Q3 2005

For the three months ended September 30, 2005

CANFOR CORPORATION

THIRD QUARTER INTERIM REPORT

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To Our Shareholders

Canfor Corporation reported net income of $17.4 million for the third quarter, or $0.12 per share on a diluted basis, and $108.3 million for the year to date, or $0.75 per share. This compares to income of $25.3 million in the previous quarter and $200.0 million in the third quarter of 2004.

The current period's operating results were negatively impacted by lower product prices and the strengthening of the Canadian dollar. Compared to the second quarter, US dollar lumber prices were 10% lower, OSB 5% lower and pulp 4% lower. The decline compared to the third quarter of 2004 was even more significant, with lumber prices decreasing by 26%, OSB 18%, plywood 34% and pulp 8%. The impact of these lower prices was exacerbated by the strengthening of the Canadian dollar by nearly 4% in the quarter and by nearly 9% compared to the same period in 2004.

Several one-time adjustments are included in the quarter's results, impacting comparability with prior periods. These include a $24.7 million after-tax gain on the translation of US dollar long-term debt, $13.3 million of favourable tax adjustments, an $8.9 million after-tax write-down of timber licenses and a $2.5 million after-tax provision for mill closure costs. These items had a net favourable impact on earnings per share of $0.19 in the quarter.

The container truckers' strike at the Port of Vancouver hampered offshore shipments of lumber and pulp in the first half of the third quarter. As a result, lumber shipments were 5% lower than in the previous quarter. Pulp shipments recovered in the latter part of the quarter and were up by 4% over the previous quarter. Panel shipments increased by 14% over the second quarter and by 18% over the same quarter last year, as a result of strong demand associated with the hurricanes in the US Gulf area.

Activity on major capital projects continues, with the OSB joint venture plant anticipated to start up in early November and the Plateau mill re-build scheduled for completion in January 2006.

As a result of challenging commodity prices and the strengthening Canadian dollar, this was a difficult quarter financially. However difficult markets will be weathered through continued operational improvements, benefits from recent investments in the mills and the Company's strong financial condition. The Company looks forward to the Peace Valley OSB joint venture starting up next month and to a stronger operational performance from the panel business. Results at the pulp mills are expected to improve, with lower fibre and energy costs combined with relatively stronger pulp prices anticipated in the fourth quarter.

Canfor has entered into an agreement with the Province of British Columbia with respect to the timber take-back resulting from the government's Forestry Revitalization Plan. Canfor will receive $62.0 million from the Province in compensation for the loss of approximately 2.4 million cubic metres of its replaceable forest tenures, including a $5.0 million advance payment against lost infrastructure and road construction costs. Canfor is continuing discussions with the Province for further compensation for infrastructure, but the amount and timing of additional compensation is not yet determinable. In anticipation of the agreement being finalized in October, Canfor recorded an $8.9 million write-down of its timber licenses in the third quarter, as referred to above.

During the third quarter, the Company purchased one million of its common shares for cancellation under a normal course issuer bid, at an average price of $13.84 per share. The normal course issuer bid expired on October 14, 2005. Subject to regulatory approval, Canfor intends to make another normal course issuer bid to purchase for cancellation up to 7,125,519 Common Shares, or 5% of the 142,510,396 Shares outstanding on October 28, 2005, at prevailing market prices in accordance with the rules of the Toronto Stock Exchange. The normal course issuer bid will commence once regulatory approval is received and will continue for one year, unless completed or terminated earlier. Canfor believes the normal course issuer bid is in the best interests of the Company. Purchases of Common Shares made under the bid will be effected through the facilities of the Toronto Stock Exchange.

Peter J.G. Bentley
Chairman

James A. Shepherd
President and Chief Executive Officer

Management's Discussion and Analysis

This interim Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted Canfor's performance during the third quarter of 2005 relative to the previous quarter and the last published annual results as at December 31, 2004 and relative to the comparative quarter in 2004. This MD&A should be read in conjunction with the interim consolidated financial statements and accompanying notes as well as the annual MD&A and audited consolidated financial statements and notes, which are included in Canfor's Annual Report for the year ended December 31, 2004 (available at www.canfor.com).

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

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

The information in this report is as at October 28, 2005.

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

SUMMARIZED RESULTS [1, 2]

(millions of dollars, except for per share amounts)	**Q3 2005**	Q2 2005	**YTD 2005**	Q3 2004	YTD 2004
Sales	**$ 941.9**	$ 1,067.4	**$ 2,975.2**	$ 1,130.8	$ 2,956.5
Countervailing & anti-dumping duties expensed	**$ 58.5**	$ 67.5	**$ 184.9**	$ 73.8	$ 204.9
EBITDA	**$ 26.4**	$ 105.0	**$ 268.6**	$ 242.5	$ 581.1
Operating income (loss)	**$ (10.8)**	$ 67.1	**$ 151.9**	$ 203.2	$ 476.6
Foreign exchange gain (loss) on long-term debt	**$ 30.0**	$ (11.7)	**$ 14.7**	$ 40.5	$ 12.6
Net income from continuing operations, after tax	**$ 17.4**	$ 28.9	**$ 109.0**	$ 191.4	$ 354.7
Net income (loss) from discontinued operations	**$ -**	$ (3.6)	**$ (0.7)**	$ 8.6	$ 17.8
Net income	**$ 17.4**	$ 25.3	**$ 108.3**	$ 200.0	$ 372.5
Per share, diluted					
Net income from continuing operations	**$ 0.12**	$ 0.20	**$ 0.76**	$ 1.34	$ 2.83
Net income	**$ 0.12**	$ 0.18	**$ 0.75**	$ 1.40	$ 2.97
Average Canadian/US exchange rate [3]	**$ 0.832**	$ 0.804	**$ 0.817**	$ 0.765	$ 0.753

Operating results in the third quarter were negatively impacted by the continuing decline in product prices and the strengthening of the Canadian dollar. Market prices for all of the major product lines except plywood were lower than in the previous quarter. Benchmark prices for 2x4 lumber decreased by 10%, OSB by 5% and pulp by 4%. The decline compared to the third quarter of 2004 was even more significant, with lumber prices decreasing by 26%, OSB by 18%, plywood by 34% and pulp by 8%. The impact of the lower US dollar denominated prices on the operating

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

[2] Prior period figures have been restated throughout this report to reflect the discontinued operations treatment of the Fort St James, Slocan and Valemount operations, as discussed later in this report.

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

results was compounded by the strengthening of the Canadian dollar, which averaged nearly 4% stronger in the current quarter than in the second quarter and nearly 9% stronger than in the third quarter of 2004.

The impact on Canfor's results of a change in chip prices, as discussed in the Lumber and Pulp and Paper segments, below, is a net negative for the quarter of $6.0 million. However, Canfor will be a net beneficiary in future periods as the lower priced chips flow through inventories.

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

(millions of dollars, after tax)	
Foreign exchange gain on long-term debt	$ 24.7
Impact of 1.5% reduction in BC corporate tax rate	21.0
Write-down of timber licenses	(8.9)
Other tax adjustments (change in estimate of available capital losses, reassessment of prior years)	(7.7)
Provision for Tackama sawmill closure costs	(2.5)
Favourable impact on net income	$ 26.6
Favourable impact on earnings per share	$ 0.19

The second quarter results included an $11.7 million exchange loss on long-term debt, a $4.0 million loss on disposal of discontinued operations and restructuring costs of $2.5 million. The third quarter 2004 results included a $38.3 million exchange gain on long-term debt and a $7.8 million favourable adjustment to a prior period's anti-dumping duty expense. *(All of the preceding figures are after tax.)*

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber[4]

(millions of dollars unless otherwise noted)	**Q3 2005**	Q2 2005	**YTD 2005**	Q3 2004	YTD 2004
Sales	**$ 601.3**	$ 704.9	**$ 1,947.4**	$ 760.7	$ 1,861.8
EBITDA	**$ 22.1**	$ 87.5	**$ 210.9**	$ 196.6	$ 421.3
EBITDA margin	**4%**	12%	**11%**	26%	23%
Operating income	**$ 1.2**	$ 67.4	**$ 144.6**	$ 174.4	$ 365.8
Average 2x4 #2 & Better lumber price – US $ [5]	**$ 327**	$ 365	**$ 362**	$ 440	$ 415
Average price in Cdn $	**$ 392**	$ 454	**$ 443**	$ 575	$ 549
Production – lumber (MMfbm)	**1,058.2**	1,179.1	**3,390.8**	1,060.2	2,917.7
Shipments – Canfor-produced lumber (MMfbm)	**1,174.3**	1,253.8	**3,516.3**	1,099.0	2,950.4
Shipments – wholesale lumber (MMfbm)	**114.4**	102.0	**293.0**	72.5	221.2

Operating income was $1.2 million in the quarter, compared to $67.4 million in the second quarter and $174.4 million in the third quarter of 2004. Lower US dollar prices and the impact of the strengthened Canadian dollar were the main factors in the decrease in operating income. The current period's results also include a $3.0 million mill closure provision following the permanent closure of the Tackama sawmill in September.

