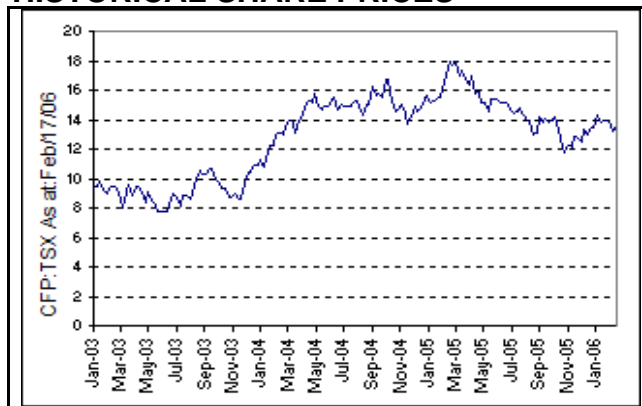


THE COMPANY

Canfor Corporation, based in Vancouver, is an integrated forest products company. Canfor primarily produces and supplies lumber and bleached kraft pulp from woodlands and facilities located in British Columbia and Alberta. The Company also produces semi-bleached and unbleached kraft pulp, bleached and unbleached kraft paper, plywood, remanufactured lumber products, hardboard paneling and a range of specialized wood products. Canfor distributes its products in Canada, the United States, the Far East and Europe from marketing offices worldwide.

FINANCIAL DATA

	2003	2004	2005
Earnings per Share (\$)	0.92	3.22	0.67
Price to Earnings (times)	14.8	4.2	20.3
Dividend (\$)	0.13	0.00	0.00
Dividend Yield (%)	1.82	0.00	0.00
Book Value (\$)	11.71	13.71	14.36
Price to Book (times)	1.16	0.99	0.95

HISTORICAL SHARE PRICES

WHY ABC FUNDS BOUGHT CANFOR

The recent difficulties experienced by the Canadian forestry industry have been well documented. Global economic weakness as well as punitive countervailing and anti-dumping duties imposed by the United States have taken their toll. Given the declining commodity prices and the uncertainty surrounding the sector, it is not surprising that forestry stock prices have been under pressure since early 2000. However, well-managed companies, such as Canfor, have reduced costs, improved efficiency and boosted productivity in anticipation of the inevitable turnaround. We believe that the evidence indicates that commodity prices have bottomed and that the sector is poised for a recovery.

Because Canfor generates 48% of net sales from lumber and approximately 30% of net sales from pulp, the Company is most sensitive to these commodities. In 2001, lumber prices fluctuated from US\$376 per thousand board feet for random length 2x4 to US\$155 per thousand board feet, including the impact of countervailing and anti-dumping duties. Over the course of the year, pulp prices fell from US\$710 per tonne to a low of US\$450 per tonne. In response, Canfor curtailed lumber and pulp production and operated well below capacity, which had a detrimental impact on profitability but preserved cash.

Despite the incredibly difficult operating environment, Canfor generated a profit in fiscal 2001. For the period, the Company reported net income per share of \$0.27 compared to \$1.50 in 2000. Total net sales declined to \$1.986 billion from \$2.266 billion as a direct result of the weak pricing environment and the associated production curtailments. However, cash from operations increased to \$119 million from \$100 million as a result of management's proactive measures. Further, book value grew to \$10.35 at year-end and the Company maintained its dividend of \$0.26 per share. Over the course of the year, Canfor's shares declined from a high of \$12.60 to a low of \$8.05 and closed at \$9.80 on December 31. The stock currently trades at approximately \$11.50, or 1.1 times book value, and offers a dividend yield of 2.3%.

Since the beginning of 2002, the outlook for the sector has begun to look less bleak. Lumber demand and prices rebounded on the back of an exceptionally strong housing and construction sector. Pulp prices formed a bottom and have begun to trend upwards as Norscan (North American and Scandinavian) pulp inventories declined to a level where price increases could be implemented. Although the softwood lumber dispute has yet to be resolved, a reasonable settlement would allow Canfor's profitability to recover.

Consistent with these trends, Canfor's first quarter results showed a decent sequential improvement. The Company reported a profit of \$0.12 per share compared to a loss of \$0.29 in Q4 2001. Management indicated that they were pleasantly surprised by a sharp increase in lumber prices in the quarter as low interest rates and a strengthening U.S. economy led to strong construction demand. They also indicated that they are looking forward to better pulp market conditions in 2002. Production levels increased and productivity gains were achieved in the quarter. Based on these results, we believe that Canfor has made it through the trough of the commodity cycle.

