Q1 2005

For the three months ended March 31, 2005

CANFOR CORPORATION

FIRST QUARTER INTERIM REPORT

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To Our Shareholders,

Canfor Corporation reported net income of $65.6 million for the first quarter of 2005, or $0.46 per share on a diluted basis. This compares to net income of $30.4 million, or $0.34 per share in the same quarter of 2004 and net income of $43.0 million, or $0.30 per share in the fourth quarter of 2004.

The current quarter's results include a $3.6 million after-tax exchange loss on long-term debt and a $5.2 million after-tax favourable adjustment to the prior period's duty expense. The previous quarter's results included an exchange gain on long-term debt of $36.1 million, an $8.9 million favourable duty expense adjustment and $13.4 million of restructuring accruals and asset write-downs (all after-tax). The first quarter 2004 results included a $6.0 million after-tax exchange loss on long-term debt.

Operating income in the first quarter was $95.6 million, which is $79.9 million higher than the previous quarter, mainly as a result of higher product prices. First quarter 2004 operating income, before the merger with Slocan on April 1, 2004, was $62.1 million.

Railcar shortages throughout the quarter limited shipments of all products, reducing sales volumes and increasing finished inventories, impacting net earnings by approximately $10 million or $0.07 per share. With renewed commitment for improved service from the rail carriers and scheduling of a marine shipment to transport product to the company's major US market, combined with the normal seasonal increase in building activity, the impact of lower first quarter shipments is expected to be recovered in the second quarter.

During the quarter, activities on major capital projects progressed as planned, with the near completion of the Prince George Co-Generation facility, and completion of the capacity upgrades at the OSB mill in Fort Nelson with successful start-up achieved in the second week of April. Construction of the OSB joint venture mill in Fort St John is on target for start-up in September, and contracts have been let for $51 million on the $104 million Plateau mill re-build to be completed by the end of the year.

We continue to focus on operating efficiencies and strategic investments that enhance performance and add value for our shareholders and customers, and we are encouraged by the progress achieved to date.

Peter J.G. Bentley
Chairman

James A. Shepherd
President and Chief Executive Officer

Management's Discussion and Analysis

The Management's Discussion and Analysis provides a review of the significant developments that have impacted Canfor's performance during the first 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. The following unaudited financial results along with Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements and notes thereto included in Canfor's Annual Report for the year ended December 31, 2004.

Factors that could impact future operations are also discussed. These factors may be influenced by known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. 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 GAAP. As there is no standardized method of calculating EBITDA, the Company'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 April 29, 2005.

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

Summarized Results for the Quarter [1, 2]

(millions of dollars, except for per share amounts)	**1st Quarter 2005**	4th Quarter 2004	1st Quarter 2004
Sales	**$ 965.9**	$ 1,072.7	$ 645.1
Countervailing & anti-dumping duties expensed	**$ 58.9**	$ 71.2	$ 35.3
EBITDA	**$ 137.2**	$ 58.3	$ 90.8
Operating income	**$ 95.6**	$ 15.7	$ 62.1
Foreign exchange gain (loss) on long-term debt	**$ (3.6)**	$ 36.1	$ (6.0)
Income from continuing operations, after tax	**$ 62.7**	$ 42.0	$ 30.2
Income from discontinued operations, net of tax	**$ 2.9**	$ 1.0	$ 0.2
Net income	**$ 65.6**	$ 43.0	$ 30.4
Per share (diluted)			
Income from continuing operations	**$ 0.44**	$ 0.30	$ 0.34
Net income	**$ 0.46**	$ 0.30	$ 0.34
Average Canadian/US exchange rate [3]	**$ 0.815**	$ 0.819	$ 0.759

Operating results in the first quarter were impacted by a number of significant items. Market prices for all of the major product lines, except for plywood, were significantly higher than in the previous quarter. Prices for OSB increased by 40% in the quarter, lumber by 18%, and pulp by 8%, while plywood prices decreased by 1%.

These positive elements were offset by a shortage of railcar supply to the mills, which resulted in reduced shipment volumes during the period. In addition, severe cold weather in early January created operational difficulties, resulting

[1] 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)

in lower production rates and increased unit costs in the sawmills and pulp mills. Lumber production costs trended downward to targeted levels through the quarter as the sawmills returned to more normal operating levels.

OPERATING RESULTS

The following discussion relates to the operating segments, as presented in Note 14 in the Financial Statements.

Lumber

(millions of dollars unless otherwise noted)	**1st Quarter 2005**	4th Quarter 2004	1st Quarter 2004
Sales	**$ 641.2**	$ 708.1	$ 377.5
EBITDA	**$ 101.3**	$ 40.8	$ 66.3
EBITDA margin	**16%**	6%	18%
Operating income	**$ 76.0**	$ 16.6	$ 51.6
Average 2"x4" #2 & Better lumber price – US $ [4]	**$ 398**	$ 338	$ 370
Average price in Cdn $	**$ 488**	$ 413	$ 488
Production – lumber (MMfbm)	**1,205.4**	1,229.4	748.5
Shipments – Canfor-produced lumber (MMfbm)	**1,088.2**	1,265.0	662.4
Shipments – wholesale lumber (MMfbm)	**76.6**	79.0	61.5

Operating income of $76.0 million was generated by the Lumber segment in the first quarter, which is a $59.4 million increase over the previous quarter and $24.4 million higher than the same quarter in 2004. The fourth quarter 2004 results were adversely impacted by lower lumber prices and $10.7 million of restructuring costs. The first quarter 2004 results, which exclude the Slocan mills acquired on April 1, 2004, reflect strong prices and a favourable exchange rate. Shipment volumes in the current period were 13% lower than in the previous quarter, mainly as a result of shortages in railcar supply.