[4] Excludes discontinued operations
[5] Per thousand board feet (Source – Random Lengths Publications, Inc.)

The implementation of lower chip market-based pricing, effective July 1, 2005, resulted in chip income being approximately $13.0 million lower than in the previous quarter.

Operations

Production decreased by 10% from the second quarter, mainly because of maintenance shutdowns at several three-shift operations, curtailments at specific locations to balance inventories, the permanent closure of the Hines Creek and Tackama sawmills and a 10-day shutdown for capital installations at the Plateau sawmill. As a result, lumber inventories were reduced by over 90 million board feet in the quarter. Cash conversion costs on a unit basis were 6% higher than in the prior quarter due to higher spending and the reduced production. Log costs decreased by 3% during the period, mainly due to increased harvesting of lower grade logs.

Lumber recovery continues to be a focus for the group and improved by 1% quarter over quarter, as quality and optimization best practices continue to be implemented throughout the operations.

Markets and Outlook – see below, following Panels section

Panels

(millions of dollars unless otherwise noted)	**Q3 2005**	Q2 2005	**YTD 2005**	Q3 2004	YTD 2004
Sales	**$ 95.4**	$ 89.8	**$ 279.6**	$ 109.0	$ 277.2
EBITDA	**$ 3.7**	$ 11.8	**$ 36.1**	$ 38.5	$ 106.9
EBITDA margin	**4%**	13%	**13%**	35%	39%
Operating income	**$ 1.3**	$ 9.0	**$ 28.1**	$ 35.9	$ 101.1
Average plywood price in Cdn $ [6]	**$ 362**	$ 361	**$ 387**	$ 548	$ 556
Average OSB price in US $ [7]	**$ 291**	$ 305	**$ 320**	$ 353	$ 406
Average OSB price in Cdn $	**$ 350**	$ 379	**$ 392**	$ 461	$ 539
Production – plywood (MMsf 3/8")	**104.2**	110.9	**323.4**	98.6	251.7
Production – OSB (MMsf 3/8")	**129.8**	114.9	**365.3**	126.4	252.2
Shipments – plywood (MMsf 3/8")	**124.3**	107.1	**337.4**	95.8	247.3
Shipments – OSB (MMsf 3/8")	**131.7**	117.1	**351.3**	120.5	253.1

Operating income of $1.3 million in the quarter was $7.7 million lower than in the previous quarter and $34.6 million lower than in the same period last year, primarily as a result of lower prices and the impact of the stronger Canadian dollar. A $2.2 million write-down of equipment replaced in the recent OSB capacity upgrade project also negatively impacted the current period's results.

Operations

Plywood production was 6% lower than in the previous quarter, mainly as a result of a 9-day maintenance shutdown at the Tackama plant, which was taken in order to improve reliability and uptime measures. The lower production impacted conversion costs, which were 1% higher than in the previous quarter.

OSB production was 13% higher than in the second quarter, as a result of increased daily production following the capital equipment upgrades made earlier in the year. Conversion costs were 5% higher in the quarter, mainly due to

[6] Per Msf 3/8" basis, delivered to Toronto (Source – C.C. Crowe Publications, Inc.)
[7] Per Msf 7/16" North Central (Source – Random Lengths Publications, Inc.)

higher maintenance expenditures. The new OSB joint venture in Fort St John is expected to begin production in November.

Markets – Lumber and Panels

The third quarter of 2005 was marked by the devastating hurricanes around the Gulf Coast of the United States. As a result, there was an immediate demand for lumber and panels used in the construction of temporary shelters in the Gulf area. Field inventories were very low prior to the hurricanes and, combined with the destruction of southern yellow pine forests and production disruptions at sawmills, resulted in significant increases in Western SPF 2x4 #2 & Better prices in September. In August, prices had fallen to their lowest level this year, but increased to US $355 per thousand board feet in September and averaged US $327 during the quarter. However, this quarterly average was still 10% lower than the previous quarter and 26% lower than in the third quarter of 2004.

Offshore shipments for the quarter were hampered by the independent container truckers' strike, which started at the end of June and lasted for six weeks. The strike halted all container deliveries to and from all Vancouver ports. Alternative modes of transportation, such as break-bulk shipping and redirecting shipments through the Port of Seattle, were implemented to minimize the interruption to offshore markets.

The impact of the hurricanes on the North American panel market was even more pronounced than on the lumber market. The increase in demand for panel products before and after the storms helped reverse the recent downward trend in prices. The average price for Canadian softwood plywood delivered to Toronto was Cdn $362 per Msf 3/8" for the quarter, which was a 34% decrease from the same quarter last year. The average OSB price of US $291 per Msf 7/16" North Central was 18% lower than a year ago.

Outlook – Lumber and Panel Markets

In the aftermath of the hurricanes in the US Gulf region, large-scale housing reconstruction efforts will be required in the long term and are expected to take place over the next few years. Although typical seasonal declines in demand for both lumber and panel products are expected to result in lower prices in the fourth quarter, it is anticipated that stronger hurricane-related repair and remodeling activity will partially offset these declines.

Pulp and Paper

(millions of dollars unless otherwise noted)	**Q3 2005**	Q2 2005	**YTD 2005**	Q3 2004	YTD 2004
Sales	**$ 233.0**	$ 244.2	**$ 701.1**	$ 248.7	$ 742.7
EBITDA	**$ 9.9**	$ 8.3	**$ 39.5**	$ 17.5	$ 87.8
EBITDA margin	**4%**	3%	**6%**	7%	12%
Operating income (loss)	**$ (2.1)**	$ (2.5)	**$ 5.4**	$ 6.3	$ 55.2
Average pulp price – US $ [8]	**$ 588**	$ 613	**$ 614**	$ 637	$ 627
Average price in Cdn $	**$ 706**	$ 763	**$ 752**	$ 833	$ 833
Production – pulp (000 mt)	**298.8**	286.0	**884.4**	286.7	833.2
Production – paper (000 mt)	**31.7**	30.8	**95.9**	34.7	102.2
Shipments – Canfor-produced pulp (000 mt)	**309.6**	299.0	**876.7**	275.2	801.4
Marketed on behalf of HSLP [9] (000 mt)	**90.9**	102.5	**275.5**	85.4	248.9
Shipments – paper (000 mt)	**31.1**	33.0	**96.6**	34.1	108.8

[8] Per tonne, delivered to Northern Europe
[9] Howe Sound Pulp and Paper Limited Partnership

Operating income improved by $0.4 million over the previous quarter, but was $8.4 million lower than the same period in 2004. Higher pulp shipments and lower chip costs had a favourable impact in the current period, but these factors were offset by lower US dollar pulp prices and the impact of the stronger Canadian dollar.

Operations

Pulp production volume was 4% higher than in the previous quarter, mainly due to the Northwood mill taking a 14.5 day maintenance shutdown in the second quarter. In the current quarter there were 4.5 days of downtime, as the Intercontinental mill began its major maintenance shutdown in the last week of September. The shutdown was completed on time and on budget, with total downtime of 8.0 days, including 3.5 days in October. The Prince George pulp and paper mill also took a mini maintenance shutdown in the first week of October, with the pulp line down for 7.5 days and the paper line down for 4.2 days. No other maintenance shutdowns are planned for 2005.

