime at the North Central Plywood operation, not taken in the prior year, productivity improvements over 2005 drove a modest gain in total plywood production. An improvement in prime product yield helped to minimize the negative impact of the Canadian dollar's appreciation against the US dollar and the \$20 decline in plywood pricing.

A decision was made late in the fourth quarter to move to a modified shift schedule at the Tackama Plywood plant which will reduce the total operating hours by approximately 30% commencing January 2007. The change is expected to reduce costs and improve productivity.

osb - EBITDA as a percentage of sales fell from 25% in 2005 to -45% in 2006, with a selling price decline of over \$140 per Msf being the most significant factor. Although the PolarBoard facility lost nearly a month of production due to a fire and mechanical failures and a further 4 weeks to market curtailment, gains in both productivity and efficiency were achieved over 2005, along with a moderate improvement in unit cash conversion costs. PolarBoard's operating performance in 2005 was impacted by its capacity expansion project and various start-up issues and mechanical failures.

Peace Valley OSB continues to make anticipated and steady progress on its start-up. The mill was operating at expected levels at the end of 2006 and is anticipated to be operating at its designed production capacity in early 2008. Overall, steady progress is expected to continue as the mill works at improving its uptime, efficiency, product quality and costs.

Also included in the Panels segment is the Panel and Fibre operation, which produces hardboard, panelboard and erosion control products. The operation recorded a relatively small loss for the year, which was largely attributable to the write-down of assets constituting the woodmat business, which will be discontinued in mid-2007 as a result of automakers phasing out wood-based panels in the doors of premium cars. An automatic bagger project implemented on the Ecofibre line of business in 2006 is anticipated to result in improved earnings in 2007.

PULP AND PAPER

Canfor's Pulp and Paper segment is comprised of the Canfor Pulp Limited Partnership (CPLP) and the Taylor pulp mill. CPLP produces Premium Pulp and Specialty Paper. CPLP'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 Bleached Softwood Kraft (NBSK). NBSK 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 NBSK pulp. Over 200,000 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. CPLP's pulp marketing division is located in Vancouver. All pulp produced by CPLP, Taylor and the Howe Sound Limited Partnership (discussed under Related Party Transactions) is sold by CPLP's sales and marketing group to customers primarily in North America, Europe and Asia. The kraft paper produced by CPLP is sold by a 50% owned general partnership to customers in North America and Europe.

COMPLETION OF SPINOUT OF THE PULP INCOME FUND

On July 1, 2006, Canfor completed the transfer of its Prince George NBSK pulp and paper business (the Pulp Business) to CPLP in exchange for a \$125 million promissory note, 14.254 million Class A Limited Partnership Units and 57.016 million Class B Exchangeable Limited Partnership Units (the Spinout). Canfor exchanged its Class A Limited Partnership Units for an equal number of Fund Units of Canfor Pulp Income Fund (CPIF). Upon the completion of the Spinout, the existing Common Shares of Canfor were cancelled and Canfor shareholders were entitled to receive one new Common Share of Canfor and 0.1 of a Fund Unit of CPIF, with the distribution of the Fund Units being structured as a return of capital on the Canfor Shares. As a result, on the date of the Spinout, Canfor Shareholders owned all of the issued and outstanding new Common Shares and all of the issued and outstanding Fund Units, with the outstanding Fund Units representing a 20% indirect interest in the Pulp Business.

On November 30, 2006, Canfor completed a distribution to its shareholders consisting of an in-kind taxable dividend of 1.49 Fund Units of CPIF for every 10 shares of Canfor Corporation held. Following this dividend, Canfor owned 35.494 million Class B Exchangeable Limited Partnership Units.

Through its interest in CPLP, which is indirectly exchangeable for Fund Units, Canfor retains a 50.2% interest in the Pulp Business and continues to consolidate CPLP in its financial statements, with a provision for non-controlling interests.

Summarized results of the Pulp and Paper segment for 2006 and 2005 are as follows:

(millions of dollars)	2006	2005
Sales	\$ 952.9	\$ 876.5
Operating income	\$ 141.9	\$ 22.2
EBITDA	\$ 190.7	\$ 68.4
EBITDA margin	20%	8%
Capital expenditures	\$ 18.2	\$ 63.5
Average pulp price – delivered to northern Europe (US\$ per tonne)	\$ 683	\$ 611
Average pulp price expressed in Canadian dollars	\$ 774	\$ 740
Pulp shipments (thousands of tonnes)	1,206	1,189
Pulp production (thousands of tonnes)	1,210	1,189
Specialty Kraft paper shipments (thousands of tonnes)	128	127
Specialty Kraft paper production (thousands of tonnes)	129	127

Operating income of the Pulp and Paper segment increased by \$119.7 million when compared to 2005 results. Strong performance at all mills, including an annual record for total tonnes produced, combined with improved markets and lower costs, and a 12% increase in the average pulp list price, were partially offset by the strengthening Canadian dollar. Sales were also favourably impacted by the shift of a higher volume of sales to North American markets, primarily at the expense of Europe, which resulted in higher revenues, as the North American market list prices averaged US \$34 per tonne higher than those in Europe. Overall costs were favourable to 2005, primarily due to the beneficial impact of lower chip prices, lower overall maintenance expense and lower energy costs resulting from the full year of operation of the cogeneration project at the Prince George pulp mill.

MARKETS

CPLP experienced strong and improved demand during 2006 compared to 2005. This was partly driven by increased consumption from Europe and Asia, but was mostly due to the large reduction in Canadian NBSK production capacity. Approximately 1 million tonnes or 16% of Canadian capacity was shut down in 2006, primarily as a result of mill closures in Eastern Canada due to high fibre and energy costs and the negative effect on sales prices resulting from the strengthening Canadian dollar.

List prices increased in all markets during 2006, with the benchmark price for NBSK pulp delivered into Northern Europe averaging US \$683 per tonne in 2006 compared to US \$611 in 2005. Inventory levels for NBSK pulp declined to 24 days of supply, with 30 days of supply generally considered to be a balanced market.



OPERATING PERFORMANCE

An annual production record for total tonnes highlighted 2006, surpassing the previous record set in 2004 by 20,000 tonnes. NBSK production during the year was 32,200 tonnes higher than 2005, as a result of improved performance and reliability at all facilities and the ramp up of the Prince George Pulp mill to its full rate from its curtailed production in 2005 due to the precipitator installation. Total maintenance downtime for the Prince George mills was 39 days in 2006, the same as 2005. The pulp mills have moved to an 18-month cycle for major maintenance outages and stagger these between the three mills, with one facility missing a major shut each year.

Production of BCTMP at the Taylor mill fell by 6% in 2006, to 194,400 tonnes. Equipment failures, chip supply and quality issues, maintenance downtime of 9 days (2005 – 8 days) and a 3-day production curtailment over the Christmas period, due to a shortage of chip supply and market conditions, were the main reasons for the reduced production.

The cogeneration facility at the Prince George pulp mill operated for the full year in 2006 averaging 919 megawatt hours per day compared to 788 in 2005. The facility was commissioned in 2005 and commenced power generation in May 2005. A 4-day outage was taken in December 2006 to allow for the installation of improvements to upgrade the ash handling system, which contributed to the reduced power generation during the fourth quarter. Additional modifications to the cogeneration system are expected during 2007 to further improve its performance.

In 2006, the paper machine produced 1,700 tonnes more than in 2005. Operations continue to focus on higher margin bleached paper production, which averaged 70% in 2006 compared to 68% in 2005.

2007 OUTLOOK

The market price environment for wood products is expected to continue to be difficult through 2007. Canfor is focusing its efforts on reducing costs, improving productivity and efficiency, which, combined with a loyal and growing customer base, will allow the Company to weather this downturn in the cycle. Another challenge in 2007 will be the impact of the mountain pine beetle. The epidemic is well known, but the ever-changing fibre quality impacts are not. Significant resources are being devoted to this issue. Canfor's strong balance sheet provides options for growth, which the Company will prudently explore.

LUMBER MARKETS

Housing construction forecasters¹⁴ believe that the US housing market is expected to remain at current levels until the second half of 2007. The inventory of unsold homes is predicted to decline, and once that has occurred new home construction is anticipated to increase through the latter part of 2007 and into 2008. Canadian housing starts are forecast to decrease by approximately 10% in 2007. The outlook for the repair and remodeling market for 2007 is more positive than for new housing construction, but overall spending in that sector is projected to be 4% lower than in 2006, largely because of reduced consumer confidence and lower existing home sales.

The supply of lumber from Canada shipped to the US is expected to be lower in 2007 because of the effect of the Softwood Lumber Agreement (SLA) recently implemented with the United States. As discussed earlier, under the SLA, if lumber prices fall below certain thresholds, Canadian shipments to the US are subject to increasing levels of export tax. In addition, if actual shipments are higher than a calculated maximum shipment volume set for each month, an additional surge tax will be added. In times of low lumber prices and higher taxes, it is possible that the Canadian industry will be forced to curtail production in order to reduce financial losses.

The supply of European lumber into North American markets has declined significantly and is expected to continue to be minimal during 2007. Considerable log shortages in Europe, strong domestic demand, the Euro/US exchange rate and low North American prices are expected to keep most European produced lumber in their domestic market. Demand is also anticipated to remain strong from Asian markets. Total housing starts in Japan are expected to surpass those in 2006, particularly in the 2x4 housing market. It is believed that Canadian demand for lumber will remain steady, as housing starts are predicted to remain above 200,000 units¹⁵, particularly in Western Canada as a result of strong oil and gas activity. As a result, North American lumber prices are expected to improve in the second half of 2007.

PANEL MARKETS

The near-term outlook for structural panels in 2007 is positive as a seasonal increase in both plywood and OSB demand is expected in time for the spring construction season. The second half of 2007 should show an increase in demand as US housing starts are projected to increase above current levels. However, additional new OSB capacity is expected to start up in 2007, which will put further pressure on the already depressed market. Although the supply for plywood will be more balanced in 2007, resulting from the shutdown of two Canadian mills in the fourth quarter of 2006, the low price of OSB will continue to put downward pressure on plywood.

PULP MARKETS

In January 2007, list price increases were announced in all markets. For Northern Europe, a US \$30–\$40 increase was announced, which will take prices to US \$760-\$770 per tonne. In the United States, a US \$20 increase will bring prices to US \$790. The Asian markets also saw a US \$20 list price increase announcement, which would take prices to US \$730–\$760 depending on the country of delivery. Looking ahead into 2007, it is believed that demand and pricing will hold up well through the first half of the year. While global economies are projected to slow somewhat, the year is beginning with very low global inventories and NBSK market pulp is expected to continue to be in short supply. Some moderation in prices is expected in the second half of 2007.

LABOUR DISRUPTION

On February 9, 2007 Canadian National Railway (CN) broke off negotiations with the United Transportation Union (UTU), the union representing its train conductors and yard service crews. The UTU commenced strike action on February 10, 2007 and CN has been running a reduced schedule since then using management replacement workers. The Company is dependent on CN's rail service for its shipment of finished products and inbound deliveries of chemicals and fibre to CPLP. Contingency plans have partially mitigated the effects of this work stoppage for both outbound and inbound shipments, but the Company has incurred additional costs as a result of the action.

2006 NON-SEGMENTED ITEMS

CORPORATE & OTHER COSTS

Corporate and other costs of \$39.3 million, which are comprised of corporate, head office and information technology costs, increased by \$2.6 million in 2006 compared to 2005, as a result of recording \$2.9 million of additional severance and lease costs related to the integration of Slocan and Canfor, partially offset by lower travel spending.

INTEREST INCOME (EXPENSE)

Net interest income of \$56.2 million in 2006 reflects the receipt of \$97.7 million in interest on the duty refund, as discussed earlier. Excluding the duty interest, the net interest expense of \$41.5 million was \$0.7 million lower than the net expense of \$42.2 million in 2005.

The \$41.5 million expense in 2006 is net of interest income of \$8.3 million, which was \$4.4 million lower than in 2005 due to the lower cash and cash equivalents balance in the first 10 months of the year. Long-term debt interest of \$40.6 million was expensed in 2006, or \$9.0 million less than in 2005 as a result of principal reductions and the impact of the stronger Canadian dollar on US dollar interest payments. Other interest expenses of \$9.2 million in 2006 were primarily related to short-term borrowings, credit facility and letter of credit fees, standby charges and interest penalties on tax reassessments, which increased by \$3.3 million in total over 2005.

OTHER INCOME (EXPENSE)

Other expenses amounted to \$29.6 million in 2006, compared to other income of \$12.8 million in 2005. The expense in 2006 includes a \$19.1 million write down of the Company's equity investment in Lakeland Mills and Winton Global Lumber, \$5.9 million of costs incurred by CPLP directly on the spinout transaction (\$2.2 million of which are backed out in the non-controlling interest line), \$3.6 million of corporate development costs incurred by Canfor to effect the segregation of the pulp business, \$0.2 million of equity losses from affiliates and miscellaneous expenses of \$1.3 million, partially offset by \$0.5 million of gains on the sale of property. Other income in 2005 was comprised of equity income from affiliates of \$2.7 million, Seaboard General Partnership income of \$8.9 million and \$2.1 million in gains on the sale of property, partially offset by losses on the disposal of investments.

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, British Columbia. The combined income of these affiliates decreased by \$2.9 million from 2005 as a result of market and foreign exchange factors, similar to those discussed in the Lumber segment.

The \$8.9 million in income from the Seaboard General Partnership recorded in 2005 was the result of asset sales. Canfor has a minority interest in the partnership.

UNUSUAL EXPENSE (2005)

The "unusual expense" of \$8.8 million (\$6.2 million after tax) recorded in 2005 was for the loss on timber taken back by the Government of British Columbia (the Crown) following the introduction of its Forestry Revitalization Plan in 2003, in which licensees, including Canfor, were required to return 20% of their AAC from replaceable tenures to the Crown. Approximately half of this volume was redistributed to create opportunities for woodlots, community forests and First Nations and the other half was made available for public auction.

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 payment against lost infrastructure and road construction costs. Canfor does not expect that the take-back will adversely affect its ability to obtain adequate timber supplies for its operations in the future or materially affect the costs of obtaining those supplies.

INCOME TAXES

An income tax expense of \$169.4 million was recorded in 2006 (2005 – \$12.4 million).

