



**Canfor Corporation**  
Annual Information Form

Information in this Annual Information Form  
is as of February 13, 2003 unless otherwise indicated.

## FINANCIAL HIGHLIGHTS

	2002	2001
<b>Sales and income</b> (millions of dollars)		
Net sales	\$ 2,112.3	\$ 1,985.7
Net income	11.5	26.4
<b>Cash flow</b> (millions of dollars)		
Cash flow from operations	\$ 144.4	\$ 118.8
<b>Per common share</b> (dollars)		
Net income – basic and diluted	\$ 0.07	\$ 0.27
Common shareholders' equity	10.27	10.35
<b>Financial position</b> (millions of dollars)		
Working capital <sup>1</sup>	\$ 273.2	\$ 344.4
Total assets	2,328.0	2,378.8
Long-term debt	643.4	714.7
Common shareholders' equity	953.9	960.5
<b>Additional information</b> <sup>4</sup>		
Return on capital employed	2.7%	3.5%
Return on assets	1.9%	2.6%
Return on common shareholders' equity	1.2%	2.8%
Ratio of current assets to current liabilities	1.7:1	2.0:1
Ratio of net debt to common shareholders' equity	41:59	43:57
EBITDA (millions of dollars) <sup>2</sup>	\$ 170.2	\$ 168.5
Capital expenditures (millions of dollars)	\$ 68.5	\$ 54.7
Number of employees at year-end <sup>3</sup>	5,618	5,813
Employment costs (millions of dollars) <sup>3</sup>	\$ 455.4	\$ 403.6

## QUARTERLY FINANCIAL INFORMATION

	2002				2001			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
<b>Sales and income</b> (millions of dollars)								
Net sales	\$505.9	\$577.0	\$548.9	\$480.5	\$481.6	\$511.2	\$535.3	\$457.6
Net income (loss)	11.1	70.2	(11.8)	(58.0)	18.8	10.1	19.6	(22.1)
<b>Per common share</b> (dollars)								
Net income (loss) – basic	0.12	0.85	(0.16)	(0.73)	0.22	0.11	0.23	(0.29)
Net income (loss) – diluted	0.12	0.75	(0.16)	(0.73)	0.21	0.11	0.21	(0.29)
Dividends paid	0.065	0.065	0.065	0.065	0.065	0.065	0.065	0.065

<sup>1</sup> Prior years' have been restated to conform to the 2002 presentation.

<sup>2</sup> EBITDA represents operating income plus amortization.

<sup>3</sup> Excludes Canfor Corporation's proportionate share of Howe Sound Pulp and Paper Limited Partnership.

<sup>4</sup> For additional information regarding definitions of financial terms, see the section of the Company's Annual Report entitled "Definitions of Selected Financial Terms," which are incorporated by reference herein.

Changes in Accounting Policy – for information regarding changes in accounting policy, see the section of the Company's Annual Report entitled "Notes to the Consolidated Financial Statements – Accounting Policies," which are incorporated by reference herein.

## FIVE YEAR SUMMARY

(millions of dollars)	2002	2001	2000	1999 <sup>2</sup>	1998
Net sales	\$ 2,112.3	\$ 1,985.7	\$ 2,265.9	\$ 1,741.2	\$ 1,424.7
Net income (loss) from continuing operations	11.5	26.4	125.6	106.9	(28.0)
Net income (loss)	11.5	26.4	125.6	102.6	(203.7)
Total assets	2,328.0	2,378.8	2,440.5	2,347.6	1,394.9
Net cash (short-term indebtedness)	22.9	30.2	(23.6)	72.6	114.1
Short-term bank loans	-	-	205.4	225.4	-
Long-term indebtedness <sup>1</sup>	694.8	767.4	450.5	471.8	504.9

(dollars per common share)

Net income (loss) from continuing operations					
- basic	\$ 0.07	\$ 0.27	\$ 1.50	\$ 1.75	\$ (0.48)
Net income (loss) from continuing operations					
- diluted	0.07	0.27	1.50	1.73	(0.48)
Net income (loss) – basic	0.07	0.27	1.50	1.68	(3.49)
Net income (loss) – diluted	0.07	0.27	1.36	1.66	(3.49)
Dividends paid	0.26	0.26	0.26	-	0.065

<sup>1</sup> Includes current portion.

<sup>2</sup> Includes the results of Northwood Inc. from November 23, 1999.

The following factors affect the comparability of the data in the above five-year summary of financial data.

### 2002

The softwood lumber trade dispute with the United States continued throughout the year, with Canfor incurring related expenses of \$116.5 million – \$107.6 million of combined countervailing duties (“CVD”) and anti-dumping duties (“ADD”) and \$8.9 million of legal and other costs incurred to support the position of Canfor and the Canadian lumber industry. Partially offsetting this was the reversal of \$45.8 million of combined CVD and ADD (recorded in 2001) due to a ruling by the International Trade Commission (“ITC”) that determined Canadian lumber shipments pose only a threat of injury to the U.S. industry.

A gain of \$11.4 million was recorded from the sale of the former Eburne sawmill property.

Included in net income are future income tax savings arising from Canfor’s share of the operating losses within the Howe Sound Pulp and Paper Limited Partnership. This generated savings of \$8.0 million of future income taxes in the year.

A provision of \$33.1 million was recorded to reflect the Company’s Cost Reduction / Margin Improvement (“CRMI”) Program, comprised of termination benefits totaling \$25.8 million and \$7.3 million for mill closure related costs. For additional information, see “Business of Canfor”.

### 2001

Canfor’s results were affected by \$52.9 million of expenses related to the softwood lumber trade dispute — \$39.3 million of CVD, \$6.4 million of ADD and \$7.2 million of legal and other costs.

Substantial market-related production curtailment in both the Wood Products and Pulp Products business segments reduced net sales.

The Government of the Province of British Columbia reduced the corporate tax rate by three per cent, which allowed Canfor to reflect a reduction of \$18.7 million of future income taxes. The phase out of the province’s general corporation capital tax reduced that tax by \$3.5 million in 2001. In March 2001, Howe Sound Pulp and Paper Limited (“HSPP”) was reorganized as Howe Sound Pulp and Paper Limited Partnership (the “Howe Sound Partnership”). Included in net income is \$6.3 million of future income tax savings arising from Canfor’s share of the operating losses within the Partnership.

The unusual item in 2001 was an insurance claim settlement of \$8.5 million in favour of Canfor for a fire in the Upper Fraser sawmill that occurred in 1997.

### 2000

There were no material factors in this period that would affect the comparability of the financial data.

### 1999

On November 23, 1999, Canfor completed the acquisition (the “Northwood Acquisition”) of 100 per cent of Northwood Inc. (“Northwood”) from The Mead Corporation (“Mead”) and Nexfor Inc. (“Nexfor”) for \$635 million, resulting in Northwood becoming a wholly-owned subsidiary. The principal assets of Northwood are located in the Prince George area of British Columbia and include four sawmills, a plywood mill, a wood-treating plant, a northern bleached softwood kraft (“NBSK”) pulp mill, two whole-log chipping facilities and long-term forest tenures with a combined allowable annual cut of approximately 3.4 million cubic metres. The aggregate purchase price consisted of cash in the amount of \$480 million and an aggregate of \$155 million principal amount of Convertible Subordinated Debentures issued to the vendors. The results of the Northwood operations have been consolidated with Canfor’s annual results since the closing date of the acquisition.

On December 31, 1999, Canfor sold its investment in Canwel Distribution Ltd. (“CanWel”), a building materials distribution company owned equally with Weldwood of Canada Limited, for net proceeds to Canfor of \$6.9 million and realized a loss of \$3.4 million on the sale.

## 1998

During the year, Canfor undertook a number of actions to restructure and improve profitability. Canfor determined that it would not recover its investment in HSPP and wrote off its share of the joint venture's capital assets to the extent of the value of its investment, resulting in a charge of \$145.9 million, after tax, against income. In the year, Canfor also underwent a major review of administrative services giving rise to significant severance costs due to staff reductions. Provision was made for plant closure costs relating to the closure of Canfor's Netherlands Sawmill, which occurred in March 1999. Other unusual items included a gain from the sale of Canfor's lumber remanufacturing operation at Meridian, Idaho, which was partially offset by a loss on the sale of Balfour Timber Limited. The total cost of these restructuring activities was \$181.4 million, before tax.

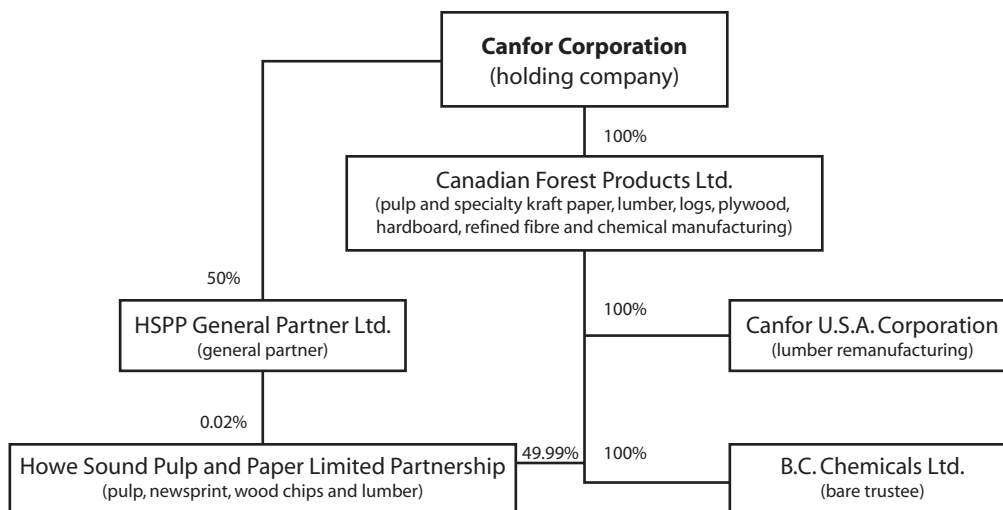
## INCORPORATION

Canfor Corporation (the "Company") was incorporated on May 17, 1966, under the British Columbia Company Act as part of a reorganization of predecessors of the Canfor group of companies, the first of which commenced operations in 1938. In July 1983, Canfor became a public company and the Common Shares of the Company are listed and traded on The Toronto Stock Exchange.

The registered and principal office of the Company is located at 1500-550 Burrard Street, Vancouver, British Columbia. In this Annual Information Form, Canfor Corporation is referred to as the "Company" and, unless otherwise indicated by the context, "Canfor" refers to the Company and its subsidiaries.

## CORPORATE STRUCTURE

The following chart shows the Company's material subsidiaries and its interest in Howe Sound Partnership, their primary products or activities and the percentage of voting securities or ownership held. All of these companies are constituted under the "Company Act" of British Columbia, except Canfor U.S.A. Corporation, which is constituted under the Washington Business Corporation Act and Howe Sound Partnership which is constituted under the Partnership Act of British Columbia.



Canfor completed the acquisition of all the shares of Northwood on November 23, 1999, holding Northwood as a wholly owned subsidiary of the Company until the year end. On January 1, 2000, Northwood was amalgamated with Canadian Forest Products Ltd. and on March 10, 2001 that company was amalgamated with HSPP, the continuing entity being called Canadian Forest Products Ltd. ("CFP"). Unless otherwise stated in this Annual Information Form, the results of the Northwood operations have been included in the Company's financial information since the date of their acquisition on November 23, 1999.

In addition, Canfor has a minority interest in Seaboard Shipping Company Limited ("Seaboard Shipping"). Seaboard Shipping, which is owned by a group of British Columbia forest products companies including Canfor, ships Canfor's lumber to overseas customers.