Operations

Extremely cold temperatures in the first two weeks of January affected production volumes and recoveries at most of the sawmills. However, by early February productivity had improved significantly, with production records being set at Houston, Quesnel and Fort St John. The sawmills ran near full capacity in February and March, except for one-day production curtailments at each of the Plateau, Isle Pierre and Polar sawmills that were caused by picketing action during the log haulers' dispute, and one week of capital installation-related downtime at the Prince George mill.

Lumber inventories increased significantly during the quarter. Railcar supply was a major issue impacting shipment volumes. With rail service improving in April and a vessel scheduled to ship 15 million board feet to the US, inventories are anticipated to be back on target in the second quarter.

Log inventories increased by over 2.2 million cubic metres since the beginning of the year, as part of the normal seasonal build up. As a result of extreme weather fluctuations in January and disruptions from the truckers' dispute in February, log inventories are approximately 1.2 million cubic metres below target for the period. Although log inventories are tight, it is expected that they will be sufficient to last through the spring break-up with no disruption in lumber production.

Markets and Outlook – see below, following Panels section

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

Panels

(millions of dollars unless otherwise noted)	**1st Quarter 2005**	4th Quarter 2004	1st Quarter 2004
Sales	**$ 94.4**	$ 94.7	$ 32.0
EBITDA	**$ 20.6**	$ 22.6	$ 6.2
EBITDA margin	**22%**	24%	19%
Operating income	**$ 17.8**	$ 19.9	$ 5.7
Average plywood price in Cdn $ [5]	**$ 439**	$ 444	$ 528
Average OSB price in US $ [6]	**$ 364**	$ 260	n/a
Average OSB price in Cdn $	**$ 447**	$ 317	n/a
Production – plywood (MMsf 3/8")	**108.3**	104.9	44.0
Production – OSB (MMsf 3/8")	**120.6**	132.6	n/a
Shipments – plywood (MMsf 3/8")	**106.0**	96.3	45.4
Shipments – OSB (MMsf 3/8")	**102.5**	126.5	n/a

Operating income of $17.8 million in the quarter was $2.1 million lower than in the previous quarter and $12.1 million higher than in the same period last year (before the acquisition of Slocan's panel operations). Plywood prices were slightly lower when compared to the fourth quarter of 2004, while OSB prices increased by 40%. OSB shipment volumes were 19% lower than the previous quarter, mainly as a result of bad weather in the Eastern US in February and railcar supply issues throughout the quarter.

Operations

Panel operations were also adversely affected by the extreme weather conditions in early January.

After a slow start in January related to the cold weather, North Central Plywood set new records for production in February and March. Tackama Plywood also reached production milestones in the quarter, but experienced over 80 hours of downtime in March due to mechanical issues on the carousel and lathe.

The PolarBoard mill had some downtime in the period arising due to lack of dry flake, maintenance and reliability issues and power outages. A fire in March caused 12 hours of downtime and an additional 12 hours later in the month when the fire suppression system malfunctioned. The mill was shut down in the last week of the quarter for the installation of two new dryer drums and completion of the planned capital project to increase capacity.

Markets – Lumber and Panels

Both lumber and panel markets remained quite strong in the first quarter of 2005. Western SPF 2"x4" #2 & Better prices averaged US $398 per thousand board feet during the quarter, or 18% higher than in the previous quarter and 8% higher than in the first quarter of 2004, although with the weaker Canadian dollar in the first quarter of 2004, prices achieved in Canadian dollars were essentially unchanged. US dollar prices started to decline during March, as wet weather throughout key regions of the US hampered lumber delivery to building sites. Although interest rates have started to increase, they remain low enough to support the continued expansion of new housing construction. As a result, US housing starts reached 2.09 million units on a seasonally adjusted basis in the quarter, or 7% higher than the same period last year.

All sales of wood products were considerably higher when compared to the same period in 2004, largely because the Slocan mills' sales were not included in Canfor's results until April 1, 2004. Although offshore markets experienced a

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

relatively slow start to the year, sales volumes picked up considerably through the quarter, particularly in Japan, and have resulted in a 23% increase over the first quarter of 2004.

North American demand for panels during the first quarter has been relatively flat compared with the same period a year ago. The average Canadian softwood plywood price for the quarter of Cdn $439 per thousand square feet 3/8" basis, delivered to Toronto, was 17% below the average price in the first quarter of 2004. The average oriented strand board price of US $364 per Msf 7/16", North Central, was 16% lower than the same time last year, although Canfor only added the product line in April, with the acquisition of Slocan.