Conversion costs were 7% lower than in the previous quarter, mainly due to the higher productivity. Despite price increases for natural gas and hog fuel, total energy costs were $1.3 million lower than in the previous quarter as a result of more energy being generated internally at the new co-generation facility. The turbo generator averaged 881 megawatt hours of electricity per day in the quarter, which is 92% of the current target. The final target, after the second precipitator is installed in February 2006, is 1,232 megawatt hours per day.

Fibre costs were also significantly lower in the period as a result of the new chip pricing formula, discussed in the Lumber segment above, which had a favourable impact of approximately $7.0 million on the Pulp and Paper segment's results in the quarter.

Markets

At the beginning of the third quarter, the chemical market pulp industry had 33 days of supply in inventory, having completed the second quarter with a shipments to capacity ratio of 94%. Softwood stocks, Canfor's key grade, stood at only 32 days of supply at the beginning of July. However, the western Canadian industry was severely hampered in July by the six-week long container truck drivers' strike at the Port of Vancouver, which curtailed shipments to markets that are served by container ships, such as China. By the end of the quarter, after experiencing strong shipments in September, inventories held by producers had returned to 33 days of supply, and to only 31 days of supply for softwood producers.

Despite a softening in the printing and writing segment of the market, Canfor's pulp shipment volumes were strong through the summer. Printing and writing paper demand fell off by 3.6% in July compared to the same month in 2004 and was 0.7% down on a year-to-date basis. The decrease in demand was most pronounced in North America, where demand was down 8.1% year over year and 1.6% for the year to date. These results were likely impacted by the pulp and paper industry strike in Finland, but, nonetheless, indicate a softening in the key end-user market.

Outlook

The fourth quarter is normally a strong period for the pulp industry. Paper is produced for use in catalogues, brochures and inserts in advance of the holiday season, which drives up demand for market pulp.

At the end of the second quarter, pricing for softwood kraft woodpulp sold into Northwest Europe, a key market for Canfor, had been US $610 per metric tonne. However, because of continued destocking in some markets in the early part of the summer, and excess pulp from several supply regions of the world, competition had driven pricing down to US $585 by the end of September. Canfor has advised customers of its intent to raise prices in all market areas in October, specifically, to US $620 in Northwest Europe.

Coastal Operations

(millions of dollars unless otherwise noted)	**Q3 2005**	Q2 2005	**YTD 2005**	Q3 2004	YTD 2004
Sales	**$ 12.2**	$ 28.5	**$ 47.1**	$ 12.4	$ 74.8
EBITDA	**$ (4.9)**	$ 3.5	**$ (1.7)**	$ (1.7)	$ 6.9
EBITDA margin	**(40)%**	12%	**(4)%**	(14)%	9%
Operating income (loss)	**$ (5.0)**	$ 1.1	**$ (5.2)**	$ (2.8)	$ 2.4
Production – 000 m^3	**13.6**	451.3	**578.7**	211.2	888.7
Shipments – 000 m^3	**190.6**	330.3	**612.8**	119.4	788.4

The Coastal Operations segment had an operating loss of $5.0 million in the quarter. Shipment volumes were down by 42% from the previous quarter, but were 60% higher than the same time last year. Prices were significantly weaker in the current period, averaging 26% lower than in the second quarter and 39% lower than in the third quarter of 2004.

Market conditions have continued to be negatively impacted by oversupply, soft demand and historically low prices for coastal logs. In response to these weak market conditions, and to reduce inventories to target levels, Canfor's logging operations were curtailed throughout the third quarter. Logging resumed in October and is expected to continue through November before the usual seasonal shutdown in December.

Non-Segmented Items

(millions of dollars)	**Q3 2005**	Q2 2005	**YTD 2005**	Q3 2004	YTD 2004
Corporate costs	**$ (6.2)**	$ (7.9)	**$ (21.0)**	$ (10.6)	$ (47.9)
Equity income of affiliated companies	**$ -**	$ 2.4	**$ 4.0**	$ 4.9	$ 9.0
Net interest expense	**$ (10.0)**	$ (11.1)	**$ (32.9)**	$ (14.4)	$ (47.2)
Foreign exchange gain (loss) on long-term debt	**$ 30.0**	$ (11.7)	**$ 14.7**	$ 40.5	$ 12.6
Other income (expense)	**$ 1.3**	$ (0.2)	**$ 0.9**	$ (0.8)	$ (0.1)
Unusual expense	**$ (11.1)**	$ -	**$ (11.1)**	$ -	$ -

Corporate costs were $1.7 million lower than in the previous quarter and $4.4 million lower than in the third quarter of 2004, primarily as a result of lower association dues, legal fees and forestry and environmental costs.

Equity income for the quarter was nil, $2.4 million lower than in the previous quarter and $4.9 million lower than in the third quarter of 2004. Canfor's equity investees were affected by similar price declines in the third quarter as was Canfor's lumber segment.

Net interest expense was $1.1 million lower than in the previous quarter and $4.4 million lower than in the same quarter of 2004. Interest on long-term debt was significantly lower than in the same period last year as a result of long-term debt reductions, the stronger Canadian dollar and, in accordance with Canadian accounting requirements, the restatement of the third quarter 2004 expense to include $2.4 million of interest on the convertible debentures (see "Changes in Accounting Policies", below).

Unusual expense

In March 2003, the Government of British Columbia (the Crown) introduced the Forestry Revitalization Plan (the Plan) that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and

subdivision of existing licenses. Through legislation, licensees are required to return 20% of their replaceable tenure to the Crown. The Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. Licensees will be compensated by the Crown for the return of tenure and related infrastructure costs such as roads and bridges.

The effect of the timber take-back results in a reduction of approximately 2.4 million cubic metres to Canfor's existing allowable annual cut on its replaceable tenures. While the legislation taking back the 20% was passed in March 2003, the government has not yet reduced the allowable harvest levels. Canfor has worked with the government to identify those licenses and operating areas that are to be returned to the Crown and this allocation was determined in December 2004. The second phase of the take-back is a negotiation with the government concerning the "on-the-ground" sites or operating areas to be taken back. The site selection process is complete for Canfor on the coast and in the northeastern portion of the province but continues in the central interior. The third phase is associated with compensation, concerning which Canfor is engaged in discussions with the Minister. The completion of negotiations with respect to site selection and compensation is expected to occur in the fourth quarter of 2005. Based on management's estimate of the amount of compensation likely to be received in the fourth quarter, the associated timber licenses have been written down to their estimated fair value at September 30, 2005, resulting in the recognition of an $11.1 million pre-tax loss in the current period.

Discontinued Operations

During the second quarter, Canfor completed the sale of its Fort St James, Slocan and Valemount sawmills in British Columbia for total cash proceeds of $59.0 million. A net after-tax loss of $4.0 million was recorded on the dispositions in that quarter, and was largely offset by the income from these operations up to the disposal dates.

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 has retained the right to any refund of countervailing and anti-dumping duties paid prior to the dispositions.

Lumber shipments from discontinued operations in 2005 totaled 120.5 million board feet[10] up to the date of disposition of the mills in the second quarter. In 2004, lumber shipments from discontinued operations totaled 105.9 million board feet in the third quarter and 279.9 million board feet for the year to date period.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	**Q3 2005**	Q2 2005	**YTD 2005**	Q3 2004	YTD 2004
Ratio of current assets to current liabilities [11]			**2.6 : 1**		2.4 : 1
Ratio of net debt to common shareholders' equity [12]			**14 : 86**		23 : 77
Increase (decrease) in net cash [11]	**$ (82.1)**	$ 98.9	**$ (128.5)**	$ 165.7	$ 485.6
– comprised of cash flow from (used in):					
Operating activities	**$ 54.1**	$ 129.8	**$ 159.6**	$ 229.2	$ 526.0
Financing activities	**$ (55.8)**	$ (14.3)	**$ (68.2)**	$ (40.9)	$ 49.3
Investing activities	**$ (80.4)**	$ (18.8)	**$ (218.5)**	$ (49.6)	$ (131.0)
Discontinued operations	**$ -**	$ 2.2	**$ (1.4)**	$ 27.0	$ 41.3

[10] These volumes are excluded from the shipment volumes quoted elsewhere in this report.
[11] 2004 comparative figures have been restated to present cash net of unpresented cheques.
[12] 2004 comparative figures have been restated to present the convertible subordinated debentures as liabilities.