The Company, through a wholly owned holding company, holds a one-third interest in each of Lakeland Mills Ltd. ("Lakeland") and The Pas Lumber Company Ltd. ("The Pas"). Lakeland and The Pas operate sawmills in the Prince George region of British Columbia and sell their wood chips to Canfor's Prince George pulp and paper operations.

Canfor's 50 per cent interest in HSPP was written off in 1998 after management of the Company determined that Canfor would not recover its investment in HSPP. As a result of this write-off, Canfor no longer accounts for its interest in Howe Sound Partnership. See "Howe Sound Pulp and Paper Limited Partnership".

Prior to the Northwood Acquisition, B.C. Chemicals Ltd. was owned equally by Canfor and Northwood. The acquisition and subsequent amalgamation of Northwood and Canadian Forest Products Ltd. resulted in B.C. Chemicals Ltd. becoming a wholly owned subsidiary of CFP. As of January 1, 2001, B.C. Chemicals Ltd.'s operations were transferred to CFP. B.C. Chemicals Ltd. continues to hold land and buildings as a trustee for CFP.

## **BUSINESS OF CANFOR**

### ***General Development***

Canfor is a Canadian integrated forest products company based in Vancouver, British Columbia, employing approximately 5,600 people in its wholly owned forest products and affiliate operations (excluding Howe Sound Partnership). Canfor is one of the largest softwood lumber and kraft market pulp producers in North America. Canfor holds rights to extensive timber resources and conducts logging at its forest operations to provide raw material for processing at its manufacturing plants in British Columbia and northern Alberta. It also operates a plywood mill in northern British Columbia and a lumber remanufacturing plant in Washington State. The major products of Canfor and its affiliates are lumber, pulp, specialty kraft paper, newsprint, plywood, hardboard and logs. Canfor's products are exported primarily to the United States, Europe and the Far East. Canfor maintains wood products sales offices in Vancouver and Toronto, Canada and Tokyo, Japan, pulp and paper sales offices in Vancouver, Canada; Brussels, Belgium; and Tokyo, Japan and is represented by sales agents serving various other markets around the world.

Since the beginning of 1998, Canfor has initiated a major transformation of its business. Motivated by a primary goal of maximizing shareholder value, Canfor has vigorously pursued a three-part strategy of:

- focusing on core business strengths that will support strong and sustainable profitability in a competitive market place;
- overhauling operating profitability to require each strategic business group to exceed demanding targets for return on capital employed; and
- implementing an active program of mergers, acquisitions and divestitures to accelerate the realization of strategic and shareholder value objectives.

During the past five years, Canfor has invested \$635 million in corporate acquisitions and strategic alliances, \$404.6 million in capital expenditures and \$20.1 million in research and development. In addition, Canfor has added new products and rationalized some of its operations. The thrust of these activities has been to:

- diversify Canfor's production base through the introduction of new products;
- increase productive capacity, improve product quality, improve production efficiency, increase yield, improve product mix and reduce operating costs at Canfor's mills;
- improve the environmental performance of its operations;
- form strategic alliances to ensure the supply of fibre to its mills; and
- focus on its core businesses to improve overall profitability.

The most significant of these activities over the past five years have been the following:

- From 1998 to 2002, Canfor undertook restructuring actions to reduce its administrative costs, to write off an unprofitable joint venture investment, to close operations that were unprofitable or had insufficient fibre supply and to divest non-core businesses. Specifically, Canfor took the following actions regarding assets and operations not considered to be fundamental to Canfor's core strategic business units:
  - Closed its Eburne sawmill in Vancouver and placed the land for sale (subsequently sold in 2002);
  - Sold its remanufacturing operation in Meridian, Idaho;
  - Sold Balfour Timber Limited, its lumber trading and distribution subsidiary in the United Kingdom;
  - Closed its Netherlands sawmill and Northern Specialty Products operations in Prince George;
  - Wrote off its 50 per cent interest in HSPP; and
  - Sold its proprietary technology regarding phytosterol extraction.
- In May 1999, Canfor formed a joint marketing company with Georgia-Pacific Corporation for the sale and marketing of market pulp and other pulp and paper products in Japan.
- In November 1999, Canfor acquired from Nexfor and Mead all of the outstanding shares of Northwood for \$635 million.
- In December 1999, Canfor and Weldwood of Canada Limited sold CanWel, their jointly owned wholesale building materials distribution company, for total net proceeds to Canfor of \$6.9 million.
- In December 2000, a subsidiary company of Canfor was incorporated under the name Genus Resource Management Technologies Inc. ("Genus") to develop Canfor's integrated resource management technologies. The software assets and employees relating to the new company were transferred to the subsidiary during 2001.
- In March 2001, Canfor and Oji Paper Co., Ltd. ("Oji Paper") of Japan, its 50 per cent co-venturer in HSPP, reorganized the joint venture as a limited partnership which continues to carry on the operations. See "Howe Sound Pulp and Paper Limited Partnership".
- In October 2002, Canfor announced the CRMI Program with a target to achieve \$150 million in annualized benefits by the fourth quarter of 2003. For additional information regarding the CRMI Program, see the section of the Company's Annual Report entitled "Management's Discussion and Analysis – Overview of 2002", which are incorporated by reference herein.
- In January 2003, Canfor announced the closure of two of its sawmills located in northern B.C. The Upper Fraser and Taylor sawmills will be closed during the third quarter of 2003. For additional information, see "Wood Products".

### ***Trends, Events and Uncertainties***

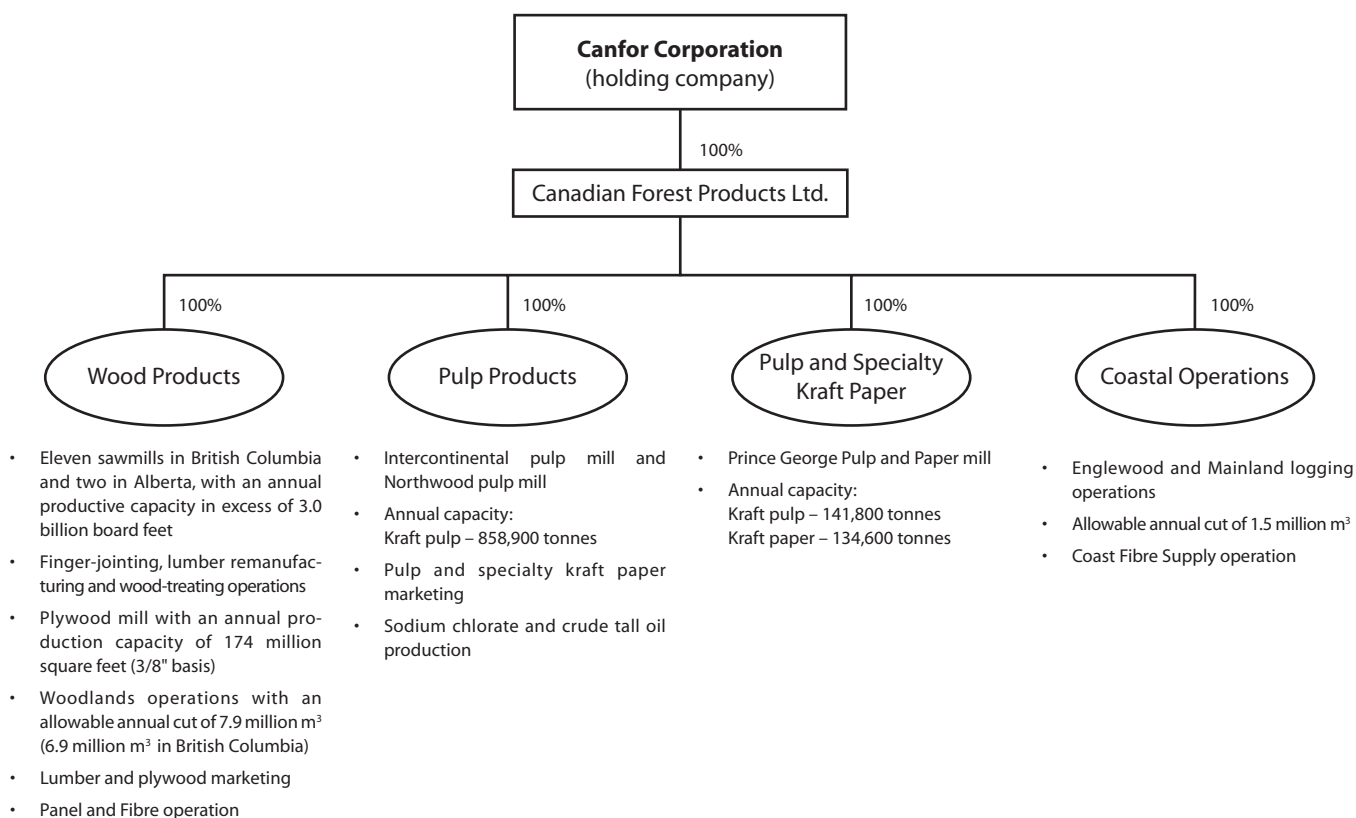
For additional information regarding changes to the Company's business expected in 2003 and known trends, commitments, events or uncertainties, see the section of the Company's Annual Report entitled "Management's Discussion and Analysis of Financial Condition and Results

of Operations”, in particular, the “Outlook” and “Risks and Uncertainties” portions thereof, which are incorporated by reference herein.

### Business Segments

Canfor’s operations can be divided into four wholly owned business segments: Wood Products; Pulp Products; Pulp and Specialty Kraft Paper and Coastal Operations. Canfor also manages woodlands operations to provide the wood fibre requirements of its manufacturing operations.

The following chart outlines Canfor’s wholly owned business segments and their respective principal operations:



The following table sets forth, by business segment, Canfor’s net sales revenues from its wholly owned operations for the last two years:

(millions of dollars)	Year ended December 31	
	2002	2001
Wood Products	\$ 1,348.1	\$ 1,192.1
Pulp Products	466.6	499.5
Pulp and Specialty Kraft Paper	175.0	177.2
Coastal Operations	122.6	116.9
<b>Total sales</b>	<b>\$ 2,112.3</b>	<b>\$ 1,985.7<sup>1</sup></b>

<sup>1</sup> Prior years’ have been restated to conform to the 2002 presentation.

The following table indicates the composition of Canfor’s consolidated net sales revenues by market for the last two years:

	Year ended December 31	
	2002	2001
Canada	20	21
United States	57	55
Europe	10	11
Far East and other	13	13
<b>Total</b>	<b>100%</b>	<b>100%</b>

## WOOD SUPPLY

### Timber Resources

Canfor harvests timber in British Columbia and northern Alberta, and has a total allowable annual cut of 9.4 million cubic metres. This fibre base is one of the largest in Western Canada. Wood fibre requirements are also met by open market purchases and exchanges on either a spot or contract basis. Canfor holds several types of forest tenures in the province of British Columbia and Alberta, which permit the harvesting of Crown timber.

The following table sets forth Canfor's timber resources as at December 31, 2002:

	Productive Area (hectares)	Allowable Annual Cut (cubic metres)
<b>British Columbia</b>		
Tenures having regulated sustained yields		
Area-based – Tree Farm Licences <sup>1</sup>	883,743	1,819,874
Volume-based – Forest Licences (replaceable)	N/A	6,205,591
– Forest Licences (non-replaceable)	N/A	250,478
Tenures without regulated sustained yields		
Timber Licences <sup>2</sup>	2,200	120,000
Crown Granted Land (fee simple) <sup>3</sup>	1,768	N/A
<b>Alberta</b>		
Tenures having regulated sustained yields		
Forest Management Agreement	331,187	730,000
Timber Quotas	N/A	253,425
<b>Total</b>	<b>1,218,898</b>	<b>9,379,368</b>

<sup>1</sup> Comprised of TFL 37 (Englewood), TFL 48 (Chetwynd) and TFL 30 (McGregor).

