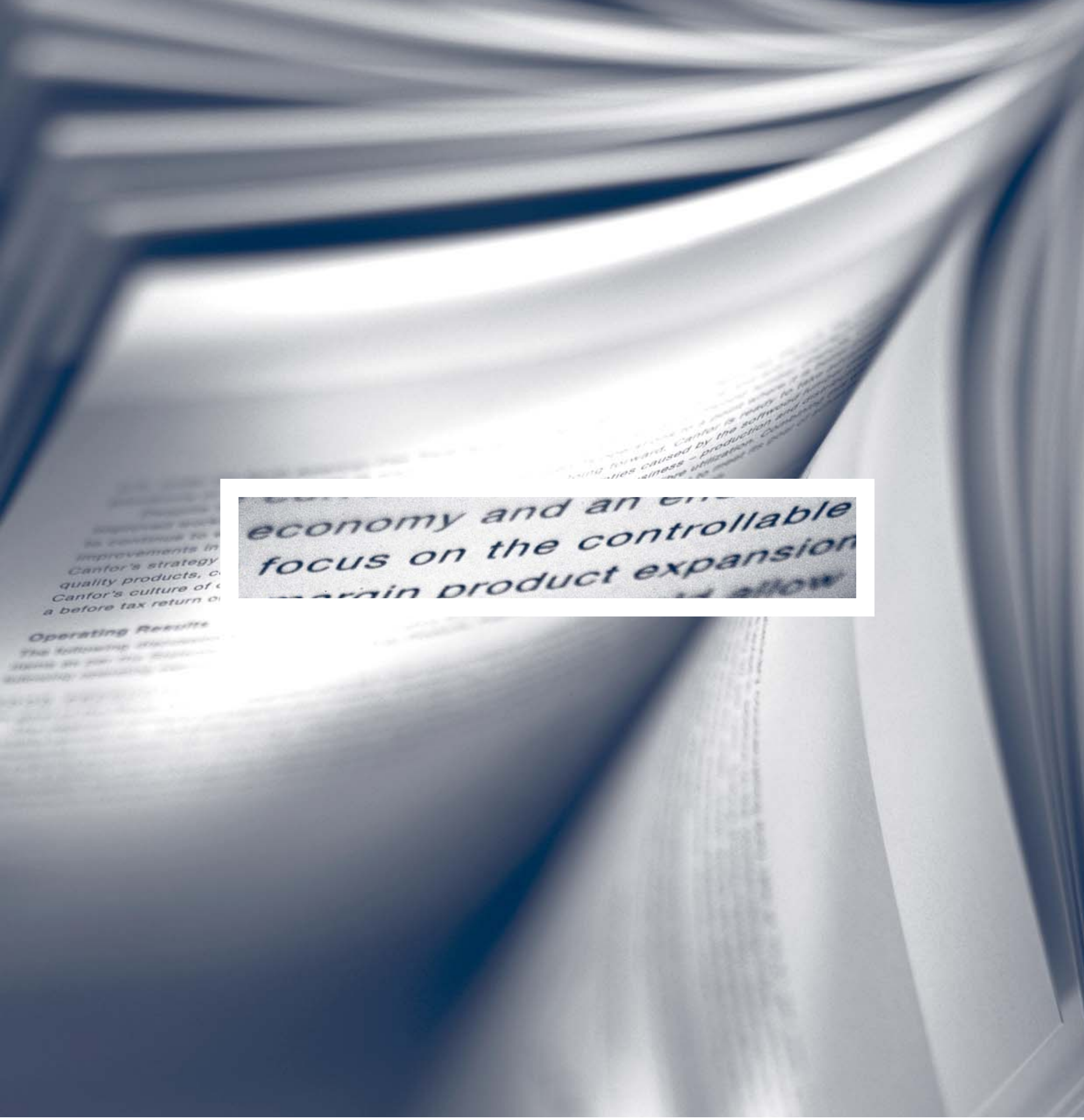

Canfor Corporation **Third Quarter Interim Report** For the three months ended September 30, 2004

To Our Shareholders,

Canfor Corporation reported record net income of $201.6 million for the third quarter of 2004, or $1.40 per share on a diluted basis. This compares to net income of $143.6 million, or $1.00 per share, in the previous quarter and net income from continuing operations of $17.8 million, or $0.19 per share in the same quarter of 2003. Net income of $377.2 million, or $2.97 per share, was earned for the nine months ended September 30, compared with net income from continuing operations of $51.2 million, or $0.55 per share, in the same period in 2003. Quarterly and year-to-date earnings are both records for the Company, surpassing results achieved earlier this year.

The current quarter's results include a $38.3 million after-tax exchange gain on long-term debt and a $7.8 million after-tax favourable adjustment to the prior period's anti-dumping duty expense. The previous quarter's results included an exchange loss of $21.9 million, a $2.8 million favourable anti-dumping expense adjustment and $24.0 million of after-tax one-time charges related to restructuring, mill closure costs and incentive payments.

Operating income in the third quarter was $216.6 million, which is an $8.6 million decrease from the previous quarter, but $174.7 million higher than in the same quarter in 2003. While market conditions continued to be strong, prices fell off through the latter part of the quarter and were further reduced by the impact of the strengthened Canadian dollar on US dollar sales.

The integration of Canfor and Slocan continues to proceed successfully and is nearing completion. It is anticipated that synergies will be fully implemented by the second quarter of 2005, and should exceed the previously announced annual target of $85 million.

As part of its overall initiative of debt reduction, on October 4, 2004 the Company announced its intention to redeem the $155 million convertible subordinated debentures on November 15, 2004. If all holders convert their bonds to common stock, the Company would issue approximately 11.7 million common shares in satisfaction of the $155 million amount. At the same time, the Company also announced its intention to make a normal course issuer bid to purchase for cancellation up to 6.6 million of the Company's outstanding shares. The Company has received regulatory approval to start purchasing the stock.

The past two quarters' results have been largely driven by strong demand and excellent pricing for most of our product lines. These results are not sustainable given the current environment for solid wood product pricing and the stronger Canadian dollar.

In light of funding required for anticipated capital expenditures and share purchases under the normal course issuer bid, the Board of Directors has determined not to declare a dividend at this time.

Peter J.G. Bentley
Chairman

James A. Shepherd
President and Chief Executive Officer

Management's Discussion and Analysis

Revised December 23, 2004 by the addition of expanded financial information for the eight most recently completed quarters and a discussion of quarterly trends. **See "Selected Quarterly Financial Information" on page 10.**

The Management's Discussion and Analysis provides a review of the significant developments that have impacted Canfor's performance during the third quarter of 2004 relative to the previous quarter and the last published annual results as at December 31, 2003 and relative to the comparative quarter in 2003. 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, 2003. Further information about Slocan Forest Products Ltd. may be obtained by referring to the Management's Discussion and Analysis and Financial Statements included in their Management Information Circular dated February 25, 2004, which is available at www.sedar.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 a key 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 October 28, 2004.

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

Summarized Results [1]

(millions of dollars, except for per share amounts)	**3rd Quarter 2004**	2nd Quarter 2004	**9 months ended September 2004**	3rd Quarter 2003	9 months ended September 2003
Gross sales	**$ 1,228.9**	$ 1,277.5	**$ 3,192.0**	$ 685.0	$ 2,006.2
Countervailing & anti-dumping duties expensed	**$ (78.0)**	$ (100.2)	**$ (215.6)**	$ (32.6)	$ (113.3)
Restructuring costs	**$ (0.5)**	$ (23.1)	**$ (23.6)**	$ -	$ -
EBITDA	**$ 258.3**	$ 264.1	**$ 614.8**	$ 68.4	$ 79.8
Operating income (loss)	**$ 216.6**	$ 225.2	**$ 504.2**	$ 41.9	$ (2.5)
Foreign exchange gain (loss) on long-term debt	**$ 40.5**	$ (21.9)	**$ 12.6**	$ (2.4)	$ 85.5
Net income (loss) from continuing operations	**$ 201.6**	$ 143.6	**$ 377.2**	$ 17.8	$ 51.2
Discontinued operation, net of tax	**$ -**	$ -	**$ -**	$ 62.3	$ 68.0
Net income	**$ 201.6**	$ 143.6	**$ 377.2**	$ 80.1	$ 119.2
Per share (diluted)					
Net income from continuing operations	**$ 1.40**	$ 1.00	**$ 2.97**	$ 0.19	$ 0.55
Net income	**$ 1.40**	$ 1.00	**$ 2.97**	$ 0.86	$ 1.28

Net income of $201.6 million in the third quarter was $58.0 million higher than the previous quarter and $121.5 million higher than the same quarter in 2003. Operating income was $8.6 million lower than in the previous quarter (which had included $30.3 million of one-time charges related to incentive payments, restructuring and mill closure costs). The decrease in the current quarter's operating income arose mainly because of the impact of the strengthened Canadian dollar on US dollar revenues. Operating income was positively impacted in the quarter by a $9.9 million adjustment to previously recorded charges for anti-dumping duties, and by charging anti-dumping duties in the third quarter at the revised rate of 2%, down from the 5.96% rate charged in the second quarter. When comparing the results in the current quarter and year to date with the same periods in 2003, the main factors for the increase are higher prices for lumber and pulp and the inclusion of the legacy Slocan operations.