Outlook – Lumber and Panel Markets

The outlook for lumber and panel markets in the second quarter of 2005 is positive. The weather in the US has started to improve and products are now being transported to the job sites, which, in turn, has resulted in increased orders. In general, it is anticipated that stronger markets in the first half of 2005 will give way to slightly weaker demand in the second half of the year as higher interest rates result in reduced new housing construction. The Japanese market is expected to gather strength as 2"x4" housing starts continue to increase, as they did during 2004.

Pulp and Paper

(millions of dollars unless otherwise noted)	**1st Quarter 2005**	4th Quarter 2004	1st Quarter 2004
Sales	**$ 223.9**	$ 239.0	$ 218.4
EBITDA	**$ 21.3**	$ 1.8	$ 23.3
EBITDA margin	**10%**	1%	11%
Operating income (loss)	**$ 10.0**	$ (10.1)	$ 12.5
Average pulp price – US $ [7]	**$ 660**	$ 613	$ 590
Average price in Cdn $	**$ 810**	$ 748	$ 778
Production – pulp (000 mt)	**299.6**	309.1	249.0
Production – paper (000 mt)	**33.4**	31.9	34.0
Shipments – Canfor-produced pulp (000 mt)	**268.1**	312.8	241.7
Marketed on behalf of HSLP (000 mt)	**82.1**	109.0	73.6
Shipments – paper (000 mt)	**32.5**	31.0	35.3

Operating income improved by $20.1 million over the previous quarter, but was $2.5 million lower than in the same quarter of 2004. Strong prices in the quarter were partially offset by lower shipment volumes, mainly as a result of railcar shortages, which caused delays in meeting some North American and overseas shipment scheduling. The supply of railcars has improved in April, which is expected to allow for inventories to be reduced to target levels by the end of the second quarter.

Operations

Severe cold weather, followed by heavy rain and mild temperatures early in the year resulted in several production challenges at the pulp mills. The Northwood mill experienced water quality issues and melting ice hazards, while Intercon lost production as a result of chip feed issues that were caused by the cold weather. Mechanical problems at the Northwood mill in February and at the Taylor and Prince George Paper mills throughout the quarter had a negative impact on the results, but overall productivity and costs were on target in the period.

[7] Per tonne, delivered to Northern Europe (Source – Pulp & Paper Week)

The Intercontinental pulp mill took a four-day maintenance shutdown in March and the Northwood mill will complete their 15-day maintenance shutdown in April. The duration of the shutdown is expected to be 3.5 days longer than was planned as a result of additional work being performed on the #1 recovery boiler. Prince George Pulp has slowed production rates due to the environmental limits of the #1 precipitator, while the #2 recovery boiler is taken off-line for approximately six weeks to convert it to a power boiler as part of the co-generation project.

Markets

At the start of the year, demand was good into most shipping regions, particularly China where buyers were continuing to restock their inventories after heavy buying in the fourth quarter of 2004. Through February, demand for chemical market pulp has equalled that for the same period in 2004, and inventories stood at 32 days of supply, which is considered a balanced to slightly oversupplied level by industry analysts. However, there was a pronounced drop off in pulp demand from China in March, as buyers tested suppliers' resolve to raise prices. This standoff came after news that global printing and writing paper demand had registered a slight drop in February, falling 0.5% year over year, although year-to-date demand is up by a modest 0.4%. The falloff in Chinese demand, coupled with railcar service issues at Canfor's mills in northern British Columbia, caused sales of woodpulp to fall below forecasted levels in March.

Outlook

Looking ahead, despite strong order volumes in the US and decent volumes in Europe, there is an oversupply of softwood kraft pulp on the market. It is anticipated that upcoming pulp mill maintenance downtime will help to reduce excess capacity. The strong hardwood pulp market is causing pulp mills that can produce both softwood and hardwood market pulp to swing full production over to hardwood when practical, which could also have a stabilizing effect on the softwood pulp market.

Coastal Operations

(millions of dollars unless otherwise noted)	**1st Quarter 2005**	4th Quarter 2004	1st Quarter 2004
Sales	**$ 6.4**	$ 30.9	$ 17.2
EBITDA	**$ (0.3)**	$ (2.3)	$ 1.7
EBITDA margin	**(5%)**	(7%)	10%
Operating income (loss)	**$ (1.3)**	$ (4.6)	$ 0.6
Production – 000 m^3	**113.8**	423.5	230.2
Shipments – 000 m^3	**91.9**	359.9	187.7

Coastal logging operations' seasonal shutdown, which began in mid-November, was extended to mid-March because of poor market conditions. As a result, there were only limited sales of existing inventory in the current period. Log prices bottomed out in February, mainly due to market-driven logging curtailments, but some strengthening in price and demand is beginning, particularly for hemlock and other low grades of sawlogs. Demand for cedar is also strengthening, with prices increasing slightly in the latter part of the quarter. Demand for cypress continues to be very soft, although there are signs that this market may improve in the second quarter.