<sup>2</sup> Total inventory volume of 836,500 cubic metres to be depleted over the next eight years.

<sup>3</sup> Total inventory volume of 263,500 cubic metres to be harvested as needed.

Note: N/A denotes Not Applicable.

In addition, Canfor augments its company-owned tenures through contractual rights to purchase approximately 320,000 cubic metres of logs annually by way of business relationships with First Nations.

The Province of British Columbia owns approximately 95 per cent of all timberlands in the province. Pursuant to the provisions of the Forest Act (British Columbia) ("Forest Act"), the Minister of Forests (the "Minister") is empowered to grant various forms of tenure and to regulate forestry operations. A Tree Farm Licence ("TFL") may be granted to a licensee who undertakes to manage an area of Crown forestland, often in combination with other forestland held by the licensee, to yield an annual cut on a regulated sustained yield basis. TFL's are granted for a 25-year term and, subject to satisfactory levels of performance, will be replaced every five years with a new TFL having a 25-year term. Canfor's TFL 30 (McGregor) and TFL 37 (Englewood), were replaced in 2000, for a further 25-year period. Canfor's TFL 48 (Chetwynd) was replaced in 1998 for a further 25-year period.

The other major forms of tenure under which Canfor operates in British Columbia are Forest Licences and Timber Licences. Forest Licences are the standard volume-based tenure throughout the province and generally provide for 15-year terms. These licences may be replaced every five years for further 15-year terms, subject to satisfactory levels of performance. Canfor holds 12 Forest Licences, 11 of which were replaced in 1998, and the other in 1999. Canfor also holds one non-replaceable Forest Licence expiring in 2011. Timber Licences are a non-renewable form of tenure, which the licensee surrenders to the Crown after the timber, to which the licence applies, has been harvested and silviculture obligations have been fulfilled. In addition, under three Pulpwood Agreements with the Province of British Columbia, Canfor has the right to harvest pulpwood, if necessary, to supply the requirements of its three pulp mills at Prince George. Pulpwood Agreement No. 1 was replaced during 1993, expires in 2018 and is not replaceable under the Forest Act. Pulpwood Agreement No. 7 was replaced in January 1997, expires in 2022 and is also not replaceable under the Forest Act. Canfor's Pulpwood Agreement No. 3 was replaced in August 1995, expires in 2020 and is also not replaceable. Canfor has accepted these replacements, while protesting the loss of the rights to future replacements. Canfor has not needed to access timber under these or their predecessor agreements since 1976 but is continuing to discuss with the Ministry of Forests the process for exercising its rights under these agreements should the need arise in the future, as well as the possibility of their future replacement.

Under Forest Licences and TFL's an allowable annual cut ("AAC") is determined. The actual cut in any one year may be increased or decreased by Canfor by up to 50 per cent of the AAC provided that the actual cut over a five-year period is within 10 per cent of the aggregate AAC for that period.

In 1997, Canfor evaluated the impact of the Vancouver Island Land Use Plan and the Forest Practices Code of British Columbia through a timber supply analysis, as part of the Management Plan for TFL 37 (Englewood). Growth and yield data, which was incorporated into the analysis, indicated a positive effect on the long-term harvest level. The analysis indicated that a stable harvest forecast with sufficient flexibility to accommodate some degree of uncertainty associated with evolving land use planning could be achieved. The Provincial Chief Forester approved the Management Plan and determined that the AAC would remain unchanged at 1,068,000 cubic metres. This AAC included 43,184 cubic metres administered under the provincial Small Business Forest Enterprise Program ("SBFEP"). The Management Plan for TFL 37 (Englewood) is for a five-year term from January 1, 1999 to December 31, 2003. In 2002, the Government of the Province of British Columbia enacted legislation that

allows the Chief Forester to offer AAC extensions to those TFL's possessing a proven record of good management and a stable harvest forecast. Notification of the extension of the current AAC for TFL 37 (Englewood) through to 2006 is expected in early 2003.

In 1996, the Provincial Chief Forester approved a new AAC of 514,000 cubic metres for TFL 48 (Chetwynd). The approval represented a 12 per cent increase in the coniferous harvest level and included 54,000 cubic metres in annual deciduous cut. In 2001, the AAC for TFL 48 (Chetwynd) was raised to 580,000 cubic metres based on a comprehensive analysis of updated resource information. The new AAC represents an increase of 66,000 cubic metres (or 11 per cent) in coniferous annual cut from the previous AAC.

To improve administrative efficiencies associated with harvest scheduling, Canfor also entered into a Memorandum of Agreement with Louisiana-Pacific ("LP") to manage 55,000 cubic metres of deciduous AAC identified in the new AAC determination. With the purchase of LP's Chetwynd assets by Tembec Inc. in 2002, a replacement document is currently under negotiation.

Prior to the Northwood Acquisition, in 1995, the Provincial Chief Forester approved a new AAC of 350,000 cubic metres for TFL 30 (McGregor) of which 328,620 cubic metres are allocated to Canfor. The new AAC represented a decrease in annual harvest of 57,000 cubic metres, or 14 per cent from the previous AAC. Currently, Canfor's foresters are developing management strategies to stabilize the harvest rate at the present level for the next ten years. Canfor expects to receive final approval of the AAC for TFL 30 (McGregor) in early 2003.

As part of the provincial Timber Supply Review, the British Columbia Forest Service has examined the availability of timber in many of the Timber Supply Areas ("TSA's") within which Canfor operates. The analysis assesses how current forest management practices affect the supply of wood available for harvesting over both the short-term (next 20 years) and the long-term (next 250 years).

In 1996, the non-declining coniferous harvest level determined for the Fort St. John TSA proved to be significantly higher (12 per cent) than the previous AAC. The new AAC represented a 24 per cent increase from the previous coniferous AAC. The large inventory of merchantable forest stands available for harvest promotes highly stable wood flow volumes from the area for the next 200 years and therefore consistent AAC levels for Forest Licences within that TSA. It is expected a similar determination will provide for an additional AAC increase of 100,000 cubic metres for the Fort St. John TSA in 2003.

In 2001, a new harvest supply analysis of the Prince George TSA indicated a stable harvest level of 9,073,661 cubic metres could be maintained for the next 170 years, including a downward adjustment to account for the effects of the hemlock "looper" (a forest pest) on cedar and hemlock stands. A further adjustment was made in 2001 to the AAC for the Lakes TSA to help control and combat the mountain pine beetle in the southern portion of the TSA. The AAC is 2,962,000 cubic metres, representing a 50 per cent increase over the previous AAC for the area.

The Forest Act provides that, unless the consent of the Minister is obtained in connection with a change of control of a holder of a Crown timber tenure or a transfer of a tenure by a holder, the Minister may cancel all Crown timber tenures of such holder without compensation or may deem consent to have been given and impose a range of requirements and conditions. Transfers of tenures to affiliates of holders do not require ministerial consent. In considering whether to grant his consent, the Minister reviews the transaction to consider whether or not the proposed change would be in the public interest. Various other factors that may be considered in determining whether to approve a change in control of a tenure holder or transfer of a tenure include: the degree of regional corporate concentration of harvesting rights; the effect on the competitive market for wood fibre; and the effect on the level of structural diversity in the provincial or regional forest industry.

On November 10, 1999, the Minister approved-in-principle the acquisition by Canfor of all the shares of Northwood. As a condition of approving any change of control, the Minister is required by the Forest Act to automatically impose a five per cent reduction in the AAC of Northwood's Crown timber tenures. The Forest Act also provides an opportunity for the tenure holder to apply to the Minister to have the AAC of the transferred tenures increased by the mandatory five per cent reduction upon acceptance by the Minister of a job creation plan. To regain the five per cent, Canfor submitted job-creation plans to meet the provincial government's regional social and economic goals. The Minister approved these plans and reinstated 133,492 cubic metres of AAC, or approximately four per cent of Northwood's former AAC.

In northern Alberta, Canfor has a Forest Management Agreement under which it undertakes to manage an area of Crown forestland. This Forest Management Agreement was renewed in 1999 for a 20-year period. The Province of Alberta also grants Timber Quotas having terms of 20-years and containing provisions for renewal. These quotas are intended to provide a continuous supply of timber in perpetuity. Canfor has four such Timber Quotas, two of which are scheduled for renewal in 2006 with the others due for renewal in 2010 and 2014 respectively.

Canfor's regulated sustained yield tenures in Alberta specify an annual allowable cut and an aggregate allowable cut over a five-year period. The actual cut during each five-year period must be at least 60 per cent of the aggregate specified for that period for the tenure to remain in good standing. Canfor would be subject to significant levies if its production were to exceed 110 per cent of the aggregate allowable cut for that period.

Canfor is in substantial compliance with the harvesting terms of its tenure agreements in British Columbia and Alberta.

In late 1997, Canfor purchased a 5,700 hectare tract of idle agricultural land near Chetwynd, British Columbia. In 1998, this property was transferred to the Province of British Columbia. In return, the province added the land to Canfor's TFL 48 (Chetwynd), leading to an AAC increase for TFL 48 (Chetwynd) of 15,000 cubic metres per year in 2001.

In 1998, Canfor's Chetwynd operation and the West Moberly First Nation were jointly offered a 20-year non-replaceable Forest Licence with an AAC of 100,000 cubic metres in the Dawson Creek TSA. Canfor's Fort St. John operation and the West Moberly First Nation were also offered a 20-year non-replaceable Forest Licence with an AAC of 150,000 cubic metres in the Fort St. John TSA. The awarding of these licences is conditional upon Canfor adding to its sawmilling capacity in the region, forming a partnership with the West Moberly First Nation for the forest management of these licences and forming alliances to supply lumber to secondary manufacturers in the region.

During 1999, Canfor approved a capital investment program to modernize and increase the mill capacity for the Chetwynd sawmill. The Chetwynd mill expansion was completed in 2000. Canfor is also in the process of arranging to meet similar conditions for the Fort St. John

sawmill. In 2001, Canfor negotiated joint venture agreements with the West Moberly First Nation for both licences. The issuance of the forest licence documents by the provincial government is scheduled for early 2003.

Within the Fort St. John TSA, Canfor reached a 2001 agreement with Cameron River Logging Ltd. to manage a 15-year non-replaceable forest licence with a coniferous AAC of 70,000 cubic metres. In 2002, negotiations were initiated with Tembec Inc. towards an agreement to manage a 20-year non-replaceable forest licence with a coniferous AAC of 83,494 cubic metres.

The mountain pine beetle currently poses a significant threat to the lodgepole pine forests of British Columbia. Lodgepole pine accounts for 25 per cent of the total timber volumes harvested in British Columbia and 50 per cent of the total timber volumes harvested by Canfor in the Prince George Region. The present outbreak covers over nine million hectares of land or ten per cent of the province's land base. This is an increase of 28 per cent from the area infected in 2001.

The epidemic is causing the Company to redirect planned timber development over the next five years to prevent both short-term and long-term losses in AAC. In 2002, the government approved the carry forward of 1.7 million cubic metres of undercut forest licence volume within the Prince George Region. The undercut carry forward volume will be used to support Canfor's aggressive targeting of high priority mountain pine beetle infested timber for harvest during the 2002–2006 cut control period.

Canfor is also working with the Ministry of Forests, the Canadian Forest Service and other operators in the region to implement a federal / provincial program to combat these destructive forest pests.

### **Aboriginal Issues**

In 1997, the Supreme Court of Canada in the *Delgamuukw* decision confirmed the continued existence of aboriginal title and rights to lands continuously used or occupied by aboriginal groups. As a result, aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Canfor's forest tenures are situated. This decision has added to uncertainty regarding property rights in Canada (including forest tenure and other resource rights), particularly in much of British Columbia and other areas where treaties have not been concluded with aboriginal groups. Due to the complexity of aboriginal title issues, we do not expect the issues of aboriginal title in British Columbia to be resolved in the near future.