As with many of our Value Favourites, Canfor is currently trading very close to book value and is yielding 2.3%. Although the Company's profitability is constrained by the countervailing and anti-dumping duties, strengthening pulp markets will help preserve profitability in the near-term. However, a resolution of the softwood lumber disagreement is needed before Canfor can return to historic levels of profitability. In the meantime, we believe that management made the correct decision to cut costs, improve efficiencies and curtail production. Once a stable trading arrangement with the United States is reached, Canfor has the capacity to ramp up production and generate solid earnings growth to the next peak of the cycle.

UPDATES

Amid difficult market conditions, Canfor announced a net loss of \$0.16 per common share in the third quarter of 2002 compared to net income of \$0.23 in the comparable period of 2001. The net loss of \$11.8 million included lumber export duty charges of \$35.8 million after tax. Net sales declined \$27.8 million from the second quarter to \$549.3 million due to falling lumber prices and lower pulp shipments. Despite the harsh impact of the punitive duties, the Board of Directors declared a quarterly dividend of \$0.065 per common share, which yields over 3.5% at current price levels.

In response to protectionist US policy, Canfor implemented a program designed to reduce costs, improve margins and generate \$150 million in tangible benefits by the fourth quarter of 2003. In addition to several projects that will "reduce energy consumption, increase value from raw material and improve productivity", Canfor was forced to announce a 5% reduction in its workforce. Hopefully, this will be accomplished through voluntary early retirement and attrition as opposed to outright layoffs.

Overall, we believe that management has taken the appropriate course of action by focusing on areas of the business that they can control. They have shown a commitment to continue to "meet the needs of the customer" and protect their market position. Although the softwood lumber dispute has dragged on much longer than we had anticipated, we believe that Canfor will become a more efficient and profitable producer because of it.

ABC Funds
November 1, 2002

Despite a weak global economy and \$107.6 million in duties paid on shipments to the United States, Canfor remained profitable in 2002. The Company generated net sales of \$2.1 billion, an increase of almost \$127 million from the previous year. However, earnings per share declined to \$0.07 in 2002 from \$0.27 in 2001, as higher volumes were unable to offset lower commodity prices. Canfor remains committed to its \$0.26 annualized dividend, which currently yields approximately 3.3%.

The anti-dumping and countervailing duties have forced the Company to implement an aggressive cost reduction and margin improvement program, as we described in our last comment. Management is targeting various projects with a high return on capital, creating permanent benefits to the bottom line. For example, the Company plans to close the Upper Fraser and Taylor sawmills in 2003 and complete \$40 million of capital upgrades at the Fort St. John and Prince George sawmills. By adding a third shift at each of these two mills, the Company expects to realize \$30 million in annualized benefits. Another initiative identified 12 projects that will cut the usage of natural gas, which is especially important given rising energy costs. Capital expenditures of \$8 million are expected to deliver annualized benefits of \$8 million. All told, Canfor is targeting a total of \$150 million in cost savings by the end of fiscal 2003.

Negotiations regarding the softwood lumber agreement continue to drag on. In late May, the World Trade Organization's interim decision supported Canada's position in the dispute. The WTO panel is expected to issue its final report in July 2003. The outcome of Canada's challenge under NAFTA is also highly anticipated. It is believed that NAFTA could rule that previously paid duties be returned to Canadian companies. Obviously, the situation is complex and highly politicized. However, we are optimistic that eventually the two sides will come to some sort of reasonable agreement.

ABC Funds
June 13, 2003

On November 25, 2003 Canfor announced an agreement to purchase all of the shares of Slocan Forest Products. Canfor offered 1.3147 shares in exchange for each Slocan share in a transaction valued at approximately \$630 million. Although the offer represented a 41% premium based on the previous day's closing prices, the deal was transacted at an attractive price relative to Canfor's market valuation.

The strategic benefits of the purchase are quite clear; the combined Company will be the second largest lumber producer in North America, next to Weyerhaeuser. It is expected that annual sales will be in excess of \$3 billion and total assets will be greater than \$3 billion. Management expects to benefit not only from economies of scale, but also annual synergies in the order of \$60 million. We believe that this transaction could just be the start of a round of consolidation in the forestry industry in Canada.

The takeout offer highlights our investment thesis on the sector. It is an out of favour and significantly undervalued industry in need of a catalyst. In this case, an astute acquisition surfaced value for shareholders. If and when a resolution of the softwood lumber dispute with the U.S. is reached, a significant negative overhang would be removed and valuations should improve further. Because the industry is still cheap, we are optimistic that patient investors will be rewarded.

ABC Funds
November 28, 2003

UPDATES (cont'd)

On March 25, shareholders of Slocan Forest Products voted in favour of the plan of arrangement providing for the Company's acquisition by Canfor. The combination became effective April 1, 2004 and the financial results will be consolidated in the second quarter report. We believe that despite the recent run in the stock, the market has yet to fully appreciate the potential of this combined entity. Besides the usual economies of scale and rising commodity prices, the \$60 million in projected synergies appears to be quite conservative.