Non-Segmented Items

(millions of dollars)	**1st Quarter 2005**	4th Quarter 2004	1st Quarter 2004
Corporate costs	**$ (6.9)**	$ (6.1)	$ (8.3)
Equity income of affiliated companies	**$ 1.6**	$ 2.3	$ 0.6
Net interest expense	**$ (11.8)**	$ (11.6)	$ (14.8)
Foreign exchange gain (loss) on long-term debt	**$ (3.6)**	$ 36.1	$ (6.0)
Other income (expense)	**$ (0.2)**	$ (3.7)	$ 0.3

Corporate costs were $0.8 million higher than the previous quarter and $1.4 million lower than in the first quarter of 2004. The first quarter 2004 expense was higher than normal due to the expensing of special incentive awards.

Equity income for the quarter was $0.7 million lower than in the previous quarter and $1.0 million higher than in the first quarter of 2004. Canfor's equity investees were affected by similar market factors and transportation constraints as Canfor's lumber segment.

Net interest expense was $0.2 million higher than in the previous quarter and $3.0 million lower than in the same quarter of 2004. Interest expense for the prior periods has been restated to include interest on the convertible debentures ($2.4 million and $1.1 million in the first and fourth quarters of 2004 respectively), which was previously charged to equity (see "Changes in Accounting Policies", below). The debentures were converted in November 2004. Interest income earned on temporary investments was $0.5 million lower than in the previous quarter and $2.2 million higher than in the same quarter in 2004.

Other expense in the previous quarter was comprised of a write-down of deferred costs associated with the discontinued Maine sawmill project and a write-down of an investment in Coastal assets.

Discontinued Operations

In December 2004, Canfor announced that it had entered into an agreement to sell its Fort St James sawmill and associated tenures for proceeds of $39.0 million plus the value of inventory at closing. In the first quarter of 2005, Canfor announced that it had entered into an agreement to sell its Slocan sawmill and related tenures for $6.2 million plus the value of inventory at closing. The Slocan sale closed on April 18th and the Fort St James sale closed on April 25th. The sale of the Valemount sawmill is expected to occur in the second quarter. There is no significant gain or loss expected from the disposition of these operations.

Net income from discontinued operations, after tax, amounted to $2.9 million in the first quarter, compared to $1.0 million in the previous quarter and $0.2 million in the same quarter of 2004. Lumber shipments from discontinued operations totaled 90.7 million board feet in the current quarter, 100.6 million board feet in the previous quarter and 64.8 million board feet in the first quarter of 2004.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	**1st Quarter 2005**	4th Quarter 2004	1st Quarter 2004
Ratio of current assets to current liabilities [8]	**2.6:1**	2.4:1	0.5:1
Ratio of net debt to common shareholders' equity [9]	**18:82**	13:87	45:55
Increase (decrease) in net short-term cash [8]	**$ (145.3)**	$ 58.5	$ 59.8
– comprised of cash flow from (used in):			
Operating activities	**$ (22.7)**	$ 166.2	$ (1.7)
Financing activities	**$ 1.9**	$ (0.1)	$ 71.8
Investing activities	**$ (119.3)**	$ (83.7)	$ (14.4)
Discontinued operations	**$ (5.2)**	$ (23.9)	$ 4.1

Changes in Financial Position

Cash flow used in operating activities was $22.7 million in the quarter, compared to $1.7 million in the same quarter in 2004 and cash generated by operations of $166.2 million in the previous quarter. The main reason for the decrease over the previous quarter is the rise in inventories. Inventories increased by $169.2 million from the end of 2004, of which $128.6 million is attributable to the seasonal build-up of log inventories. Lumber and pulp inventories increased by $22.4 million and $19.5 million respectively, mainly as a result of railcar shortages, as discussed previously in this report.

Cash generated by financing activities of $1.9 million in the current quarter is mainly comprised of proceeds from stock options exercised. In the same quarter in 2004, financing activities generated $71.8 million of cash, as a result of drawing down new long-term financing of US $50 million and receiving proceeds of $5.8 million from stock options exercised. In the previous quarter, financing activities consumed $0.1 million of cash.

$119.3 million was used for investing activities in the current quarter. Capital expenditures of $68.1 million in the quarter included $28.8 million contributed to the construction of the OSB mill in Fort St John and $17.3 million for the Prince George Pulp and Paper Co-generation Project. A payment of $50 million was made to Howe Sound Limited Partnership at the beginning of the year for income tax losses, as discussed further below. The majority of the $83.7 million of cash used in investing activities in the previous quarter and the $14.4 million used in the first quarter of 2004 was for capital expenditures.

Liquidity and Financial Requirements

At the end of the quarter, Canfor was in a net cash position of $288.7 million and had $272.4 million of unused 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 $500 million or $3.50 per share. The Company can incur approximately $1,270 million in additional long-term debt under these borrowing arrangements.

[8] Prior periods have been restated to present cash net of unpresented cheques.
[9] Q1 2004 has been restated to present the convertible subordinated debentures as liabilities.

Howe Sound Pulp and Paper Limited Partnership (HSLP)

Although Canfor wrote off its investment in HSLP in 1998, and therefore no longer consolidates HSLP into its financial results, the operation reported a net loss of $15.1 million in the quarter, after a $2.8 million foreign exchange loss on long-term debt, and EBITDA of $(0.8) million.