Changes in Financial Position

Cash flow generated by operating activities was $54.1 million in the third quarter, which is $75.7 million less than in the previous quarter and $175.1 million lower than in the third quarter of 2004. The decrease in cash flow from operations is attributable to the lower earnings in the current period, as a result of lower product prices and a less favourable exchange rate, as discussed earlier in this report. The impact of the lower earnings was partially offset by a $38.1 million reduction in inventories in the quarter.

Cash used in financing activities of $55.8 million in the current quarter was comprised of $42.0 million of scheduled long-term debt repayments and $13.8 million for the purchase of one million of the Company's common shares for cancellation. Long-term debt payments of $14.3 million were made in the second quarter of 2005 and $41.6 million in the third quarter of 2004.

Investing activities consumed $80.4 million of cash in the current quarter. Capital expenditures of $84.7 million in the quarter included $34.8 million for the Plateau mill modernization project, $19.9 million for the construction of the OSB joint venture project in Fort St John, and $5.1 million towards the Prince George pulp mill's recovery boiler precipitator upgrade project. In the second quarter, capital expenditures of $81.0 million were made, but were partially offset by $59.0 million in proceeds received on the sale of the Fort St James, Slocan and Valemount operations. Investing activities in the third quarter of 2004 included capital expenditures of $59.0 million.

Liquidity and Financial Requirements

At the end of the current period, Canfor was in a net cash position of $305.5 million and had $287.0 million of operating bank lines of credit available, as compared to the December 31, 2004 net cash position of $434.0 million and $280.4 million of unused operating lines of credit.

Provisions contained in Canfor's long-term borrowing agreements limit both the amount of indebtedness the Company can 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 approximately $535.0 million or $3.75 per share. The Company can incur approximately $1,371.0 million in additional long-term debt under these borrowing arrangements.

OUTSTANDING SHARES

At October 28, 2005, there were 142,510,396 common shares outstanding.

CHANGES IN ACCOUNTING POLICIES

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

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

Cash and Temporary Investments – Effective January 1, 2005, Canfor retroactively amended its presentation of cash and temporary investments to include unpresented cheques, which were previously included in accounts payable and disclosed in the notes to the consolidated financial statements.

RISKS AND UNCERTAINTIES

A comprehensive discussion of Risks and Uncertainties was included in the 2004 Annual Report. An update of that discussion is included below.

Canada/US Softwood Lumber Dispute

On December 14, 2004, after completing its administrative review for the period from May 2002 to April 2003 (POR1), the US Department of Commerce (DOC) determined the countervailing duty (CVD) assessment rate of 17.18% applicable to all Canadian companies for POR1. At that time, Canfor recorded a favourable adjustment to reduce its POR1 expense to 17.18%. In February 2005, the DOC announced a further reduction to the rate, to 16.37%, applicable to POR1 and to future cash deposits. As a result, in the first quarter, Canfor reduced its CVD accrual by $6.5 million, to record CVD expense at 16.37% for POR1. Canfor is currently paying deposits at 16.37% for CVD and 1.83% for antidumping duties (ADD) and is expensing the duties at the same rates.

On June 2, 2005 the DOC released the preliminary results of their second countrywide CVD administrative review for the period from May 1, 2003 to April 30, 2004 (POR2). The CVD rate was calculated to be 8.18% and was applicable for all non-zero rate producers. At the same time, the DOC announced the preliminary results of their second ADD administrative review for POR2, which indicated a rate for Canfor of 1.42%. These assessment rates, as amended when the final determination rates are published later in 2005, would be applied to the entries for POR2. Canfor has made no adjustment to reflect these lower preliminary rates because of uncertainty surrounding the outcome of anticipated challenges and appeals, and the rates will not be final until they are confirmed, with the DOC Final Determination expected in the fourth quarter of 2005. The cash deposit rate for shipments made subsequent to the Final Determination date will be set at the new rates.

As at September 30, 2005, Canfor (including Slocan before April 1, 2004) had paid combined duty deposits of US $698.7 million (CVD of $529.1 million and ADD of $169.6 million) since inception of CVD and ADD in May 2002.
The current dispute between Canada and the US over alleged subsidies provided through provincial forest policies has continued since April 2001. Currently, there are multiple legal cases underway regarding CVD relative to subsidy levels, injury to the US industry and anti-dumping accusations. Cases are being heard by WTO and NAFTA panels and in the US Court of International Trade.

On August 31, 2004, a NAFTA Panel ruled, for the third time, that the US International Trade Commission (ITC) had failed to prove that Canadian lumber imports posed a threat of material injury to the US industry. The Panel gave the ITC ten days to comply with its ruling, which would effectively end the case and result in the return of all duties collected to date. On September 10, 2004, the ITC released a decision indicating that the Canadian lumber industry did not threaten the US industry with material injury during the period of investigation. On October 13, 2004, a NAFTA Panel formally issued its affirmation of the ITC's negative injury ruling. In November 2004, the United States filed a request for an Extraordinary Challenge, claiming that the NAFTA Panel had violated the dispute settlement rules established under Chapter 19 of the NAFTA. On August 10, 2005, the Extraordinary Challenge Committee unanimously agreed that the Panel had not violated the settlement rules. Hence, the ITC's negative threat determination became final, requiring revocation of the anti-dumping and countervailing duty orders on softwood lumber from Canada. To date, the ITC has refused to revoke the duty orders.

On October 5, 2005, a NAFTA CVD Panel unanimously rejected the arguments presented by the DOC to support the calculation methodology used to determine the CVD rate for the original period of investigation (POI) and ordered the DOC to comply with the remand and resubmit revised calculations of the CVD rate by October 28, 2005. Although the result of this revised calculation cannot be determined at this time, a reduction in the CVD rate is expected.

For the POI and the first and second administrative reviews, Canfor has been one of the companies listed as a mandatory respondent in the ADD action, and as such has received a company-specific ADD rate. For the third administrative anti-dumping review covering the period May 1, 2004 to April 30, 2005 (POR3), the DOC has not announced the selection of the mandatory respondents and, if Canfor is not selected, the Company would be assigned the "all others" rate arising from the average of the rates of the mandatory respondents selected for POR3. Because of the uncertainty in estimating the final assessment rates for either the CVD or ADD, since December 20, 2004 Canfor has expensed the duties at the same rate at which deposits are being paid, which is 16.37% for CVD and 1.83% for ADD.

NAFTA Lawsuit

In July 2002, Canfor filed a Notice of Arbitration and Statement of Claim against the Government of the United States for damages of not less than US $250 million under Chapter 11 of the North American Free Trade Agreement (NAFTA) as a result of the DOC's actions in issuing the preliminary and final determinations in the countervailing and anti-dumping proceedings. Canfor has asserted that the actions of the US Government have amounted to breaches of certain provisions of NAFTA, including the failure to provide Canfor with fair and equitable treatment in accordance with international law. Canfor and the US Government selected a three-member panel to hear the dispute and a hearing on jurisdiction occurred in November 2004. However, a decision from the panel on jurisdiction has been stayed pending the US Government's request to consolidate Canfor's action with other lumber companies that have sought Chapter 11 proceedings. The consolidation application of the US Government was heard by a separate three-member panel in June 2005. The panel ruled in September 2005 that the Chapter 11 actions of Canfor, Tembec and Terminal Forest Products should be consolidated and heard together. The parties are currently discussing how this matter will proceed on a consolidated basis.

Stumpage Rates

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

SUBSEQUENT EVENT

On October 28, 2005, Canfor signed an agreement with the Province of British Columbia, in which Canfor will receive $57.0 million in compensation for the loss of tenures noted above, and a $5.0 million advance payment against lost infrastructure and road construction costs. Canfor is continuing discussions with the Province for further compensation for infrastructure, but the amount and timing of additional compensation is not yet determinable. No significant adjustment to the write-down recognized in the third quarter, as discussed above under "unusual expense", is anticipated.