The most significant factor when comparing the 2006 and 2005 tax figures, other than the size of the respective taxable income figures, is the impact of a change in federal corporate income tax rates in 2006 and a reduction in the British Columbia corporate tax rate in 2005, which gave rise to favourable adjustments of \$41.9 million in 2006 and \$21.0 million in 2005, as a result of revaluing the future income tax liability balances. In addition, the income tax expense is net of the benefit of utilizing the remaining \$14.1 million of deferred tax credits (2005 – \$12.5 million) derived from restructuring Howe Sound Pulp and Paper Limited in 2001.

DISCONTINUED OPERATIONS

COASTAL OPERATIONS

On March 20, 2006, Canfor completed the transfer of its Englewood logging operation and associated timber licences (Englewood operations) to a new limited partnership, Coastal Fibre Limited Partnership (CFLP), jointly owned with 0ji Paper Canada Ltd., which contributed cash of equal value. In consideration of the transfer Canfor received a partnership interest valued at \$45.0 million, which approximates book value of the assets transferred. On the same day, CFLP transferred the Englewood operations and cash of \$35 million to Western Forest Products Inc. (WFP) in return for a long-term agreement with WFP to supply CFLP with fibre, and CFLP will supply this fibre to HSLP. Canfor's 50% interest in CFLP has been proportionately consolidated and the long-term fibre agreement with WFP, which is valued at \$40.0 million, has been recorded in "long-term investments and other assets" on the balance sheet, and will be amortized as the fibre is supplied to CFLP.

An after-tax loss of \$3.9 million from the Coastal operations was recorded in 2006, comprised of an operating loss to March 20, 2006 and a loss on the disposition of the Englewood operations. Prior to being shut down on December 15, 2005, the Coastal operations incurred a loss of \$4.4 million after tax including \$2.5 million of after-tax charges for severance, lease termination costs and an allowance for bad debts. Log shipments of 180.1 thousand cubic metres were made in 2006 prior to the transfer in March and were 862.1 thousand cubic metres in 2005.

SAWMILLS

Canfor completed the sale of its Fort St. James, Slocan and Valemount sawmills in British Columbia for total cash proceeds of \$59.0 million in the second quarter of 2005. 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 were 120.5 million board feet 16 up to the respective dates of disposition of the mills in the second quarter.

TRANSACTIONS WITH RELATED PARTIES

HOWE SOUND PULP AND PAPER LIMITED PARTNERSHIP (HSLP)

HSLP is jointly owned by Canfor and Oji Paper Co., Ltd and operates the Port Mellon kraft pulp and newsprint mill. Canfor no longer reflects its share of HSLP's results in its financial statements, as the investment was written off in 1998. As discussed under Discontinued Operations, the transfer of the Englewood logging operations and associated tenures to WFP in exchange for a long-term fibre supply agreement is resulting in lower fibre costs for HSLP, which, in conjunction with other marketing and debt restructuring, should assist the mill's efforts to return to sustainable profitability in the future. Canfor and Oji are in the late stages of restructuring HSLP's long-term debt obligations.

Canfor markets the pulp production of HSLP, for which in 2006 it received commissions of \$3.4 million under the terms of its agency sales agreement ¹⁷. At December 31, 2006, Canfor had prepaid \$27.9 million to HSLP in advance of the due date of receivables for pulp marketed, or to be marketed, and collected on its behalf. This agreement provides for Oji to prepay up to a maximum amount of \$60 million and Canfor up to a maximum of \$50 million, 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 \$2.3 million in 2006 and the prepayment is covered by the assignment of current and future accounts receivable. In addition, Canfor has granted extended credit terms to HSLP up to a maximum of \$10 million

In 2006 Canfor purchased \$17.4 million of pulp logs for resale to HSLP at Canfor's cost, to meet HSLP's future requirements. There was a balance outstanding of \$10.2 million at December 31, 2006 for these logs. Canfor charged HSLP a market rate of interest for this service

Under a long-term fibre agreement with WFP (discussed in Discontinued Operations), CFLP purchases chips for resale to HSLP, which amounted to \$17.4 million in 2006. There was a balance outstanding of \$13.4 million at December 31, 2006. CFLP charges HSLP a commission for this service. These amounts have been proportionately consolidated in Canfor's financial statements.

Canfor sawmills sold chips to HSLP in the amount of \$4.7 million in 2006, for which there was no balance outstanding at December 31, 2006. Canfor provides management, fibre supply and other services to HSLP at cost, for which it charged \$1.0 million in fees for 2006. There was a balance outstanding of \$0.7 million at December 31, 2006 with respect to these fees and other receivables.

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. In 2006, Canfor purchased \$8.6 million in pulp chips and \$9.4 million in lumber from these mills. Canfor earned commission income of \$0.3 million on lumber sales in 2006.

KYAHWOOD FOREST PRODUCTS

In 2006, Kyahwood, a joint venture operated by Canfor and the Moricetown First Nation, provided remanufacturing services, at market value, to Canfor in the amount of \$5.1 million.

OTHER

Other related party transactions include log purchases by Canfor of \$4.0 million from Takla Track & Timber Ltd., in which Canfor holds a 22% investment. Canfor holds a minority interest in Seaboard General Partnership, which provided shipping services to Canfor through Seaboard International Shipping Company amounting to \$3.6 million in 2006.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at the end of the years 2006 and 2005 and the cash flow related to the changes in financial position for those years.

(millions of dollars, except for ratios)	2006	2005
Net cash	\$ 1,023.8	\$ 298.9
Operating working capital	511.0	569.9
Current portion of long-term debt	(87.5)	(95.7)
Current portion of deferred reforestation	(39.6)	(43.3)
Income taxes payable	(235.4)	(4.1)
Net working capital, continuing operations	1,172.3	725.7
Net working capital of discontinued operations	-	30.5
Long-term investments	115.3	186.5
Property, plant, equipment and timber	2,254.9	2,211.1
Goodwill	81.6	-
Deferred charges	91.8	96.9
Non-current assets of discontinued operations	-	43.7
Net assets	\$ 3,715.9	\$ 3,294.4
Long-term debt	\$ 602.8	\$ 544.5
Deferred reforestation provision	70.9	67.7
Other long-term provisions and accruals	102.4	152.8
Long-term liabilities of discontinued operations	-	0.4
Future income taxes – net	415.4	468.3
Deferred credit	-	14.1
Non-controlling interests	296.7	-
Common shareholders' equity	2,227.7	2,046.6
Total capitalization	\$ 3,715.9	\$ 3,294.4
Ratio of current assets to current liabilities	2.2 : 1	2.4 : 1
Ratio of net debt to common shareholders' equity	(26) : 126	14 : 86

Canfor's ratio of current assets to current liabilities, at 2.2:1 at the end of 2006, was slightly lower than the 2005 ratio of 2.4:1, mainly due to the income tax payable of \$235.4 million (compared to \$4.1 million in 2005) and the accrual of the special duty assessment of \$186.7 million, as discussed earlier.

As a result of the duty refund received in the last two months of the year, Canfor's net debt was in a negative position, resulting in a net debt to equity ratio (defined as the ratio of total debt, net of cash equivalents and highly liquid short-term investments, to shareholders' equity) of (26):126, compared to 14:86 in 2005.

CHANGES IN FINANCIAL POSITION

(millions of dollars, except for ratios)	2006	2005
Cash generated from (used in)		
Operating activities	\$ 1,140.2	\$ 193.3
Financing activities	(14.3)	(80.0)
Investing activities	(417.6)	(251.8)
Discontinued operations	16.6	7.4
Increase (decrease) in cash and cash equivalents	\$ 724.9	\$ [131.1]

At the end of 2006, Canfor had \$1,023.8 million of cash and cash equivalents and \$126.0 million of short-term deposits. The changes in the components of these cash flows during 2006 are detailed in the Consolidated Cash Flow Statement of the Financial Statements. The more significant changes are discussed below:

OPERATING ACTIVITIES

In 2006, Canfor generated cash of \$1,140.2 million from operations, compared to \$193.3 million generated in the prior year. The duty refund and associated interest were the main reasons for the increase in cash. Excluding the duty refund, operating earnings before amortization (EBITDA) decreased by \$194.6 million in the year and changes in non-cash working capital generated \$484.1 million of cash, as compared to a negative \$55.8 million in 2005.

In 2006, the major changes in non-cash working capital were a \$33.3 million increase in accounts receivable, a \$223.9 million increase in income taxes payable, a \$28.8 million decrease in inventories and a \$161.7 million increase in accounts payable. The increase in accounts receivable at year-end is primarily due to the effect of the weaker Canadian dollar on US dollar receivables, while the decrease in inventories is mainly as a result of the sawmill curtailments during the Christmas period. The increase in income taxes payable reflects the taxes payable on the duty refund and associated interest, while the increase in accounts payable is primarily due to the \$187.7 million (US \$164.0 million) special duty assessment accrual, as discussed in the Lumber segment, partially offset by reductions in other payables. Income tax payments of \$8.0 million were made in the year (2005 - \$2.8 million) and net interest received amounted to \$46.0 million including \$97.7 million of interest on the duty refund (2005 - net interest paid of \$41.9 million).

FINANCING ACTIVITIES

In 2006, financing activities consumed \$14.3 million of cash, mainly comprising scheduled long-term debt payments of \$100.2 million, \$23.0 million of net repayments on operating bank loans and \$17.6 million of distributions paid by CPLP to non-controlling interests. These outflows were largely offset by \$126.7 million of proceeds from new debt, including US \$110.0 million of new financing by CPLP (discussed below).

In 2005, financing activities consumed \$81.3 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. No cash dividends were paid in 2006 or 2005.

INVESTING ACTIVITIES

Cash used in investing activities amounted to \$417.6 million in 2006. The main cash outflows were \$206.1 million for the acquisition of New South, as discussed earlier, \$119.0 million for the purchase of highly liquid short-term investments following the receipt of the duty refund, and capital expenditures of \$107.1 million. These outflows were partially offset by \$2.8 million from the sale of property, plant and equipment and the receipt of an \$11.4 million final incentive payment related to the electrical cogeneration project at the Prince George pulp mill.

In 2005, investing activities consumed \$248.8 million in cash. The main cash outflows 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, \$8.3 million of electrical cogeneration incentive payments 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 \$107.1 million that Canfor invested in capital assets in 2006, \$48.0 million was to improve the Company's cost position, productivity and production capacity. The other \$59.0 million was 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 the energy (\$19.1 million), pellet plant (\$12.8 million) and planer (\$2.5 million) projects at the Houston operation, \$8.7 million for the Plateau project and \$2.3 million for Peace Valley OSB.

In 2005, capital expenditures of \$334.5 million were made, mainly comprised of \$103.7 million for the Plateau mill modernization project, \$85.0 million for the construction of Peace Valley OSB, \$26.7 million for the electrical cogeneration facility and \$12.9 million for the Prince George pulp mill's recovery boiler precipitator upgrade.

FINANCIAL REQUIREMENTS AND LIQUIDITY

At the end of 2006, Canfor had \$451.0 million of bank operating lines of credit available, of which \$1.1 million was drawn down and an additional \$53.9 million was utilized for several standby letters of credit. These credit facilities are presented as "operating bank loans" on the Consolidated Balance Sheet.

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, 2006, the Company was permitted under these agreements to incur \$1.6 billion of additional long-term debt and to pay up to \$831 million, or \$5.83 per share, in dividends on its Common Shares.

On January 31, 2007, Canfor paid US \$164.0 million to the government of Canada with respect to the special assessment arising from the duty refunds. 2006 income tax payments of approximately \$230.0 million will be made in 2007.

In 2007, Canfor plans to invest approximately \$170.0 million on capital projects, including \$68.0 million for maintenance of business and \$102.0 million for a number of improvement projects, including the Graham sawmill capacity expansion project and the completion of the Houston energy project.

In 2007, \$87.5 million is required for scheduled long-term debt repayments.

Canfor intends to finance its planned capital expenditures and scheduled debt repayments from existing cash reserves and cash generated from its operations.

NEW FINANCING IN 2006

On November 30, 2006, CPLP completed a debt financing by private placement of US \$110 million of unsecured notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013. The proceeds from the issuance of the Notes were used to repay the \$125 million promissory note to Canfor. CPLP also entered into a 3-year \$75 million syndicated unsecured revolving bank credit facility (the Revolving Facility) with \$30.6 million of the Revolving Facility reserved for a standby letter of credit. The Revolving Facility bears interest and fees at rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation and amortization and which may be based on lenders' Canadian prime rate, bankers acceptances, US base rate or US LIBOR rate.

In the fourth quarter of 2006, New South obtained a new US \$50 million line of credit, expiring in 2011, to replace their existing line of \$37.5 million.

The following table summarizes Canfor's financial contractual obligations at December 31, 2006 for each of the next five years and thereafter:

(Cdn \$ millions)	Total	2007	2008	2009	2010	2011	The	ereafter
Long-term debt and capital lease obligations Operating leases	\$ 690.3 49.5	\$ 87.5 22.7	\$ 18.2 13.4	\$ 160.3 7.5	\$ 37.9 3.5	\$ 112.3 1.3	\$	274.1 1.1
	\$ 739.8	\$ 110.2	\$ 31.6	\$ 167.8	\$ 41.4	\$ 113.6	\$	275.2

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.
- Deferred reforestation, for which a liability of \$110.5 million has been recorded at December 31, 2006 (2005 \$111.0 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, 2006.

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 obligations, the expected rate of return on plan assets, the rate of compensation increase and the assumed health care cost trend rates. Management and the Board of Directors' Pension Committee evaluate these assumptions annually based on 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 obligations and the market-related value of plan assets.

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

	2006		2005	
	Pension	Other	Pension	Other
	Benefit	Benefit	Benefit	Benefit
(weighted average assumptions)	Plans	Plans	Plans	Plans
Accrued benefit obligation as of December 31:				
Discount rate	5.25 %	5.25 %	5.25 %	5.25 %
Rate of compensation increase	3.0 %	3.0 %	3.0 %	3.0 %
Benefit costs for year ended December 31:				
Discount rate	5.25 %	5.25 %	6.25 %	6.5 %
Expected long-term rate of return on plan assets	7.0 %	n/a	7.0 %	n/a
Rate of compensation increase	3.0 %	3.0 %	3.5 %	5.0 %

Assumed health care cost trend rates were as follows:

(weighted average assumptions)	2006	2005
Initial health care cost trend rate	5.87%	6.12%
Ultimate health care trend rate	4.27%	4.28%
Year ultimate rate is reached	2011	2011

Assumed health care cost trend rates have a significant effect on the amounts reported for the other post-retirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have had the following impact on the amounts recorded in 2006:

	1% Increase	1% Decrease	
Increase (decrease) in accrued benefit obligation Increase (decrease) in total service and interest cost	\$ 28.1 \$ 2.6	\$ (22.1) \$ (2.0)	
merease (decrease) in total service and interest cost	Ψ 2.0	ψ (2.0)	

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.