Based on a separate prepayment agreement between Canfor and Oji Paper Co. Ltd., the partners of HSLP, at the end of the first quarter Canfor had prepaid $50 million to HSLP in advance of the due date of receivables for pulp marketed and collected on their behalf ($44 million had been prepaid at the end of the previous quarter). This agreement provides for the partners to prepay up to a maximum amount of $50 million each, which is used as short-term operating funds by HSLP. Canfor charges HSLP a market rate of interest for the period of prepayment and the prepayment is covered by the assignment of current and future accounts receivable.

Canfor acquired $643 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 million to HSLP with respect to these losses. As at March 31, 2005 Canfor had $14.7 million of deferred credits remaining available to reduce income tax expense in future periods ($88.9 million was remaining at March 31, 2004).

Outstanding Shares

At April 29, 2005, there were 143,496,897 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.* 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. 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.

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, 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. 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.

In April 2005, the DOC began its administrative review of Canfor's POR2 (May 2003 to April 2004) data. The results of that review are expected later this year.

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.

A NAFTA Panel decision in August 2004 determined that no injury or threat of injury to the US industry had been established for the period of investigation, and, accordingly, the NAFTA Panel ruled that the DOC should revoke CVD and ADD orders. However, the US government has appealed this NAFTA Injury Panel decision to an Extraordinary Challenge Committee (ECC). Hearings will take place in early June 2005, with a decision expected 60 to 90 days later. Notwithstanding the ECC's decision, further actions and appeals could delay any return of duty deposits to exporting companies. The length of such delay cannot be determined at this time. At March 31, 2005, Canfor had over US $595 million on deposit for CVD and ADD.

Both the Canadian and the US industries have an interest in exploring a negotiated agreement and periodic discussions have been held between the industries and the governments of Canada, the provinces and the US. Significant differences still exist between the parties. However, positions are being considered and further negotiations are expected.

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. As well, through legislation, licensees, including Canfor, 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. The Crown has acknowledged that licensees will be fairly compensated 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 effectively loaned back the volume until the Minister orders that it is needed. 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 cannot be determined at this time.

As the amount of compensation to be made to Canfor for the take-back has not yet been determined the effect of the Plan on Canfor's financial position and results of operations cannot be determined at this time. Canfor will record the effects of the Plan at the time that the amounts to be recorded are estimable.

Selected Quarterly Financial Information [10]

	1st Qtr 2005	4th Qtr 2004	3rd Qtr 2004	2nd Qtr 2004	1st Qtr 2004	4th Qtr 2003	3rd Qtr 2003	2nd Qtr 2003
Sales and Income (millions of dollars)								
Sales	**$ 965.9**	$ 1,072.7	$ 1,130.7	$ 1,180.7	$ 645.1	$ 616.2	$ 641.5	$ 611.6
Operating income (loss)	**$ 95.6**	$ 15.7	$ 203.2	$ 211.3	$ 62.1	$ 0.8	$ 47.1	$ (42.8)
Net income (loss) from continuing operations	**$ 62.7**	$ 42.0	$ 191.3	$ 133,1	$ 30.2	$ 33.8	$ 19.7	$ (2.2)
Net income (loss)	**$ 65.6**	$ 43.0	$ 200.0	$ 142.0	$ 30.4	$ 32.6	$ 78.6	$ (2.6)
Per common share (dollars)								
Net income (loss) from continuing operations								
Basic	**$ 0.44**	$ 0.31	$ 1.45	$ 1.01	$ 0.37	$ 0.42	$ 0.24	$ (0.02)
Diluted	**$ 0.44**	$ 0.30	$ 1.34	$ 0.94	$ 0.34	$ 0.38	$ 0.23	$ (0.02)
Net income (loss)								
Basic	**$ 0.46**	$ 0.31	$ 1.52	$ 1.08	$ 0.37	$ 0.40	$ 0.97	$ (0.03)
Diluted	**$ 0.46**	$ 0.30	$ 1.40	$ 1.00	$ 0.34	$ 0.37	$ 0.86	$ (0.03)
Statistics								
Lumber shipments (Mmfbm)	**1,165**	1,344	1,181	1,298	724	711	754	778
Pulp shipments (000 mt)	**268**	313	275	285	242	261	244	220
Plywood shipments (000 Msf 3/8")	**106**	96	93	109	45	36	48	48
OSB shipments (000 Msf 3/8")	**103**	127	121	133	-	-	-	-
Average exchange rate (Cdn$/US$)	**$ 0.815**	$ 0.819	$ 0.765	$ 0.736	$ 0.759	$ 0.760	$ 0.725	$ 0.715
Average 2x4 #2&Btr lumber price (US$)	**$ 398**	$ 338	$ 440	$ 437	$ 370	$ 298	$ 316	$ 246
Average NBSK pulp price to Northern Europe (US$)	**$ 660**	$ 613	$ 640	$ 652	$ 590	$ 555	$ 520	$ 553
Average plywood price – Toronto (Cdn$)	**$ 439**	$ 444	$ 548	$ 592	$ 528	$ 542	$ 475	$ 361
Average OSB price – North Central (US$)	**$ 364**	$ 260	$ 353	$ 437	n/a	n/a	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, the strengthening of the Canadian dollar against the US dollar beginning early in 2003, and changes in lumber, pulp, plywood and OSB prices. One-time items that had a significant impact on quarterly results include a $62.3 million gain on the sale of the BC Chemicals operation in the third quarter of 2003, 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.