SELECTED QUARTERLY FINANCIAL INFORMATION [13]

	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003
Sales and Income (millions of dollars)								
Sales	**$ 941.9**	$1,067.4	$ 965.9	$1,072.7	$1,130.7	$1,180.7	$ 645.1	$ 616.2
Operating income (loss)	**$ (10.8)**	$ 67.1	$ 95.6	$ 15.7	$ 203.2	$ 211.3	$ 62.1	$ 0.8
Net income from continuing operations	**$ 17.4**	$ 28.9	$ 62.7	$ 42.0	$ 191.3	$ 133.1	$ 30.2	$ 33.8
Net income	**$ 17.4**	$ 25.3	$ 65.6	$ 43.0	$ 200.0	$ 142.0	$ 30.4	$ 32.6
Per common share (dollars)								
Net income from continuing operations								
Basic	**$ 0.12**	$ 0.20	$ 0.44	$ 0.31	$ 1.45	$ 1.01	$ 0.37	$ 0.42
Diluted	**$ 0.12**	$ 0.20	$ 0.44	$ 0.30	$ 1.34	$ 0.94	$ 0.34	$ 0.38
Net income								
Basic	**$ 0.12**	$ 0.18	$ 0.46	$ 0.31	$ 1.52	$ 1.08	$ 0.37	$ 0.40
Diluted	**$ 0.12**	$ 0.18	$ 0.46	$ 0.30	$ 1.40	$ 1.00	$ 0.34	$ 0.37
Statistics								
Lumber shipments (MMfbm)	**1,289**	1,356	1,165	1,319	1,171	1,278	723	711
Pulp shipments (000 mt)	**310**	299	268	313	275	285	242	261
Plywood shipments (MMsf 3/8")	**124**	107	106	96	96	109	45	36
OSB shipments (MMsf 3/8")	**132**	117	103	127	121	133	-	-
Average exchange rate (Cdn$/US$)	**$ 0.832**	$ 0.804	$ 0.815	$ 0.819	$ 0.765	$ 0.736	$ 0.759	$ 0.760
Average 2x4 #2&Btr lumber price (US$)	**$ 327**	$ 365	$ 398	$ 338	$ 440	$ 437	$ 370	$ 298
Average NBSK final pulp price delivered to Northern Europe (US$)	**$ 588**	$ 613	$ 642	$ 609	$ 637	$ 650	$ 590	$ 555
Average plywood price–Toronto (Cdn$)	**$ 362**	$ 361	$ 439	$ 444	$ 548	$ 592	$ 528	$ 542
Average OSB price–North Central (US$)	**$ 291**	$ 305	$ 364	$ 260	$ 353	$ 437	n/a	n/a

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

One-time items that had a significant impact on quarterly results include a $19.5 million gain from the sale of property in the fourth quarter of 2003, and restructuring and mill closure provisions of $18.3 million, $0.3 million and $10.2 million in the second, third and fourth quarters of 2004 respectively and $2.5 million in each of the second and third quarters of 2005 (all figures are after tax). The second quarter 2005 results were reduced by a $4.0 million after-tax loss on the sale of the Fort St James, Slocan and Valemount sawmills and the third quarter 2005 results were reduced by an $8.9 million after-tax write-down of timber licenses. In the third quarter of 2005, the BC Corporate income tax rate was reduced by 1.5%, which resulted in a $21.0 million favourable adjustment to the current and future income tax liability being recorded in the period. This was partially offset by $7.7 million of other tax adjustments related to the availability of capital losses and reassessments of prior tax years.

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

[13] Certain prior period figures have been restated for comparability.

OSB plants, and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber and panel products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions. Shortages in railcar supply had an adverse impact on shipment volumes in the first quarter of 2005 and also in the first three quarters of 2004. A container truckers' strike at the Port of Vancouver impacted offshore shipments in the third quarter of 2005.

Consolidated Statements of Income and Retained Earnings

(millions of dollars, unaudited)	3 months ended September 30, 2005	3 months ended September 30, 2004	9 months ended September 30, 2005	9 months ended September 30, 2004
Sales	**$ 941.9**	$ 1,130.8	**$ 2,975.2**	$ 2,956.5
Costs and expenses				
Manufacturing and product costs	**654.9**	625.8	**1,939.7**	1,662.3
Freight and other distribution costs	**184.1**	169.6	**526.4**	428.5
Countervailing and anti-dumping duties (Note 7)	**58.5**	73.8	**184.9**	204.9
Amortization	**37.2**	39.3	**116.7**	104.5
Selling and administration costs	**15.0**	18.6	**49.3**	56.1
	949.7	927.1	**2,817.0**	2,456.3
Restructuring, mill closure and other severance costs (Note 8)	**3.0**	0.5	**6.3**	23.6
Operating income (loss) from continuing operations	**(10.8)**	203.2	**151.9**	476.6
Equity income of affiliated companies	**-**	4.9	**4.0**	9.0
Interest expense (Note 2)	**(10.0)**	(14.4)	**(32.9)**	(47.2)
Foreign exchange gain on long-term debt	**30.0**	40.5	**14.7**	12.6
Other income (expense)	**1.3**	(0.8)	**0.9**	(0.1)
Unusual expense (Note 16)	**(11.1)**	-	**(11.1)**	-
Net income (loss) from continuing operations before income taxes	**(0.6)**	233.4	**127.5**	450.9
Income tax recovery (expense) (Note 10)	**18.0**	(42.0)	**(18.5)**	(96.2)
Net income from continuing operations	**17.4**	191.4	**109.0**	354.7
Net income (loss) from discontinued operations (Note 3)	**-**	8.6	**(0.7)**	17.8
Net income	**$ 17.4**	$ 200.0	**$ 108.3**	$ 372.5
Per common share (in dollars) (Note 12)				
Net income from continuing operations				
Basic	**$ 0.12**	$ 1.45	**$ 0.76**	$ 3.09
Diluted	**$ 0.12**	$ 1.34	**$ 0.76**	$ 2.83
Net income				
Basic	**$ 0.12**	$ 1.52	**$ 0.76**	$ 3.24
Diluted	**$ 0.12**	$ 1.40	**$ 0.75**	$ 2.97

Retained earnings, beginning of year	**$ 691.9**	$ 277.0
Net income for the year to date	**108.3**	372.5
Premium paid on common shares purchased for cancellation	**(4.9)**	-
Retained earnings, end of current period	**$ 795.3**	$ 649.5

Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended September 30, 2005	3 months ended September 30, 2004	9 months ended September 30, 2005	9 months ended September 30, 2004
Cash generated from (used in)				
Operating activities				
Net income from continuing operations	**$ 17.4**	$ 191.4	**$ 109.0**	$ 354.7
Items not affecting cash:				
Amortization	**37.2**	39.3	**116.7**	104.5
Income taxes	**(22.5)**	36.5	**8.3**	79.1
Long-term portion of deferred reforestation	**(14.1)**	(32.9)	**(6.1)**	(16.9)
Employee future benefits	**3.4**	6.0	**11.5**	16.3
Unrealized foreign exchange gain on long-term debt	**(25.2)**	(38.7)	**(8.6)**	(10.6)
Adjustment to accrued duties (Note 7)	**2.8**	(6.2)	**(4.7)**	13.7
Other	**5.3**	(3.6)	**(2.2)**	(8.8)
Changes in non-cash working capital	**49.8**	37.4	**(64.3)**	(6.0)
	54.1	229.2	**159.6**	526.0
Financing activities				
Proceeds from long-term debt	**-**	-	**0.6**	309.3
Repayment of long-term debt	**(42.0)**	(41.6)	**(56.6)**	(268.4)
Common shares purchased for cancellation (Note 11)	**(13.8)**	-	**(13.8)**	-
Net proceeds on issuance of common shares	**-**	0.6	**1.9**	8.7
Other	**-**	0.1	**(0.3)**	(0.3)
	(55.8)	(40.9)	**(68.2)**	49.3
Investing activities				
Net proceeds from sale of discontinued operations (Note 3)	**-**	-	**59.0**	-
Property, plant, equipment and timber	**(84.7)**	(59.0)	**(233.8)**	(101.1)
Howe Sound Pulp and Paper Limited Partnership (Note 14)	**-**	-	**(50.0)**	-
Business acquisition costs, net of cash acquired	**-**	-	**-**	(37.9)
Distributions from affiliated companies	**-**	-	**5.6**	-
Proceeds on disposal of property, plant and equipment	**4.1**	8.0	**5.2**	9.5
Other	**0.2**	1.4	**(4.5)**	(1.5)
	(80.4)	(49.6)	**(218.5)**	(131.0)
Increase (decrease) in net cash from continuing operations	**(82.1)**	138.7	**(127.1)**	444.3
Increase (decrease) in net cash from discontinued operations (Note 3)	**-**	27.0	**(1.4)**	41.3
Increase (decrease) in net cash	**(82.1)**	165.7	**(128.5)**	485.6
Net cash (short-term indebtedness) at beginning of period	**387.6**	222.3	**434.0**	(97.6)
Net cash at end of period	**$ 305.5**	$ 388.0	**$ 305.5**	$ 388.0
Net cash is comprised of:				
Cash and temporary investments (Note 2)	**$ 312.1**	$ 389.4	**$ 312.1**	$ 389.4
Operating bank loans	**(6.6)**	(1.4)	**(6.6)**	(1.4)
	$ 305.5	$ 388.0	**$ 305.5**	$ 388.0
Changes in non-cash working capital				
Accounts receivable	**$ 3.4**	$ 3.3	**$ (19.1)**	$ (0.4)
Income taxes	**4.6**	(2.0)	**3.8**	4.6
Inventories	**38.1**	10.5	**15.8**	(4.2)
Prepaid expenses	**11.9**	2.6	**(4.3)**	(5.0)
Accounts payable, accrued liabilities and current portion of deferred reforestation	**(8.2)**	23.0	**(60.5)**	(1.0)
	$ 49.8	$ 37.4	**$ (64.3)**	$ (6.0)
Cash payments (recoveries) in the period				
Interest, net	**$ 14.5**	$ 18.4	**$ 36.6**	$ 44.6
Income taxes	**$ 0.8**	$ 5.2	**$ 3.0**	$ 7.0

Consolidated Balance Sheets

(millions of dollars)	As at September 30, 2005 (unaudited)	As at December 31, 2004 (audited)
ASSETS		
Current assets		
Cash and temporary investments (Note 2)	**$ 312.1**	$ 438.5
Accounts receivable		
Trade	**251.2**	239.4
Other	**69.9**	62.2
Income taxes recoverable	**11.2**	14.7
Future income taxes	**25.8**	32.5
Inventories	**593.4**	609.2
Prepaid expenses	**44.3**	40.0
Current assets of discontinued operations (Note 3)	**-**	31.6
Total current assets	**1,307.9**	1,468.1
Long-term investments and other	**190.4**	197.4
Property, plant, equipment and timber	**2,257.1**	2,185.4
Deferred charges	**87.9**	94.9
Non-current assets of discontinued operations (Note 3)	**-**	33.8
	$ 3,843.3	$ 3,979.6
LIABILITIES		
Current liabilities		
Operating bank loans (Note 5)	**$ 6.6**	$ 4.5
Accounts payable and accrued liabilities	**357.3**	463.5
Current portion of long-term debt	**95.4**	68.1
Current portion of deferred reforestation	**49.6**	46.6
Current liabilities of discontinued operations (Note 3)	**-**	19.5
Total current liabilities	**508.9**	602.2
Long-term debt (Note 5)	**554.0**	660.5
Other accruals and provisions (Note 6)	**211.1**	218.7
Long-term liabilities of discontinued operations (Note 3)	**-**	5.0
Future income taxes, net	**495.7**	499.2
Deferred credit (Note 14)	**11.3**	27.2
SHAREHOLDERS' EQUITY		
Share capital - 142,510,396 shares outstanding	**1,268.7**	1,275.7
Retained earnings	**795.3**	691.9
Foreign exchange translation adjustment	**(1.7)**	(0.8)
Total shareholders' equity	**2,062.3**	1,966.8
	$ 3,843.3	$ 3,979.6

Subsequent event (Note 16)

APPROVED BY THE BOARD

Director, R.L. Cliff

Director, J.A. Shepherd

Notes to the Consolidated Financial Statements

1. These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor's Annual Report for the year ended December 31, 2004. These interim financial statements follow the same accounting policies and methods of computation as used in the 2004 consolidated financial statements, except as described in Note 2.

2. Changes in Accounting Policies and Presentation

Convertible Debentures

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

Variable Interest Entities

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

Cash and Temporary Investments

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

3. Discontinued Operations

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

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

The following table presents selected financial information for Fort St James, Slocan and Valemount for the year-to-date and comparative periods:

(millions of dollars)	3 months ended September 30, 2005	3 months ended September 30, 2004	9 months ended September 30, 2005	9 months ended September 30, 2004
Sales to external customers	**$ -**	$ 64.4	**$ 61.7**	$ 155.2
Operating income before income taxes	**-**	13.4	**5.1**	27.6
Loss on disposal before income taxes	**-**	-	**(6.2)**	-
Income tax recovery (expense)	**-**	(4.8)	**0.4**	(9.8)
Net income (loss)	**$ -**	$ 8.6	**$ (0.7)**	$ 17.8
Net income per share - diluted	**$ -**	$ 0.06	**$ -**	$ 0.14
Cash flows from discontinued operations				
Cash generated from (used in) operating activities	**$ -**	$ 27.1	**$ (2.1)**	$ 40.9
Cash generated from (used in) investing activities	**-**	(0.1)	**0.7**	0.4
	$ -	$ 27.0	**$ (1.4)**	$ 41.3

4. Canfor-LP OSB Limited Partnership

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

During the third quarter of 2005, Canfor made capital contributions of $22.5 million to the venture (year to date – $78.8 million). In order to retain its 50% interest, Canfor has agreed to contribute 50% of the capital to fund the project, which is estimated to have a total cost of $242.6 million.

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

(millions of dollars)	**September 30, 2005**	December 31, 2004
Balance Sheet		
Cash	**$ 6.4**	$ 1.2
Other current assets	**2.9**	1.3
Construction in progress	**111.8**	41.8
Deferred start-up costs	**7.3**	3.0
Accounts payable and accrued liabilities	**(9.3)**	(7.0)
	$ 119.1	$ 40.3
Cash flow		
Cash used in operating activities - working capital	**$ (4.5)**	$ 5.7
Cash used in investing activities	**(74.3)**	(44.8)
	$ (78.8)	$ (39.1)

5. Bank Indebtedness and Long-Term Debt

At September 30, 2005, Canfor had $337.0 million of bank operating lines of credit available, of which $6.6 million was drawn down and an additional $43.4 million was utilized for several standby letters of credit.

The agreements relative to Canfor's privately placed senior notes contain provisions limiting the amount of indebtedness that Canfor and its designated subsidiaries can incur and the amount of dividends paid to its common shareholders. Under these agreements, Canfor and its designated subsidiaries can presently incur approximately $1,372.0 million in additional long-term debt and pay up to $535.0 million, or approximately $3.75 per share, in dividends to its common shareholders.

At September 30, 2005, the fair value of Canfor's long-term debt was $678.9 million.