For additional information regarding aboriginal issues, see the section of the Company's Annual Report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", in particular the "Risks and Uncertainties – Aboriginal Issues" portions thereof, which are incorporated by reference herein.

### **Forest Management**

Canfor is responsible for all aspects of forest management on the lands subject to its TFL's in British Columbia. In Alberta, Canfor is responsible for all aspects of forest management on the lands covered by its Forest Management Agreements except forest fire protection, which is a responsibility of the Province of Alberta. The lands held under TFL's, Forest Management Agreements, Forest Licences and Timber Quotas are managed on a sustained yield basis whereby the volume of timber harvested is regulated according to the productive capacity of the land and the inventory of mature timber available for harvest. In both British Columbia and Alberta, Canfor is responsible for reforestation of areas logged on all of its sustained yield tenures as well as on Timber Licences. The overall management of forestlands held under Forest Licences, Timber Quotas and Timber Licences is the responsibility of the respective Forest Services of British Columbia and Alberta.

In 1995, the Forest Practices Code of British Columbia Act (the "Code") was proclaimed into law. The Code, with its accompanying regulations, standards and guidebooks, introduced significant cost impacts on the British Columbia forest industry. The average cost of harvesting Crown timber in British Columbia, including stumpage, almost doubled between 1992 and 1997. After a number of years of consultation with the B.C. forest industry, in November 2002 the Government of the Province of British Columbia introduced legislation to bring into force the Forest and Range Practices Act, which is designed to initiate the development of a results-based regulatory regime. In December 2002, amendments to the existing Forest Practices Code were put into effect to provide companies with immediate relief from certain regulatory burdens that had been previously imposed through changes in government policies, increased stumpage rates and a decreased timber supply and to accelerate the transition to the full implementation of the new Forest and Range Practices Act by April 2005.

In 1999, Canfor initiated negotiations with the Government of the Province of British Columbia to implement a series of pilot projects that would test alternative means of enhancing the efficiency of public sector regulation of forest practices. In January 2002, the Fort St. John Pilot Project Regulation was enacted effective December 1, 2001. This project is co-sponsored by Canfor, the Ministry of Forests and two other licencees within the Fort St. John TSA. The pilot project is designed to test the cost effectiveness of regulatory change in the progression towards the Forest and Range Practices Act in B.C. that incorporates international standards and local measures of performance.

Canfor carries out its forest management responsibilities through a full-time staff of 90 registered professional foresters and biologists, as well as additional professional staff on part-time and contract basis. This forestry staff is engaged in supervising aspects of forest development including planning, road development, harvesting methods and forest protection, and in research and development programs to increase the yield of its forestlands and improve the quality of its timber resources. Canfor operates, directly or under contract, seed orchards for the genetic improvement of forest seed at Sechelt and Vernon, British Columbia, and at Grande Prairie, Alberta.

Canfor's forestry staff supervises the reforestation of all harvested areas, which, in 2002, involved the planting of 35.5 million seedlings on 25,649 hectares. This compares to 26,760 hectares harvested during 2002.

Canfor maintains a corporate web site, which is accessible to the public via the Internet address [www.canfor.com](http://www.canfor.com). The web site provides comprehensive information on Canfor's operations and products.

During 1999, a new and comprehensive Environment Policy replaced Canfor's Environmental Policy and Forest Stewardship Policy. The Environment Policy expresses Canfor's commitment to responsible stewardship of the environment throughout its operations and describes how this commitment will be met.

In December 1999, Canfor received certification for all of CFP's forest operations under the International Organization of Standardization ("ISO") Environmental Management System Standard (ISO 14001). This Standard is an internationally recognized standard for environmental management systems that provides a framework to manage environmental risks and improve performance. Canfor's registration under ISO 14001 followed an extensive independent audit of its forest operations and, at the time, represented the largest area of managed forestlands to achieve this registration in North America. In December 2000, Canfor completed the certification of the former Northwood forest operations to the ISO 14001 standard. Approximately 7.5 million hectares of forestlands are now certified.

In September 2000, Canfor announced the certification of approximately 1.5 million hectares of forestlands under the Canadian Standards Association ("CSA") Sustainable Forest Management Standard CAN/CSA Z809-96. This Standard is Canada's national standard for sustainable forest management. The achievement represented the largest area of managed forestlands in Canada to be CSA certified at the time. In June 2001, Canfor completed the certification of 0.2 million hectares of additional forestlands under the CSA standard CAN/CSA Z809-96, bringing the total hectares under certification to 1.7 million.

In 2002, the Government of the Province of British Columbia established the Forest Investment Account ("FIA"). FIA is a new provincial government mechanism for promoting sustainable forest management in British Columbia. The program is founded upon an annual vote of the legislature authorizing the Ministry of Forests to provide funding for certain forest management activities. In June 2002, Canfor entered into an agreement with the Government under which the Government will fund \$13.4 million for land based investments across British Columbia. Canfor is responsible for the implementation and delivery of these investments within this program.

In 2002, Canfor achieved certification of its Grande Prairie, Alberta sawmill to the CSA Chain of Custody for Forest Products. This program charts the progress of forest products from their point of origin, being the certified forest area, through all stages of the manufacturing process, to the point at which they are delivered to the customer. The certification is one of the first of its kind in Canada and is the first time a forest company has applied the CSA Sustainable Forest management mark to the packaging of its products.

In October 2002, Canfor announced the certification of 3.4 million hectares of forest operations in the Prince George area to the Sustainable Forestry Initiative ("SFI") Standard of sustainable forestry. The achievement represents the first SFI certification for Canfor and the largest, by area, in Canada.

In total, Canfor now has 63 per cent of its tenure area governed by certified Sustainable Forest Management Plans, which includes 73 per cent of its annual harvest volume.

### Wood Fibre Supply

The wood fibre supply for Canfor's and Howe Sound Partnership's wood products and pulp and paper operations is obtained by logging on Canfor's forest tenures and purchasing logs, chips and waste materials from the manufacture of wood products. Logs are purchased from other tenure holders and from farmers, aboriginal groups and other private landholders. Chips and waste materials are purchased from sawmillers and other wood products producers. Often, Canfor trades logs with these sawmillers and other wood products producers, receiving chips and waste materials in exchange.

The following table sets forth the volume of wood fibre produced and purchased, the volume of wood fibre consumed in Canfor's and Howe Sound Partnership's mills, and the volume of wood fibre sold to other wood fibre consumers for the last two years:

(thousands of cubic metres)	Year ended December 31	
	2002	2001
<b>Production from timber tenures</b>		
Coastal British Columbia	1,335	1,212
Northern Interior of British Columbia	8,170	6,988
Northern Alberta	889	804
<b>Total production</b>	<b>10,394</b>	9,004
<b>Purchases</b>		
Logs	2,792	1,963
Chips <sup>1</sup>	4,231	3,844
<b>Total purchases</b>	<b>7,023</b>	5,807
<b>Total production and purchases</b>	<b>17,417</b>	14,811
<b>Trades and sales</b>		
Logs <sup>2</sup>	1,463	1,148
Chips <sup>3</sup>	343	298
<b>Total traded and sales</b>	<b>1,806</b>	1,446
<b>Total available for conversion into finished goods</b>	<b>15,611</b>	13,365
<b>Total converted by Canfor and Howe Sound Partnership into finished goods</b>	<b>15,796</b>	13,697

<sup>1</sup> Included in chip purchases are 437,248 cubic metres (2001 – 427,066 cubic metres) purchased from Lakeland and The Pas, in which Canfor owns a one third interest.

<sup>2</sup> These sales are primarily coastal logs that are traded to obtain chips and waste materials.

<sup>3</sup> Included in chip sales are 342,769 cubic metres (2001 – 298,074 cubic metres) of chips sold by the Alberta operations where Canfor does not have a pulp mill.

Note: Waste materials used for fuel and hardboard furnish are excluded from this table because of the difficulty in determining a reasonable conversion factor to solid wood equivalent.

Canfor's two whole-log chipping facilities have available capacity to supplement its supply of sawmill residual chips. The chipping facilities are capable of producing 325,000 oven-dried tonnes of chips annually.

Historically, Canfor has competed successfully for the chips required that cannot be supplied by Canfor's own sawmills and timber tenures and sees no reason that this will change.

### **First Nations Business Relationships**

Canfor is a party to various business relationships with aboriginal groups, which collectively provide direct and indirect contractual access to an aggregate AAC of approximately 320,000 m<sup>3</sup>. Canfor has a 49 per cent ownership in an unincorporated joint venture with the Moricetown Indian Band in the Kyahwood Forest Products Joint Venture, which is a value-added finger-joint stud, lumber and fascia plant located in Moricetown, British Columbia. Canfor's Wood Products Marketing group markets the Kyahwood production. Canfor also provides raw materials to the Lheidli T'enneh Band which operates Chunzoohl Forest Products, a roofing shake plant located in Shelley, 15 kilometres north of Prince George, British Columbia.

Canfor owns a 22 per cent interest in Takla Track & Timber Ltd. ("TTT") entitling Canfor to its proportionate share of the annual harvest from Forest Licences held by TTT in the Prince George region. The operations on TTT's Forest Licences are managed through an agreement with Takla Forest Management Ltd. ("TFML"), a separate company owned by the shareholders of TTT for the purposes of managing TTT's Forest Licences.

Canfor established an alliance with the Tl'azt'en Nation of Tache, British Columbia in 1996, to increase the volume of logs available to its sawmills and pulp mills. Canfor currently provides assistance to the Tl'azt'en Nation in the operation of their TFL. In return, Canfor has access to the production from the TFL.

Canfor's Chetwynd and Fort St. John operations and the West Moberly First Nation have been jointly offered 20-year non-replaceable Forest Licences in the Dawson Creek and the Fort St. John TSA's. Joint venture agreements have been concluded which will allow the provincial government to issue the licences in early 2003.

### **WOOD PRODUCTS**

Canfor currently operates eleven sawmills and a plywood mill in the northern interior of British Columbia and two sawmills in Alberta. These sawmills have the annual capacity to produce over three billion board feet of lumber, on the basis of two shifts per day at nine sawmills and three shifts per day at four sawmills and 250 operating days per year, ranking Canfor as one of the largest softwood lumber producers in North America. As previously mentioned under "Business of Canfor", the Upper Fraser and Taylor sawmills will be closed during the third quarter of 2003. A capital investment of \$40 million to upgrade the Fort St. John and Prince George sawmills will allow these operations to move from two to three shifts a day. It is expected that this increase in production will more than offset the lost production from the mill closures. The Wood Products segment also includes the Panel and Fibre operation, located in New Westminster, British Columbia, which was previously reported in the Coastal Operations segment.

Wood chips are produced from the portion of each log not converted into lumber and these wood chips are sold to pulp mills for use as their raw material. In addition, Canfor extracts pulpwood from its northern and coastal forestry operations and converts this wood to chips for its pulp and paper operations as needed to supplement its supply of wood chips. Canfor also owns and operates two whole-log chipping facilities capable of producing 325,000 oven-dried tonnes of wood chips annually. The facilities are located adjacent to two of Canfor's sawmills.

Canfor has the following secondary manufacturing operations: finger-joint mills at one of its sawmills in the interior of British Columbia and at its Grande Prairie, Alberta sawmill; a machine stress rated lumber facility at Grande Prairie, Alberta and in a Prince George sawmill; and a wood-treating plant in Prince George, British Columbia. Canfor's United States subsidiary, Canfor U.S.A. Corporation, located in Bellingham, Washington operates a lumber remanufacturing facility having a capacity of 160 million board feet. In addition, Canfor directs substantial volumes of lumber to custom remanufacturers in British Columbia and Alberta for processing into higher value products.