IMPAIRMENT OF GOODWILL

Goodwill, which is the excess of the purchase price paid for an acquisition over the fair value of the net assets acquired, is not amortized but is assessed annually for impairment, or more frequently if events or circumstances indicate that it may be impaired.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment when the occurrence of events or changes in circumstances indicates 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.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007:

FINANCIAL INSTRUMENTS

The CICA has issued three new Handbook Sections which will apply to Canfor as of January 1, 2007: Section 3855 "Financial Instruments", Section 3865 "Hedges" and Section 1530 "Comprehensive Income." Section 3855 prescribes when a financial instrument should be recognized on the balance sheet and at what amount. It also specifies how to present financial instrument gains and losses. Section 3865, which is optional, provides alternative treatments to Section 3855 for when qualifying transactions are designated as hedges for accounting purposes. Section 1530 introduces new requirements for situations when certain gains and losses must be temporarily presented outside of net income in a new Statement of Comprehensive Income, which will be presented with equal prominence to the regular Income Statement.

Canfor has elected not to utilize hedge accounting on its existing derivative financial instruments (which are discussed below, under Financial Market Risk). As a result, these instruments, which were previously not recognized on the balance sheet, and gains and losses were not recognized until the contracts were exercised, will be recorded on the balance sheet at fair value. At January 1, 2007, the fair value of these derivative instruments amounted to \$3.9 million, representing unrealized losses, which will be recorded as an opening retained earnings adjustment, with changes in fair value to be subsequently recorded in the income statement.

At December 31, 2006, Canfor had a deferred unrealized foreign exchange loss on long-term debt of \$14.2 million on its balance sheet as a result of terminating a previous hedging relationship under the accounting rules in existence in 2002. Deferred financing costs of \$2.8 million were also recorded at December 31, 2006. As a result of implementing Section 3855, these balances will be transferred to opening retained earnings at January 1, 2007. The Foreign Exchange Translation Adjustment on the Balance Sheet, \$3.0 million at December 31, 2006, will be transferred to the opening balance of "Accumulated Other Comprehensive Income".

The aggregate opening retained earnings adjustment resulting from the implementation of the new policy on January 1, 2007 is approximately \$15 million, net of future income taxes.

Effective January 1, 2006:

No new accounting policies were adopted in 2006.

CASH AND CASH EQUIVALENTS

The presentation of "cash and cash equivalents" on the balance sheet was amended in 2006 to exclude short-term investments with maturity dates greater than 90 days from the original acquisition date, with changes in these balances presented as investing activities on the cash flow statement. The definition of "cash and cash equivalents" on the cash flow statement was also amended to exclude credit facilities labeled as "operating bank loans" on the balance sheet, with changes in these balances now presented as financing activities. These changes in presentation reduced the prior year's cash and cash equivalents balance on the balance sheet by \$7.4 million and by \$4.0 million on the cash flow statement.

Effective January 1, 2005:

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.

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 standard effective January 1, 2005, which reduced both sales and costs and expenses by \$103.3 million in that year.

RISKS AND UNCERTAINTIES

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, a history of trade disputes and issues and Aboriginal land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs cannot be quantified or predicted with certainty. 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

Canadian judicial decisions have recognized the continued existence in the country 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 and other operations are situated. These decisions have added to uncertainty regarding property rights in Canada (including forest tenure and other resource rights), particularly in those areas where treaties have not been concluded with Aboriginal groups, such as much of British Columbia. The courts have also confirmed that a duty to consult with Aboriginal groups arises when the Crown has knowledge of the potential existence of an Aboriginal right or title and contemplates conduct that might adversely impact it, but has not extended this duty to third parties, such as forest companies.

As issues relating to Aboriginal rights, title and consultation continue to be heard, developed and resolved in Canadian courts, Canfor will continue to cooperate, communicate and exchange information and views with Aboriginal groups and government in order to foster good relationships and minimize risks to its tenures and operational plans, and will continue to participate with the Crown in its consultation processes including Aboriginal groups. Due to their complexity, it is not expected that the issues regarding Aboriginal rights and title or consultation will be finally resolved in short term and, accordingly, the impact of these issues on the timber supply from Crown lands and Canfor's tenures and on Canfor's operations is unknown at this time.

Canfor believes in building mutually beneficial and lasting relationships with local First Nations with treaty and Aboriginal rights or whose interests overlap with Canfor's areas of operations. Canfor has also formalized some of its relationships with Aboriginal people through agreements that generally seek to increase First Nations' participation in Canfor's planning and harvesting activities while strengthening Canfor's access to fibre. Canfor also has numerous business relationships ranging from short and long-term contracts with Aboriginal businesses to jointly holding Forest Licenses with local First Nations. Currently, Canfor is in the process of assessing and analyzing Canfor's relationships with Aboriginal peoples, and is developing a corporate strategy to monitor, assess, and address risks and opportunities involving First Nations.

Consistent with Canfor's belief in seeking opportunities to improve its relationships with Aboriginal peoples, Canfor has created and filled a permanent position for a manager of Aboriginal Affairs to advise Canfor and assist in negotiations and strategy development. The Manager of Aboriginal Affairs will also be responsible for helping to ensure that Canfor monitors and fulfills any obligations it has arising out of contracts signed with local Aboriginal peoples.

CHIP REVENUES

Wood chips are a by-product of Canfor's lumber manufacturing process and are primarily sold to CPLP. These chips are the principal raw material utilized by CPLP in its pulp manufacturing operations. Canfor has a Fibre Supply Agreement with CPLP, which contains a pricing formula that currently results in CPLP paying Canfor market prices for wood chips and also contains a provision to adjust the pricing formula to reflect market conditions. Canfor currently provides approximately 65% of CPLP's chip requirements. If lumber market conditions are such that Canfor is unable to provide the current volume of chips to CPLP as a result of sawmill closures, whether temporary or permanent, CPLP's financial results could be materially affected. Similarly, if CPLP were to cease pulp operations for an extended period of time, Canfor would have a limited market for its chip supply and this could affect its ability to run the sawmills economically.

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 set out Canada's Kyoto implementation strategy, indicated that federal and provincial energy and environment ministers endorsed the principle that companies that had taken 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 established a framework for expected upcoming negotiations of a Pulp and Paper Sector covenant with the Federal Government. The MOU specified 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 change of government that occurred in early 2006 has resulted in uncertainty about whether the 2003 MOU signed between FPAC and the then Liberal Government will be honored by the current Conservative Government. The Conservative government issued a Notice of Intent (NOI) in October 2006 to regulate priority air pollutants and GHGs under a Clean Air Act to protect the health of Canadians and the environment. The NOI establishes short (2010 – 2015), medium (2020 – 2025) and long-term (after 2050) time frames for the regulation of GHGs and Priority Pollutants. The forest products sector is named as one of the targeted sectors for regulation, but it is anticipated that the government will consult with the industry prior to setting the regulations. The frameworks for short-term regulations and specific short-term emission reduction targets are expected to be announced early in 2007, followed by consultation with industry sectors and the public.

The Air Quality Forum process that the pulp and paper sector has undertaken with non-governmental organizations and the federal government over the past two years has generated data and information that could be used to develop emission reduction targets. The wood products sector has been gathering data with Environment Canada, but substantial further data gathering is necessary to provide a basis for future regulatory targets. It is expected that the pulp and paper sector regulatory timeline would be earlier in the short-term target window (2010 – 2015, as above) and for wood products, later in the short-term window. It is unclear at this time what the specific regulatory targets will be and the related economic impact on Canfor and on the industry. There is the potential that the federal government could offer incentives (such as the recently announced Renewable Power Production Incentive) and mechanisms such as emission trading to help mitigate the impact of future air emission reduction regulations. Furthermore, some of the parameters targeted for federal regulation are already regulated by provincial jurisdictions. To avoid duplication between federal and provincial regulatory jurisdictions, equivalency agreements would need to be signed.

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. It is not clear how the Canada-wide standards will interrelate with the pending federal Clean Air Act and related regulations and targets.

Canfor has two remaining 'Tier 1' burners in British Columbia, and is one of three companies utilizing a third Tier 1 burner located at another company's premises. Tier 1 burners are regulated by the BC Ministry of Environment for phase out by December 31, 2007. One of the two Canfor Tier 1 burners at its Houston sawmill will be shut down before the end of 2007, with the start-up of the Houston Pellet Joint venture in September 2006 and a bark-fired energy system at the Houston sawmill in March 2007. It is anticipated that the co-operative burner located in Quesnel will not be required beyond 2007 because of local demand that will utilize surplus wood residuals in the area. Canfor is seeking economically viable solutions for the remaining Tier 1 burner at its Fort St. John sawmill.

FINANCIAL MARKET RISK

Demand for forest products, both wood products and pulp and paper, 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, changes in foreign currency relationships can impact Canfor's revenues and earnings.

FINANCIAL INSTRUMENTS

Subject to risk management policies approved by its Board of Directors, Canfor, from time to time, uses simple derivative instruments, such as forward exchange contracts and futures contracts to hedge future movements of exchange rates and commodity prices.

At December 31, 2006, Canfor had entered into pulp swaps to hedge future pulp sales, along with matching US dollar forward exchange contracts. There was a combined unrealized loss of \$1.0 million on the pulp swaps and forward contracts at the end of the period.

At December 31, 2006, Canfor had entered into energy derivatives to hedge future natural gas and diesel purchases. There were unrealized losses of \$2.9 million on these contracts, respectively, at the end of the period.

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 fluctuations 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)	\$ 19		
Lumber (SPF) – US \$10 change per Mfbm	32		
Lumber (SYP) – US \$10 change per Mfbm	3		
Export tax - 1% change	9		
Plywood – US \$10 change per Msf 3/8"	2		
OSB – US \$10 change per Msf 3/8"	5		
Log costs – Cdn \$1 change per cubic metre	12		
Natural gas costs – \$1 change per gigajoule	4		
Diesel costs – 10¢ change per litre	6		
NBSK pulp - US \$10 change per tonne (Canfor's 50.2% share)	4		

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

GOVERNMENT REGULATION

Canfor is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water and the health and safety of employees. If Canfor is unable to extend or renew a material approval, licence or permit required by such laws, or if there is a delay in renewing any material approval, licence or permit, Canfor's business, financial condition, results of operations and cash flows could be materially adversely affected. Future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to additional expenditures or liabilities.

INCOME TRUST TAXATION

On October 31, 2006 the Canadian Federal Government announced proposed plans to apply a tax on distributions from publicly traded income trusts, such as the Canfor Pulp Income Fund. For existing income trusts, the government is proposing a four-year transition period, until the 2011 taxation year, before the tax would be applicable.

LABOUR AGREEMENTS AND COMPETITION FOR PROFESSIONAL AND SKILLED LABOUR

Any labour disruptions and any costs associated with labour disruptions at Canfor's mills could have a material adverse effect on its production levels and results of operations. Canfor's various collective agreements with the USWA (United Steelworkers of America), the CEP (Communications, Energy and Paperworkers Union) and PPWC (Pulp, Paper and Woodworkers of Canada) have terms expiring in April 2008 and June 2009. Any future inability to negotiate acceptable contracts could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers.

Market conditions may cause shortages of both professional and skilled labour, which could have an adverse impact on the operation and management of Canfor's facilities.

MAINTENANCE OBLIGATIONS AND FACILITY DISRUPTIONS

Canfor's manufacturing processes are vulnerable to operational problems that can impair Canfor's ability to manufacture its products. Canfor could experience a breakdown in any of its machines, or other important equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during operations must be conducted. Such disruptions could cause a significant loss of production, which could have a material adverse effect on Canfor's business, financial condition and operating results.

MOUNTAIN PINE BEETLE

The infestation of Mountain Pine Beetle (Dendroctonus ponderosae) has reached critical levels in many timber supply areas throughout the interior of British Columbia and in some of Canfor's operating areas. The impact of this outbreak is expected to affect the long-term timber supply in the interior of British Columbia.

The Mountain Pine Beetle has attacked much of the mature lodgepole pine forest throughout the interior of British Columbia and is now emerging in the western regions of Alberta. Once attacked, the pine trees typically die within 1 to 2 years.

In response to the infestation, BC's provincial government has significantly increased the allowable annual cut (AAC) levels in the heavily affected timber supply areas. The increase is designed to salvage as much of the dead and damaged lodgepole pine timber as possible, and to direct harvesting in an attempt to reduce the spread of the beetle. As a result, Canfor has also significantly increased its harvest of dead pine within many of its operating areas.

A recent timber supply study conducted by the Council of Forest Industries (COFI) has analyzed the general trends of the Mountain Pine Beetle outbreak and forecasts the expected impacts on AAC. The study predicts that the timber supply areas surrounding Vanderhoof and Quesnel will experience a significant reduction in AAC in the next 10 to 15 years. This reduction is expected because these timber supplies consist of over 60% mature lodgepole pine that is either dead or at risk of attack and the remaining stands of Spruce, Balsam fir and Douglas fir are insufficient to support historic harvest levels. The timber supplies surrounding Prince George and Mackenzie have the advantage of log diameter and a large inventory of non-pine species. As a result, there is more flexibility in these timber supply areas to harvest other stands while the pine sites recover from the infestation. The study also predicts that most of the damaged pine volume in these areas could be recovered, which may in turn mitigate the need for a significant reduction in harvest levels. As a result, the study predicts that in 10 to 15 years the AAC in the Prince George timber supply areas will likely reduce to slightly below historic levels, and in the Mackenzie areas the AAC will remain unchanged. Other timber supply areas where Canfor has operating areas, such as in Fort Nelson, Fort St. John, and Chetwynd, are not expected to experience a reduction in harvest levels resulting from the current Mountain Pine Beetle infestation.

A major assumption about the impact on harvest levels is the shelf life of the dead pine. Shelf life represents the length of time the timber is usable for a given product. One of the determining factors that contribute to shelf life is the moisture condition of the area where the timber is located. The impact of moisture variability on the shelf life of timber is still being studied, but indications are that it can vary from 3 to 15 years depending on the moisture levels. For alternative products such as wood chips for pulp production and bio energy opportunities, the shelf life is expected to be much longer.

Given the nature and extent of the infestation, its long-term operational and financial impact on Canfor is not quantifiable at this time, but could be significant.