6. Other Accruals and Provisions

(millions of dollars)	**September 30, 2005**	December 31, 2004
Deferred reforestation	**$ 61.3**	$ 67.4
Countervailing duty provision (Note 7)	**67.0**	76.7
Accrued pension obligations	**19.8**	17.7
Post employment benefits	**61.5**	54.7
Other liabilities	**1.5**	2.2
Total other accruals and provisions	**$ 211.1**	$ 218.7

7. Countervailing and Anti-dumping Duties

The US Department of Commerce (DOC) imposed an 18.79% countervailing duty (CVD) on Canadian lumber shipments to the US effective May 16, 2002. Canfor's company-specific cash deposit rate was subsequently reduced to 12.24%, effective prospectively from March 10, 2004. Canfor continued to expense CVD at the 18.79% rate after this date, because of the uncertainty about whether a company-specific administrative review would be granted. On December 14, 2004, after completing its administrative review for the period from May 2002 to April 2003 (POR1), the DOC determined the CVD assessment rate of 17.18% applicable to all Canadian companies for POR1. At that time, Canfor recorded a favourable adjustment to reduce its POR1 expense to 17.18%. In February 2005, the DOC announced a further reduction to the rate, to 16.37%, applicable to POR1 and to future cash deposits, due to a calculation error on their part. As a result, in the first quarter, Canfor reduced its CVD accrual by $6.5 million, to record CVD expense at 16.37% for POR1. The combined additional CVD accrued in excess of the cash deposits made at September 30, 2005 is $67.0 million and is included in "other accruals and provisions" (Note 6).

The DOC also imposed anti-dumping duties (ADD) on Canadian lumber shipments to the US effective May 16, 2002. Canfor's company-specific rate was determined at 5.96% and Slocan's company-specific rate was determined at 7.71%. While the cash payments up to December 20, 2004 were made at the required deposit rates, Canfor regularly reviews its estimate of the ADD expense rate by applying the DOC's methodology to updated sales and cost data as it becomes available. On December 14, 2004, the DOC determined the ADD assessment rate for Canfor at 2.06% and for Slocan at 1.37% for POR1 and the cash deposit rate was reduced to 1.83% for US lumber shipments after December 20, 2004. The cumulative ADD cash deposits in excess of the calculated expense accrued at September 30, 2005 is $113.2 million and is being carried as a receivable under "long-term investments and other".

The DOC officially announced in the Federal Register that it would be assessing duties in accordance with the rates that it determined in the reviews, which legal counsel advise would result in the excess ADD deposits being

recoverable. Notwithstanding the rates established in the investigations and the posting of cash deposits, the final liability for the assessment of countervailing and anti-dumping duties will not be determined until the DOC's administrative review process is complete and all subsequent challenges or appeals are finalized.

As at September 30, 2005, Canfor (including Slocan before April 1, 2004) had paid combined duty deposits of US $698.7 million (CVD of $529.1 million and ADD of $169.6 million) since inception of CVD and ADD in May 2002.
On August 31, 2004, a NAFTA Panel ruled, for the third time, that the US International Trade Commission (ITC) had failed to prove that Canadian lumber imports posed a threat of material injury to the US industry. The Panel gave the ITC ten days to comply with its ruling, which would effectively end the case and result in the return of all duties collected to date. On September 10, 2004, the ITC released a decision indicating that the Canadian lumber industry did not threaten the US industry with material injury during the period of investigation. On October 13, 2004, a NAFTA Panel formally issued its affirmation of the ITC's negative injury ruling. In November 2004, the United States filed a request for an Extraordinary Challenge, claiming that the NAFTA Panel had violated the dispute settlement rules established under Chapter 19 of the NAFTA. On August 10, 2005, the Extraordinary Challenge Committee unanimously agreed that the Panel had not violated the settlement rules. Hence, the ITC's negative threat determination became final, requiring revocation of the anti-dumping and countervailing duty orders on softwood lumber from Canada. To date, the ITC has refused to revoke the duty orders.

On October 5, 2005, a NAFTA CVD Panel unanimously rejected the arguments presented by the DOC to support the calculation methodology used to determine the CVD rate for the original period of investigation (POI) and ordered the DOC to comply with the remand and resubmit revised calculations of the CVD rate by October 28, 2005. Although the result of this revised calculation cannot be determined at this time, a reduction in the CVD rate is expected.
For the POI and the first and second administrative reviews, Canfor has been one of the companies listed as a mandatory respondent in the ADD action, and as such has received a company-specific ADD rate. For the third administrative anti-dumping review covering the period May 1, 2004 to April 30, 2005 (POR3), the DOC has not announced the selection of the mandatory respondents and, if Canfor is not selected, the Company would be assigned the "all others" rate arising from the average of the rates of the mandatory respondents selected for POR3.
Because of the uncertainty in estimating the final assessment rates for either the CVD or ADD, since December 20, 2004 Canfor has expensed the duties at the same rate at which deposits are being paid, which is 16.37% for CVD and 1.83% for ADD.

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

8. Restructuring, Mill Closure and Other Severance Costs

Mill closure costs of $3.0 million were recorded in the quarter as a result of the permanent closure of the Tackama sawmill in the period. The year-to-date expense of $6.3 million includes other mill closure costs of $0.5 million, restructuring costs of $0.6 million associated with the formation of a jointly owned paper sales and marketing partnership with an external party and severance costs of $2.2 million.

Restructuring costs of $0.5 million were recorded in the third quarter of 2004 and $23.6 million for the year-to-date period. The year-to-date amount was comprised of $17.7 million of severance and other costs associated with the integration of Canfor and Slocan operations and $5.9 million of closure costs for the Taylor sawmill.

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

(millions of dollars)	3 months ended September 30, 2005			9 months ended September 30, 2005		
	Integration Costs	Mill Closure & Other Restructuring Costs	Total	Integration Costs	Mill Closure & Other Restructuring Costs	Total
Balance of liability at beginning of period	$ 6.5	$ 9.0	$ 15.5	$ 10.8	$ 13.5	$ 24.3
Accrued in the period *	-	3.0	3.0	-	6.3	6.3
Less: non-cash items	-	(2.0)	(2.0)	-	(3.0)	(3.0)
Payments in the period	(1.7)	(2.8)	(4.5)	(6.0)	(9.6)	(15.6)
Balance of liability at end of period	$ 4.8	$ 7.2	$ 12.0	$ 4.8	$ 7.2	$ 12.0

* reported in the following segments:		
Lumber	$ 3.0	$ 4.6
Pulp and Paper	$ -	$ 0.6
Coastal Operations	$ -	$ 1.1

9. Employee Future Benefits

Canfor's total benefit costs were as follows:

(millions of dollars)	3 months ended September 30, **2005**	2004	9 months ended September 30, **2005**	2004
Defined benefit pension plans	**$ 4.0**	$ 3.8	**$ 12.1**	$ 9.8
Other employee future benefit plans	**2.1**	3.8	**6.3**	11.1
Defined contribution pension plans	**0.5**	0.4	**1.3**	0.8
	$ 6.6	$ 8.0	**$ 19.7**	$ 21.7

10. Income Tax Recovery (Expense)

(millions of dollars)	3 months ended September 30, **2005**	2004	9 months ended September 30, **2005**	2004
Current	**$ (5.3)**	$ (3.1)	**$ (10.4)**	$ (8.4)
Future	**28.9**	(66.7)	**(21.8)**	(151.9)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**-**	0.5	**-**	1.1
Tax on equity earnings	**-**	(1.9)	**(1.5)**	(3.1)
	23.6	(71.2)	**(33.7)**	(162.3)
Amortization of deferred credit on utilization of acquired tax losses	**(5.6)**	29.2	**15.2**	66.1
	$ 18.0	$ (42.0)	**$ (18.5)**	$ (96.2)

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

(millions of dollars)	3 months ended September 30, 2005	3 months ended September 30, 2004	9 months ended September 30, 2005	9 months ended September 30, 2004
Income tax recovery (expense) at statutory tax rate	**$ 0.2**	$ (82.8)	**$ (44.4)**	$ (160.1)
Large corporation tax	**(1.3)**	(1.8)	**(3.8)**	(4.9)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**-**	0.5	**-**	1.1
Amortization of deferred credit on utilization of acquired tax losses	**(5.6)**	29.2	**15.2**	66.1
Permanent difference from capital gains and losses	**7.9**	12.2	**3.0**	2.3
Change in estimate of available capital losses	**(4.7)**	-	**(8.6)**	-
1.5% reduction in British Columbia corporate tax rate	**21.0**	-	**21.0**	-
Other permanent differences and adjustments	**0.5**	0.7	**(0.9)**	(0.7)
Tax recovery (expense)	**$ 18.0**	$ (42.0)	**$ (18.5)**	$ (96.2)

11. Share Capital

During the third quarter, the Company purchased 1,000,000 common shares for cancellation under a normal course issuer bid. The shares were purchased on the open market at an average price of $13.84 per share, and the excess of the purchase price over the average book value per share, in the amount of $4.9 million, has been charged to retained earnings. The normal course issuer bid expired on October 14, 2005.