Compared to the same period last year, US dollar lumber prices averaged 39% higher, pulp prices averaged 23% higher and plywood prices were 15% higher, while OSB prices were lower by 8%. When compared to the second quarter in 2004, lumber prices were 1% higher in the third quarter, with pulp prices down by 2%, plywood prices down by 7% and OSB prices off by 19%. The strengthening of the Canadian dollar in the third quarter also negatively impacted revenues compared to the prior periods, with the Canadian dollar averaging 76.5¢ against the US dollar in the current quarter, 73.6¢ in the previous quarter and 72.5¢ in the third quarter of 2003.

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

The following table summarizes some of the most significant factors affecting the comparability of net income in the periods presented.

(millions of dollars, after tax)	3rd Quarter 2004	2nd Quarter 2004	3rd Quarter 2003
Foreign exchange gain (loss) on long-term debt	**$ 38.3**	$ (21.9)	$ (1.9)
Adjustment to anti-dumping duty expense in prior periods	**7.8**	2.8	6.6
Rate change for current period's anti-dumping duty expense	**15.0**	-	5.0
Special incentive payments	**-**	(5.7)	-
Restructuring costs	**(0.3)**	(13.6)	-
Taylor sawmill closure costs	**-**	(4.7)	-
US dollar forward contract gains	**-**	-	9.9
Gain on sale of BC Chemicals	**-**	-	62.3
Favourable (unfavourable) impact on net income	**$ 60.8**	$ (43.1)	$ 81.9

OPERATING RESULTS

The following discussion relates to the Company's operating segments, as presented in the Statements of Segmented Information in the Financial Statements.

With the integration of Slocan's operations as of April 1, 2004, the business segments previously reported by Canfor have been changed to better reflect the combined company's business. Canfor's lumber, plywood and panel and fibre operations were formerly reported in the "Wood Products" segment, which has now been separated into "Lumber" and "Panels". The Lumber segment includes the Company's sawmill and remanufacturing operations and the "Panels" segment includes the OSB, plywood and panel and fibre operations. The Pulp and Paper segment now includes the Taylor pulp operation and the Coastal Operations segment is unchanged. Prior periods have been restated to reflect the new reporting structure.

Lumber

(millions of dollars unless otherwise noted)	3rd Quarter 2004	2nd Quarter 2004	9 months ended September 2004	3rd Quarter 2003	9 months ended September 2003
Gross sales	**$ 858.2**	$ 819.9	**$ 2,096.1**	$ 421.2	$ 1,184.4
EBITDA	**$ 212.4**	$ 174.7	**$ 455.0**	$ 47.7	$ 25.8
EBITDA margin	**25%**	21%	**22%**	11%	2%
Operating income (loss)	**$ 187.8**	$ 153.7	**$ 393.4**	$ 35.4	$ (11.9)
Average 2"x4" #2 & Better lumber price -					
US $ per thousand board feet *(source: Random Lengths)*	**$ 440**	$ 437	**$ 415**	$ 316	$ 269
Average price in Cdn $	**$ 575**	$ 594	**$ 549**	$ 436	$ 385

The Lumber segment earned operating income of $187.8 million in the quarter, or $34.1 million more than in the previous quarter and $152.4 million more than in the same quarter last year. When comparing the results to the previous quarter, the main factors in the higher earnings were a lower duty expense, as discussed below, and the $11.2 million of one-time charges in the second quarter related to incentive awards, restructuring and the Taylor sawmill closure. When comparing the higher earnings in the current period and year to date with the same periods in 2003, the main factors are the income generated by the legacy Slocan operations and higher lumber prices.

Operations:

With the exception of seasonal maintenance curtailments at some operations, the lumber segment continued to run at full capacity during the third quarter. Some operations added extra shifts where possible to take advantage of the strong prices experienced in the quarter. Lumber inventories at the mills were significantly reduced during the quarter as a result of selective downtime for sawmill maintenance and an improvement in railcar availability.

Lumber costs in the quarter were higher than target levels as a result of completing some discretionary maintenance projects in several facilities. These projects were completed in the quarter and costs are expected to return to normal levels in the fourth quarter.

Several operations are being impacted by the increasing supply of mountain pine beetle infested timber. Operational changes are being made to deal with smaller log sizes and reduced timber quality, with the Company's harvesting operations continuing to focus on the most heavily infested areas. A more comprehensive discussion of the mountain pine beetle situation follows under "Risks and Uncertainties" below.

While the cash deposits for anti-dumping duty (ADD) are being made at the assessed rate of 5.96%, Canfor regularly reassesses its estimate of the ADD rate by applying the US Department of Commerce's methodology to updated sales and cost data as it becomes available. In the third quarter, the ADD expense rate was reduced to 2% (from 5.96%) for the third period of review, which began in May 2004. As a result, the Company recorded an adjustment of $9.9 million for ADD charged in the second quarter. In addition, the third quarter ADD expense was $18.9 million less than the amount that would have been recorded at the higher rate. For countervailing duty (CVD), the Company is continuing to expense at a rate of 18.79%, despite the cash deposit rate for the Company being lowered to 12.24% in March 2004. This has resulted in an additional amount of $22.6 million being charged to earnings in the quarter. The net impact on operating earnings is a positive $6.2 million in the quarter. Similar changes resulted in lower operating earnings in the second quarter of $25.1 million and higher operating earnings in the third quarter of 2003 of $12.0 million. A more comprehensive discussion of the duty situation follows under "Risks and Uncertainties" below.

Markets:
Lumber markets maintained their strength into the third quarter of 2004, with prices coming off over the month of September. Western SPF 2x4 #2 & Better prices rose to a 5-year high of US $470 per Mfbm during late August before declining through most of September. The average price for the quarter was US $440 per Mfbm, which is a 39% increase from the same period in 2003 and a modest 1% increase from the high average in the second quarter of 2004. Favourable financial conditions from low interest rates, appreciation of house prices and strong consumer confidence continue to drive US housing starts. Strong existing home sales continue to propel the demand for wood products in the repair and renovation sector. During the quarter, transportation constraints improved somewhat but still affected the delivery of wood. These constraints have continued to improve and delivery schedules are getting back to normal.

Although offshore lumber consumption was strong during the quarter, shipments to Japan were lower because strong buying in the first half of the year increased customer inventories. Total offshore sales for the quarter were 8% lower than the same period in 2003, but were 11% higher on a year to date basis.

Panels

(millions of dollars unless otherwise noted)	**3rd Quarter 2004**	2nd Quarter 2004	**9 months ended September 2004**	3rd Quarter 2003	9 months ended September 2003
Gross sales	**$ 109.6**	$ 136.8	**$ 278.4**	$ 34.1	$ 91.1
EBITDA	**$ 38.5**	$ 62.2	**$ 106.9**	$ 4.3	$ 6.8
EBITDA margin	**35%**	45%	**38%**	13%	7%
Operating income	**$ 35.9**	$ 59.5	**$ 101.1**	$ 3.7	$ 4.8
Average plywood price in Cdn $ [2]	**$ 548**	$ 592	**$ 556**	$ 475	$ 412
Average OSB price in US $ [3]	**$ 353**	$ 437	**$ 406**	$ 386	$ 259
Average OSB price in Cdn $	**$ 461**	$ 594	**$ 539**	$ 533	$ 370

The Panels segment earned operating income of $35.9 million, or $23.6 million less than in the second quarter. The decrease is the result of a combination of lower shipment volumes, lower product prices and the impact of the stronger Canadian dollar on sales. When comparing the current year's operating income to the same periods in 2003, the main factor in the increase is the inclusion of the legacy Slocan OSB and plywood operations.

Operations:
Both plywood operations performed well during the quarter. Tackama Plywood ran at full capacity, whereas North Central Plywood incurred a two-week shutdown in order to facilitate an upgrade to the hot press and lay up line. Conversion costs and profitability in the quarter were affected by a significant increase in log costs resulting from higher stumpage rates.