OBLIGATIONS TO BC HYDRO

Under a Cogeneration Agreement with BC Hydro, if the Cogeneration Project at the Prince George pulp mill generates less than 390 GWh in any year and the shortfall cannot be made up by excess generation of up to 390 GWh in prior years or excess generation in the subsequent year, CPLP is required to pay BC Hydro an amount equal to \$3.27 million multiplied by the ratio of the uncorrected shortfall to the annual requirement of 390 GWh. As of December 31, 2006, CPLP has no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of \$30.6 million was issued to BC Hydro.

STUMPAGE RATES

The British Columbia government introduced a Market Pricing System (MPS) for the BC Interior on July 1, 2006. Canfor is actively participating in discussions on MPS with the Ministry of Forests, which is scheduled for its first annual update on July 1, 2007. Canfor will continue to seek to manage and reduce the stumpage costs for its interior operations under the stumpage appraisal system. The near-term imperative is to ensure that the stumpage system accurately reflects the market value of timber and is responsive to the deteriorating quality of the beetle-impacted fibre.

SURGE TAX

As discussed earlier, the SLA includes a surge mechanism, which increases the export tax by 50% when the monthly volume of exports from a region exceeds a certain trigger volume, as defined in the SLA. The surge tax is applied retroactively for all shipments during the month when the surge occurred. Canfor utilizes a daily tracking system, developed by the Canadian government's Department of Foreign Affairs and International Trade, to manage its shipment volumes so as not to trigger the surge tax. In addition, the governments of BC and Alberta are sending out daily "warnings" to all exporters when it appears that there is a possibility of a surge. However, the total volume of exports from the region, including shipments from Canfor's competitors, cannot be estimated with complete certainty.

TRANSPORTATION SERVICES

Canfor relies primarily on third parties for transportation of its products, as well as delivery of raw materials, a significant portion of which are transported by railroad, trucks and ships. If any of Canfor's third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, Canfor may be unable to sell those products at full value, or at all, or unable to manufacture its products in response to customer demand, which could have a material adverse effect on Canfor's financial condition and operating results. In addition, if any of these third parties were to cease operations or cease doing business with Canfor, Canfor may be unable to replace them at reasonable cost.

OUTSTANDING SHARE DATA

At February 22, 2007, there were 142,563,767 common shares issued and outstanding. In addition, at February 22, 2007, there were 261,969 stock options outstanding with exercise prices ranging from \$7.57 to \$11.80 per share.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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 (CEO) and chief financial officer (CFO) have evaluated and are satisfied with the effectiveness of these disclosure controls and procedures for the period ending December 31, 2006.

The CEO and CFO acknowledge responsibility for the design of internal control over financial reporting (ICFR), and confirm that there were no changes in these controls that occurred during the most recent interim period ended December 31, 2006 which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Additional information about the Company, including its 2006 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 3 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 22, 2007

James A. Shepherd

President and

Chief Executive Officer

Scott R Wilson Vice-President Finance and

Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Canfor Corporation

We have audited the consolidated balance sheets of Canfor Corporation as at December 31, 2006 and December 31, 2005, 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, 2006 and December 31, 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Pricewaterhouse Coopers LLP

PricewaterhouseCoopers LLP **Chartered Accountants** Vancouver, BC

February 22, 2007

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Year ended December 31 (millions of dollars)		2006		2005
Sales (Note 2)	\$ 3	3,842.3	\$ 3	3,787.1
Costs and expenses				
Manufacturing and product costs	:	2,949.8	:	2,597.7
Freight and other distribution costs (Note 2)		598.3		593.3
Countervailing and anti-dumping duties (Note 15)		87.8		224.8
Export tax (Note 15)		22.0		-
Amortization		182.6		151.6
Selling and administration costs		78.5		72.0
Restructuring, mill closure and severance costs (Note 16)		6.5		5.3
	;	3,925.5	;	3,644.7
Countervailing and anti-dumping duty refund (Note 15)		717.7		-
Operating income from continuing operations		634.5		142.4
Interest income (expense) (Note 17)		56.2		[42.2]
Foreign exchange gain on long-term debt and temporary investments		4.7		10.0
Other income (expense) (Note 18)		(29.6)		12.8
Unusual expense (Note 19)		-		(8.8)
Net income from continuing operations before income taxes and non-controlling interests		665.8		114.2
Income tax expense (Note 20)		(169.4)		(12.4)
Non-controlling interests (Note 3)		(20.7)		-
Net income from continuing operations		475.7		101.8
Net loss from discontinued operations (Note 3)		(3.9)		(5.8)
Net income	\$	471.8	\$	96.0
Per common share (in dollars) (Note 21)				
Net income from continuing operations				
Basic	\$	3.34	\$	0.71
Diluted	\$	3.34	\$	0.71
Net income				
Basic	\$	3.31	\$	0.67
Diluted	\$	3.31	\$	0.67
Retained earnings, beginning of year	\$	779.5	\$	691.9
Net income for the year		471.8		96.0
Dividend-in-kind of Canfor Pulp Income Fund units (Note 3)		(182.8)		-
Premium paid on common shares purchased for cancellation (Note 12)		-		[4.9]
Excess of fair market value over cost of property purchased from related party (Note 24)		-		(3.5)
Retained earnings, end of year	4	1,068.5	\$	779.5

CONSOLIDATED CASH FLOW STATEMENTS

Year ended December 31 (millions of dollars)	2006	2005
Cash generated from (used in)		
Operating activities		
Net income from continuing operations	\$ 475.7	\$ 101.8
Items not affecting cash:		
Amortization	182.6	151.6
Income taxes	(66.0)	(0.6)
Long-term portion of deferred reforestation	2.3	0.8
Employee future benefits	(0.2)	8.5
Foreign exchange loss (gain) on long-term debt	11.2	(10.0)
Adjustment to accrued duties (Note 15)	46.3	[6.2]
Write down of equity investment (Note 18)	19.1	_
Non-controlling interests	20.7	-
Other	0.8	3.2
	692.5	249.1
Changes in non-cash working capital (Note 22)	447.7	(55.8)
	1,140.2	193.3
Financing activities		
Proceeds from long-term debt	126.7	0.6
Repayment of long-term debt	(100.2)	(68.4)
Changes in operating bank loans (Note 8)	(23.0)	[1.3]
Net proceeds on issuance of common shares (Note 12)	0.3	1.9
Common shares purchased for cancellation (Note 12)	_	(13.8)
Distributions paid to non-controlling interests (Note 3)	(17.6)	_
Other	(0.5)	(0.3)
	(14.3)	(81.3)
Investing activities		
Business acquisition (Note 3)	(206.1)	_
Change in temporary investments	(119.0)	3.0
Proceeds from timber take-back (Note 19)	_	62.0
Net proceeds from sale of discontinued operations (Note 3)	_	59.0
Property, plant, equipment and timber	(107.1)	(334.5)
Electrical cogeneration incentive payments (Note 28)	11.4	8.3
Howe Sound Pulp and Paper Limited Partnership (Note 25)	_	(50.0)
Proceeds from sale of property, plant and equipment	2.8	7.5
Other	0.4	(4.1)
	(417.6)	(248.8)
Increase (decrease) in cash and cash equivalents from continuing operations	708.3	(136.8)
Increase in cash from discontinued operations (Note 3)	16.6	7.4
Increase (decrease) in cash and cash equivalents *	724.9	(129.4)
Cash and cash equivalents at beginning of year	298.9	428.3
Cash and cash equivalents at end of year	\$ 1,023.8	\$ 298.9
Cash payments (recoveries) in the period		
Interest, net (Note 15)	\$ (46.0)	\$ 41.9
Income taxes	\$ (40.0) 8.0	2.8

^{*} Cash and cash equivalents is comprised of cash and highly liquid investments with maturities of three months or less from the date of acquisition.

CONSOLIDATED BALANCE SHEETS

As at December 31 (millions of dollars)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 1,023.8	\$ 298.9
Temporary investments	126.0	7.0
Accounts receivable		
Trade	223.9	205.4
Other	72.8	79.8
Future income taxes (Note 20)	15.7	23.9
Inventories (Note 4)	635.7	600.9
Prepaid expenses	37.7	36.2
Current assets of discontinued operations (Note 3)	=	39.8
Total current assets	2,135.6	1,291.9
Long-term investments and other (Note 5)	115.3	186.5
Property, plant, equipment and timber (Note 6)	2,254.9	2,211.1
Goodwill (Note 3)	81.6	-
Deferred charges (Note 7)	91.8	96.9
Non-current assets of discontinued operations (Note 3)	-	43.7
	\$ 4,679.2	\$ 3,830.1
LIABILITIES		
Current liabilities		
Operating bank loans (Note 8)	\$ 1.1	\$ 3.0
Accounts payable and accrued liabilities	579.0	380.3
Current portion of long-term debt (Note 9)	87.5	95.7
Current portion of deferred reforestation (Note 11)	39.6	43.3
Income taxes payable	235.4	4.1
Future income taxes (Note 20)	20.7	_
Current liabilities of discontinued operations (Note 3)	-	9.3
Total current liabilities	963.3	535.7
Long-term debt (Note 9)	602.8	544.5
Other accruals and provisions (Note 10)	173.3	220.5
Long-term liabilities of discontinued operations (Note 3)	-	0.4
Future income taxes, net (Note 20)	415.4	468.3
Deferred credit (Note 25)	_	14.1
Non-controlling interests (Note 3)	296.7	-
	\$ 2,451.5	\$ 1,783.5
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	\$ 1,124.3	\$ 1,268.7
Contributed surplus (Note 3)	31.9	_
Retained earnings	1,068.5	779.5
Foreign exchange translation adjustment	3.0	(1.6)
Total shareholders' equity	2,227.7	2,046.6
	\$ 4,679.2	\$ 3,830.1

Commitments and contingencies (Note 28)

R. Landalff

APPROVED BY THE BOARD

Director, R.L. Cliff

Director, J.A. Shepherd

December 31, 2006

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". Canfor's majority interest in the Canfor Pulp Limited Partnership (CPLP) (Note 3), has been consolidated, with a provision for non-controlling interests. 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, valuation of goodwill and investments, and pension and other benefit plan assumptions.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of three months or less from the date of acquisition, and are valued at cost, which approximates market value.

TEMPORARY INVESTMENTS

Temporary investments are highly liquid money market instruments with maturities greater than three months from the date of acquisition, and are valued at cost, which approximates market 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	10 to 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.

GOODWILL

Goodwill is the excess of the purchase price paid for an acquisition over the fair value of the net assets acquired. Goodwill is not amortized but is assessed annually for impairment, or more frequently if events or circumstances indicate that it may be impaired. The fair value of goodwill is estimated in the same manner as goodwill is determined at the time of acquisition

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.

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 or 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 pulp, natural gas and diesel 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 and diesel swaps are recognized as an adjustment to manufacturing costs and gains and losses on pulp swaps are recognized as an adjustment to sales 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 13. No stock options have been granted since 2002.

- 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

Effective January 1, 2007:

FINANCIAL INSTRUMENTS

The CICA has issued three new Handbook Sections which will apply to Canfor as of January 1, 2007: Section 3855 "Financial Instruments", Section 3865 "Hedges" and Section 1530 "Comprehensive Income." Section 3855 prescribes when a financial instrument should be recognized on the balance sheet and at what amount. It also specifies how to present financial instrument gains and losses. Section 3865, which is optional, provides alternative treatments to Section 3855 for when qualifying transactions are designated as hedges for accounting purposes. Section 1530 introduces new requirements for situations when certain gains and losses must be temporarily presented outside of net income in a new Statement of Comprehensive Income, which will be presented with equal prominence to the regular Income Statement.

Canfor has elected to not utilize hedge accounting on its existing derivative financial instruments (Note 23). As a result, these instruments, which were previously not recognized on the balance sheet and gains and losses were not recognized until the contracts were exercised, will be recorded on the balance sheet at fair value. At January 1, 2007, the fair value of these derivative instruments amounted to \$3.9 million, which will be recorded as an opening retained earnings adjustment, with changes in fair value to be subsequently recorded in the income statement.

At December 31, 2006, Canfor had a deferred unrealized foreign exchange loss on long-term debt of \$14.2 million on its balance sheet as a result of terminating a previous hedging relationship under the accounting rules in existence in 2002. Deferred financing costs of \$2.8 million were also recorded at December 31, 2006. As a result of implementing Section 3855, these balances will be transferred to Opening Retained Earnings at January 1, 2007. The Foreign Exchange Translation Adjustment on the Balance Sheet, \$3.0 million at December 31, 2006, will be transferred to the opening balance of "Accumulated Other Comprehensive Income".

The aggregate opening retained earnings adjustment resulting from the implementation of this new policy on January 1, 2007 is approximately \$15.0 million, net of future income taxes.

Effective January 1, 2006:

No new accounting policies were adopted in 2006.

CASH AND CASH EQUIVALENTS

The presentation of "cash and cash equivalents" on the balance sheet was amended in 2006 to exclude short-term investments with maturity dates greater than 90 days from the original acquisition date, with changes in these balances presented as investing activities on the cash flow statement. The definition of "cash and cash equivalents" on the cash flow statement was also amended to exclude credit facilities labelled as "operating bank loans" on the balance sheet, with changes in these balances now presented as financing activities. These changes in presentation reduced the prior year's cash and cash equivalents balance on the balance sheet by \$7.4 million and by \$4.0 million on the cash flow statement.

Effective January 1, 2005:

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 2005.

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 outstanding cheques, which were previously included in accounts payable.

3. ACQUISITIONS AND DIVESTITURES

PULP INCOME FUND TRANSACTION

On July 1, 2006, Canfor completed the transfer of its Prince George NBSK pulp and paper business (the Pulp Business) to the Canfor Pulp Limited Partnership (CPLP) in exchange for a \$125 million promissory note, 14.254 million Class A Limited Partnership Units and 57.016 million Class B Exchangeable Limited Partnership Units (the Spinout). Canfor exchanged its Class A Limited Partnership Units for an equal number of Units of Canfor Pulp Income Fund (CPIF). Upon the completion of the Spinout, the existing Common Shares of Canfor were cancelled and Canfor shareholders were entitled to receive one New Common Share of Canfor and 0.1 of a Unit of CPIF, with the distribution of the Fund Units being structured as a return of capital on the Canfor Shares. As a result, on the date of the Spinout Canfor Shareholders owned all of the issued and outstanding New Common Shares and all of the issued and outstanding Fund Units, with the outstanding Fund Units representing a 20% indirect interest in the Pulp Business.