On April 23, Canfor reported results for the first quarter of fiscal 2004 that were above most analysts' expectations. The Company generated \$92.4 million of EBITDA, almost triple the \$33.5 million of EBITDA last year. Operating income improved to \$62.4 million in the quarter compared to only \$3.1 million in the first quarter of 2003. On an earnings per share basis, Canfor earned \$0.34 compared to \$0.43 the previous year, which doesn't really tell the full story. In the current quarter Canfor had a \$6.0 million unrealized foreign exchange loss on long-term debt compared to a \$36.2 million gain a year ago. Looking past this non-operating item, we saw a real turn in the profitability in the quarter.

What drove this improvement? US dollar denominated lumber prices were 51% higher than in the same period in 2003 due to strong housing demand. Pulp prices were 23% higher as a recovering economy powered demand. Canfor's CRMI program (cost reduction/margin improvement) is now targeting annual savings of \$230 million compared to \$150 million at inception. As an example, productivity at the wood products division was 20% higher and conversion costs were 23% lower than the fourth quarter of 2003. Given the magnitude of improvement, we are optimistic that the forecast of \$60 million in synergies from Slocan will be revised upward.

Looking forward to the second quarter, Canfor should be "firing on all cylinders". Lumber prices (Western SPF 2x4) have increased to \$462 per thousand board feet compared to \$233 last year and pulp prices have increased to \$640 per tonne from \$558 a year ago. Combine better commodity prices, with continued cost cutting and the Slocan synergies, and Canfor's earnings for the second quarter could surprise many people. How good could they be? Earnings of \$1.00 per share would not be an unrealistic estimate. Finally, as the softwood lumber dispute swings in favour of Canada, the refund of duties paid will eventually become reflected in Canfor's share price.

ABC Funds
May 28, 2004

On October 28, Canfor reported record results for the third quarter; driven by higher lumber prices and a \$38.3 million gain on US denominated debt. The Company generated net income of \$201.6 million or \$1.40 per fully diluted share compared to \$143.6 million or \$1.00 per fully diluted share in the comparable quarter a year ago. Results were down slightly from the second quarter of fiscal 2004, as lumber prices declined late in the quarter and the Canadian dollar strengthened. Management suggested that the integration of Slocan is proceeding as planned and they expect to exceed \$85 million in synergies. The acquisition should be fully integrated by the second quarter of 2005.

We don't believe that Canfor's record earnings are sustainable in the long run since lumber prices have started to decline to more normal levels. However, the Company is taking advantage of the exceptional results to reduce debt and spend some cash on maintenance and equipment upgrades. Of note, Canfor announced the redemption of \$155 million of convertible subordinated debentures effective November 15, 2004. Approximately 11.7 million common shares will have to be issued if all holders convert to common stock. Although this may act as an overhang on the share price in the short run, Canfor intends to use a normal course issuer bid to purchase for cancellation up to 6.6 million shares. The share buyback will partially offset some of the dilution from the convertible redemption.

On the softwood lumber dispute, the United States has initiated an extraordinary challenge to the favourable (for Canadian producers) NAFTA ruling. Based on history, this challenge should be resolved by perhaps by mid-December. We then expect Canfor's shares to factor in the return of a large portion of the US \$467 million of duties paid to date. Analyst's estimates for 2005 would also have to be revised upwards to reflect the removal of the countervailing and anti-dumping duties.

ABC Funds
November 5, 2004

Strength in the housing sector has generated excellent results for Canfor Corporation in fiscal 2004. The Company earned \$421 million on sales of \$4.3 billion in 2004 compared to \$86 million on sales of \$2.7 billion in 2003. On a per share basis, Canfor earned \$3.22 in 2004 compared to \$0.92 in 2003. The vast improvement could be attributed to the Company's lumber operations, where sales increased 84% to \$2.9 billion and operating earnings swung to a profit of \$412 million from a loss of \$5 million. Unfortunately, with several capital projects on the go, the Board of Directors decided not to declare a dividend at this time.

UPDATES (cont'd)

Looking forward, existing home sales continue to set record highs despite constant fears of a slowdown, which has supported lumber and panel prices. The National Association of Realtors reported on May 24 that existing home sales rose 4.5% in April to a record seasonally adjusted annual rate of 6.28 million homes, up from 6.01 million in March. On a year over year basis, sales activity was 5% above the 5.98 million mark in April 2004. With the US 10 year T-Bill below 4% and 30-year fixed-rate mortgages available for roughly 6% in the United States, the Association is forecasting another record year. They are calling for existing home sales to rise 1.6% in 2005 to 6.89 million from 6.78 million in 2004. Obviously, these levels are very supportive for the lumber and panel industry.