Oriented Strand Board (OSB) operations also performed well during the quarter, and operated at full capacity. Profitability was impacted due to reduced price levels, which were down by 19% from the previous quarter. The approval of a $25.6 million modernization and production expansion project at the Fort Nelson OSB mill was announced during the quarter. While reducing environmental emissions by 21%, the upgrade will result in a 21.5% increase in production capacity, from 535 million to 650 million square feet per year on a 3/8" basis. The upgrade is expected to be complete in May of 2005.

[2] Per Msf 3/8" basis, delivered to Toronto (Source - C.C. Crowe Publications, Inc.)

[3] Per Msf 7/16" North Central (Source - Random Lengths publication)

Markets:
North American demand for panels was strong in the third quarter. The average Canadian Softwood Plywood (CSP) price for the quarter of Cdn $548 (per Msf 3/8" basis, delivered to Toronto) was 15% higher than the third quarter of 2003, although it was 7% lower than the previous quarter.

OSB prices, which tend to be more volatile than plywood, decreased by 9% to US $353 (per Msf 7/16" North Central) compared with the third quarter of 2003. OSB prices rose late in the quarter as the US southeast region prepared for the impact of the hurricanes.

Outlook - Lumber and Panels:
It is anticipated that a typical seasonal decline in demand will occur during the fourth quarter, leading to lower lumber and panel prices. Transportation will continue to improve and Company inventories will gradually reduce through the remainder of the year.

Pulp and Paper

(millions of dollars unless otherwise noted)	**3rd Quarter 2004**	2nd Quarter 2004	**9 months ended September 2004**	3rd Quarter 2003	9 months ended September 2003
Gross sales	**$ 248.7**	$ 275.6	**$ 742.7**	$ 212.4	$ 636.4
EBITDA	**$ 17.5**	$ 47.0	**$ 87.8**	$ 23.4	$ 50.2
EBITDA margin	**7%**	17%	**12%**	11%	8%
Operating income	**$ 6.3**	$ 36.4	**$ 55.2**	$ 11.9	$ 16.5
Average pulp price delivered to Northern Europe - US$ per tonne *(source: Pulp & Paper Week)*	**$ 640**	$ 652	**$ 627**	$ 520	$ 518
Average price in Cdn $	**$ 837**	$ 886	**$ 833**	$ 718	$ 740

Operating income decreased by $30.1 million from the previous quarter and was $5.6 million lower than the same quarter in 2003. Lower pulp prices, the impact of the strengthened Canadian dollar and lower productivity were the main factors in the decrease in operating income from the prior quarter. When comparing the current quarter and the year-to-date period with the same periods in 2003, higher prices for pulp and the inclusion of the legacy Slocan Taylor pulp mill's results were the main factors in the higher earnings.

Operations:
Pulp productivity at all of the mills was below target in the third quarter. Unit conversion costs were higher than normal because of lower production volumes and higher energy costs. The Northwood mill took a short maintenance shutdown in September, a month earlier than planned, including an extra day to complete some needed work on their recovery boiler. Intercon also had some mechanical issues with their recovery boiler that significantly impacted productivity early in the quarter, but the mill is now operating at above target levels. The Taylor BCTMP mill completed their annual outage in September and installed new dryer gas nozzles, which are resulting in improved gas usage and increased dryer capacity. The Prince George mill took their annual maintenance shutdown from September 26 to October 4. Pulp production at the Prince George mill will be curtailed for most of October during the final stages of the Green Power Generation Project; however paper production is expected to continue near target levels.

Markets:
Pulp markets in Europe and North America experienced steady demand during the third quarter. However, buyers in Asian markets scaled back their purchases in an effort to draw down their inventories. This resulted in weaker global shipments for market pulp in July and August than in the same period in 2003, which led to higher pulp inventories held by producers.

The main paper markets that consume Canfor pulp grades have generally been strong in 2004. Globally, demand for printing and writing papers was up by 6.9% since August 2003. In North America, printing and writing paper demand rose 5.3% year-over-year through August. European demand recorded an increase of 9.4% and Japanese demand was up by 7.8%.

Against this backdrop of good growth in paper demand, pulp demand has also grown in 2004 through August. As of August this year, deliveries of bleached softwood sulphate woodpulp were 4.5% higher, although northern bleached softwood sulphate, Canfor's main pulp grade, was only up by approximately 0.5%. However, because of pulp capacity expansion, mostly in the southern hemisphere, the industry was not able to sell all of its production during the third quarter. This caused producer inventories to rise.

A rise in pulp inventories usually causes more intense price competition, and this occurred to some extent during the current period, with prices in all of Canfor's major markets decreasing from the highs achieved during the second quarter.

The BCTMP market in Asia continues to be weak, and consequently both volumes and pricing are facing downward pressure.

Outlook:

After the decline experienced in the latter part of the third quarter, the pulp market in China appears to be rebounding in both volume and price and this should lead to a tightening in the supply and demand balance in the coming months. With continued healthy demand from the mature markets of Europe and North America, and a resurgence in shipments to Asia, demand and pricing should trend upwards heading into the winter. This trend is already beginning to be seen, with Canfor recently implementing a US $30 per tonne price increase for pulp sold in China, and some competitors announcing November 1st price increases in Europe. Despite these recent price increases, the fourth quarter results are expected to be lower than the third quarter because of lower average prices and the impact of the recent strengthening of the Canadian dollar.

Coastal Operations

(millions of dollars)	**3rd Quarter 2004**	2nd Quarter 2004	**9 months ended September 2004**	3rd Quarter 2003	9 months ended September 2003
Gross sales	**$ 12.4**	$ 45.2	**$ 74.8**	$ 17.3	$ 94.3
EBITDA	**$ (1.7)**	$ 6.9	**$ 6.9**	$ (2.6)	$ 9.2
EBITDA margin	**(14%)**	15%	**9%**	(15%)	10%
Operating income (loss)	**$ (2.8)**	$ 4.6	**$ 2.4**	$ (3.1)	$ 4.7

Coastal logging operations were shut down in July and August because of fire hazard, but resumed at full capacity in September. Unit costs in the quarter were significantly higher than normal because of reduced production volumes. Sales volume was significantly lower compared to the prior quarter because of the low inventory volumes, but the average sales price was approximately 15% higher because the volumes sold included a larger than normal percentage of high value fir, cedar and cypress logs. Some downward pricing pressure was felt toward the end of September and may result in declining prices and weaker demand in the fourth quarter. Weather permitting, logging operations are expected to run at full capacity until mid November, with the normal seasonal shutdown expected to occur in December.

Non-Segmented Items

(millions of dollars)	**3rd Quarter 2004**	2nd Quarter 2004	**9 months ended September 2004**	3rd Quarter 2003	9 months ended September 2003
Corporate costs	**$ (10.6)**	$ (29.0)	**$ (47.9)**	$ (6.0)	$ (16.6)
Equity income (loss)	**$ 4.9**	$ 3.5	**$ 9.0**	$ (0.6)	$ (1.2)
Net interest expense	**$ (11.9)**	$ (15.6)	**$ (39.9)**	$ (13.6)	$ (39.4)
Foreign exchange gain (loss) on long-term debt	**$ 40.5**	$ (21.9)	**$ 12.6**	$ (2.4)	$ 85.5
Other income (expense)	**$ (0.8)**	$ 0.4	**$ (0.1)**	$ (0.7)	$ 0.7

Corporate costs were significantly reduced in the quarter, mainly because of several one-time charges in the prior period related to restructuring, the merging of the two organizations and special incentive award payments.

Equity income for the quarter and year to date was higher than the comparative periods last year as Canfor's affiliated companies experienced the same strong prices and demand as Canfor's lumber segment.

Interest expense was lower than in the previous quarter as interest was charged on a reduced principal amount and was favourably impacted by the strengthening of the Canadian dollar. Interest income earned on temporary investments, which is netted against interest expense, was $1.1 million higher than the previous quarter.