The following table sets forth Canfor's lumber production and sales for the last two years:

(Mfbm) <sup>1</sup>	Year ended December 31	
	2002	2001
Production		
Central British Columbia	2,650,137	2,002,783
Northern Alberta	309,996	257,516
	<b>2,960,133</b>	2,260,299
Sales	<b>2,817,312</b>	2,265,933

<sup>1</sup> Mfbm denotes thousand foot board measure.

With the expiry of quota restrictions and the implementation of CVD and ADD penalties, Canfor positioned itself to reduce operating costs and maintain market share by operating at near full capacity during 2002. This operating strategy is in contrast to 2001 where operations were curtailed for an average of 62 production days or 658.4 million board feet.

In addition to the sawmill facilities, Canfor operates a plywood mill in Prince George, British Columbia. This mill has a production capacity of 174 million square feet (3/8" basis) of plywood and is certified with respect to Canadian softwood and Douglas fir plywoods and for Japanese grading standards. The mill has been modernized over the past few years to automate some of the more labour-intensive production stages and to increase the mill's efficiency when processing smaller diameter logs.

### **Fibre Management**

In anticipation of significant revisions expected from the Government of British Columbia to provincial forest policy, in 2002 the Company established a new Fibre Management group to coordinate the raw material fibre supply for all processing facilities and to manage costs and extract the maximum value from the fibre resource. The Fibre Management group oversees the woodlands operations in central and coastal British Columbia and in northern Alberta. As well, the supply of wood chips for Canfor's pulp and paper operations is coordinated through this group.

### **Interior Fibre Operations**

The Interior Fibre operations harvest logs from tenures located in central British Columbia and northern Alberta. The total AAC for these areas is 7.9 million cubic metres per year (the results of the Coastal Woodlands operations are reported separately; see "Coastal Operations"). The following table sets forth the log production from these tenures, log purchases and wood chip production for the Interior Fibre Operations for the last two years:

	Year ended December 31	
	2002	2001
Log Production (cubic metres)	9,058,299	7,792,311
Log Purchases (cubic metres)	2,014,657	1,448,232
Wood Chip Production (oven-dried tonnes)	1,669,234	1,371,887

### **Lumber and Plywood Distribution**

Canfor markets its lumber and plywood products throughout North America and overseas. Canfor also markets lumber produced from independent mills in North America and offshore countries to complement its product line. In 2002, approximately 72 per cent of Canfor's lumber sales were to United States markets, virtually all of which was shipped by rail and truck. A fleet of 300 leased railway cars is used to transport lumber to U.S. customers and distribution yards. Approximately 22 per cent of total sales were made in Canada. The remaining six per cent of sales were made to overseas customers, principally to Japan and other Asian countries, and also Europe. For lumber going overseas, approximately 60 per cent is shipped by container and 40 per cent is shipped in bulk form (non-container).

Canfor has sales offices located in Vancouver, British Columbia, Toronto, Ontario and Tokyo, Japan. In addition, sales agents are retained in key markets throughout continental Europe, the United Kingdom, Taiwan, South Korea and China.

### **Lumber Markets and Competitive Position**

On May 22, 2002, the United States imposed CVD and ADD charges averaging 27.2 per cent on Canadian lumber shipments to the U.S. The duties were expected to significantly increase Canadian producers' costs and result in the closure of sawmills to reduce total Canadian shipments to the U.S. In response, most Canadian producers increased production considerably by operating their mills at much higher production levels and for longer time periods. As a result, total Canadian Spruce-Pine-Fir ("SPF") production increased by approximately ten per cent or two billion board feet over 2001 levels. This increase in supply more than offset the increase in consumption that occurred in North America in 2002. The increase in Canadian supply, along with twice the volume of lumber imported from Europe over 2001, caused lumber prices to decline to their lowest levels in ten years, despite the largest North American housing boom in 15 years.

With U.S. housing starts at their highest level since 1986, the demand for lumber in the year was very strong. Total starts were 1.7 million<sup>1</sup>, up 6.4 per cent from 2001. Single family starts totaled 1.36 million<sup>1</sup>, up 6.8 per cent from the previous year. There were regional differences in housing starts recorded. The U.S. South, a major user of SPF lumber and the region that builds the highest number of houses, recorded the greatest increase in housing starts over 2001. In Canada, 2002 housing starts rose by 26 per cent<sup>2</sup>, to 204,900 from 162,700 units in 2001. During 2002, the average price of the North American benchmark lumber product 2" x 4" SPF random length was U.S. \$237 per Mfbm<sup>5</sup>, six per cent below the average price in 2001 of U.S. \$251 per Mfbm<sup>5</sup>.

In the U.S., repair and remodeling activity was estimated to be four per cent higher than that of 2001<sup>1</sup> and was supported by very low interest rates. The large home centre chains continued their growth throughout 2002 as both Home Depot and Lowe's added large numbers of stores. As a result, Canfor's sales to the two top home centre companies, Home Depot and Lowe's, also increased over 2001 levels.

With the strong housing starts in 2002, many U.S. builders and their professional building materials suppliers ("Pro Dealers") were also busy. Two emerging trends in this sector are increases in demand for higher quality lumber used in home construction and the ongoing consolidation amongst homebuilders in order to gain market share. By aligning Canfor's sawmill production with the requirements of its strategically chosen customer base, Canfor is well positioned to take advantage of these trends. Sales to this customer segment grew considerably in 2002 over 2001.

Japan's economy remained stagnant in 2002. Relatively high unemployment levels kept private consumption low. As a result, Japan's total housing starts declined by nearly two per cent from 2001 to 1.15 million units<sup>4</sup>. However, 2" x 4" housing starts, Canfor's principal J-grade market, were up over two per cent over 2001<sup>4</sup> as that construction method continues to gain in popularity in Japan among home builders and consumers.

Canfor continued to expand its market share in China and Korea. Korean lumber shipments increased over 90 per cent in 2002 and shipments to China doubled from 2001 levels. China continues to be a promising market for Canfor as the Canada Mortgage and Housing Corporation and China's Ministry of Construction are collaborating to develop building codes and standards for wood frame construction that include North American species, sizes, grades and design properties. Housing investment is expected to increase by seven per cent each year for the next decade<sup>3</sup> as energy-saving and environmentally friendly materials are encouraged in home construction.

### **Plywood Markets and Competitive Position**

Canfor's plywood is used primarily in specialty applications. Approximately 70 per cent of sales were in Canada whereas 24 per cent went to the U.S., an increase of 14 per cent over 2001 U.S. shipments. Sales to Japan were six per cent of total shipments and declined from 2001 as the overall profitability of that market fell below other markets. Plywood prices were strong throughout 2002. The overall benchmark price of Canadian Softwood Plywood sheathing increased from \$361 per thousand square feet, 3/8" basis<sup>6</sup>, in 2001 to \$413 per thousand square feet in 2002<sup>6</sup>.

### **Panel and Fibre (previously reported in the Coastal Operations segment)**

Canfor produces hardboard, refined fibre and wood fibre composite mat products at its Panel and Fibre operation in New Westminster, British Columbia for building, automotive and industrial uses. Waste fibre is purchased as a raw material in producing hardboard, the majority of which is finished to produce embossed and simulated woodgrain paneling products. The hardboard plant, with an annual operating capacity of 28 million square feet (3/8" basis), is one of two hardboard plants in Canada. Baled dry fibre is produced from wood residues and chips, which are refined utilizing the hardboard mill's refining capacity. The fibre is used as a raw material for hardboard production, cement board products and in the manufacturing of molded products for the automotive industry. Refined fibre is also used to produce three products for the hydro-seeding business after a non-toxic, environmentally-safe green dye and tackifier is added. These products, when mixed with grass seed, fertilizer and water, can be sprayed on the ground as a fast and economical way of returning a disturbed surface area to a stable condition. Wood fibre composite mat products are a blend of refined fibre and various other fibres pressed into three-dimensional shapes to make a range of products including interior car panels, furniture components and building materials. Fibre mats compete with plastics, metals and other raw materials.

### **Human Resources**

Canfor employs approximately 3,141 persons in its Wood Products operations in British Columbia, 303 persons in its operations in Alberta and 144 persons in its operations in the United States. Of these, approximately 72 per cent are covered by collective agreements with the Industrial, Wood and Allied Workers of Canada ("IWA-Canada"), the Communications, Energy and Paperworkers Union ("CEP") and the Pulp, Paper and Woodworkers of Canada ("PPWC"). The third shifts to be added at the Fort St. John and Prince George sawmills will provide employment opportunities for approximately 110 employees from the Upper Fraser and Taylor operations, which are the two mills being closed in the third quarter of 2003. These mill closures will result in a net reduction of approximately 220 employees.

Collective agreements with IWA-Canada, which represents the majority of the workers in the British Columbia operations, expire on June 30, 2003. Other collective agreements expiring on this same date are the CEP agreement covering the Taylor operation (which is scheduled to close in the third quarter of 2003) and the PPWC agreement representing the plywood production and maintenance employees at Canfor's plywood operation. Formal negotiations have not yet begun on these contract renewals.

The contracts with IWA-Canada and the CEP, which represent workers at each of Canfor's two Alberta operations, were renegotiated in 2001 without incurring any downtime. The new contracts provide for wage increases of two per cent in the first year and two per cent in each of the remaining years and expire in February 2004.

A new collective agreement was negotiated in 1999 with IWA-Canada for the Panel and Fibre operation providing a wage increase of two per cent in the first year. Thereafter, Canfor and the union will accept the terms and annual wage increases of the next two negotiated agreements between the coast forest industry and IWA-Canada.

According to 2002 provincial statistics compiled by the Forest Industry Advisory Service ("FIAS") covering eight multi-division interior lumber operations, Canfor's sawmills ranked first in the industry in both lost-time accidents and medical incidents. In 2001, based on FIAS lost-time accident industry statistics, Canfor's sawmills placed second out of nine multi-division interior lumber operations. Safety performance at the Panel and Fibre operation also showed improvement over the previous year, with nine fewer medical aid cases in 2002 as reported by FIAS. As well, Panel and Fibre's lost-time accident frequency improved by 42 per cent over 2001 as reported by FIAS. A fatality occurred at the North Central Plywood operation in September 2002. Canfor and the Workers' Compensation Board of B.C. ("WCB") initiated separate investigations to determine the cause of the accident. Neither investigation was able to conclusively determine the exact cause of the accident.

Sources: <sup>1</sup> U.S. Census Bureau, <sup>2</sup> Statistics Canada, <sup>3</sup> Canada Mortgage and Housing Corporation, <sup>4</sup> Japan Wood-Products Research Information Centre, <sup>5</sup> Random Lengths Publications and <sup>6</sup> Crow's Publications.

### **PULP PRODUCTS**

Canfor is one of Canada's major producers of northern bleached softwood kraft ("NBSK") pulp for sale in the world market. Kraft pulp is a raw material for paper manufacturing and is used in the production of printing and other fine paper, tissue, newsprint and paperboard. NBSK pulp imparts strength to the product in which it is used as a result of the length of its fibre. Canfor manufactures bleached kraft pulp at its Intercontinental and Northwood Pulp facilities located in Prince George, in the northern interior of British Columbia.

The two mills are relatively close in proximity to each other, with the Northwood Pulp mill located approximately five kilometres from the Intercontinental mill.

The following table sets forth the daily and annual production capacities of Canfor's Pulp Products operations as at December 31, 2002:

(tonnes)	Daily Capacity	Annual Capacity
Kraft pulp		
Intercontinental Pulp Mill	865 <sup>1</sup>	307,000
Northwood Pulp Mill	1,568 <sup>2</sup>	551,900
Total capacity	2,433	858,900

<sup>1</sup> Assuming continuous operation for an average of 355 operating days per annum.

<sup>2</sup> Assuming continuous operation for an average of 352 operating days per annum.