The quarterly results are also 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 current quarter and also in the first three quarters of 2004.

[10] Certain prior year figures have been restated for comparability.

Consolidated Statements of Income and Retained Earnings

(millions of dollars, unaudited)	3 months ended March 31, 2005	2004
Sales	**$ 965.9**	$ 645.1
Costs and expenses		
Manufacturing and product costs	**598.4**	399.1
Freight and other distribution costs	**154.9**	104.7
Countervailing and anti-dumping duties (Note 7)	**58.9**	35.3
Amortization	**41.6**	28.7
Selling and administration costs	**16.5**	15.2
	870.3	583.0
Operating income from continuing operations	**95.6**	62.1
Equity income of affiliated companies	**1.6**	0.6
Interest expense (Note 2)	**(11.8)**	(14.8)
Foreign exchange loss on long-term debt	**(3.6)**	(6.0)
Other income (expense)	**(0.2)**	0.3
Net income from continuing operations before income taxes	**81.6**	42.2
Income tax expense (Note 9)	**(18.9)**	(12.0)
Net income from continuing operations	**62.7**	30.2
Net income from discontinued operations (Note 3)	**2.9**	0.2
Net income	**$ 65.6**	$ 30.4
Per common share (in dollars) (Note 10)		
Net income from continuing operations		
Basic	**$ 0.44**	$ 0.37
Diluted	**$ 0.44**	$ 0.34
Net income		
Basic	**$ 0.46**	$ 0.37
Diluted	**$ 0.46**	$ 0.34
Retained earnings, beginning of year	**691.9**	277.0
Net income for the year to date	**65.6**	30.4
Retained earnings, end of current period	**$ 757.5**	$ 307.4

Consolidated Cash Flow Statements

(millions of dollars, unaudited)	3 months ended March 31, 2005	2004
Cash generated from (used in)		
Operating activities		
Net income from continuing operations	**$ 62.7**	$ 30.2
Items not affecting cash:		
Amortization	**41.6**	28.7
Income taxes	**18.1**	9.7
Long-term portion of deferred reforestation	**17.8**	18.8
Employee future benefits	**5.8**	5.2
Unrealized foreign exchange loss on long-term debt	**3.6**	6.0
Adjustment to accrued duties (Note 7)	**(7.0)**	(5.3)
Other	**(1.0)**	(0.6)
Changes in non-cash working capital	**(164.3)**	(94.4)
	(22.7)	(1.7)
Financing activities		
Proceeds from long-term debt	**0.6**	66.9
Repayment of long-term debt	**(0.3)**	(0.8)
Net proceeds on issuance of common shares (Note 11)	**1.8**	5.8
Other	**(0.2)**	(0.1)
	1.9	71.8
Investing activities		
Property, plant, equipment and timber	**(68.1)**	(15.3)
Howe Sound Pulp and Paper Limited Partnership (Note 13)	**(50.0)**	-
Proceeds on disposal of property, plant and equipment	**0.7**	0.6
Other	**(1.9)**	0.3
	(119.3)	(14.4)
Increase (decrease) in net cash from continuing operations	**(140.1)**	55.7
Cash generated (used) by discontinued operation (Note 3)	**(5.2)**	4.1
Increase (decrease) in net cash	**(145.3)**	59.8
Net cash (short-term indebtedness) at beginning of period	**434.0**	(97.6)
Net cash (short-term indebtedness) at end of period	**$ 288.7**	$ (37.8)
Net cash (short-term indebtedness) is comprised of:		
Cash and temporary investments (Note 2)	**$ 295.6**	$ (24.8)
Operating bank loans	**(6.9)**	(13.0)
	$ 288.7	$ (37.8)
Changes in non-cash working capital		
Accounts receivable	**$ (19.7)**	$ (15.5)
Inventories	**(169.2)**	(132.7)
Prepaid expenses	**9.7**	6.0
Accounts payable, accrued liabilities and current portion of deferred reforestation	**13.4**	46.4
Income taxes	**1.5**	1.4
	$ (164.3)	$ (94.4)

Interest payments of $23.8 million were made in the 3 months ended March 31, 2005 (2004 – $18.6 million) and income taxes of $2.0 million were recovered (2004 – $0.5 million paid).