Other expenses of $0.8 million in the quarter are mainly comprised of a loss on the sale of non-operating assets.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	**3rd Quarter 2004**	2nd Quarter 2004	**9 months ended September 2004**	3rd Quarter 2003	9 months ended September 2003
Ratio of current assets to current liabilities			**2.4:1**		1.6:1
Ratio of net debt to common shareholders' equity			**15:85**		36:64
Increase (decrease) in net cash position	**$ 158.6**	$ 264.5	**$ 474.9**	$ 122.8	$ (40.5)
- comprised of cash flow from (used in):					
Operating activities	**$ 249.6**	$ 316.7	**$ 559.9**	$ 43.3	$ 8.3
Financing activities	**$ (41.2)**	$ 15.3	**$ 45.9**	$ 4.4	$ (58.1)
Investing activities	**$ (49.8)**	$ (67.5)	**$ (130.9)**	$ (41.3)	$ (112.2)
Discontinued operation	**$ -**	$ -	**$ -**	$ 116.4	$ 121.5

Cash flow from operating activities decreased by $67.1 million from the previous quarter, mainly as result of lower product prices, the impact of the strengthened Canadian dollar on US dollar sales, and lower shipment volumes. Total interest paid in the quarter amounted to $18.5 million, which was $10.0 million higher than the prior quarter because of the timing of scheduled payments.

Cash flow used in financing activities was $41.2 million in the quarter as a result of a scheduled long-term debt payment of US $31.3 million being made in September.

Cash used in investing activities was $49.8 million in the quarter, and was mainly comprised of capital expenditures of $50.5 million, proceeds on the disposal of the Company's aircraft of US$6.0 million and $8.5 million of capital contributions to the OSB joint venture.

Liquidity and Financial Requirements

At the end of the quarter, Canfor had net cash of $417.5 million and $212.3 million of unused operating bank lines available. In comparison, the June 30, 2004 net cash position was $258.9 million, with $270.3 million of unused operating lines of credit and the December 31, 2003 net short-term indebtedness position was $57.4 million, with $96.1 million of unused operating lines of credit. Strong EBITDA resulting from high prices continued to have a beneficial effect on cash flow. With the recent decline in prices for all products, net cash flow is expected to taper off in the next quarter.

In October 2004, Canfor entered into a new unsecured and committed $325 million credit facility to replace its existing demand operating lines of credit. This facility, which is comprised of a $125 million 364-day amount and a three-year $200 million amount, is renewable annually.

Capital spending for the first nine months of 2004 amounted to $84.6 million, $50.5 million of which was in the third quarter. The increase in the current period spending is primarily related to the strategic upgrade of the PolarBoard OSB mill, which began during the quarter, and the Green Power Generation Project at the Prince George Pulp and Paper mill, which is nearing completion. Approximately 70% of the year-to-date expenditures have been strategic in nature, to increase shareholder value by improving the Company's cost position, productivity and production capacity. The balance of the capital spending has been to maintain the existing productive capacity of the operations or to ensure proficient safety and environmental performance. Canfor contributed $8.5 million in the current quarter ($16.9 million in the year to date) to the new 50%-owned OSB plant currently under construction in Fort St John, BC.

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 $422.4 million or $3.21 per share. The Company can incur an additional $1,114.1 million of long-term debt under these borrowing arrangements.

Howe Sound Pulp and Paper Limited Partnership

Although Canfor no longer consolidates Howe Sound Pulp and Paper Limited Partnership (HSLP) into its financial results, the operation reported net income of $16.5 million for the quarter, after a $24.2 million foreign exchange gain on long-term debt (year to date - $4.8 million loss, after a $6.2 million exchange gain). In 2003, HSLP reported a $10.4 million loss in the quarter and $29.3 million loss for the year to date, after foreign exchange losses on long term debt of $1.4 million in the quarter and $9.7 million in the year to date). EBITDA was $7.6 million in the current quarter and $25.2 million for the year to date, compared to $4.2 million in the same quarter in 2003 and $20.5 million for the year to date. Based on a separate prepayment agreement between Canfor and Oji Paper Co., Ltd., the partners of HSLP, at the end of the third quarter Canfor had prepaid $46.9 million to HSLP in advance of the due date of receivables for pulp marketed and collected on their behalf ($48.5 million had been prepaid at the end of the previous quarter and $33.5 million had been prepaid at December 31, 2003). The prepayment is covered by the assignment of current and future accounts receivables.

Outstanding Shares

At October 28, 2004, there were 131,603,856 common shares outstanding.

RISKS AND UNCERTAINTIES

A comprehensive discussion of Risks and Uncertainties was included in the 2003 Annual Report. An update of that discussion is included below.

Update on the Canada/US softwood lumber dispute

Countervailing duties (CVD)

As discussed in the first Quarter 2004 MD&A, Canfor was granted a company-specific expedited review of its CVD rate. This review was completed in March 2004 and, as a result, Canfor's CVD cash deposit rate was reduced from 18.79% to 12.24% for shipments to the US after March 9, 2004. This deposit rate is expected to remain in effect until December 2004. The US has indicated that it will not conduct company-specific administrative reviews, even for companies such as Canfor that have been granted expedited reviews. Consequently, even though Canfor is paying deposits at the expedited review rate the actual assessments will be based on a country-wide rate. On April 14, 2004 the Government of Canada commenced an appeal via the World Trade Organization (WTO) against the US decision not to conduct company-specific administrative reviews for expedited review companies such as Canfor, and not to complete expedited reviews on a timely basis for companies such as Slocan. This appeal will likely take at least a year to complete.

As a result of a NAFTA Panel ruling in September 2003 rejecting the use of cross-border benchmarks, in January 2004 the US Department of Commerce (DOC) announced that the national CVD rate would be reduced to 13.23% from 18.79%. On June 7, 2004, the NAFTA Panel found various errors in the methodology the DOC used to arrive at the 13.23% rate and it remanded the matter to the DOC to correct those errors. On July 30, 2004, the DOC further revised this figure to 7.82%.

On June 3, 2004 the DOC released their preliminary results of a countrywide CVD administrative review for the period from May 22, 2002 to March 31, 2003 (POR1). This rate was calculated to be 9.24% and is applicable for all non-zero rate producers including those, like Canfor, that had been granted company-specific cash deposit rates. This preliminary rate is expected to be finalized in December 2004 and will be used to determine the actual duties due for entries made during POR1, and sets the new deposit rate for the company going forward.

As a result of the uncertainty as to whether Canfor will be granted a company-specific administrative review and because all the results are subject to further review and appeal, Canfor has continued to expense the CVD at the original rate of 18.79%. Also, no adjustment is being made to reflect the lower preliminary rate of 9.24% calculated in the country-wide administrative review for POR1 by the DOC because of the anticipated challenges and appeals.

Anti-dumping duty (ADD) rate determination

On June 1, 2004 the DOC issued its preliminary ADD results for the first administrative review for the period May 22, 2002 to April 30, 2003 (POR1). The preliminary rates for Canfor and Slocan were 2.06% and 1.64% respectively. The deposit rates currently in effect will not change until the final results of this review are determined, which is expected to be in December 2004. The final results will determine the actual ADD due for the entries made during POR1, and will set a new ADD deposit rate for the Company going forward.

Threat of injury determination

On August 31, 2004 a NAFTA Panel reaffirmed its prior rulings 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 make a new determination consistent with the Panel's decision. On September 10th, the ITC complied with this instruction and issued a new determination finding that the US softwood lumber industry is not threatened with material injury by reason of Canadian imports. It is anticipated that the US will appeal the NAFTA Panel's decision to a special Extraordinary Challenge Committee (ECC) under the NAFTA, which could extend the case to March 2005 or beyond. If the ECC upholds the NAFTA Panel's decision, the US anti-dumping and countervailing duty orders would be terminated as a result of the ITC's new determination. As at September 30, 2004, Canfor (including legacy Slocan) had paid combined duty deposits of US $467 million (ADD of $133 million and CVD of $334 million) since inception of CVD and ADD in May 2002, which should be eligible for refund, subject to the outcome of any litigation on refunds that may arise.

NAFTA lawsuit

The company is proceeding with its NAFTA chapter 11 challenge against the United States and there is a hearing scheduled for December 2004.

Mountain Pine Beetle

The MPB infestation in the Prince George Timber Supply Area (TSA) now impacts approximately 58 million cubic metres of lodgepole pine. The Quesnel, Prince George, Morice and Lakes TSAs continue to be strongly impacted. The infestation has now moved into the Mackenzie and Dawson Creek TSAs, although the levels of attack are relatively low. Having reached the Dawson Creek area, there is a risk of entry of MPB into Canfor's Alberta Forest Management Agreement Area, which is approximately 40% lodgepole pine. The focus has shifted to salvage of gray, red or green attacked timber as opposed to suppression in Quesnel, Prince George and the Lakes TSAs. In Dawson Creek, a joint effort by Canfor, the BC Ministry of Forests, Weyerhaeuser and the Alberta Government is attempting to suppress the beetle in that TSA.