Since 1989, the Intercontinental Pulp Mill has held quality assurance program registration under the CSA (CAN3Z299.4) and ISO (ISO 9003) standards. This was the first pulp mill in North America to achieve these registrations. ISO 9000 is a series of international standards (with which CSA complies), which define those management elements that are essential to the establishment of an effective quality assurance system. Registration is only granted and maintained following successful completion of intensive, in-plant audits by certified independent quality auditors. Thus, registration under ISO 9000 confirms that those quality standards to which a company claims to adhere are, in fact, being maintained.

Since 1992, the Intercontinental Pulp Mill has maintained the ISO 9001 standard level, which is the highest level available. In 1995, the Northwood Pulp Mill received certification to ISO 9001 standards. This standard covers all facets of product development and quality control, starting with raw materials purchasing and continuing through to storage and shipment of the final product to the customer.

In February 1998, the Intercontinental Pulp Mill became registered under ISO 14001, the internationally recognized standard that specifies requirements for an effective environment management system. In June 2001, the Northwood Pulp Mill achieved certification under this same standard.

### ***Production and Sales Summary***

The following table sets forth pulp production and sales statistics for Canfor for the last two years:

(tonnes)	Year ended December 31	
	2002	2001
Pulp production		
Intercontinental Pulp Mill	304,656	276,049
Northwood Pulp Mill	538,413	481,669
	<b>843,069</b>	<b>757,718</b>
Pulp sales		
Intercontinental Pulp Mill	302,735	285,100
Northwood Pulp Mill	532,746	506,944
	<b>835,481</b>	<b>792,044</b>

Both mills set production records in 2002. Much of this can be attributed to improved equipment reliability and synergies resulting from best practices coming to fruition. Improved reliability resulted from a variety of changes including process control changes on the digesters and recovery boilers and enhanced lubrication programs. Other productivity improvements were achieved by optimizing liquor transfers and eliminating production bottlenecks. Costs were minimized by continuing to operate at near full production and implementing spending reductions. No market-related downtime was taken in 2002 at either mill. Market-related production curtailments of approximately 75,500 tonnes were taken during 2001: 54,600 tonnes at the Northwood Pulp Mill and 20,900 tonnes at the Intercontinental Pulp Mill.

### ***Pulp Products Marketing and Distribution***

Canfor, through its Canfor Pulp and Paper Marketing operation, sells the pulp production of its northern British Columbia mills and, under an agency agreement, sells the pulp production of Howe Sound Partnership, in world markets. Sales offices are presently maintained in Vancouver, Canada; Brussels, Belgium; and Tokyo, Japan. In addition, Canfor is represented by sales agents serving various other markets around the world.

In May 1999, Canfor formed a joint marketing company with Georgia-Pacific Corporation for the sale and marketing of market pulp and other products in Japan. The new corporation, Canfor Georgia-Pacific Japan Corporation, is set up as a joint venture and is owned equally by Canfor and Georgia-Pacific Corporation. The combined sales office markets and sells products from each corporation under their own brand names. In 2001, Canfor Georgia-Pacific Japan Corporation began representing Asia Pacific Resources International Holdings Ltd.'s Riaupulp mill in Indonesia in the Japanese market.

In 2002, the approximate geographic distribution of pulp sales was 40 per cent to the European market, 30 per cent to Asia and 30 per cent to North America.

Canfor uses various modes of surface transportation to distribute the pulp products it sells. North American markets are served by rail and truck carriers. Export markets for the Prince George mills are served by rail or truck to modern forest product terminals at Vancouver and Squamish, British Columbia, where the pulp products are transferred to vessels. Dedicated forest products vessels carry the products to major markets in Europe, Japan and Korea. Other countries around the world are served by modern, multi-purpose vessels or container carriers.

### ***Pulp Products Markets and Competitive Position***

Over the long-term, global consumption of paper and paperboard is anticipated to continue to expand at a rate in excess of the general expansion of the economy. It is expected that substantial additional quantities of paper-making fibres will be required.

Economic uncertainty prevailed in 2002, particularly in the United States. Market pessimism in the latter part of 2001 gave way to renewed optimism and an increase in paper consumption triggered an increase in pulp demand. This resulted in pulp inventories declining in the first half of 2002, enabling the Northern European price for NBSK to recover from a low of U.S. \$435 per tonne in April to a high of U.S. \$490 per tonne in June 2002. However, falling stock markets reflected a return of consumer concerns and again the demand for pulp and paper products dropped. Inventories began to climb mid year resulting in a steady decline in price beginning in September and culminating in a low of U.S. \$440 per tonne in December 2002. Inventories decreased near year-end, and though still high, in combination with a shortage of pulp chips due to adverse weather conditions in the U.S. south-east and sawmill downtime in Eastern Canada, had a positive impact on price. The North European price rose in January 2003 and Canfor has announced a U.S. \$480 per tonne price effective February 1, 2003.

Canfor's pulp mills are well positioned within Canada with regard to fibre supply, environmental performance, energy supply and a skilled work force. Canfor's management believes their competitive position is further enhanced by the capital investments in recent years. With these investments, Canfor expects to be well positioned to meet the expanding world demand for long-fibred reinforcement pulps.

The competitive position of Canadian producers, relative to Nordic and United States producers, is dependent to a significant extent on the relationship between the various currencies in which pulp is sold. The weakness of the Canadian dollar against the United States dollar in 2002 enhanced Canfor's competitive position in North America. The recent decline in strength of the United States dollar, in relation to the currencies of other countries which compete in the pulp market, has further enhanced the competitive position of Canadian producers relative to producers in these other countries. However, the strengthening Canadian dollar threatens to weaken the position of Canadian pulp producers relative to these foreign competitors.

Canfor and other Canadian producers of NBSK pulp continue to face the challenge of operating in a global marketplace. International companies look towards mergers, acquisitions and consolidation within the pulp industry as strategic ways to reduce costs and increase market share. Acquisitions may also provide a guaranteed source of high quality fibre and minimize the impact of labour disputes.

### **Chemicals**

Through B.C. Chemicals, CFP owns and operates plants located adjacent to Canfor's Prince George Pulp and Paper and Intercontinental Pulp mills to produce and supply sodium chlorate and crude tall oil. B.C. Chemicals Ltd. continues to hold land and buildings as trustee for CFP.

The B.C. Chemicals sodium chlorate plants have a combined annual capacity of 78,000 tonnes. Sodium chlorate is used for the production of chlorine dioxide, which in turn is used in the bleaching phase of the kraft pulping process. The major portion of the sodium chlorate produced is used in Canfor's pulp and paper mills located in the Prince George area, with the balance of the production being allocated between merchant sales and trades.

The crude tall oil plant has a capacity of 30,000 tonnes annually. Feedstock for the plant consists of soap skimmings recovered from four regional kraft pulp mills, including the three mills owned by Canfor. Removal of the soap skimmings allows the pulp mills to increase their productive capacity. Crude tall oil is consumed by Canfor's pulp mills as a fuel substitute for natural gas.

The following table sets forth B.C. Chemicals' production and sales for the last two years:

(tonnes)	Year ended December 31	
	2002	2001
Sodium chlorate production	<b>76,498</b>	71,433
Sodium chlorate sales	<b>78,986</b>	75,399
Crude tall oil production	<b>28,853</b>	26,557
Crude tall oil sales	<b>28,511</b>	21,101 <sup>1</sup>

<sup>1</sup> Prior years' have been restated to conform to the 2002 presentation.

### **Human Resources**

Canfor employs approximately 935 people in its Intercontinental Pulp and Northwood Pulp mills, B.C. Chemicals operation and Canfor Pulp and Paper Marketing operation. Of these, approximately 75 per cent are covered by collective agreements with the PPWC and the CEP. Negotiations for early renewal of these collective agreements commenced with both unions during the third quarter of 2002. A renewal agreement was concluded in December 2002 with approximately 500 members of the PPWC. Negotiations with the CEP are continuing. The key provisions of the new agreement include a five-year term and changes to hours of work provisions allowing for more efficient and less costly annual maintenance shutdowns. The contract term is from May 1, 2003 to April 30, 2008 and allows for wage increases of 11 per cent over the five-year term.

According to provincial statistics compiled by the Pulp and Paper Employee Relations Forum covering 18 mills, Canfor's Intercontinental Pulp mill ranked first in the area of medical treatments and second in lost-time accident frequency. The Northwood Pulp mill ranked second in medical treatments and fourth in lost time accident frequency.

### **PULP AND SPECIALTY KRAFT PAPER**

Canfor manufactures bleached, semi-bleached and unbleached kraft pulp and bleached and unbleached kraft paper at its Prince George Pulp and Paper facility located in Prince George, British Columbia.

The following table sets forth the daily and annual production capacities of Canfor's Pulp and Specialty Kraft Paper operation as at December 31, 2002:

(tonnes)	Daily Capacity	Annual Capacity
Prince George Pulp and Paper Mill		
Kraft pulp	400 <sup>1</sup>	141,800
Kraft paper	381 <sup>2</sup>	134,600
Total capacity	781	276,400

1 Assuming continuous operation for an average of 354.5 operating days per annum.

2 Assuming continuous operation for an average of 353 operating days per annum.

Since 1989, the Prince George Pulp and Paper Mill has held quality assurance program registration under the CSA and ISO standards. This was the first pulp and paper mill in North America to achieve these registrations. Since 1992, the Prince George Pulp and Paper Mill has maintained the ISO 9001 standard level, which is the highest level available. In February 1998, the Prince George Pulp and Paper Mill also became registered under ISO 14001, the internationally recognized standard that specifies requirements for an effective environment management system.

In 1996, Canfor began producing POLAR KRAFT™ (bleached kraft paper) and has succeeded in creating a new market in North America for high strength bleached packaging papers, which has contributed significantly to improved results. In 1999, Canfor began production of KODIAK KRAFT™ (high performance unbleached kraft paper) to leverage the market position created by POLAR KRAFT™ and further increase returns for Canfor's specialty kraft paper product line. Several strategic projects were undertaken on the paper machine during 1999 and 2000 to increase the production of the paper line and improve the profitability of the operation.

The strategic plan for the Prince George Pulp and Paper operation is to increase the production of specialty kraft papers, with a corresponding decrease in pulp production. This will transform the mill from primarily a pulp mill to a specialty kraft paper mill, focusing on high-strength, high-value kraft papers.

The configuration of the mill provides the ability to produce both bleached and unbleached kraft paper products. Since 1995, Canfor has emphasized product development which has resulted in a significant change in the paper product mix, moving from lower value unbleached multiwall kraft paper to high performance papers, bleached and unbleached kraft papers, and specialty papers where profit margins are significantly higher.

#### **Production and Sales Summary**

The following table sets forth the pulp and specialty kraft paper production and sales statistics for the Prince George Pulp and Paper Mill for the last two years:

(tonnes)	Year ended December 31	
	2002	2001
Prince George Pulp and Paper Mill		
Pulp production	<b>158,411</b>	142,377
Pulp sales	<b>158,045</b>	148,080
Kraft paper production	<b>107,598</b>	108,775
Kraft paper sales	<b>108,913</b>	106,749

During 2002 both product lines operated at near full production with the exception of the annual maintenance shutdown taken during the second quarter. However, during the first half of 2002, kraft paper manufacturing struggled with technical and reliability issues. This required the kraft paper machine to operate at reduced speeds until key modifications were made in the third quarter of 2002. Since then, operating performance has showed a slow but steady improvement and machine reliability and product quality have also improved.

In 2001, the pulp line of the Prince George Pulp and Paper Mill curtailed production by approximately 17,300 tonnes for market-related reasons.

#### **Pulp and Specialty Kraft Paper Marketing and Distribution**

Canfor, through its Canfor Pulp and Paper Marketing operation, sells the pulp and specialty kraft paper production of its Prince George Pulp and Paper Mill. Pulp and paper sales offices are presently maintained in Vancouver, Canada; Brussels, Belgium; and Tokyo, Japan. In addition, Canfor is represented by pulp and paper sales agents serving various other markets around the world.