12. Earnings Per Share

(millions of dollars, except for number of shares and per share amounts)	3 months ended September 30, 2005	3 months ended September 30, 2004	9 months ended September 30, 2005	9 months ended September 30, 2004
Earnings per share from continuing operations				
Net income from continuing operations	**$ 17.4**	$ 191.4	**$ 109.0**	$ 354.7
Basic earnings per share from continuing operations	**$ 0.12**	$ 1.45	**$ 0.76**	$ 3.09
Net income from continuing operations – diluted earnings per share [(a)]	**$ 17.4**	$ 193.0	**$ 109.0**	$ 359.4
Diluted earnings per share from continuing operations	**$ 0.12**	$ 1.34	**$ 0.76**	$ 2.83
Earnings per share				
Net income	**$ 17.4**	$ 200.0	**$ 108.3**	$ 372.5
Basic earnings per share	**$ 0.12**	$ 1.52	**$ 0.76**	$ 3.24
Net income – diluted earnings per share [(a)]	**$ 17.4**	$ 201.6	**$ 108.3**	$ 377.2
Diluted earnings per share	**$ 0.12**	$ 1.40	**$ 0.75**	$ 2.97
Weighted average number of common shares	**142,966,325**	131,563,788	**143,288,208**	114,919,013
Incremental shares from stock options	**130,846**	246,253	**184,430**	246,708
Shares issuable upon conversion of convertible debentures	**-**	11,742,424	**-**	11,742,424
Diluted number of common shares	**143,097,171**	143,552,465	**143,472,638**	126,908,145

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

13. Financial Instruments

A significant portion of Canfor's income from operations is generated from sales denominated in US dollars. In order to manage some of the risk associated with fluctuating exchange rates, Canfor enters into forward exchange contracts from time to time. At September 30, 2005, Canfor had US $3.7 million of forward contracts outstanding (2004 – nil). These contracts were fixed at an average rate of 1.2118 and have option periods extending through to April 2006. There was an unrecognized gain of $0.2 million on these contracts at September 30, 2005. Contracts totaling $41.9 million were exercised in the current quarter and a gain of $2.0 million was realized (2004 – contracts totaling US $5.2 million were exercised and a gain of $0.1 million was realized).

Canfor also uses a variety of financial instruments to reduce its exposure to risks associated with lumber and pulp prices and energy costs. At the end of the current quarter, there were 62 lumber futures contracts outstanding (2004 – 320 contracts outstanding), which had an unrealized gain of $0.1 million. At September 30, 2005, Canfor had entered into swaps to hedge 3,000 tonnes of pulp at an average price of US $675 per tonne (2004 – nil). There was an unrealized gain of $0.1 million on these contracts at September 30, 2005. Commodity swaps hedging future natural gas purchases of 6.9 million Gigajoules were outstanding at the end of the current quarter (2004 – 2.2 million Gigajoules). There was an unrealized gain of $27.6 million on these swaps at September 30, 2005.

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

Canfor acquired $643.0 million of tax losses from HSLP in 2001, which gave rise to a deferred credit of $104.0 million. On January 2, 2005, Canfor made a final contribution of $50.0 million to HSLP with respect to these losses. As at September 30, 2005, Canfor had $11.3 million of deferred credits remaining available to reduce income tax expense in future periods.

15. Segmented Information [a]

(millions of dollars)		Lumber [b]	Panels	Pulp & Paper	Coastal Operations	Corporate & Other		Consolidated
3 months ended September 30, 2005								
Sales to external customers	**$**	**601.3**	**95.4**	**233.0**	**12.2**	**-**	**$**	**941.9**
Sales to other segments [c]	**$**	**17.8**	**-**	**-**	**2.6**	**-**	**$**	**20.4**
Operating income (loss)	**$**	**1.2**	**1.3**	**(2.1)**	**(5.0)**	**(6.2)**	**$**	**(10.8)**
Amortization	**$**	**20.9**	**2.4**	**12.0**	**0.1**	**1.8**	**$**	**37.2**
Capital expenditures	**$**	**49.9**	**21.9**	**5.8**	**1.0**	**6.1**	**$**	**84.7**
3 months ended September 30, 2004 [d]								
Sales to external customers	$	760.7	109.0	248.7	12.4	-	$	1,130.8
Sales to other segments [c]	$	30.2	0.8	-	2.1	-	$	33.1
Operating income (loss)	$	174.4	35.9	6.3	(2.8)	(10.6)	$	203.2
Amortization	$	22.2	2.6	11.2	1.1	2.2	$	39.3
Capital expenditures	$	16.9	17.6	21.2	2.6	0.7	$	59.0

(millions of dollars)		Lumber [b]	Panels	Pulp & Paper	Coastal Operations	Corporate & Other		Consolidated
9 months ended September 30, 2005								
Sales to external customers	**$**	**1,947.4**	**279.6**	**701.1**	**47.1**	**-**	**$**	**2,975.2**
Sales to other segments [c]	**$**	**92.6**	**-**	**-**	**5.7**	**-**	**$**	**98.3**
Operating income (loss)	**$**	**144.6**	**28.1**	**5.4**	**(5.2)**	**(21.0)**	**$**	**151.9**
Amortization	**$**	**66.3**	**8.0**	**34.1**	**3.5**	**4.8**	**$**	**116.7**
Capital expenditures	**$**	**84.6**	**86.2**	**50.0**	**3.5**	**9.5**	**$**	**233.8**
Identifiable assets	**$**	**1,723.9**	**320.4**	**906.6**	**70.0**	**822.4**	**$**	**3,843.3**
9 months ended September 30, 2004 [d]								
Sales to external customers	$	1,861.8	277.2	742.7	74.8	-	$	2,956.5
Sales to other segments [c]	$	80.5	2.6	-	6.2	-	$	89.3
Operating income (loss)	$	365.8	101.1	55.2	2.4	(47.9)	$	476.6
Amortization	$	55.5	5.8	32.6	4.5	6.1	$	104.5
Capital expenditures	$	36.0	29.0	30.2	5.2	0.7	$	101.1
Identifiable assets	$	1,796.1	200.0	892.4	74.5	1,001.5	$	3,964.5

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

(b) Sales for the quarter include sales of Canfor produced lumber of $544.8 million (2004 – $719.9 million) and $1,776.1 million for the year to date (2004 – $1,722.9 million). Excludes discontinued operations (Note 3).

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

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

16. Unusual Expense

The Forestry Revitalization Plan

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

The effect of the timber take-back results in a reduction of approximately 2.4 million cubic metres to Canfor's existing allowable annual cut on its replaceable tenures. While the legislation taking back the 20% was passed in March 2003, the government has not yet reduced the allowable harvest levels. Canfor has worked with the government to identify those licenses and operating areas that are to be returned to the Crown and this allocation was determined in December 2004. The second phase of the take-back is a negotiation with the government concerning the "on-the-ground" sites or operating areas to be taken back. The site selection process is complete for Canfor on the coast and in the northeastern portion of the province but continues in the central interior. The third phase is associated with compensation, concerning which Canfor is engaged in discussions with the Minister. The completion of negotiations with respect to site selection and compensation is expected to occur in the fourth quarter of 2005. Based on management's estimate of the amount of compensation likely to be received in the fourth quarter, the associated

timber licenses have been written down to their estimated fair value at September 30, 2005, resulting in the recognition of an $11.1 million loss in the current period.

Subsequent Event

On October 28, 2005, Canfor signed an agreement with the Province of British Columbia, in which Canfor will receive $57.0 million in compensation for the loss of tenures noted above, and a $5.0 million advance payment against lost infrastructure and road construction costs. Canfor is continuing discussions with the Province for further compensation for infrastructure, but the amount and timing of additional compensation is not yet determinable. No significant adjustment to the write-down recognized above is anticipated.

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

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