Nearly 85% of the wood supply to Canfor's Prince George region mills is currently beetle salvage. The general consensus is that beetle-killed timber will remain merchantable for 5 to 15 years, depending on local site conditions. More work is being done on this assessment by the BC Ministry of Forests and the Canadian Forest Service (federal). The provincial Chief Forester has recently revised the Annual Allowable Cut (AAC) in the Quesnel, Prince George and Lakes TSAs upward by approximately 4 million cubic metres to encourage salvage activities. Eventually (10 to 20 years from now), the AAC in the affected TSAs will have to be reduced to counter-balance the increases in AAC today. The extent of the reductions is unknown at this time. Canfor has recently signed a letter of understanding with the provincial government and the City of Prince George to develop a salvage strategy for affected trees on provincial Crown land, city land and private property within the city limits. Up to 80% of the lodgepole pine trees in the City of Prince George have been attacked by the beetle.

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 will result in a reduction of approximately 2.3 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. These orders are expected by March 2005. Canfor is working with the government to identify those licenses and operating areas comprising the take back. The amount of compensation to be made to Canfor will be determined after that time.

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

Selected quarterly financial information for the eight most recently completed quarters ending September 30, 2004 is as follows:

	3rd QTR 2004	2nd QTR 2004	1st QTR 2004	4th QTR 2003	3rd QTR 2003	2nd QTR 2003	1st QTR 2003	4th QTR 2002
SALES AND INCOME (millions of dollars)								
Gross sales	**$ 1,228.9**	$ 1,277.5	$ 685.6	$ 656.3	$ 685.0	$ 639.4	$ 681.8	$ 610.0
Operating income (loss)	**$ 216.6**	$ 225.1	$ 62.4	$ (0.3)	$ 41.9	$ (47.5)	$ 3.1	$ (65.4)
Net income (loss) from continuing operations	**$ 201.6**	$ 143.6	$ 32.0	$ 34.6	$ 17.8	$ (3.7)	$ 37.1	$ (60.1)
Net income (loss)	**$ 201.6**	$ 143.6	$ 32.0	$ 34.1	$ 80.1	$ (1.1)	$ 40.2	$ (58.0)
PER COMMON SHARE (dollars)								
Net income (loss) from continuing operations								
Basic	**$ 1.52**	$ 1.08	$ 0.37	$ 0.41	$ 0.20	$ (0.06)	$ 0.44	$ (0.76)
Diluted	**$ 1.40**	$ 1.00	$ 0.34	$ 0.37	$ 0.19	$ (0.06)	$ 0.40	$ (0.76)
Net income (loss)								
Basic	**$ 1.52**	$ 1.08	$ 0.37	$ 0.40	$ 0.97	$ (0.03)	$ 0.48	$ (0.73)
Diluted	**$ 1.40**	$ 1.00	$ 0.34	$ 0.37	$ 0.86	$ (0.03)	$ 0.43	$ (0.73)
STATISTICS								
Average exchange rate (Cdn$/US$)	**$ 0.765**	$ 0.736	$ 0.759	$ 0.760	$ 0.725	$ 0.715	$ 0.662	$ 0.637
Lumber shipments (MMfbm)	**1,287**	1,408	789	780	823	845	790	757
Pulp shipments (000 mt)	**275**	285	242	261	244	220	274	244
Plywood shipments (000 Msf 3/8")	**93**	109	45	36	48	48	40	37
OSB shipments (000 Msf 3/8")	**121**	133	-	-	-	-	-	-
Average 2x4 #2&Btr lumber price (US$)	**$ 440**	$ 437	$ 370	$ 298	$ 316	$ 246	$ 245	$ 231
Average NBSK pulp price to Northern Europe (US$)	**$ 640**	$ 652	$ 590	$ 590	$ 555	$ 520	$ 480	$ 452
Average plywood price (Cdn$)	**$ 548**	$ 592	$ 528	$ 503	$ 475	$ 361	$ 374	$ 375
Average OSB price - North Central (US$)	**$ 353**	$ 437	n/a	n/a	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 legacy Slocan operations as of April 1, 2004, the strengthening of the Canadian dollar against the US dollar beginning early in 2003, and increases in lumber, plywood and pulp 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, restructuring and mill closure provisions of $26.2 million in the fourth quarter of 2002 and $18.3 million in the second quarter of 2004 (all figures are after tax).

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 summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

Consolidated Statements of Income and Retained Earnings

(unaudited) (millions of dollars)	3 months ended September 30, 2004	3 months ended September 30, 2003	9 months ended September 30, 2004	9 months ended September 30, 2003
Gross sales	**$ 1,228.9**	$ 685.0	**$ 3,192.0**	$ 2,006.2
Costs and expenses				
Manufacturing and product costs	**696.8**	473.6	**1,835.4**	1,446.2
Freight and other distribution costs	**176.7**	97.3	**446.4**	327.1
Countervailing and anti-dumping duties (Note 7)	**78.0**	32.6	**215.6**	113.3
Amortization	**41.7**	26.5	**110.6**	82.3
Selling and administration costs	**18.6**	13.1	**56.2**	39.8
	1,011.8	643.1	**2,664.2**	2,008.7
Restructuring costs (Note 8)	**0.5**	-	**23.6**	-
Operating income (loss) from continuing operations	**216.6**	41.9	**504.2**	(2.5)
Equity income (loss)	**4.9**	(0.6)	**9.0**	(1.2)
Interest expense	**(11.9)**	(13.6)	**(39.9)**	(39.4)
Foreign exchange gain (loss) on long-term debt	**40.5**	(2.4)	**12.6**	85.5
Other income (expenses)	**(0.8)**	(0.7)	**(0.1)**	0.7
Net income from continuing operations before income taxes	**249.3**	24.6	**485.8**	43.1
Income tax recovery (expense) (Note 10)	**(47.7)**	(6.8)	**(108.6)**	8.1
Net income from continuing operations	**201.6**	17.8	**377.2**	51.2
Net income from discontinued operation	**-**	62.3	**-**	68.0
Net income	**$ 201.6**	$ 80.1	**$ 377.2**	$ 119.2
Per common share (in dollars) (Note 11)				
Net income from continuing operations				
Basic	**$ 1.52**	$ 0.20	**$ 3.24**	$ 0.57
Diluted	**$ 1.40**	$ 0.19	**$ 2.97**	$ 0.55
Net income				
Basic	**$ 1.52**	$ 0.97	**$ 3.24**	$ 1.41
Diluted	**$ 1.40**	$ 0.86	**$ 2.97**	$ 1.28
Retained earnings, beginning of year - as reported			**$ 273.4**	$ 136.7
Cumulative effect of change in accounting policy (Note 2)			**3.6**	3.6
Retained earnings, beginning of year - as restated			**277.0**	140.3
Net income for the year to date			**377.2**	119.2
Common share dividends			**-**	(10.6)
Interest on equity component of convertible subordinated debentures, net of taxes			**(4.7)**	(4.5)
Retained earnings, end of current period			**$ 649.5**	$ 244.4