On November 30, 2006, Canfor completed a distribution to its shareholders consisting of an in-kind taxable dividend of 1.49 units of CPIF for every 10 shares of Canfor Corporation held. The value of the dividend was deemed to be \$10.99 per CPIF Unit. The accounting value of the dividend equated to \$182.8 million. Following this dividend, Canfor owned 35.494 million Class B Exchangeable Limited Partnership Units.

Through its interest in CPLP, which is indirectly exchangeable for Fund Units, Canfor owns a 50.2% interest in the Pulp Business. CPLP is managed by Canfor Pulp Holdings Inc. (the general partner) on behalf of the limited partners.

CPLP paid distributions of \$62.7 million in 2006. Distributions to Canfor, amounting to \$45.1 million, have been eliminated upon consolidation.

On November 30, 2006, CPLP completed a debt financing by private placement to institutional investors in the US. The financing consists of US \$110 million of unsecured notes (Note 9), which CPLP used to repay the promissory note to Canfor, and an unsecured revolving credit facility.

Canfor and CPLP have entered into a long-term fibre supply agreement under which Canfor will continue to provide CPLP with residual wood chips and hog fuel produced at certain of its sawmills at market prices. CPLP also purchases, at cost, a number of administrative, accounting, legal and management services from Canfor under a partnership services agreement, which can be terminated, in whole or in part, on 12 months notice. CPLP continues to provide marketing services to Canfor, acting as a selling representative on behalf of Howe Sound Limited Partnership and Canfor's Taylor Pulp operation.

Canfor is continuing to consolidate CPLP in these financial statements, with a provision for non-controlling interests. All intercompany balances and transactions have been eliminated.

ACQUISITION OF NEW SOUTH COMPANIES, INC.

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

New South operates three sawmills with an annual capacity of 430 million board feet of southern yellow pine, one remanufacturing facility and two lumber treating plants located in North and South Carolina and an international lumber import business. New South also operates a lumber-trucking fleet of 55 trucks on the US East Coast.

The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the fair values of the assets and liabilities assumed on March 6, 2006. The fair values were determined by an independent valuation of the assets acquired.

(millions of dollars)	
Net assets acquired at March 6, 2006	
Non-cash working capital	\$ 85.5
Property, plant, equipment and timber	96.3
Goodwill	79.5
Other assets	29.4
Operating loans and long-term debt	[44.6]
Future income taxes, net	(37.5)
Other liabilities	(2.5)
Fair value of net assets acquired	\$ 206.1

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

DISCONTINUED OPERATIONS

On March 20, 2006, Canfor completed the transfer of its Englewood logging operation and associated timber licenses (Englewood operations) to a new limited partnership, Coastal Fibre Limited Partnership (CFLP), jointly owned with Oji Paper Canada Ltd., which contributed cash of equal value. In consideration of the transfer Canfor received a partnership interest valued at \$45.0 million, which approximates the book value of the assets transferred. On the same day, CFLP transferred the Englewood operations and cash of \$35.0 million to Western Forest Products Inc. (WFP) in return for a long-term agreement with WFP to supply CFLP with fibre (Note 5), and CFLP will supply this fibre to Howe Sound Pulp and Paper Limited Partnership (HSLP). Canfor's 50% interest in CFLP has been proportionately consolidated and the long-term fibre agreement with WFP, which is valued at \$40.0 million, has been recorded in "long-term investments and other assets" (Note 5) on the balance sheet, and will be amortized as the fibre is supplied to CFLP.

In 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 15) paid prior to the dispositions.

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

				2006				2005	
(millions of dollars)	_	oastal ations	Saw	/mills	Total	oastal ations	Sav	wmills	Total
Sales to external customers	\$	9.5	\$	-	\$ 9.5	\$ 67.9	\$	61.7	\$ 129.6
Operating income (loss) before income taxes	\$	(4.3)	\$	-	\$ (4.3)	\$ (6.8)	\$	5.1	\$ (1.7)
Loss on disposal before income taxes		(2.8)		-	(2.8)	-		(9.2)	(9.2)
Income tax recovery		3.2		-	3.2	2.4		2.7	5.1
Net loss	\$	(3.9)	\$	-	\$ (3.9)	\$ (4.4)	\$	(1.4)	\$ (5.8)
Net loss per share – diluted					\$ (0.03)				\$ (0.04)

4. INVENTORIES

	\$ 63	5.7 \$ 600.9
Processing materials and supplies	10	7.2 96.2
Paper	1	1.7 11.5
Chips		6.4 9.4
Panel products	1	9.7 20.9
Pulp	5	7.6 51.8
Logs	20	3.4 199.0
Lumber	\$ 22	9.7 \$ 212.1
(millions of dollars)	20	006 2005

5. LONG-TERM INVESTMENTS AND OTHER

(millions of dollars)	2006	2005
Anti-dumping duties receivable (Note 15)	\$ -	\$ 113.7
Equity Investments	35.0	54.5
Long-term fibre agreement (Notes 3 and 26)	38.4	_
Customer agreements	27.6	-
Other investments	6.6	7.4
Mortgage receivable from sale of property	2.5	5.8
Other deposits and loans	5.2	5.1
	\$ 115.3	\$ 186.5

6. PROPERTY, PLANT, EQUIPMENT AND TIMBER

		2006			2005	
(millions of dollars)	Cost	Accumulated Cost Amortization		Cost	Accumulated Amortization	Net Book Value
Land	\$ 38.4	\$ -	\$ 38.4	\$ 24.0	\$ -	\$ 24.0
Pulp and kraft paper mills	1,272.6	676.9	595.7	1,260.5	629.8	630.7
Sawmills, plywood and oriented						
strand board plants	1,226.3	465.2	761.1	1,027.1	338.2	688.9
Logging buildings and equipment	13.3	0.7	12.6	15.4	0.9	14.5
Logging roads and bridges	153.8	104.9	48.9	141.1	92.7	48.4
Other equipment and facilities	33.1	13.1	20.0	42.0	25.3	16.7
Timber	839.7	61.5	778.2	839.9	52.0	787.9
	\$ 3,577.2	\$ 1,322.3	\$ 2,254.9	\$ 3,350.0	\$ 1,138.9	\$ 2,211.1

Included in the above are assets under construction in the amount of \$41.3 million (2005 – \$9.7 million), which are not being amortized.

7. DEFERRED CHARGES

	\$ 91.8	\$ 96
Other	0.4	4.
Deferred start-up costs (Note 26)	5.4	8
Software development costs	6.7	8
Deferred unrealized foreign exchange loss on long-term debt	14.2	25.
Prepaid pension benefits (Note 14)	\$ 65.1	\$ 49
(millions of dollars)	2006	200

Deferred charges expensed during the year amounted to \$42.8 million (2005 – \$33.0 million), including foreign exchange losses of \$11.3 million recognized on the repayment of US dollar long-term debt (2005 – \$10.3 million), pension benefits of \$18.8 million (2005 – \$19.5 million), software development costs of \$2.2 million (2005 – \$2.3 million), and deferred start-up costs of \$5.2 million (2005 – \$0.2 million).

8. OPERATING BANK LOANS

At December 31, 2006, Canfor had \$451.0 million of bank operating lines of credit available (2005 – \$337.0 million), of which \$1.1 million was drawn down (2005 - \$3.0 million) and an additional \$53.9 million was reserved for several standby letters of credit (2005 - \$43.5 million).

9. LONG-TERM DEBT

SUMMARY OF LONG-TERM DEBT

(millions of dollars)	2006	2005
Privately placed senior notes		
Canfor Corporation		
US \$31.3 million (2005 – US \$62.6 million), interest at 8.24%, repayable in		
4 equal annual installments commencing September 1, 2004	\$ 36.4	\$ 72.9
US \$10 million (2005 – US \$30 million), interest at 6.82%, repayable in 5 equal		
semi-annual installments commencing April 1, 2005	11.7	35.0
US \$ - (2005 – US \$30 million), interest at 7.64%, repayable March 1, 2006	-	35.0
US \$33 million, interest at 7.74%, repayable March 1, 2007	38.5	38.5
US \$15 million, interest at 7.88%, repayable March 1, 2008	17.5	17.5
US \$45 million, interest at 7.98%, repayable March 1, 2009	52.4	52.5
US \$97 million, interest at 8.03%, repayable in 3 equal annual installments commencing March 1, 200	9 113.0	113.1
US \$60 million, interest at 5.66%, repayable April 1, 2009	69.9	70.0
US \$50 million, interest at 6.18%, repayable April 1, 2011	58.3	58.3
US \$50 million, interest at 6.33%, repayable February 2, 2012	58.3	58.3
US \$75 million, interest at 5.42%, repayable April 1, 2013	87.4	87.4
Canfor Pulp Limited Partnership		
US \$110 million, interest at 6.41%, repayable November 30, 2013	128.2	-
Revolving facilities, bearing interest at various fixed and floating rates with various maturity dates	17.9	1.3
Other long-term obligations	0.8	0.4
	690.3	640.2
Less current portion	87.5	95.7
	\$ 602.8	\$ 544.5

FAIR VALUE OF TOTAL LONG-TERM DEBT

The fair value of total long-term debt at December 31, 2006 was \$700.2 million (2005 – \$664.2 million).

SCHEDULED LONG-TERM DEBT REPAYMENTS

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

(millions of dollars)	
2007	\$ 87.5
2008	18.2
2009 2010	160.6
2010	37.9
2011	112.3

10. OTHER ACCRUALS AND PROVISIONS

(millions of dollars)	2006	2005
Deferred reforestation (Note 11)	\$ 70.9	\$ 67.7
Countervailing duty provision (Note 15)	-	67.4
Accrued pension obligations (Note 14)	22.7	20.8
Post-employment benefits (Note 14)	75.1	63.1
Other long-term liabilities	4.6	1.5
	\$ 173.3	\$ 220.5

11. DEFERRED REFORESTATION

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

(millions of dollars)	2006	2005
Reforestation obligation – beginning of year	\$ 111.0	\$ 111.2
Expense for the year	39.9	44.4
Less: paid during the year	(40.4)	(44.6)
Reforestation obligation – end of year	\$ 110.5	\$ 111.0
Current	\$ 39.6	\$ 43.3
Long-term (Note 10)	70.9	67.7
	\$ 110.5	\$ 111.0

The total undiscounted amount of the estimated cash flows required to settle the obligation at December 31, 2006 was \$122.0 million (2005 – \$121.7 million) with payments spread over 17 years. The estimated cash flows have been adjusted for inflation and discounted using credit-adjusted risk-free rates ranging from 4 to 6%.

12. SHARE CAPITAL

AUTHORIZED

10,000,000 preferred shares, with a par value of \$25 each 1,000,000,000 common shares without par value

	2006		2005		
(millions of dollars)	Number of Shares		Number of Shares		
Common shares, beginning of year	142,510,395	\$ 1,268.7	143,311,477	\$ 1,275.7	
Stock options exercised (Note 13)	38,417	0.3	198,918	1.9	
Shares repurchased under normal course issuer bid	-	-	(1,000,000)	(8.9)	
Cancellation of existing common shares (Note 3)	(142,540,058)	(1,268.9)	-	-	
Issuance of new common shares (Note 3)	142,540,058	1,268.9	-	-	
Return of capital to Canfor shareholders (Note 3)	-	(144.7)	-	-	
Common shares, end of year	142,548,812	\$ 1,124.3	142,510,395	\$ 1,268.7	

During 2005, the Company purchased 1,000,000 common shares for cancellation under a Normal Course Issuer Bid. The shares were purchased on the open market at an average price of \$13.84 per share, and the excess of the purchase price over the average book value per share, in the amount of \$4.9 million, was charged to retained earnings. The normal course issuer bid expired on October 14, 2005. A new Normal Course Issuer Bid commenced on November 15, 2005, which expired on November 14, 2006 without any shares being purchased.

13. 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 were granted to selected officers and senior managers. No new stock options were granted in 2006 or 2005. The stock option performance plan provided 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, 2006 and 2005, and changes during the years ending on those dates is presented below:

		2006			2005			
	Number of Shares	Weighted A Exercis	9	Number of Shares	Weighted A Exercis	Average se Price		
Outstanding at the beginning of year	300,386	\$	9.28	499,304	\$	9.39		
Exercised	(38,417)		9.19	(198,918)		9.56		
Outstanding at the end of the year	261,969	\$	9.29	300,386	\$	9.28		

The following table summarizes information about stock options outstanding at December 31, 2006:

		Options exercisable					
		Weighted					
	Number of	Average	We	eighted	Number of	W	eighted
Range of exercise prices	Options Outstanding	Remaining Life (years)	A Exercis	verage e Price	Options Exercisable		Average se Price
\$7.57 to \$8.30	92,634	4.13	\$	8.28	92,634	\$	8.28
\$9.80 to \$11.80	169,335	5.08		9.85	169,335		9.85
	261,969		\$	9.29	261,969	\$	9.29

EMPLOYEE SHARE PURCHASE PLAN

The Company 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. The Company matches 30% of the first 5% of the amount contributed by the employee and pays the share purchase plan brokerage fees. In 2006, contributions of \$1.5 million were made towards the purchase of the Company's common shares under the terms of the plan (2005 – \$1.8 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, 2006 was \$1.0 million (2005 – \$1.0 million).

14. 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.

The Company is in the process of winding up its Taylor sawmill pension plan, following the closure of the mill in 2004, and, as a result, a settlement loss of \$0.1 million (2005 – \$1.3 million) was recognized in the 2006 expense.

Total cash payments for employee future benefits for 2006 were \$63.1 million (2005 – \$65.2 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 2006, Canfor had 7 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, 2005.