Consolidated Balance Sheets

(millions of dollars)		as at March 31, 2005 (unaudited)		as at December 31, 2004 (audited)
ASSETS				
Current assets				
Cash and temporary investments (Note 2)	**$**	**295.6**	$	438.5
Accounts receivable				
Trade		**260.1**		239.4
Other		**61.5**		62.2
Income taxes recoverable		**13.3**		14.7
Future income taxes		**30.1**		32.5
Inventories		**778.4**		609.2
Prepaid expenses		**30.2**		40.0
Current assets of discontinued operations (Note 3)		**37.2**		31.6
Total current assets		**1,506.4**		1,468.1
Long-term investments and other		**200.6**		197.4
Property, plant, equipment and timber		**2,203.3**		2,185.4
Deferred charges		**92.7**		94.9
Non-current assets of discontinued operations (Note 3)		**33.5**		33.8
	$	**4,036.5**	$	3,979.6
LIABILITIES				
Current liabilities				
Operating bank loans (Note 5)	**$**	**6.9**	$	4.5
Accounts payable and accrued liabilities		**430.0**		463.5
Current portion of long-term debt		**68.7**		68.1
Current portion of deferred reforestation		**47.8**		46.6
Current liabilities of discontinued operations (Note 3)		**16.7**		19.5
Total current liabilities		**570.1**		602.2
Long-term debt (Note 5)		**663.6**		660.5
Other accruals and provisions (Note 6)		**233.7**		223.7
Long-term liabilities of discontinued operations (Note 3)		**5.0**		-
Future income taxes, net		**515.1**		499.2
Deferred credit		**14.7**		27.2
SHAREHOLDERS' EQUITY				
Share capital - 143,496,897 shares outstanding		**1,277.5**		1,275.7
Retained earnings		**757.5**		691.9
Foreign exchange translation adjustment		**(0.7)**		(0.8)
Total shareholders' equity		**2,034.3**		1,966.8
	$	**4,036.5**	$	3,979.6

Contingencies (Note 15)
Subsequent events (Note 3)

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. 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

In December 2004, Canfor announced that it had entered into an agreement to sell its Fort St James sawmill and associated tenures for proceeds of $39.0 million plus the value of inventory at closing. In the first quarter of 2005, Canfor announced that it had entered into an agreement to sell its Slocan sawmill and related tenures for $6.2 million plus the value of inventory at closing. The Slocan sale closed on April 18th and the Fort St James sale closed on April 25th. The sale of the Valemount sawmill is expected to occur in the second quarter. There is no significant gain or loss expected from the disposition of these operations.

The following table presents selected financial information for the Fort St James, Slocan and Valemount operations, which have been reclassified as discontinued operations:

(millions of dollars)	3 months ended March 31, 2005	March 31, 2004
Sales to external customers	**$ 47.9**	$ 27.4
Operating income before income taxes	**4.5**	0.3
Income tax expense	**(1.6)**	(0.1)
Net income	**$ 2.9**	$ 0.2
Net income per share (basic and diluted)	**$ 0.02**	$ -
Cash flows		
Cash generated from (used in) operating activities	**$ (5.5)**	$ 3.3
Cash generated from investing activities	**0.3**	0.8
	$ (5.2)	$ 4.1

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 still in the pre-operating construction phase.

During the first quarter of 2005, Canfor made capital contributions of $28.8 million to the venture. 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 $226.4 million.

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

(millions of dollars)	March 31, 2005	December 31, 2004
Balance Sheet		
Cash	**$ 2.5**	$ 1.2
Other current assets	**2.3**	1.3
Construction in progress	**69.3**	41.8
Deferred start-up costs	**3.9**	3.0
Accounts payable and accrued liabilities	**(8.9)**	(7.0)
	$ 69.1	$ 40.3
Cash flow		
Cash used in operating activities (working capital)	**$ (0.4)**	$ 5.7
Cash used in investing activities	**(28.4)**	(44.8)
	$ (28.8)	$ (39.1)

5. Bank Indebtedness and Long-Term Debt

At March 31, 2005 Canfor had $332.0 million of bank operating lines of credit available, of which $6.9 million was drawn down and an additional $52.7 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 $1,270.0 million in additional long-term debt and pay up to $500.0 million, or approximately $3.50 per share, in dividends to its common shareholders.

At March 31, 2005, the fair value of Canfor's long-term debt was $769.4 million.

6. Other Accruals and Provisions

(millions of dollars)	**March 31, 2005**	December 31, 2004
Deferred reforestation	**$ 85.3**	$ 72.4
Countervailing duty provision (Note 7)	**70.2**	76.7
Accrued pension obligations	**18.4**	17.7
Post employment benefits	**57.0**	54.7
Other liabilities	**2.8**	2.2
Total other accruals and provisions	**$ 233.7**	$ 223.7

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 March 31, 2004 is $70.2 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 March 31, 2005 is $118.1 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 March 31, 2005, Canfor (including legacy Slocan) had paid combined duty deposits of US $595.6 million (CVD of $436.6 million and ADD of $159.0 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, NAFTA formally issued its affirmation of the ITC's negative injury ruling. The United States has filed a request for an Extraordinary Challenge and the Extraordinary Challenge Committee will hear oral arguments on June 2-3, 2005. If not reversed by the Extraordinary Challenge Committee, the ITC's negative threat determination will become final, requiring revocation of the anti-dumping and countervailing duty orders on softwood lumber from Canada.

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. Employee Future Benefits

The total benefit cost of Canfor's defined benefit pension plans was $4.1 million in the quarter (2004 – $2.5 million) and the total benefit cost of Canfor's other employee future benefit plans was $2.1 million (2004 – $3.5 million). The cost of Canfor's defined contribution plans was $0.5 million in the current quarter (2004 – nil).