Consolidated Cash Flow Statements

(unaudited) (millions of dollars)	3 months ended September 30, 2004	2003	9 months ended September 30, 2004	2003
Cash generated from (used in)				
Operating activities				
Net income from continuing operations	**$ 201.6**	$ 17.8	**$ 377.2**	$ 51.2
Items not affecting cash:				
Amortization	**41.7**	26.5	**110.6**	82.3
Long-term portion of deferred reforestation	**(32.2)**	(14.3)	**(15.0)**	(16.1)
Income taxes	**25.5**	(10.4)	**49.9**	(8.4)
Unrealized foreign exchange loss (gain) on long-term debt	**(38.7)**	2.4	**(10.6)**	(87.0)
Adjustment to accrued duties (Note 7)	**(6.2)**	(12.0)	**13.7**	(16.1)
Loss on disposal of assets	**1.0**	1.3	**3.2**	0.2
Other	**1.3**	3.3	**3.9**	13.0
Changes in non-cash working capital	**55.8**	28.7	**27.2**	(10.8)
	249.8	43.3	**560.1**	8.3
Financing activities				
Proceeds from long-term debt (Note 5)	-	4.8	**313.1**	4.8
Repayment of long-term debt (Note 5)	**(41.6)**	(0.6)	**(272.2)**	(49.3)
Net proceeds on issuance of common shares (Note 12)	**0.6**	0.4	**8.7**	0.4
Dividends paid to common shareholders	**-**	-	**-**	(10.6)
Interest on convertible debentures, net of taxes	**-**	-	**(3.1)**	(3.0)
Other	**0.1**	(0.2)	**(0.3)**	(0.4)
	(40.9)	4.4	**46.2**	(58.1)
Investing activities				
Business acquisition costs, net of cash acquired (Note 3)	**-**	-	**(37.9)**	(30.6)
Property, plant, equipment and timber	**(51.0)**	(44.8)	**(85.1)**	(84.0)
Proceeds on disposal of property, plant and equipment	**8.0**	0.4	**9.5**	2.6
Capital contributions to joint venture (Note 4)	**(8.5)**	-	**(16.9)**	-
Other	**1.2**	3.1	**(1.0)**	(0.2)
	(50.3)	(41.3)	**(131.4)**	(112.2)
Increase (decrease) in net cash from continuing operations	**158.6**	6.4	**474.9**	(162.0)
Cash generated by discontinued operation	**-**	116.4	**-**	121.5
Increase (decrease) in net cash	**158.6**	122.8	**474.9**	(40.5)
Net cash (short-term indebtedness) at beginning of period	**258.9**	(140.4)	**(57.4)**	22.9
Net cash (short-term indebtedness) at end of period	**$ 417.5**	$ (17.6)	**$ 417.5**	$ (17.6)
Net cash (short-term indebtedness) is comprised of:				
Cash and temporary investments	**$ 419.5**	$ 17.4	**$ 419.5**	$ 17.4
Operating bank loans	**(2.0)**	(35.0)	**(2.0)**	(35.0)
	$ 417.5	$ (17.6)	**$ 417.5**	$ (17.6)
Changes in non-cash working capital				
Accounts receivable	**$ 17.1**	$ 8.7	**$ 15.3**	$ (3.9)
Inventories	**9.9**	37.6	**(0.5)**	3.5
Prepaid expenses	**2.8**	(8.2)	**(4.4)**	(1.1)
Accounts payable, accrued liabilities and current portion of deferred reforestation	**27.2**	(19.7)	**36.1**	(5.5)
Income taxes	**(1.2)**	10.3	**(19.3)**	(3.8)
	$ 55.8	$ 28.7	**$ 27.2**	$ (10.8)

Interest paid for the nine months ended September 30, 2004 was $47.1 million (2003 - $51.0 million) and income taxes paid were $33.5 million (2003 - $4.9 million).

Consolidated Balance Sheets

(millions of dollars)	as at September 30, 2004 (unaudited)	as at December 31, 2003 (audited)
ASSETS		
Current assets		
Cash	**$ 29.6**	$ 24.7
Temporary investments	**389.9**	-
Accounts receivable		
Trade	**299.2**	173.2
Other	**38.2**	78.3
Income taxes recoverable	**0.2**	1.4
Future income taxes	**36.7**	21.9
Inventories	**687.4**	445.0
Prepaid expenses	**38.1**	24.1
Total current assets	**1,519.3**	768.6
Long-term investments and other	**190.8**	100.5
Property, plant, equipment and timber	**2,159.7**	1,443.5
Deferred charges	**118.0**	126.8
	$ 3,987.8	$ 2,439.4
LIABILITIES		
Current liabilities		
Operating bank loans (Note 5)	**$ 2.0**	$ 82.1
Accounts payable and accrued liabilities	**523.6**	335.5
Current portion of long-term debt	**52.9**	57.2
Current portion of deferred reforestation	**55.3**	39.6
Total current liabilities	**633.8**	514.4
Long-term debt (Note 5)	**711.2**	478.0
Other accruals and provisions (Note 6)	**194.9**	83.0
Future income taxes, net	**492.6**	175.7
Deferred credit	**29.6**	95.7
SHAREHOLDERS' EQUITY		
Share capital - 131,585,858 shares outstanding (Note 12)	**1,120.8**	659.2
Convertible subordinated debentures	**155.0**	155.0
Retained earnings	**649.5**	277.0
Foreign exchange translation adjustment	**0.4**	1.4
Total shareholders' equity	**1,925.7**	1,092.6
	$ 3,987.8	$ 2,439.4

Contingencies (Note 14)
Subsequent events (Note 15)

APPROVED BY THE BOARD

Director, R.L. Cliff

Director, J.A. Shepherd

Statements of Segmented Information

(unaudited) (millions of dollars)		Lumber (Notes a, d)	Panels (Note a)	Pulp and Paper	Coastal Operations	Corporate and Other		Consolidated
3 months ended September 30, 2004								
Gross sales to external customers	**$**	**858.2**	**109.6**	**248.7**	**12.4**	**-**	**$**	**1,228.9**
Gross sales to other segments (Note c)	**$**	**32.4**	**0.8**	**-**	**2.1**	**-**	**$**	**35.3**
Operating income (loss)	**$**	**187.8**	**35.9**	**6.3**	**(2.8)**	**(10.6)**	**$**	**216.6**
Amortization	**$**	**24.6**	**2.6**	**11.2**	**1.1**	**2.2**	**$**	**41.7**
Capital expenditures	**$**	**17.3**	**9.3**	**21.2**	**2.6**	**0.6**	**$**	**51.0**
3 months ended September 30, 2003								
Gross sales to external customers	$	421.2	34.1	212.4	17.3	-	$	685.0
Gross sales to other segments (Note c)	$	16.0	0.6	-	0.8	-	$	17.4
Operating income (loss)	$	35.4	3.7	11.9	(3.1)	(6.0)	$	41.9
Amortization	$	12.3	0.6	11.5	0.5	1.6	$	26.5
Capital expenditures	$	38.0	0.4	5.4	1.4	(0.4)	$	44.8

Summary of Consolidated Production and Shipments

	Production		Shipments	
3 months ended September 30, (unaudited)	**2004**	2003	**2004**	2003
Lumber - MMfbm				
Canfor produced	**1,202.2**	628.9	**1,214.6**	753.7
Purchased from other wholesale producers			**72.5**	69.4
Total Lumber			**1,287.1**	823.1
Plywood - 000 Msf 3/8"	**98.6**	40.0	**93.0**	48.4
Oriented Strand Board - 000 Msf 3/8"	**126.4**	-	**120.5**	-
Pulp - 000 mt				
Canfor produced	**286.7**	259.2	**275.2**	244.3
Marketed on behalf of HSLP (Note e)			**85.4**	101.8
Total Pulp			**360.6**	346.1
Kraft paper - 000 mt	**34.7**	34.5	**34.1**	30.2
Coastal logs - 000 m^3	**211.2**	96.1	**119.4**	195.4

a. In the second quarter of 2004, subsequent to the business combination discussed in Note 3 of the Consolidated Financial Statements, Canfordivided its former Wood Products segment into its two major product categories. The Lumber segment includes all logging and forestry operations formerly included in Wood Products and the sawmill and remanufacturing operations. The Panels segment includes the plywood, OSB andpanel and fibre operations.

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

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

d. Gross sales for the quarter include sales of Canfor produced lumber of $780.5 million (2003 - $355.8 million) and $1,868.3 million for the year-to-date (2003 - $1,025.1 million).

e. Canfor is responsible for marketing, on a commission basis, the pulp production of Howe Sound Pulp and Paper Limited Partnership (HSLP).

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

(unaudited) (millions of dollars)		Lumber (Notes a, d)	Panels (Note a)	Pulp and Paper	Coastal Operations	Corporate and Other		Consolidated
9 months ended September 30, 2004								
Gross sales to external customers	**$**	**2,096.1**	**278.4**	**742.7**	**74.8**	**-**	**$**	**3,192.0**
Gross sales to other segments (Note c)	**$**	**86.8**	**2.6**	**-**	**6.2**	**-**	**$**	**95.6**
Operating income (loss)	**$**	**393.4**	**101.1**	**55.2**	**2.4**	**(47.9)**	**$**	**504.2**
Amortization	**$**	**61.6**	**5.8**	**32.6**	**4.5**	**6.1**	**$**	**110.6**
Capital expenditures	**$**	**34.1**	**15.0**	**30.2**	**5.2**	**0.6**	**$**	**85.1**
Identifiable assets	**$**	**1,850.0**	**200.0**	**892.4**	**74.5**	**970.9**	**$**	**3,987.8**
9 months ended September 30, 2003								
Gross sales to external customers	$	1,184.4	91.1	636.4	94.3	-	$	2,006.2
Gross sales to other segments (Note c)	$	66.4	2.3	-	5.8	-	$	74.5
Operating income (loss)	$	(11.9)	4.8	16.5	4.7	(16.6)	$	(2.5)
Amortization	$	37.7	2.0	33.7	4.5	4.4	$	82.3
Capital expenditures	$	64.3	1.7	13.8	4.2	-	$	84.0
Identifiable assets	$	1,050.0	40.9	829.8	68.1	359.5	$	2,348.3

Summary of Consolidated Production and Shipments

	Production		Shipments	
9 months ended September 30, (unaudited)	**2004**	2003	**2004**	2003
Lumber - MMfbm				
Canfor produced	**3,309.9**	2,202.3	**3,262.2**	2,239.6
Purchased from other wholesale producers			**221.2**	218.8
Total Lumber			**3,483.4**	2,458.4
Plywood - 000 Msf 3/8"	**251.7**	132.2	**247.3**	136.1
Oriented Strand Board - 000 Msf 3/8"	**252.2**	-	**253.1**	-
Pulp - 000 mt				
Canfor produced	**833.2**	757.8	**801.4**	738.4
Marketed on behalf of HSLP (Note e)			**248.9**	278.7
Total Pulp			**1,050.3**	1,017.1
Kraft paper - 000 mt	**102.2**	93.5	**108.8**	90.8
Coastal logs - 000 m^3	**888.7**	964.7	**788.4**	942.2

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, 2003. These interim financial statements follow the same accounting policies and methods of computation as used in the 2003 consolidated financial statements, except as described in Note 2

These interim results are not necessarily indicative of results to be expected for an entire year.