The approximate distribution of specialty kraft paper sales in 2002 was 70 per cent to North America, 16 per cent to the Far East, seven per cent to Europe and seven per cent to other markets. In 2002, the approximate geographic distribution of the Prince George Pulp and Paper Mill's pulp sales was 19 per cent to the European market, 47 per cent to the Far East, 31 per cent to North America and three per cent to various other markets.

Canfor uses various modes of surface transportation to distribute the paper and pulp products it sells. North American markets are served by rail and truck carriers. Export markets for the Prince George Pulp and Paper Mill are served by rail or truck to modern forest product terminals at Vancouver and Squamish, British Columbia, where the pulp and paper products are transferred to vessels. Dedicated forest products vessels carry the products to major markets in Europe, Japan and South East Asia. Other countries around the world are served by modern, multi-cargo vessels or container carriers. Canfor is able to load containers at the mill for delivery directly to its customers' mills in many of the markets it serves.

### **Pulp and Specialty Kraft Paper Markets and Competitive Position**

The kraft paper industry is characterized by relatively few competitors, each focusing on its own market. Although the kraft paper industry in developed markets is stable, there is rapid growth in consumption in North America and increased profitability for producers of high strength specialty kraft papers. Unlike the pulp market which has experienced significant price variations in the past, price levels in the kraft paper market have tended to be fairly stable, with niche market producers enjoying generally good operating rates, allowing prices to increase. As a result, Canfor's Prince George Pulp and Paper Mill introduced POLAR KRAFT™ and KODIAK KRAFT™ in 1996 and 1999, respectively, creating a market niche for high strength and high performance kraft paper. The marketing strategy has emphasized working with independent converters and flexible packaging end-users to create customer demand for new high performance products.

The markets for and competitive position of the Prince George Pulp and Paper Mill's pulp products are increasingly being focused on specialty pulp products. These products are designed to take advantage of the strong northern fibres and flexible bleaching technology employed at the mill.

### **Human Resources**

Canfor employs approximately 403 people in its Prince George Pulp and Paper Mill, of which 78 per cent are covered by collective agreements with the PPWC and the CEP. Negotiations for early renewal of these collective agreements commenced with both unions during the third quarter of 2002. A renewal agreement was concluded in December 2002 with the PPWC. Negotiations with the CEP are continuing. The key provisions of the new agreement include a five-year term and changes to hours of work provisions, allowing for more efficient and less costly annual maintenance shutdowns. The contract term is from May 1, 2003 to April 30, 2008 and allows for wage increases of 11 per cent over the five-year term.

For 2002, according to provincial statistics compiled by the Pulp and Paper Employee Relations Forum covering 18 mills, the Prince George Pulp and Paper Mill recorded a significant improvement in safety performance over the previous year, earning a ranking of sixth in medical treatments (ninth in 2001) and third in lost-time accidents (tenth in 2001).

## **COASTAL OPERATIONS**

Canfor's Coastal Operations are comprised of its Coastal logging operations (Englewood and Mainland operations) and the Coast Fibre Supply operation.

### **Coastal Logging Operations**

Canfor's Englewood logging operations are located on northern Vancouver Island, while its Mainland logging operations are located in the Fraser Valley, Sunshine Coast and in the lower Lillooet River areas of British Columbia. These operations log on tenures having an AAC of 1.475 million cubic metres per year. The following table sets forth the log production from the Coastal logging operations and sales / trades by the Coast Fibre Supply operation (as described below) for the last two years:

(cubic metres)	Year ended December 31	
	2002	2001
Production	1,335,895	1,230,118
Sales/trade	1,228,891	1,240,779

No market-related production curtailment occurred during 2002. In 2001, due to a weak coastal log market, logging production was curtailed for a total of 270,000 cubic metres.

The Coastal logging operations are focused on safety, sustainable forest management, environmental compliance and the achievement of financial targets. Timber harvesting for these operations is coordinated with Coast Fibre Supply's marketing program to ensure customers are supplied with a quality, on-time product that maximizes Canfor's sales revenues.

### **Coast Fibre Supply**

Canfor's Coast Fibre Supply operation sells and trades the log production of the Coastal logging operations to acquire the logs and chips required for the Howe Sound Partnership's pulp and newsprint mills and for the Panel and Fibre operation. Logs that can be sawn or chipped by Howe Sound Partnership's Westcoast Cellulibre operation are sold to that operation at market value. Logs that cannot be used by Westcoast Cellulibre are sold to or traded with other coastal operators with the primary objective of obtaining the pulp logs and chips required by Howe Sound Partnership. In addition, the Coast Fibre Supply operation sources logs and chips for Howe Sound Partnership from areas such as southern Alaska, northern Washington and the interior of British Columbia.

### **Human Resources**

Canfor employs approximately 426 people in its Coastal Operations, of which 83 per cent are covered by collective agreements with IWA-Canada. The collective agreement with IWA-Canada for the Coastal logging operations is currently in the final year of the three-year term, expiring June 15, 2003. The agreement provided for a wage increase of two per cent on June 15, 2002. Formal negotiations have not yet begun on this contract renewal.

Coastal Operation's Safety Management System was designed around a draft of the ISO 18001 standard and incorporates the concept of continuous improvement into the program. This Safety Management System has been in place for two years and the operation has experienced an improvement in its safety performance in several areas. In 2002, according to provincial statistics compiled by FIAS, the number of Restricted Work Cases were reduced by 69 per cent and the Medical Incident Rate was reduced by 70 per cent over the previous year. According to other statistics compiled by FIAS covering five multi-division operations, the Coastal logging operations ranked fifth in the area of lost-time accidents in 2002.

## HOWE SOUND PULP AND PAPER LIMITED PARTNERSHIP

Howe Sound Pulp and Paper Limited ("HSPP") commenced operation in April 1988 when Canfor sold its Howe Sound Pulp Division at Port Mellon, British Columbia and its Westcoast Cellulofibre Division at Vancouver, British Columbia to HSPP. HSPP was owned equally by Canfor and Oji Paper Co., Ltd. ("Oji Paper"), a leading Japanese producer and marketer of paper, including newsprint. NBSK pulp and newsprint are produced at Port Mellon on the British Columbia coast and wood chips and lumber are produced at the Westcoast Cellulofibre operation. In 1990, HSPP completed the modernization and expansion of the kraft pulp mill and, in 1991, completed construction of a newsprint mill adjacent to the pulp mill, together with a related thermo-mechanical pulp mill facility. A cogeneration facility was completed in 1992 to generate electrical power for the pulp and newsprint operations.

On March 10, 2001, Canfor and Oji Paper reorganized HSPP by transferring the business of HSPP into a limited partnership, Howe Sound Pulp and Paper Limited Partnership ("Howe Sound Partnership" or "the Partnership"). The Partnership continues to be jointly owned by Canfor and Oji and continues to carry on the former operations of HSPP. Howe Sound Partnership operates as a separate business in which all of the financing arranged by the Partnership is without recourse to either Canfor or Oji Paper. Under agreements which the Partnership has with Canfor and Oji Paper, Canfor obtains and supplies fibre for the Partnership's mills at market prices, markets the pulp on a commission basis and provides certain management services for a fee related to cost. Oji Paper provides the Partnership with technical services, particularly in relation to the newsprint mill, and is reimbursed for the costs and expenses incurred in providing the services. Oji Paper is responsible for marketing, on an agency basis, the newsprint production from the Partnership, which is sold primarily in Japan. The newsprint market in Japan is the most quality conscious newsprint market in the world. The Partnership's Howe Sound mill is one of only two mills in North America equipped to produce gate roll coated, super light weight newsprint required by the Japanese market.

During 2002, the Partnership's operations were in substantial compliance with applicable environmental requirements. However, during the year, the Partnership pled guilty to a charge laid under the Waste Management Act with respect to a treated effluent spill at the Port Mellon pulp mill in June 2000. The Partnership was ordered to pay \$35,000 to support Coastal fishery enhancement projects.

In June 2002, the Westcoast Cellulofibre Division closed its lumber operation facility and shifted focus to its core business of providing wood chips to the pulp and newsprint mill at Port Mellon.

The following table sets forth the daily and annual production capacities of the Partnership's market pulp and newsprint operations as at December 31, 2002:

(tonnes)	Daily Capacity	Annual Capacity <sup>1</sup>
Pulp	982	348,600
Newsprint	585	208,200

<sup>1</sup> Assuming continuous operation for an average of 355 operating days per annum for pulp and 356 days for newsprint.

The following table sets forth the Partnership's pulp and newsprint production and sales for the last two years:

(tonnes)	Year ended December 31	
	2002	2001
Pulp production	<b>342,883</b>	326,960
Pulp sales	<b>343,429</b>	338,463
Newsprint production	<b>206,112</b>	204,440
Newsprint sales	<b>207,797</b>	198,435

As part of the reorganization, HSPP was amalgamated with Canadian Forest Products Ltd. to form the continuing entity CFP, Canfor's principal operating subsidiary, and, with ongoing operations of the Partnership, approximately \$643 million of tax losses of HSPP are available to reduce the future taxable income of CFP. Also, as part of the reorganization, CFP made a payment of \$60.2 million to the Partnership, which was applied to reduce the long-term debt of HSPP assumed by the Partnership. CFP has agreed to make further payments to the Partnership, up to a maximum of \$62.1 million, contingent upon its ability to utilize the tax losses of HSPP and payable upon utilization of the losses. These future payments will be recognized as a future income tax asset. In 2002, CFP made payments totaling \$5.0 million.

As a result of this reorganization, CFP recorded a future income tax asset of \$193.2 million and a deferred credit of \$119.4 million, based upon the tax rates prevailing at that time. Since then, the balances have been adjusted to reflect the tax rate change announced by the Government of the Province of British Columbia. The deferred credit will be recognized in income on a systematic basis.

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

## ENVIRONMENT

Canfor's Environment Policy expresses Canfor's commitment to responsible stewardship of the environment throughout its operations. Canfor meets this commitment by practicing forest management that recognizes ecological processes and diversity and supports integrated use of the forest; by designing and operating its facilities to comply with or surpass legal requirements; by setting environmental objectives and targets to reduce the risk of pollution and achieve continual improvement in environmental performance; and by promoting environmental awareness throughout Canfor's operations.

Canfor has implemented a program of regular audits of its Environmental Management System (“EMS”) and compliance with government regulations and industry practices at all operations. Canfor’s management believes it has sound environmental management programs established in all operations. These programs are continually being improved to help ensure that Canfor is exercising due diligence and is fulfilling its environmental commitments and responsibilities.

As previously discussed, all of CFP’s forest operations achieved registration under ISO’s Environmental Management System Standard (ISO 14001) in December 1999. At the time, this represented the largest area of managed forestlands to achieve this certification in North America. This registration was expanded in 2000 to include the forestlands acquired as a result of the Northwood Acquisition. Also in 2000, the Company achieved certification of approximately 1.5 million hectares of forestlands under CSA’s Sustainable Forest Management (SFM) System Standard. In 2001 an additional 0.2 million hectares of forestland was certified under the CSA Standard. These certifications are part of Canfor’s strategy to certify all of its area-based tenures to the CSA SFM System Standard. Canfor’s Prince George Pulp and Paper and Intercontinental Pulp mills and the Howe Sound Pulp and Paper Mill were among the first mills in North America to achieve ISO 14001 registration in early 1998. The Northwood Pulp Mill achieved ISO 14001 registration in June 2001. These mills were all successful in retaining registration following audits by the registrar in 2002. The Rustad sawmill EMS attained ISO 14001 registration in the fourth quarter of 2002.