We are heading into a period of seasonal strength for lumber and panel prices for three key reasons. First homebuilders are increasing their inventories in advance of the summer building season. Second, dry weather in British Columbia and the threat of forest fires raises concerns regarding availability. Finally, we are just about to enter hurricane season and any damage will bolster demand for lumber and panel products. For these reasons we look for the shares of Canfor to strengthen along with the commodities over the coming months.

ABC Funds
June 10, 2005

The legal wrangling continues as the softwood lumber dispute drags on. However, two recent developments have positive implications for the long-suffering industry.

First, the Canadian government announced an aid package worth almost \$1.5 billion. Approximately \$580 million was designated to support forest-dependent communities, market diversification and innovation. Tax breaks will save the industry more than \$100 million. Further, \$800 million in loan insurance and \$100 million in repayable cash contributions will backstop companies most affected by the punitive softwood lumber duties.

Second, the U.S. Department of Commerce announced that, after a second administrative review, the countervailing and anti-dumping duties would be effectively cut in half. The new combined rate falls to 10.8% and the changes are retroactive from April 1, 2003 to March 31, 2004 for the countervailing duty and from May 1, 2003 to April 30, 2004 for the anti-dumping duty. Despite the partial capitulation, it is unlikely that the Canadian industry would accept anything less than a full refund of the more than \$5 billion of duties that have been illegally collected.

Shares of lumber producers, such as Canfor, have rallied approximately 20% from their lows reached in late October. We expect the shares to remain buoyant through the spring, as the building season ramps up. Inventory buying by home builders could be particularly strong this year due to reconstruction efforts across hurricane damaged regions of the United States.

ABC Funds
December 9, 2005

Canfor has just reported operating and financial results for the fourth quarter and fiscal year 2005. As with many companies in the paper and forest sector, the results were negatively impacted by rising energy costs and continued strengthening of the Canadian dollar. In Canadian dollar terms, lumber prices were 16% lower, OSB prices were 20% lower and pulp prices were 9% lower than in 2004. Despite these factors, Canfor's results were within analyst's expectations.

Sales in fiscal 2005 were \$3.788 billion compared to \$3.925 billion in 2004 and earnings per fully diluted share were \$0.67 compared to \$3.22. On the conference call, management pointed to several operating issues that negatively affected the results. The list included downtime at Canfor's lowest cost facility, the Plateau sawmill, maintenance at several OSB facilities and the start up of the Fort St. John OSB mill, which had not yet achieved optimal production volumes. However, we were pleased to see that the Company was able to generate \$294 million of EBITDA for the year despite all the difficulties.

In addition to the quarterly report, Canfor announced a development consistent with its focus on wood products and building materials. The Company plans to transfer three pulp mills in Price George into an income trust. Canfor will then distribute 20% of the trust through a plan of arrangement to shareholders as a return of capital. According to the Company, assuming the full benefit of lower chip prices and the recently completed cogeneration plant, the trust's EBITDA would have been \$135 million in 2005. If you deduct capex and interest payments, cash available for distribution would have been approximately \$95 million. Canfor plans to distribute 85% to 95% of its distributable income to shareholders. Back of the envelope, if the trust yields between 9% and 10% it could be worth \$800 million to \$900 million. We will have greater confidence in the valuation once the prospectus is released prior to the special shareholders meeting in June.

ABC Funds
February 17, 2006

UPDATES (cont'd)

After four years, billions in anti-dumping and countervailing duties, arduous legal wrangling and several periods of false hope Canada and the United States have finally agreed in principle to a softwood lumber deal. The details of the complex settlement have been reported extensively in the press. Essentially Canada's market share will be capped at an average rate of 34%. Companies can choose between export charges or export charges combined with volume constraints. More importantly, 80% of the \$5 billion in duties paid by Canadian producers will be returned to these companies. The remaining \$1 billion that the US has collected will be shared 50-50 by the US government and the US Softwood Lumber Coalition. The fact that the US Softwood Lumber Coalition will be receiving \$500 million is upsetting to most Canadians and remains a dangling nerve to the Canadian side.

Canfor has paid almost \$6 per share of duties over the course of this dispute. Assuming they receive 80% of this amount at a 35% tax rate, CFP would receive almost \$3 per share. Canfor's stock price has already responded positively to this news and has appreciated approximately 30% from lows reached in October 2005. However, the timing of the cash repatriation is uncertain. Moreover, the meteoric rise of the Canadian dollar is damaging the profitability of the forestry sector. The housing industry could be at or close to the peak of the cycle. In consequence, we believe that much of the good news has been priced in while macro risks remain. Therefore, we have taken advantage of the buying interest after the settlement announcement and have sold our entire position in Canfor.

ABC Funds
April 28, 2006