9. Income Tax Expense

(millions of dollars)	3 months ended **March 31, 2005**	March 31, 2004
Current	**$ (2.9)**	$ (2.3)
Future	**(27.9)**	(17.5)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**-**	1.1
Tax on equity earnings	**(0.6)**	(0.1)
	(31.4)	(18.8)
Amortization of deferred credit on utilization of acquired tax losses	**12.5**	6.8
	$ (18.9)	$ (12.0)

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 **March 31, 2005**	March 31, 2004
Income tax expense at statutory tax rate	**$ (29.0)**	$ (15.1)
Large corporation tax	**(1.3)**	(1.3)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**-**	1.1
Amortization of deferred credit on utilization of acquired tax losses	**12.5**	6.8
Permanent difference from capital gains and losses	**(1.3)**	(2.1)
Other permanent differences and tax adjustments	**0.2**	(1.4)
Tax recovery (expense)	**$ (18.9)**	$ (12.0)

10. Earnings Per Share

(millions of dollars, except for number of shares and per share amounts)	3 months ended March 31, 2005	March 31, 2004
Earnings per share from continuing operations		
Net income from continuing operations	**$ 62.7**	$ 30.2
Basic earnings per share from continuing operations	**$ 0.44**	$ 0.37
Net income from continuing operations – diluted earnings per share [(a)]	**$ 62.7**	$ 31.8
Diluted earnings per share from continuing operations	**$ 0.44**	$ 0.34
Earnings per share		
Net income	**$ 65.6**	$ 30.4
Basic earnings per share	**$ 0.46**	$ 0.37
Net income – diluted earnings per share [(a)]	**$ 65.6**	$ 32.0
Diluted earnings per share	**$ 0.46**	$ 0.34
Weighted average number of common shares	**143,400,634**	81,156,010
Incremental shares from stock options	**247,889**	86,881
Shares issuable upon conversion of convertible debentures	**-**	11,742,424
Diluted number of common shares	**143,648,523**	92,985,315

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

11. Stock-Based Compensation

During the quarter, proceeds of $1.8 million were received from the exercise of 185,418 stock options at a weighted-average exercise price of $9.61. No new stock options were granted in the current quarter.

12. 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 March 31, 2005, Canfor had US $29.1 million of forward contracts outstanding (2004 – US $6 million). These contracts were fixed at an average rate of 1.2329 and have option periods extending through to April 2006. There was an unrecognized gain of $0.7 million on these contracts at March 31, 2005. No contracts were exercised in the current quarter (2004 – contracts totaling US $15 million were exercised and a gain of $1.5 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 590 lumber futures contracts outstanding, which had an unrealized loss of $0.5 million. In March 2005, Canfor entered into a pulp swap to hedge 500 tonnes per month for one year, commencing in April, at US $675 per tonne. There was an unrealized gain of $0.1 million on this contract at March 31, 2005. Commodity swaps hedging future natural gas purchases of 5.0 million Gigajoules were outstanding at the end of the current quarter (2004 – 1.1 million Gigajoules). There was an unrealized gain of $7.2 million on these swaps at March 31, 2005.

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

Canfor acquired $643 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 million to HSLP with respect to these losses. As at March 31, 2005 Canfor had $14.7 million of deferred credits remaining available to reduce income tax expense in future periods ($88.9 million was remaining at March 31, 2004).

14. Segmented Information [a]

(millions of dollars)		Lumber [b]	Panels	Pulp & Paper	Coastal Operations	Corporate & Other		Consolidated
3 months ended March 31, 2005								
Sales to external customers	**$**	**641.2**	**94.4**	**223.9**	**6.4**	**-**	**$**	**965.9**
Sales to other segments [c]	**$**	**34.6**	**-**	**-**	**0.3**	**-**	**$**	**34.9**
Operating income (loss)	**$**	**76.0**	**17.8**	**10.0**	**(1.3)**	**(6.9)**	**$**	**95.6**
Amortization	**$**	**25.3**	**2.8**	**11.3**	**1.0**	**1.2**	**$**	**41.6**
Capital expenditures	**$**	**8.9**	**35.7**	**20.7**	**1.3**	**1.5**	**$**	**68.1**
Identifiable assets	**$**	**1,853.8**	**292.2**	**909.1**	**81.5**	**899.9**	**$**	**4,036.5**
3 months ended March 31, 2004 [d]								
Sales to external customers	$	377.5	32.0	218.4	17.2	-	$	645.1
Sales to other segments [c]	$	22.7	0.8	-	0.9	-	$	24.4
Operating income (loss)	$	51.6	5.7	12.5	0.6	(8.3)	$	62.1
Amortization	$	14.7	0.5	10.8	1.1	1.6	$	28.7
Capital expenditures	$	7.3	-	7.0	1.0	-	$	15.3
Identifiable assets	$	1,172.4	43.3	823.4	74.9	446.2	$	2,560.2

(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 $592.0 million (2004 – $340.7 million). Excludes discontinued operations (Note 3).

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

(d) These figures do not include the results of the former Slocan operations, which were acquired on April 1, 2004.

15. Contingencies

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. As well, through legislation, licensees, including Canfor, 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. The Crown has acknowledged that licensees will be fairly compensated 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 effectively loaned back the volume until the Minister orders that it is needed. 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 cannot be determined at this time.

As the amount of compensation to be made to Canfor for the take-back has not yet been determined the effect of the Plan on Canfor's financial position and results of operations cannot be determined at this time. Canfor will record the effects of the Plan at the time that the amounts to be recorded are estimable.

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

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