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

DEFINED BENEFIT PLAN ASSETS

		2	2006			2005		
(millions of dollars)	Pension f dollars) Benefit Plans		Other Benefit Plans		Pension Benefit Plans		Other Benefit Plans	
Fair market value of plan assets								
Beginning of year	\$	491.4	\$	-	\$	450.5	\$	-
Actual gain on plan assets		34.9		-		64.9		-
Canfor contributions		25.0		3.2		13.3		2.7
Employee contributions		1.9		-		2.8		-
Benefit payments		(34.3)		(3.2)		(32.2)		(2.7)
Settlement of Taylor plan		(1.1)		-		(7.9)		-
End of year	\$	517.8	\$	-	\$	491.4	\$	-

Plan assets consist of the following

Percentage	of	Plan	Assets
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	2006	2005
Equity securities	61 %	60 %
Debt securities	34 %	34 %
Real estate	2 %	2 %
Other	3 %	4 %
	100 %	100 %

DEFINED BENEFIT PLAN OBLIGATIONS

		2006			2005			
	P Benefi	ension : Plans	Benefi	Other t Plans	-	Pension it Plans	Benefi	Other t Plans
Accrued benefit obligation								
Beginning of year	\$	574.4	\$	133.4	\$	496.1	\$	98.8
Current service cost		19.2		3.6		15.2		2.5
Interest cost		29.8		7.1		30.7		6.5
Employee contributions		1.9		-		2.8		-
Benefit payments		(35.4)		(3.2)		(32.2)		(2.7)
Plan amendments		0.6		_		(0.1)		1.6
Actuarial loss (gain)		(9.1)		(1.7)		61.9		26.7
End of year	\$	581.4	\$	139.2	\$	574.4	\$	133.4

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

		2	2006		2005			
	P Benefit	ension Plans	Benefi	Other t Plans		Pension t Plans	Benef	Other it Plans
Fair market value of plan assets	\$	517.8	\$	_	\$	491.4	\$	_
Accrued benefit obligation		581.4		139.2		574.4		133.4
Funded status of plans – surplus (deficit)		(63.6)		[139.2]		(83.0)		(133.4)
Employer contributions after measurement date		16.1		0.8		9.2		0.7
Unamortized transitional amount		(24.9)		17.9		(28.6)		19.9
Unamortized past service costs		3.7		1.4		3.5		1.5
Unamortized net actuarial loss		120.1		44.0		136.8		48.2
Accrued benefit asset (liability)		51.4		(75.1)		37.9		(63.1)
Valuation allowance		(2.2)		-		(2.0)		-
Accrued benefit asset (liability),								
net of valuation allowance	\$	49.2	\$	(75.1)	\$	35.9	\$	(63.1)
The accrued benefit asset (liability) is included	in the Co	mpany's ba	lance sheet	as follows:				
Deferred charges (Note 7)	\$	64.8	\$	_	\$	49.7	\$	_
Other accruals and provisions (Note 10)		(15.6)		(75.1)		(13.8)		(63.1)
	\$	49.2	\$	(75.1)	\$	35.9	\$	(63.1)

Excluded from the tables above are figures relating to a defined benefit pension plan of New South Companies, Inc., which was curtailed in 2003. The accrued benefit asset at December 31, 2006 was \$0.3 million.

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:

		2006			2005			
	Pe Benefit	nsion Plans	Benefi	Other t Plans		Pension it Plans	Benef	Other it Plans
Fair market value of plan assets Accrued benefit obligation	•	483.3 556.3	\$	- (139.2)	\$	462.6 553.5	\$	- (133.4)
Funded status – plan deficit	\$	(73.0)	\$	(139.2)	\$	(90.9)	\$	(133.4)

Of the \$73.0 million of pension plan deficit noted above, \$22.7 million relates to unregistered plans for which funding is not required (2005 – \$22.0 million). \$9.1 million of the unregistered pension liabilities are secured by a letter of credit (2005 - \$8.3 million). "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:

	_			2006			2005	
(millions of dollars)		curred in Year	Ma: Adjustn	tching nents ^a	gnized n Year	curred n Year	atching ments ^a	gnized in Year
Pension Benefit Plans								
Current service cost,								
net of employee contributions	\$	19.2	\$	-	\$ 19.2	\$ 15.2	\$ -	\$ 15.2
Interest cost		29.8		_	29.8	30.7	-	30.7
Return on plan assets		(34.9)		1.7	(33.2)	(64.9)	34.9	(30.0)
Actuarial loss (gain)		(9.1)		15.0	5.9	61.9	(56.2)	5.7
Settlement/curtailment loss		0.1		_	0.1	1.3	-	1.3
Plan amendments		0.6		(0.2)	0.4	_	0.4	0.4
Valuation allowance provided								
against accrued benefit asset		_		0.3	0.3	_	0.2	0.2
Amortization of transitional								
obligation (asset)		-		(3.7)	(3.7)	-	(3.9)	(3.9)
	\$	5.7	\$	13.1	\$ 18.8	\$ 44.2	\$ (24.6)	\$ 19.6
Other Benefit Plans								
Current service cost,								
net of employee contributions	\$	3.6	\$	-	\$ 3.6	\$ 2.5	\$ -	\$ 2.5
Interest cost		7.1		-	7.1	6.5	-	6.5
Actuarial loss (gain)		(1.7)		4.2	2.5	26.7	(25.9)	0.8
Plan amendments		_		0.1	0.1	_	_	_
Amortization of transitional								
obligation (asset)		-		2.0	2.0	-	1.9	1.9
	\$	9.0	\$	6.3	\$ 15.3	\$ 35.7	\$ (24.0)	\$ 11.7

⁽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, 2006, the actuarially determined obligation for these benefits was \$18.3 million (2005 – \$13.8 million). The accrued benefit liability for these benefits, included in "other accruals and provisions" (Note 10) on the balance sheet at December 31, 2006, was \$7.1 million (2005 – \$7.0 million) and the related expense recognized in the current year was \$1.3 million (2005 – \$1.4 million).

SIGNIFICANT ASSUMPTIONS

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

	2	2006	2005		
(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 %	5.25 %	5.25 %	
Rate of compensation increase	3.0 %	3.0 %	3.0 %	3.0 %	
Benefit costs for year ended December 31:					
Discount rate	5.25 %	5.25 %	6.25 %	6.5 %	
Expected long-term rate of return on plan assets	7.0 %	n/a	7.0 %	n/a	
Rate of compensation increase	3.0 %	3.0 %	3.5 %	5.0 %	

ASSUMED HEALTH CARE COST TREND RATES

[weighted average assumptions]	2006	2005
Initial health care cost trend rate	5.87%	6.12%
Ultimate health care trend rate	4.27%	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 2006:

	1% Increase	1% Decrease
Accrued benefit obligation Total of service and interest cost	\$ 28.1 \$ 2.6	\$ (22.1) \$ (2.0)

DEFINED CONTRIBUTION AND OTHER PLANS

The total cost recognized in 2006 for the Company's defined contribution plans was \$3.2 million (2005 – \$2.1 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 \$24.6 million in 2006 (2005 – \$30.4 million).

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

Effective October 12, 2006, the governments of Canada and the United States implemented an agreement for the settlement of the softwood lumber dispute, which began in May 2002. The Softwood Lumber Agreement (SLA), which received formal approval by the Canadian Parliament on December 14, 2006, has a term of seven years and provides for an extension of two years. Either government can give notice to terminate the SLA after 23 months, but there is an additional 12-month notice period before the agreement can be terminated.

Under the terms of the SLA, effective October 12, 2006, the US Department of Commerce revoked all existing ADD and CVD orders on softwood lumber shipped to the US from Canada. Approximately 81% of deposits paid, together with accumulated interest, were to be returned to Canadian lumber producers. The remaining 19% (US \$1 billion) was to be retained by the US government for distribution to the US forest industry petitioners and for use in funding "meritorious activities" such as disaster relief, the promotion of sustainable forestry management and low income housing. Approximately US \$40 million will be utilized for a joint US/Canada committee designed to strengthen and build the North American lumber market.

In the fourth quarter, the full amount of the duty deposits was refunded by the US government, with the US \$1 billion repayable by the Canadian producers as a special assessment to be collected by the Canadian government. At December 31, 2006, Canfor had accrued \$187.7 million (US \$164.0 million) for this assessment, to be paid on January 31, 2007.

In 2006, Canfor recorded into income a duty refund of \$717.7 million and interest income of \$97.7 million. This refund amount is net of the special assessment and includes the reversal of the cumulative additional CVD accrued in excess of the cash deposits and the cumulative additional ADD deposits in excess of the calculated expense, which were \$64.4 million and \$108.8 million, respectively, at September 30, 2006. Substantially all of the duty and interest was collected before the end of the year.

The SLA requires that, effective October 12, 2006, an export tax on lumber shipped to the US be collected by the government of Canada and returned to the province of origin of the lumber. The Province of BC had the right to choose between an export charge only (Option A) or a lower export charge with a quota (Option B) for each of the BC Coast and BC Interior regions. The Province of BC chose Option A for both the BC Coast and the BC Interior and will have the opportunity to change options on January 1, 2010 and January 1, 2013.

The export tax rate is determined monthly, based on the "Random Lengths Framing Lumber Composite Price" as follows: 15% tax at a composite price of US \$315 or under; 10% at US \$316-\$335; 5% at US \$336-\$355 and nil when the price is over US \$355. The SLA also includes a "Surge Mechanism", which increases the export tax rate for the month by 50% when the monthly volume of exports from a region exceeds a certain "Trigger Volume" as defined in the SLA. Export taxes of \$22.0 million were paid in 2006.

16. RESTRUCTURING, MILL CLOSURE AND OTHER SEVERANCE COSTS

During 2006, mill closure costs of \$2.9 million were recorded, primarily related to the expected closure, in June 2007, of a mat plant located at the Panel and Fibre operation, and severance costs at the Tackama plywood plant as a result of reducing the number of shifts at that operation during the year. Other restructuring costs of \$3.6 million were recorded in 2006, primarily comprised of dismantling costs at the Tackama sawmill, which was closed in 2005, and additional severance and lease costs related to the integration of Slocan and Canfor in 2004, which were not identified at the time of the original accrual.

During 2005, restructuring costs of \$5.3 million were recorded. The expense includes mill closure costs of \$3.8 million, which were mainly related to the permanent closure of the Tackama sawmill in 2005, 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.

The following table provides a reconciliation of the restructuring, mill closure and other severance provision for the year ended December 31, 2006:

(millions of dollars)	 2006	2005
Accrued liability at beginning of year	\$ 9.7	\$ 24.3
Accrued in the period *	6.5	5.3
Less: non-cash items	(3.5)	(3.0)
Payments in the period	(7.8)	(16.9)
Accrued liability at end of year	\$ 4.9	\$ 9.7
* reported in the following segments:		
Lumber	\$ 1.3	\$ 4.9
Panels	\$ 2.3	\$ -
Pulp and Paper	\$ -	\$ 0.4
Corporate	\$ 2.9	\$ -

17. INTEREST INCOME (EXPENSE)

				2006					2005	
(millions of dollars)	Lon	g-term	Shor	t-term	Total	Lon	g-term	Shor	t-term	Total
Total interest cost	\$	(40.6)	\$	(9.2)	\$ (49.8)	\$	(49.6)	\$	(5.9)	\$ (55.5)
Less: Interest income – duty refund (Note 15)		-		97.7	97.7		-		-	-
Interest income – temporary										
investments and other		0.2		8.1	8.3		0.3		12.4	12.7
Interest capitalized		-		-	-		-		0.6	0.6
	\$	(40.4)	\$	96.6	\$ 56.2	\$	(49.3)	\$	7.1	\$ (42.2)

18. OTHER INCOME (EXPENSE)

(millions of dollars)	200	6	2005
Equity income (loss) of affiliated companies	\$ (0.:	2) \$	2.7
Seaboard General Partnership [i]	-		8.9
Write down of equity investment in Lakeland Mills and Winton Global Lumber	(19.	1)	-
Other income (expense) (iii)	(10.3	3)	1.2
	\$ (29.0	5) \$	12.8

⁽i) Equity income participation in gain on sale of surplus assets.

⁽ii) These costs include \$5.9 million of costs incurred by CPLP directly on the spinout transaction and \$3.6 million of corporate development costs incurred by Canfor to effect the segregation of the pulp business.

19. 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 were 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 payment against lost infrastructure and road construction costs. A loss of \$8.8 million was recorded in 2005 on the tenures taken back.

20. 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:

	2	006	2005			
(millions of dollars, net of future tax rate reductions)	Current	Long-term	Current	Long-term		
Future income tax assets						
Non capital losses	\$ -	\$ -	\$ -	\$ 21.1		
Accruals not currently deductible	14.2	24.9	22.4	27.3		
Post employment benefits	-	25.7	-	28.6		
Countervailing duty liability	0.9	-	1.3	21.4		
Loss carry forward arising from restructuring of Howe Sound Limited						
Partnership (Note 25)	-	-	-	18.0		
Other	0.6	2.8	0.2	2.8		
	15.7	53.4	23.9	119.2		
Future income tax liabilities						
Depreciable capital assets	-	(415.6)	-	(512.3)		
Deferred pension and other costs	-	(30.8)	-	(16.9)		
Income from limited partnerships	(20.3)	-	-	-		
Anti-dumping duty receivable	_	_	-	(37.7)		
Other	(0.4)	(22.4)	-	(20.6)		
	(20.7)	(468.8)	-	(587.5)		
Future income taxes, net	\$ (5.0)	\$ (415.4)	\$ 23.9	\$ (468.3)		

The components of income tax expense are as follows:

(millions of dollars)	2006	2005
Current	\$ (231.5)	\$ (12.1)
Future	47.9	(11.8)
Tax on equity earnings	0.1	(1.0)
	(183.5)	(24.9)
Amortization of deferred credit on utilization of acquired tax losses	14.1	12.5
	\$ (169.4)	\$ [12.4]

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

(millions of dollars)	2006	2005
Net income from continuing operations before income taxes and non-controlling interests	\$ 665.8	\$ 114.2
Income tax expense at statutory tax rate	\$ (227.0)	\$ (39.7)
Change in corporate income tax rates	41.9	21.0
Large corporation tax	-	(4.8)
Amortization of deferred credit on utilization of acquired tax losses	14.1	12.5
Non-controlling interests	7.1	-
Permanent difference from capital gains and losses	(3.1)	2.4
Permanent difference from dividend income	-	3.1
Change in estimate of available capital losses	-	(8.6)
Other permanent differences and tax adjustments	(2.4)	1.7
Income tax expense	\$ (169.4)	\$ [12.4]

21. EARNINGS PER SHARE

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

	2006	2005
Weighted average number of common shares Incremental shares from stock options	142,536,619 63,301	143,092,157 163,120
Diluted number of common shares	142,599,920	143,255,277

22. CHANGES IN NON-CASH WORKING CAPITAL

(millions of dollars)	2006	2005
Accounts receivable	\$ 33.3	\$ 8.3
Current and future income taxes	223.9	1.7
Inventories	28.8	(27.0)
Prepaid expenses	-	2.9
Accounts payable, accrued liabilities and		
current portion of deferred reforestation (Note 15)	161.7	(41.7)
	\$ 447.7	\$ (55.8)

23. FINANCIAL INSTRUMENTS

COMMODITY PRICE RISK

Canfor uses a variety of financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber and pulp prices and energy costs.

At December 31, 2006, Canfor had entered into pulp swaps to hedge future pulp sales. There was an unrealized loss of \$0.7 million on the pulp swaps at December 31, 2006 (2005 – \$0.1 million gain).