2. Changes in Accounting Policies and Presentation

Asset Retirement Obligations

Effective January 1, 2004, Canfor retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) for asset retirement obligations, which require that such obligations be measured at fair value. As a result of adopting these new recommendations, Canfor's deferred reforestation liability decreased by $5.6 million, the net future income tax liability increased by $2.0 million and retained earnings increased by $3.6 million at December 31, 2003. The change in accounting for deferred reforestation did not have an impact on 2003 earnings. The new recommendations were not applied to retirement obligations for assets with indeterminate useful lives because sufficient information is not presently available to estimate a range of potential settlement dates for the obligations.

Shipping and Handling Costs

Effective January 1, 2004, the CICA introduced new recommendations for the application of generally accepted accounting principles (GAAP), which, among other things, provides guidance on alternate sources to consult with when an issue is not specifically addressed by Canadian GAAP. Prior to January 1, 2004, Canfor, along with other companies in the forest industry, presented sales net of shipping and handling costs. As a result of applying this new standard, effective January 1, 2004, Canfor has presented shipping and handling costs in accordance with the US accounting standard which specifies that shipping and handling costs recovered from customers should be included in sales, while shipping and handling costs incurred should be included in cost of sales. Countervailing and anti-dumping duties, which previously were presented as a deduction to gross sales, have also been reclassified to cost of sales in accordance with the new GAAP standard. Prior periods have been reclassified for comparability.

3. Business Combination

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

Slocan was amalgamated with Canadian Forest Products Ltd., Canfor's principal operating subsidiary, on April 1, 2004. The acquisition has been accounted for using the purchase method, in which the purchase consideration was allocated to the estimated fair values of the assets and liabilities assumed as of April 1, 2004. The following fair value allocation is based on Management's best estimates and information known at the time of preparing these consolidated financial statements.

(millions of dollars)		
Net assets acquired		
Cash	$	20.5
Non-cash working capital		160.1
Property, plant, equipment and timber		756.6
Other assets		23.8
Long-term debt		(209.7)
Long-term liabilities		(58.8)
Future income tax liabilities		(181.2)
Fair value of net assets acquired	$	511.3
Consideration paid		
Common shares issued to Slocan shareholders	$	452.9
Make-whole penalty on Slocan's long-term debt		28.6
Transaction costs		29.8
	$	511.3

In order to address the concerns of the federal Commissioner of Competition under the Competition Act (Canada) regarding the impact of the combination on competition, Canfor entered into a Consent Agreement, as required by the Commissioner, pursuant to which she directed the Company to divest the sawmill located at Fort St James, British Columbia and certain associated harvesting rights. The sales process is currently underway, with the expectation that the full book value of the assets will be recovered. Due to the size of the Fort St James operation in relation to the entire lumber segment, it has not been accounted for as a discontinued operation.

4. Capital Contributions to Joint Venture

In 2000, Slocan entered into a joint venture agreement with Louisiana-Pacific Canada Ltd. to construct and operate an oriented strand board mill in Fort St. John, British Columbia. The decision to proceed with the project was made in January 2004 and once completed the mill will produce 820 million square feet (3/8" basis) of panel annually. Canfor will supply 330,000 cubic metres of timber annually to the joint venture out of its existing timber tenure in the area.

During the third quarter, Canfor made capital contributions of $8.5 million to the joint venture (year to date - $16.9 million). Canfor also made contributions of $0.2 million in the previous quarter to fund the joint venture's development costs (year to date - $0.2 million).

5. Bank Indebtedness and Long-Term Debt

At September 30, 2004 Canfor had $257.0 million of bank operating lines of credit available, of which $2.0 million was drawn down and an additional $42.7 million was utilized for several standby letters of credit. In October 2004, Canfor entered into a new unsecured and committed $325 million credit facility to replace its existing demand operating lines of credit. This facility, which is comprised of a $125 million 364-day amount and a three-year $200 million amount, is renewable annually.

New private placement financing of US $50 million was drawn down on February 2, 2004 and was utilized for general operating purposes and capital expenditures. On April 1, 2004, the US $160 million of long-term debt acquired in the acquisition of Slocan (Note 3) was refinanced with new private placement debt of US $185 million. The balance was used to pay a make-whole penalty on Slocan's debt and for general corporate purposes. The new debt is in the form of unsecured senior notes, which have the following interest rates and maturities: US $60 million at 5.66% (2009), US $50 million at 6.18% (2011), US $50 million at 6.33% (2012), and US $75 million at 5.42% (2013).

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 $1,114.1 million in additional long-term debt and pay up to $422.4 million, or $3.21 per share, in dividends to its common shareholders.

At September 30, 2004, the fair value of Canfor's long-term debt was $827.2 million and the fair value of the convertible subordinated debentures (Note 15) was $192.9 million.

6. Other Accruals and Provisions

(millions of dollars)	**September 30, 2004**	December 31, 2003
Deferred reforestation	**$ 54.5**	$ 34.0
Countervailing duty provision (Note 7)	**60.7**	-
Accrued pension obligations	**23.8**	6.3
Post employment benefits	**52.0**	33.3
Other liabilities	**3.9**	9.4
Total other accruals and provisions	**$ 194.9**	$ 83.0

7. Countervailing and Anti-dumping Duties

The US International Trade Commission (ITC) imposed an 18.79% countervailing duty (CVD) on Canadian lumber producers on May 16, 2002. On March 5, 2004, Canfor's company-specific deposit rate was reduced to 12.24%, effective prospectively from March 10, 2004. Although cash deposits are now being made at the 12.24% rate, Canfor will continue to record the expense at 18.79% until there is more certainty over whether Canfor will be granted a company-specific administrative review. The cumulative difference between the expensed amount and the cash paid is $60.7 million ($22.6 million in the third quarter) and is included in "other accruals and provisions" (Note 6).

The ITC also imposed anti-dumping duties (ADD) on Canadian lumber producers on May 16, 2002. Canfor's company-specific rate was assessed at 5.96% and Slocan's company-specific rate was assessed at 7.71%. While the cash payments are being made at the assessed rate, Canfor regularly reassesses its estimate of the ADD rate by applying the US Department of Commerce (DOC)'s methodology to updated sales and cost data as it becomes available. In the third quarter, the ADD expense rate was reduced to 2% (from 5.96%) for the third period of review, which began in May 2004. As a result, the Company recorded an adjustment of $9.9 million for ADD charged in the second quarter. In addition, the third quarter ADD expense was $18.9 million less than the amount that would have been recorded at the higher rate. The cumulative difference between the assessed rate and the effective rate at September 30, 2004 is $91.9 million, and is being carried as a receivable under "long-term investments and other". This balance includes Slocan's $17.5 million receivable at the combination date (Note 3).

As at September 30, 2004, Canfor (including legacy Slocan) had paid combined duty deposits of US $467 million (CVD of $334 million and ADD of $133 million) since inception of CVD and ADD in May 2002.

On June 3, 2004, the DOC announced the results of its preliminary administrative reviews of the CVD and ADD cash deposit rates, based on lumber shipments from Canada to the US during the first period of review. The national CVD rate was reduced to 9.24%. Canfor's specific ADD rate was reduced to 2.06% and Slocan's was reduced to 1.64%. A final determination on these rates is expected in December, at which time it is anticipated that the new rates will become effective. No adjustments to reflect the June 3rd rate reductions have been recorded in the current period because of uncertainty over the timing of any refunds to be received.