At December 31, 2006, Canfor had entered into energy derivatives to hedge future natural gas and diesel purchases. There were unrealized losses of \$2.9 million on these contracts at December 31, 2006 (2005 – \$18.6 million gain)

There were no lumber futures contracts outstanding at December 31, 2006 (2005 – 186 contracts outstanding).

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.

CURRENCY RISK

A significant portion of Canfor's income from operations is generated from sales denominated in US dollars. In conjunction with commodity price risk management, Canfor enters into forward exchange contracts from time to time. At December 31, 2006, Canfor had US \$5.1 million of forward contracts outstanding (2005 – \$46.4 million). There was an unrecognized loss of \$0.3 million at December 31, 2006 (2005 – \$0.1 million). In 2006, contracts totaling \$158.7 million were exercised and a gain of \$3.6 million was realized (2005 – contracts totaling \$97.5 million at a gain of \$2.1 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.

24. 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 25) for which it received commissions totaling \$3.4 million in 2006 (2005 – \$2.5 million) under the terms of its agency sales agreement. At December 31, 2006, Canfor had prepaid \$27.9 million to HSLP in advance of the due date of receivables for pulp marketed, or to be marketed, and collected on their behalf (2005 – \$48.6 million), under the terms of a separate prepayment agreement between Canfor and Oji, the partners of HSLP, and HSLP. Canfor charges a market rate of interest to HSLP for the period paid in advance, which amounted to \$2.3 million in 2006 (2005 – \$2.1 million) and the prepayment is covered by the assignment of current or future accounts receivable. The agreement provides for Oji to prepay up to a maximum amount of \$60 million and Canfor to a maximum of \$50 million, which is used as short-term operating funds by HSLP. In addition, Canfor has granted extended credit terms to HSLP up to a maximum of \$10 million.

Canfor has purchased pulp logs for resale to HSLP at Canfor's cost, to meet HSLP's future requirements. In 2006, Canfor purchased and resold \$17.4 million of logs to HSLP (2005 - \$27.8 million). There was a balance outstanding of \$10.2 million at December 31, 2006 (2005 - \$4.7 million). Canfor charges HSLP a market rate of interest for this service, which amounted to \$0.2 million in 2006 (2005 - \$0.6 million). Prior to its closure, Canfor's Englewood operation sold logs to HSLP amounting to \$2.5 million in 2006 (2005 - \$6.5 million). There was no balance outstanding at December 31, 2006 (2005 - \$2.6 million).

Under the long-term fibre agreement with Western Forest Products Inc. (Note 3), CFLP purchases chips for resale to HSLP at CFLP's cost, which amounted to \$17.4 million in 2006. There was a balance outstanding of \$13.4 million at December 31, 2006. CFLP charges HSLP a commission for this service, which amounted to \$0.3 million in 2006. There was a balance outstanding of \$0.3 million at December 31, 2006. These amounts have been proportionately consolidated in Canfor's financial statements.

Canfor sawmills sold chips to HSLP in the amount of \$4.7 million in 2006 (2005 – \$17.8 million). There was no balance outstanding at December 31, 2006 (2005 – \$7.6 million). Canfor provides management, fibre supply and other services to HSLP at cost, for which it charged \$1.0 million in fees for 2006 (2005 – \$1.7 million). There was a balance outstanding of \$0.7 million at December 31, 2006 with respect to these fees and other receivables (2005 – \$6.5 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 2006, Canfor purchased \$8.6 million in chips and \$9.4 million in lumber (2005 – \$11.1 million and \$9.0 million respectively). There was a balance outstanding at December 31, 2006 of \$1.5 million (2005 – \$1.1 million). Under the terms of a marketing agreement with these mills, Canfor earned commission income of \$0.3 million on lumber sales in 2006 (2005 – \$0.3 million).

During 2006, Kyahwood Forest Products Ltd. provided remanufacturing services to Canfor in the amount of \$5.1 million (2005 – \$5.3 million).

Canfor purchased logs from Takla Track & Timber Ltd. in the amount of \$4.0 million in 2006 (2005 - \$4.9 million). There was no balance outstanding at December 31, 2006 (2005 - \$2.6 million).

Shipping services provided by Seaboard International Shipping Company, which is owned by the Seaboard General Partnership, amounted to \$3.6 million in 2006 (2005 – \$6.0 million). There was a balance outstanding at December 31, 2006 of \$0.1 million (2005 – nil).

25. 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. HSLP 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 HSLP. 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 HSLP on January 2, 2005.

As a result of this reorganization, CFP recorded a future income tax asset and a deferred credit, which were both drawn down to nil at December 31, 2006 (\$18.0 million and \$14.1 million, respectively, at December 31, 2005).

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

While Canfor does not reflect HSLP'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 2006. Any income tax expense incurred by Canfor will be reimbursed by HSLP.

26. JOINT VENTURES

During 2006, Canfor made capital contributions of \$10.0 million to the Canfor-LP OSB Limited Partnership, which is jointly owned with Louisiana-Pacific Canada Ltd. (2005 – \$102.3 million). The mill, which is operating as Peace Valley OSB, commenced production in December 2005. Canfor has agreed to supply 330,000 cubic metres of timber annually to the joint venture out of its existing timber tenure in the area.

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

	2006						2005		
(millions of dollars)	Canfor-	Canfor-LP OSB		CFLP		Total		-LP OSB	
Income Statement									
Sales	\$	56.1	\$	1.8	\$	57.9	\$	0.5	
Costs and expenses		(71.4)		(1.6)		(73.0)		(1.3)	
Net income (loss)	\$	(15.3)	\$	0.2	\$	(15.1)	\$	(0.8)	
Cash Flow Statement									
Cash used in operating activities	\$	(7.3)	\$	(4.8)	\$	(7.1)	\$	(10.9)	
Cash used in investing activities		5.2		5.0		5.2		(90.6)	
Increase (decrease) in net cash									
from continuing operations	\$	(2.1)	\$	0.2	\$	(1.9)	\$	(101.5)	
Balance Sheet									
Cash	\$	6.7	\$	0.2	\$	6.9	\$	8.4	
Other current assets		7.0		7.0		14.0		7.0	
Property, plant and equipment		122.8		-		122.8		126.8	
Construction in progress		-		_		-		-	
Deferred costs (Note 7)		5.4		_		5.4		8.6	
Long-term fibre agreement (Notes 3 and 5)		-		38.4		38.4		-	
Accounts payable and accrued liabilities		(5.3)		(0.4)		(5.7)		(9.0)	
Net assets	\$	136.6	\$	45.2	\$	181.8	\$	141.8	

27. SEGMENTED INFORMATION ^a

(millions of dollars)	I	Lumber ^d	Panels	Pulp & Paper ^g	Corporate & Other	Cons	olidated
Year ended December 31, 2006							
Sales to external customers ^b	\$	2,521.5	367.9	952.9	_	\$	3,842.3
Sales to other segments ^c	\$	82.9	3.7	_	_	\$	86.6
Operating income (loss) ^f	\$	585.2	(53.3)	141.9	(39.3)	\$	634.5
Amortization	\$	101.0	26.0	48.8	6.8	\$	182.6
Capital expenditures	\$	76.9	11.0	18.2	1.0	\$	107.1
Identifiable assets ^e	\$	1,869.7	331.8	920.8	1,556.9	\$	4,679.2
Year ended December 31, 2005							
Sales to external customers ^b	\$	2,544.9	365.7	876.5	-	\$	3,787.1
Sales to other segments ^c	\$	104.2	4.5	_	-	\$	108.7
Operating income (loss)	\$	131.5	25.4	22.2	(36.7)	\$	142.4
Amortization	\$	86.9	11.9	46.2	6.6	\$	151.6
Capital expenditures	\$	158.7	105.7	63.5	6.6	\$	334.5
Identifiable assets ^e	\$	1,717.9	345.8	895.3	871.1	\$	3,830.1

GEOGRAPHIC INFORMATION

	2006	2005
Sales by location of customer		
Canada	\$ 590.3	\$ 571.5
United States	2,536.7	2,485.8
Europe	172.5	233.2
Far East and Other	542.8	496.6
	\$ 3,842.3	\$ 3,787.1
Capital assets, goodwill and other intangible assets by location		
Canada	\$ 2,162.0	\$ 2,206.1
United States	201.4	4.9
Far East and Other	0.7	0.1
	\$ 2,364.1	\$ 2,211.1

⁽a) Operations are presented by product lines.(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 that approximate market value.

⁽d) Sales include sales of Canfor produced lumber of \$1,964.2 million (2005 - \$2,215.9 million). Excludes discontinued operations (Note 3).

[[]e] Corporate & Other includes discontinued operations (Note 3). The identifiable assets of the Lumber segment include goodwill of \$81.6 million, which was acquired in March 2006

upon the acquisition of New South Companies Inc. (Note 3).

(f) Includes the countervailing and anti-dumping duty refund of \$717.7 million, recorded in the Lumber segment (Note 15).

(g) Includes 100% of CPLP (Note 3) and Taylor Pulp Mill, which was excluded from the spinout transaction.

28. COMMITMENTS AND CONTINGENCIES

The company has committed to the following operating leases for property, plant and equipment. As at December 31, 2006, the future minimum lease payments under these operating leases were as follows:

[millions of dollars]	
2007	\$ 22.7
2008	13.4
2009	7.5
2010	3.5
2011	1.3
Thereafter	1.1
Total minimum lease payments	\$ 49.5

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

ELECTRICAL COGENERATION INCENTIVE PAYMENTS

In 2003, Canfor entered into an agreement with BC Hydro to build an electrical cogeneration facility at the Prince George Pulp and Paper Mill. Under the agreement, BC Hydro contributed \$45.8 million of the project costs, with Canfor contributing the balance. The agreement was assigned to CPLP effective July 1, 2006, with incentive payments totaling \$11.4 million outstanding. The final incentive payment of \$11.4 million was received August 9, 2006 and transferred to Canfor. The total incentive payments of \$45.8 million were accounted for as a reduction of property, plant and equipment transferred to CPLP. The project was completed in 2005 at a net cost to the Pulp Business of \$69.6 million. The agreement entails a 15 year commitment with BC Hydro for power displacement at the cogeneration facility, whereby a proportionate repayment is required should the facility not generate the minimum of 390 gigawatt hours of electricity per year. As required under the agreement, CPLP has posted a letter of credit in the amount of \$33.9 million as security.

As of August 10, 2006, the cogeneration facility produced a total of 390.5 gigawatt hours of electricity, marking the fulfillment of the first year of power production commitment. For the period from August 11, 2006 to December 31, 2006, the cogeneration facility produced a total of 148.9 gigawatt hours of electricity or 85% of target with the completion of the second year at August 10, 2007. If the project were to produce less than 390 gigawatt hours of electricity in any year during the term of the agreement, CPLP will have until the end of the succeeding year to make up the shortfall balance. If a shortfall balance carried over from a preceding year has not been made up by the end of the succeeding year, CPLP is required to compensate BC Hydro for the shortfall balance by paying BC Hydro an amount determined by the shortfall balance divided by the annual target (390 gigawatt hours) multiplied by \$3.27 million, being 1/15 of the total incentive payments originally provided by BC Hydro.

As of December 31, 2006, CPLP has no repayment obligation under the terms of the agreement.

29. COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to the current year's presentation.

2006 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of dollars)					
Sales	\$ 962.7	\$ 1,059.9	\$ 927.7	\$ 892.0	\$ 3,842.3
Manufacturing and product costs	681.4	814.6	743.7	710.1	2,949.8
Freight and other distribution costs	152.4	163.4	135.7	146.8	598.3
Countervailing and antidumping duties	30.2	32.1	24.3	1.2	87.8
Export tax	-	-	-	22.0	22.0
Amortization	44.8	42.2	48.1	47.5	182.6
Selling and administration	15.4	22.9	20.7	19.5	78.5
Restructuring, mill closure and severance costs	_	_	_	6.5	6.5
Countervailing and anti-dumping duty refund	-	-	-	(717.7)	(717.7)
Operating income (loss)	38.5	(15.3)	[44.8]	656.1	634.5
Equity income	0.6	0.5	(0.4)	(0.9)	(0.2)
Interest income (expense)	(9.8)	(11.8)	(10.8)	88.6	56.2
Foreign exchange gain (loss) on long-term debt	(7.0)	(11.0)	(10.0)	00.0	00.2
and temporary investments	(1.0)	24.4	(6.7)	(12.0)	4.7
Other income (expense)	0.3	(4.0)	(5.8)	(12.0)	(29.4)
·	0.3	(4.0)	(5.8)	(17.7)	(27.4)
Net income (loss) from continuing operations	00 /	((0)	((0.5)	E44.0	/ / 5 0
before income taxes	28.6	(6.2)	(68.5)	711.9	665.8
Income tax recovery (expense)	(7.4)	45.4	25.3	(232.7)	(169.4)
Non-controlling interests	-	-	(8.4)	(12.3)	(20.7)
Net income (loss) from continuing operations	21.2	39.2	(51.6)	466.9	475.7
Net income (loss) from discontinued operations	(2.3)	-	-	(1.6)	(3.9)
Net income (loss)	\$ 18.9	\$ 39.2	\$ (51.6)	\$ 465.3	\$ 471.8
Per common share (dollars)					
Net income (loss) from continuing operations					
Basic	\$ 0.15	\$ 0.28	\$ (0.36)	\$ 3.28	\$ 3.34
Diluted	0.15	0.28	(0.36)	3.27	3.34
Net income (loss)					
Basic	0.13	0.28	(0.36)	3.26	3.31
Diluted	0.13	0.28	(0.36)	3.26	3.31
Cash generated from (used in) (millions of dollars)					
Operating activities	\$ (139.2)	\$ 98.7	\$ 78.8	\$ 1,101.9	\$ 1,140.2
Financing activities					
Long-term debt	(34.5)	(12.7)	(36.2)	109.9	26.5
Other	61.9	(52.4)	(3.9)	(46.4)	(40.8)
	27.4	(65.1)	(40.1)	63.5	(14.3)
Investing activities					
Property, plant, equipment and timber	(15.0)	(24.4)	(34.0)	(33.7)	(107.1)
Other	(206.7)	7.9	11.5	(123.2)	(310.5)
	(221.7)	(16.5)	(22.5)	(156.9)	(417.6)
Cash generated by discontinued operations	16.6	-	-	-	16.6

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

2005 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of dollars)					
Sales	\$ 963.5	\$ 1,035.7	\$ 934.1	\$ 853.8	\$ 3,787.1
Manufacturing and product costs	619.8	687.1	668.8	622.0	2,597.7
Freight and other distribution costs	130.7	159.9	157.6	145.1	593.3
Countervailing and antidumping 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, mill closure and severance 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					
and temporary investments	(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 operations	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	6.7	(4.1)	(12.7)	(3.4)	(13.5)
	7.0	(18.4)	(54.7)	(15.2)	(81.3)
Investing activities					
Property, plant, equipment and timber	(75.1)	(79.8)	(83.7)	(95.9)	(334.5)
Other	(42.2)	70.7	(30.8)	88.0	85.7
	(117.3)	[9.1]	(114.5)	(7.9)	(248.8)
Cash generated by discontinued operations	2.3	2.5	2.7	(0.1)	7.4
Increase (decrease) in cash and cash equivalents	\$ (139.3)	\$ 103.9	\$ (114.9)	\$ 20.9	\$ [129.4]

 $\label{lem:conform} \textbf{Certain previously published figures have been reclassified to conform to the current presentation.}$

SUMMARY OF CONSOLIDATED PRODUCTION AND SHIPMENTS

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2006	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber SPF – MMfbm	1,217.7	1,141.2	1,072.2	1,028.7	4,459.8
Lumber SYP – MMfbm	29.9	111.4	107.7	92.4	341.4
Plywood - MMsf 3/8" basis	114.0	115.5	104.0	105.7	439.2
Oriented strand board – MMsf 3/8" basis	172.7	176.1	200.8	184.8	734.4
Pulp - 000 mt	318.1	272.5	308.4	310.8	1,209.8
Kraft paper – 000 mt	33.1	30.1	32.0	33.9	129.1
2005					
Lumber SPF - MMfbm	1,205.4	1,242.7	1,126.4	1,049.9	4,624.4
Plywood - 000 Msf 3/8" basis	108.3	110.9	104.2	109.9	433.3
Oriented strand board – 000 Msf 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

SHIPMENTS

2006	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Lumber – MMfbm					
Canfor produced SPF	1,125.2	1,198.1	1,058.1	1,050.9	4,432.3
Canfor produced SYP	37.4	126.6	113.0	104.1	381.1
Purchased from other wholesale producers	150.0	272.4	244.9	197.2	864.5
Total Lumber	1,312.6	1,597.1	1,416.0	1,352.2	5,677.9
Plywood – 000 Msf 3/8" basis	110.3	118.1	103.2	109.9	441.5
Oriented strand board - 000 Msf 3/8" basis	157.2	187.8	193.4	184.2	722.6
Pulp - 000 mt					
Canfor produced	313.3	293.1	307.7	292.0	1,206.1
Marketed on behalf of HSLP	88.6	98.3	101.7	86.0	374.6
Total Pulp	401.9	391.4	409.4	378.0	1,580.7
Kraft paper – 000 mt	31.1	31.3	32.5	33.4	128.3

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Lumber – MMfbm					
Canfor produced SPF	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 – 000 Msf 3/8" basis	106.0	107.1	124.3	98.3	435.7
Oriented strand board – 000 Msf 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

FIVE-YEAR COMPARATIVE REVIEW

	2006	2005	2004	2003	2002
Sales and income (millions of dollars)					
Sales	\$ 3,842.3	\$ 3,787.1	\$ 3,925.0	\$ 2,355.0	\$ 2,343.2
Manufacturing and product costs	2,949.8	2,597.7	2,382.8	1,712.6	1,694.7
Freight and other distribution costs	598.3	593.3	525.8	329.5	406.0
Countervailing and antidumping duties	87.8	224.8	276.2	146.6	51.9
Export tax	22.0	-	-	-	-
Amortization	182.6	151.6	140.3	99.3	98.3
Selling and administration	78.5	72.0	68.9	55.3	64.8
Countervailing and anti-dumping duty refund	(717.7)	-	-	-	-
Reversal of duties accrued in prior year	_	_	_	_	(45.8
Restructuring, mill closure and severance costs	6.5	5.3	36.5	-	30.4
Operating income	634.5	142.4	494.5	11.7	42.9
Interest income (expense)	56.2	(42.2)	(58.8)	(60.2)	(68.4
Foreign exchange gain on long-term debt					
and temporary investments	4.7	10.0	48.7	110.9	-
Other income (expense)	(29.6)	12.8	8.2	25.0	14.0
Jnusual item	-	(8.8)	-	-	-
Net Income (loss) from continuing operations					
before income taxes	665.8	114.2	492.6	87.4	(11.5
ncome tax recovery (expense)	(169.4)	(12.4)	(94.1)	2.0	9.8
Non-controlling interests	(20.7)	-	-	-	-
Net Income (loss) from continuing operations	475.7	101.8	398.5	89.4	(1.5
Net income (loss) from discontinued operations	(3.9)	(5.8)	17.0	57.8	7.7
Net income	\$ 471.8	\$ 96.0	\$ 415.5	\$ 147.2	\$ 6.0
Per common share (dollars)					
Net income (loss) from continuing operations					
Basic	\$ 3.34	\$ 0.71	\$ 3.31	\$ 1.10	\$ (0.03
Diluted	3.34	0.71	3.09	1.02	(0.03
Net income					
Basic	3.31	0.67	3.45	1.81	0.07
Diluted	3.31	0.67	3.22	1.65	0.07
Book value per share	15.63	14.36	13.72	13.44	11.85
Assets and capitalization (millions of dollars)					
Norking capital	\$ 1,172.3	\$ 725.7	\$ 809.7	\$ 237.3	\$ 298.0
_ong-term investments	115.3	186.5	196.8	98.8	84.1
Property, plant, equipment and timber	2,254.9	2,211.1	2,141.7	1,371.5	1,292.0
Goodwill	81.6	_	_	_	_
Other assets and deferred charges	91.8	96.9	96.1	131.0	142.6
Net assets of discontinued operation	-	73.8	127.6	81.8	109.4
Net assets	\$ 3,715.9	\$ 3,294.0	\$ 3,371.9	\$ 1,920.4	\$ 1,926.1
ong-term debt	\$ 602.8	\$ 544.5	\$ 660.5	\$ 633.0	\$ 798.4
Other accruals and provisions	173.3	220.5	218.2	78.4	78.6
Future income taxes	415.4	468.3	499.2	175.7	154.5
Deferred credit	-	14.1	27.2	95.7	95.7
	20/ 7	_	_	_	_
	296.7				700.0
Non-controlling interests	2,227.7	2,046.6	1,966.8	937.6	798.9
Non-controlling interests Common shareholders' equity Fotal capitalization		2,046.6 \$ 3,294.0	1,966.8 \$ 3,371.9	\$ 1,920.4	798.9 \$ 1,926.1
Non-controlling interests Common shareholders' equity	2,227.7				

Certain prior years' figures have been reclassified to conform to the 2006 presentation.

FIVE-YEAR COMPARATIVE REVIEW

	2006	2005	2004	2003	2002
Cash generated from (used in) (million of dollars) Operating activities	\$ 1,140.2	\$ 193.3	\$ 708.5	\$ (62.2)	\$ 135.3
Financing activities					
Long-term debt	26.5	(67.8)	42.0	(52.9)	(49.9)
Common shares	0.3	(11.9)	8.0	0.9	0.6
Dividends paid	-	-	-	(10.6)	(21.1)
Cash distributions paid to non-controlling interests	(17.6)	_	_	(10.0)	- (21.1)
Other	(23.5)	(1.6)	(0.8)	(0.4)	(0.4)
Otter	(14.3)	(81.3)	49.2	(63.0)	(70.8)
Investing activities	(14.0)	(01.0)	47.2	(00.0)	(70.0)
	(104.3)	(327.0)	(192.6)	(86.0)	(34.2)
Property, plant, equipment and timber, net					
Howe Sound Pulp and Paper Limited Partnership	- (00 (4)	(50.0)	-	-	(5.0)
Business acquisition costs, net of cash acquired	(206.1)	-	-	-	-
Investment in subsidiaries and affiliates	-	-	(38.2)	(30.6)	-
Mortgage receivable on sale of property	-	-	-	(5.8)	(15.7)
Other	(107.2)	128.2	14.0	(1.5)	(2.9)
	(417.6)	(248.8)	(216.8)	(123.9)	(57.8)
Increase (decrease) in cash and cash equivalents					
From continuing operations	708.3	(136.8)	540.9	(249.1)	6.7
From discontinued operations	16.6	7.4	(19.3)	168.8	(14.0)
	\$ 724.9	\$ (129.4)	\$ 521.6	\$ (80.3)	\$ (7.3)
Financial statistics					
EBITDA	817.1	294.0	634.8	111.0	141.2
Return on capital employed	16.0%	4.9%	19.8%	10.3%	2.7%
Return on common shareholders' equity	22.1%	4.8%	28.6%	17.0%	0.7%
Ratio of current assets to current liabilities	2.2:1	2.4:1	2.4:1	1.5:1	1.7:1
Ratio of net debt to shareholders' equity	(26):126	14:86	11:89	35:65	41:59
Production statistics*					
Lumber SPF – MMfbm	4,459.8	4,624.4	4,234.9	2,632.6	2,695.3
Lumber SYP – MMfbm	341.4	-	-	-	-
Plywood – 000 Msf 3/8" basis	439.2	433.3	356.6	175.6	165.4
Oriented strand board - 000 Msf 3/8" basis	734.4	478.8	384.8	-	_
Pulp - 000 mt	1,209.8	1,189.1	1,142.3	992.1	1,001.5
Kraft paper – 000 mt	129.1	127.4	134.1	128.5	107.6
Hardboard - 000 Msf 3/8" basis	27.3	29.4	29.4	28.3	26.3
Refined fibre – 000 mt	34.8	35.9	37.4	37.3	39.5
Sales by product line*					
Lumber – Canfor produced	50%	59%	60%	53%	55%
Pulp and kraft paper	25	25	25	35	33
Plywood	4	4	4	3	3
Lumber – other producers	11	6	5	6	6
Oriented Strand Board	4	4	4	0	0
Miscellaneous	6	2	2	3	3
	100%	100%	100%	100%	100%
Sales by market					
United States	67%	67%	61%	55%	57%
Canada	15	12	20		20
				21	
Far East	13	13	12	13	12
Europe Other	4 1	7 1	7 0	10 1	10 1
	100%	100%	100%	100%	100%

Excludes discontinued operations
 Certain prior years' figures have been reclassified to conform to the 2006 presentation.

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][6]} 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. [SIIIS]
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. (2031/41/6) 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. (1915)
Senior Consultant, 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

P.M. Tellier, P.C., C.C., LL.L., Q.C. ^{[2][4]} Corporate Director Montreal, Quebec Director since 2006

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

P. Bonkemeyer

Senior Vice-President, Operations Surrey, British Columbia

D.M. Calabrigo

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

M. Palmiere

Vice-President and Regional Manager West Region Vancouver, British Columbia

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

^[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.

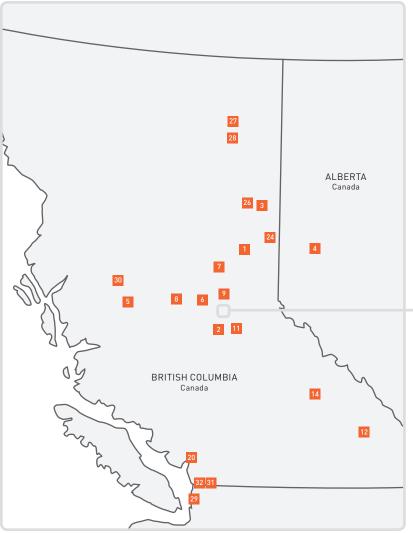
^[3] Member of the Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.

⁽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.

WESTERN CANADA



EASTERN CANADA / U.S.A.



PRINCE GEORGE



SAWMILLS

Chetwynd1
Clear Lake
Fort St John
Grande Prairie 4
Houston5
Isle Pierre 6
Mackenzie 7
Plateau 8
Polar 9
Prince George10
Quesnel

(1) Canfor Pulp Limited Partnership(2) Limited Partnership

Radium
Rustad
Vavenby
Daaquam 15
Graham, NC 18
Camden, SC
Conway, SC 18

Marion, SC. 19

PULP & PAPER Howe Sound (2)......

Howe Sound 20
Intercontinental (1) 21
Northwood (1) 22
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PLYWOOD & OSB

North Central Plywood 25
Peace Valley OSB [2] 26
PolarBoard OSB 27
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OTHER

Bellingham, WA	29
(yahwood	30
Jneeda	31
Panel & Fibre	32

MILL OPERATIONS

	2006 Production	Capacity
LUMBER (MMfbm)		
Chetwynd	244.1	
Clear Lake	152.1	
Daaquam	117.8	
Fort St John	202.2	
Grande Prairie	217.2	
Houston	585.2	
Isle Pierre	276.2	
Mackenzie	458.1	
Prince George	369.1	
Plateau	335.7	
Polar	305.2	
Quesnel	390.5	
Radium	172.5	
Rustad	402.7	
Vavenby	231.2	
Total SPF	4,459.8	4,835.0
Conway	117.3	
Camden	129.8	
Graham	90.5	
Marion	3.8	
Total SYP	341.4	430.0
Total Lumber	4,801.2	5,265.0
PLYWOOD (MMsf 3/8' basis)		
North Central Plywood	182.5	
Tackama	256.7	
Total Plywood	439.2	450.0
OSB (MMsf 3/8' basis)		
PolarBoard	448.6	
Peace Valley ^(a)	571.6	
Total OSB	1,020.2	1,470.0
PULP (000 Mt) Howe Sound ^(a)	270.4	
Howe Sound '-'	378.4	
Intercontinental (a)	305.2	
Northwood (a)	561.6	
Prince George Pulp (a)	148.6	
Taylor	194.4	
Total Pulp	1,588.2	1,600.0
PAPER (000 Mt)		
Specialty Paper Mill ^(a)	129.1	135.0
NEWSPRINT (000 Mt) Howe Sound ^[a]	215.7	220.0
Howe Sound ""	215.7	230.0

DEFINITIONS OF SELECTED FINANCIAL TERMS

Book Value per Share is the shareholders' equity, at the end of the year, divided by the number of common shares outstanding at the end of the year.

Capital Employed consists of the funds invested or retained in Canfor in the form of shares or liabilities. It is composed of unpresented 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 21 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.

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting

Canfor's Annual General Meeting will be held at the Fairmont Hotel Vancouver, Vancouver Island Room, 900 West Georgia, Vancouver, BC, on Friday, May 4, 2007 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

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Canfor Corporation Head Office

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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



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