On August 31, 2004, a NAFTA Panel ruled, for the third time, that the US 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 10th, 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 13th, NAFTA formally issued its affirmation of the ITC's negative injury ruling. The United States has until mid to late November to file its request for an Extraordinary Challenge, which could extend the case to March 2005 or beyond. If not reversed by an Extraordinary Challenge Committee review, 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. 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.

8. Restructuring Costs

In the third quarter, Canfor accrued $0.5 million of severance and other costs associated with the integration of Canfor and Slocan's operations (year to date: $17.7 million).

The closure of the Taylor sawmill was completed in the second quarter and resulted in the recognition of further severance, pension and other costs of $5.9 million in that quarter.

9. Employee Future Benefits

The total benefit cost of Canfor's pension plans was $3.8 million in the third quarter of 2004 and $11.3 million for the year to date. The total benefit cost of Canfor's other future benefit plans was $3.8 million in the third quarter and $11.1 million for the year to date.

10. Income Tax Recovery (Expense)

	3 months ended September 30,		9 months ended September 30,	
(millions of dollars)	**2004**	2003	**2004**	2003
Current	**$ (63.6)**	$ (3.3)	**$ (177.7)**	$ 11.9
Future	**(11.9)**	(7.2)	**5.0**	(10.0)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**0.5**	1.8	**1.1**	4.0
Tax on equity earnings	**(1.9)**	0.7	**(3.1)**	1.0
	(76.9)	(8.0)	**(174.7)**	6.9
Amortization of deferred credit on utilization of acquired tax losses	**29.2**	1.2	**66.1**	1.2
	$ (47.7)	$ (6.8)	**$ (108.6)**	$ 8.1

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, 2004	2003	9 months ended September 30, 2004	2003
Income tax expense at statutory tax rate	**$ (88.5)**	$ (9.0)	**$ (172.5)**	$ (15.7)
Large corporation tax	**(1.8)**	(1.3)	**(4.9)**	(3.9)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**0.5**	1.8	**1.1**	4.0
Deferred income tax credit amortized	**29.1**	1.2	**66.0**	1.2
Permanent difference from foreign exchange gains and losses on long-term debt	**12.2**	(0.4)	**2.3**	21.0
Other permanent differences and tax adjustments	**0.8**	0.9	**(0.6)**	1.5
Tax recovery (expense)	**$ (47.7)**	$ (6.8)	**$ (108.6)**	$ 8.1
Effective tax rate	**19.1%**	27.6%	**22.3%**	$ (18.8%)

11. Earnings Per Share

(millions of dollars, except for number of shares and per share amounts)	3 months ended September 30, 2004	2003	9 months ended September 30, 2004	2003
Basic Earnings				
Net income from continuing operations	**$ 201.6**	$ 17.8	**$ 377.2**	$ 51.2
Less interest on equity component of convertible debentures, net of taxes	**(1.6)**	(1.5)	**(4.7)**	(4.5)
Net income from continuing operations available to common shareholders	**200.0**	16.3	**372.5**	46.7
Net income from discontinued operations	**-**	62.3	**-**	68.0
Net income available to common shareholders	**200.0**	78.6	**372.5**	114.7
Diluted Earnings				
Add back interest on equity component of convertible debentures, net of taxes	**1.6**	1.5	**4.7**	4.5
Net income from continuing operations available to common shareholders	**201.6**	17.8	**377.2**	51.2
Net income available to common shareholders	**$ 201.6**	$ 80.1	**$ 377.2**	$ 119.2
Weighted average number of common shares	**131,563,788**	81,182,686	**114,919,013**	81,165,000
Incremental shares from stock options	**246,253**	122,200	**246,708**	81,000
Shares issuable upon conversion of convertible debentures	**11,742,424**	11,742,424	**11,742,424**	11,742,424
Diluted number of common shares	**143,552,465**	93,047,310	**126,908,145**	92,988,424
Per common share				
Net income from continuing operations				
Basic	**$ 1.52**	$ 0.20	**$ 3.24**	$ 0.57
Diluted	**$ 1.40**	$ 0.19	**$ 2.97**	$ 0.55
Net income				
Basic	**$ 1.52**	$ 0.97	**$ 3.24**	$ 1.41
Diluted	**$ 1.40**	$ 0.86	**$ 2.97**	$ 1.28

12. Stock-Based Compensation

During the quarter, proceeds of $0.6 million were received from the exercise of 72,081 stock options at a weighted-average exercise price of $8.91. For the year to date, proceeds of $8.7 million were received from the exercise of 985,011 options at an average of $8.72 per share.

No new stock options were granted in the current quarter or in the same quarter in 2003. The following pro forma disclosures present the effect, on the current and prior period's reported net income and earnings per share, of stock options granted in 2002, prior to the adoption of the fair-value based method of accounting.

(millions of dollars, except for per share amounts)	3 months ended September 30, 2004	3 months ended September 30, 2003	9 months ended September 30, 2004	9 months ended September 30, 2003
Net income				
As reported	**$ 201.6**	$ 80.1	**$ 377.2**	$ 119.2
Pro forma	**$ 201.5**	$ 79.9	**$ 377.0**	$ 118.7
Net income per common share				
As reported - basic	**$ 1.52**	$ 0.97	**$ 3.24**	$ 1.41
As reported - diluted	**$ 1.40**	$ 0.86	**$ 2.97**	$ 1.28
Pro forma - basic	**$ 1.52**	$ 0.97	**$ 3.24**	$ 1.41
Pro forma - diluted	**$ 1.40**	$ 0.86	**$ 2.97**	$ 1.28

The fair value of the stock options granted in 2002 was estimated on each grant date using a Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 2.6%; expected volatility of 44%; risk-free interest rate of 3.75%; and an expected life of 4 years. The weighted average fair value of each option was $3.10.

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. No forward exchange contracts were outstanding at the end of the current period.

The Company also uses a variety of financial instruments to reduce its exposure to risks associated with lumber prices and energy costs. At the end of the current quarter, there were 320 lumber futures contracts outstanding, which had an unrealized gain of $1.2 million. Commodity swaps hedging future natural gas purchases of 2.2 million Gigajoules were outstanding at the end of the current quarter. There was an unrealized gain of $2.0 million on these swaps at September 30, 2004.

14. Contingencies

Property Transfer Tax Assessment

As noted in the 2002 and 2003 annual reports, Canfor had appealed the British Columbia Ministry of Provincial Revenue's assessment of property transfer taxes associated with the amalgamation of Canadian Forest Products and Howe Sound Pulp and Paper Limited in 2001. In the current quarter, the appeal was heard by the BC Supreme Court, and the case was decided in Canfor's favour. In October, Canfor received notice from the Ministry of Attorney General that the government would not be seeking to appeal the decision of the BC Supreme Court. The letter of credit for $11.1 million posted by Canfor is expected to be released in the fourth quarter.

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 will result in a reduction of approximately 2.3 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. These orders are expected by March 2005. Canfor is working with the government to identify those licenses and operating areas comprising the take back, after which time the compensation can be settled.

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.

15. Subsequent Events

On October 4, 2004, Canfor announced that it had given notice of its intention to redeem, on November 15, 2004, all of its outstanding Convertible Subordinated Debentures (Debentures) maturing November 23, 2006. The Debentures are redeemable at the principal amount of $155.0 million plus interest (at 6.25%) accrued to the last business day prior to the date of redemption. The Debentures are convertible into Common Shares of Canfor at the option of the holder at any time up to the close of business on November 12, 2004 at a conversion price of $13.20 for each Common Share. Holders are entitled to interest at 6.25% for the period up to but excluding the conversion date. If all of the Debentures are fully converted, 11,742,424 Common Shares will be issued to the Debenture holders.

Canfor also announced that it intends to make a normal course issuer bid to purchase for cancellation up to 6,578,868 Common Shares, or approximately 5% of Canfor's outstanding shares, at prevailing market prices in accordance with the rules of the Toronto Stock Exchange. Canfor has received regulatory approval to start purchasing the stock. The bid is expected to continue until October 14, 2005, unless completed or terminated earlier. Purchases of Common Shares made under the bid will be effected through the facilities of the Toronto Stock Exchange. As at October 28, 2004, no shares have been purchased pursuant to the normal course issuer bid.

As described in Note 5, in October 2004 Canfor entered into a new unsecured and committed $325 million credit facility to replace its existing demand operating lines of credit. This facility, which is comprised of a $125 million 364-day amount and a three-year $200 million amount, is renewable annually.

16. Certain comparative figures have been reclassified to conform to the presentation in the current period.

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