During 2002 Canfor’s operations were in substantial compliance with environmental requirements, with the following exceptions: two pulp mill operations exceeded permitted levels for total particulate on one quarterly stack test, one on a smelt dissolving tank stack and one on a lime kiln stack; one beehive burner regularly operated below its approval temperature - changes to the mill operating regime and burner maintenance implemented over the December 2002 shutdown are expected to improve operations; one burner received a written warning from the Ministry of Water, Land and Air Protection (“MWLAP”) for burner noncompliance which occurred in January and February of 2002; and two burners operated below required temperatures for four and five days respectively—operational and maintenance issues associated with the low operating temperatures have been resolved. None of these exceptions has had, or is expected to have, a material effect on Canfor or its operations.

Canfor has 10 wood residue burners at its sawmills in B.C. and Alberta, including four Tier 1 burners which, under the recently amended B.C. Wood Residue Burner and Incinerator Regulation, are required to cease operation between June 30, 2004 and assuming MWLAP acceptance of plans to optimize burner operations, June 30, 2005. Canfor has established a Wood Residue Steering Committee whose function is to examine options to increase utilization and create value from Canfor’s surplus sawmill wood residue. Upon completion of construction, anticipated in mid 2004, a 25 Megawatt (“MW”) electricity cogeneration facility planned for the Grande Prairie sawmill will eliminate the two Alberta burners, a 45 MW cogeneration facility planned at Canfor’s Houston sawmill will eliminate Canfor’s and Weldwood’s Tier 1 burners in Houston and up to three other Weldwood and West Fraser sawmill burners. Several recent projects at the Prince George pulp and paper mills, including a \$1.7 million boiler controls project at the Northwood Pulp mill which started up in the third quarter of 2002, have substantially increased wood residue utilization. Other options under active consideration include a significant cogeneration / load displacement project at the Prince George Pulp and Paper mill, wood fueled energy systems for sawmill lumber dry kilns, supply of whitewood to an Alberta Particleboard plant, and bio-oil production.

In 2000, the Ministry of Environment requested that Canfor submit a plan for further pulp mill air emission source reductions. In response, Canfor recommended to the Ministry that a multi-source study of the airshed involving all emission source owners and stakeholders was needed in order to determine priorities for management actions. At the close of 2001 Canfor was invited to participate in the Community Airshed Planning Committees in Prince George and in the Bulkley Valley (Houston). These Committees have begun meetings with full engagement on the part of Canfor staff. The MWLAP has requested that the Canfor pulp mills submit a plan for altered operations in conditions of poor air quality.

Under a regulation passed by the previous provincial government in 1992, pulp mills in British Columbia using chlorine compounds for pulp bleaching were required to eliminate AOX (adsorbable organic halide) in their effluent by the end of 2002. An Order in Council was signed by the provincial government in July 2002 eliminating the zero AOX requirement and replacing the monthly limit of 1.5 kilograms per air dried tonne with a limit of 0.6 kilograms per air dried tonne, with which all of Canfor’s mills are able to comply.

## **RESEARCH AND DEVELOPMENT**

Canfor continues to be committed to research and development through its ongoing support of industry sponsored organizations (e.g. Forintek Canada and the Pulp and Paper Research Institute of Canada) as well as Canfor’s Research and Development Centre, the only corporately owned and operated forest products research facility of its type in British Columbia.

The objectives of Canfor’s research and development efforts are:

- a) to work in conjunction with Canfor’s manufacturing and marketing operations in the development of new or enhanced products, processes and services which, through greater or higher-valued utilization of the fibre, are aimed at enhancing Canfor’s profitability and competitive position in the global market place,
- b) to maintain and enhance Canfor’s environmental performance, and
- c) to pursue new opportunities.

During 2002, Canfor primarily focused its pulp and paper research and development on new product development, while continuing its efforts in improving premium pulp quality, increasing efficiencies in mill processes and maximizing wood utilization. Solid wood and fibre research and development efforts were focused on optimizing underutilized species and fibre and the development of value-added products and processes. Since 2001, Canfor has operated a solid wood pilot plant facility producing a number of value-added products for market testing.

Canfor’s research and development expenditures, including capital and industry sponsored organizations, amounted to \$3.5 million in 2002 and \$4.5 million in 2001.

## DIRECTORS AND OFFICERS

### Directors

The names and municipalities of residence of the Directors of the Company, their principal occupations and the periods during which they have been Directors of the Company are as follows:

Name and Municipality of Residence	Principal Occupation and Background	Director Since
P. J. G. Bentley, O.C., LL.D. <sup>1,4,5</sup> Vancouver, British Columbia	Chairman of the Board, Canfor  Background: Peter J. G. Bentley is Chairman of Canfor and he is a director of the Company's principal subsidiary CFP, Co-chairman and a director of HSPP General Partner Ltd. and a director of B.C. Chemicals Ltd. After working in various positions throughout Canfor, Mr. Bentley became Executive Vice-President in 1970, President in 1975, and Chairman and C.E.O. in 1985, a position he held until April 24, 1995. Mr. Bentley is a director of Precious Minerals Mining and Refining Corporation and a member of the Canadian Advisory Board of the Carlyle Group, a member of the Board of the Canadian Institute for Advanced Research, a member of the Advisory Board of BuildDirect.com, a Trustee and Past Chairman of the VGH and UBC Hospital Foundation, and a Governor of The Banff Centre. He also served for many years as a director of The Bank of Montreal and Shell Canada Ltd.	1966
R. L. Cliff, C.M., F.C.A. <sup>1,2,3,4</sup> West Vancouver, British Columbia	Chairman of the Board, Heathcliff Properties Ltd.  Background: Mr. Cliff is Chairman of Heathcliff Properties Ltd. He is also President of the Heathcliff Foundation. Mr. Cliff was Chairman and a director of BC Gas Inc. from 1972 to 2002. Mr. Cliff received his Commerce Degree from the University of British Columbia and qualified as a Chartered Accountant in 1954.	1983
M. L. Cullen <sup>2,3</sup> Surrey, British Columbia	Corporate Director  Background: Mr. Cullen previously served as Vice-Chair of RBC Dominion Securities Inc. and is currently a corporate director. He is a director of BC Gas Inc., British Columbia Ferry Corporation, MacDonald Dettwiler & Associates, Wajax Limited and St. Paul's Hospital Foundation. Mr. Cullen received a B.Com degree from the University of Ottawa and a MBA from the University of Western Ontario.	2000
C. W. Daniel, O.C., LL.D. <sup>3,5</sup> Toronto, Ontario	Corporate Director; Consultant  Background: Mr. Daniel's career covered 38 years with Shell International Petroleum Company in the U.S.A., Europe, South America, the Caribbean and Canada. He was President and C.E.O. of Shell Canada from 1974 until his retirement in 1985. He has served on numerous corporate and voluntary boards. He currently is a director of Andrés Wines Ltd. Mr. Daniel holds a Bachelor of Applied Science degree in Engineering and an Honourary Law degree, both from the University of Toronto.	1985
D. L. Emerson <sup>1</sup> Vancouver, British Columbia	President and C.E.O., Canfor  Background: David Emerson was appointed President and C.E.O. of Canfor effective January 1, 1998. From 1992 to December 1997, Mr. Emerson was President and Chief Executive Officer of the Vancouver International Airport Authority when it assumed responsibility from the Government of Canada to develop, operate and improve the Vancouver International Airport's services and facilities and was made a director in 1996 following the opening of the new International Terminal. Mr. Emerson has a Doctorate in Economics from Queens University, and Masters and Bachelors Degrees in Economics from the University of Alberta. In a career encompassing both the private and public sectors, Mr. Emerson has been Deputy Minister to the Premier of British Columbia; Secretary to the Executive Council for the Province of British Columbia; Deputy Minister of Finance for British Columbia; Chairman and C.E.O. of Canadian Western Bank, and President of the British Columbia Trade Development Corporation. Mr. Emerson's current directorships include: BC Gas Inc.; Royal & Sun Alliance Insurance Company of Canada; Vice-Chairman of the Canadian Council of Chief Executives; Chairman, British Columbia Ferry Corporation; and Chair of the B.C. Progress Board.	1998

<p>M. E. Hurst <sup>4,5</sup> Vancouver, British Columbia</p>	<p>Educational Author</p> <p>Background: Mrs. Hurst is an educational author who resides in Vancouver, British Columbia. Mrs. Hurst received a B.A. from the University of British Columbia, a Graduate Certificate in Education from the University of London, U.K. and a Masters of Education from the University of British Columbia. She was a teacher with the Vancouver School Board, an educational consultant and a Sessional Lecturer at the University of British Columbia.</p>	<p>1987</p>
<p>J. B. Jarvis <sup>1,2</sup> Vancouver, British Columbia</p>	<p>Corporate Director</p> <p>Background: Prior to his retirement from the Company in 1985, Mr. Jarvis held various management and marketing positions in Canfor.</p>	<p>1966</p>
<p>P. A. Lusztig <sup>2,4,5</sup> Vancouver, British Columbia</p>	<p>Dean Emeritus, University of British Columbia; Commissioner(Federal), B.C. Treaty Commission</p> <p>Background: Dean Emeritus, Faculty of Commerce and Business Administration, The University of British Columbia, Mr. Lusztig is currently the federal commissioner for the B.C. Treaty Commission (Federal). He is also Chair and Trustee of the Health Benefit Trust (B.C.). Mr. Lusztig received his Commerce Degree from the University of British Columbia, his Masters of Business Administration from the University of Western Ontario and his Doctorate Degree from Stanford University.</p>	<p>1983</p>
<p>E. P. Newell, O.C. <sup>3,4</sup> Fort McMurray, Alberta</p>	<p>Chairman and C.E.O., Syncrude Canada Inc.</p> <p>Background: Mr. Newell is the Chairman and C.E.O. of Syncrude Canada Limited. He is also Chair of the Conference Board of Canada, Chair of CAREERS... The Next Generation Foundation and a director of Keyano College Foundation. Mr. Newell received a degree in Chemical Engineering from the University of British Columbia and a Masters in Management Studies from the University of Birmingham, U K.</p>	<p>1999</p>
<p>M. E. J. Phelps, O.C. <sup>1,3,4</sup> West Vancouver, British Columbia</p>	<p>Chairman, Dornoch Capital Inc.</p> <p>Background: Mr. Phelps is Chairman of Dornoch Capital Inc., a private investment company. He is also a director of Duke Energy Corporation, the Canadian Imperial Bank of Commerce, Canadian Pacific Railway, Fairborne Energy Ltd., and Chairman of Altura Growth Fund. Mr. Phelps is Chairman of the Advisory Board, Duke Energy Gas Transmission – Canada and a member of the Advisory Board, Aon Reed Stenhouse. Mr. Phelps was the Chairman (1992-2002) and C.E.O. (1988-2002) of Westcoast Energy Inc. Mr. Phelps received his Law Degree from the University of Manitoba and his Masters of Law from the London School of Economics and Political Science.</p>	<p>1990</p>
<p>R. T. Riley <sup>4,5</sup> Montreal, Quebec</p>	<p>Vice-President of L.B.G. Capital, a Division of National Bank Financial</p> <p>Background: Mr. Riley is Vice-President of L.B.G. Capital, a division of National Bank Financial, an investment dealer. He currently holds directorships with Argus Corporation Limited and Optimum General Inc. He received his Mechanical Engineering Degree from McGill and his Masters of Business Administration from the Wharton School at the University of Pennsylvania. He had a 25 year career at Canadian Pacific Ltd. ending as a senior corporate officer, followed by eight years as an entrepreneur in the insurance and mutual fund businesses.</p>	<p>1987</p>
<p>C. Taylor, O.C. <sup>5</sup> Vancouver, British Columbia</p>	<p>Chair of the Canadian Broadcasting Corporation</p> <p>Background: Ms. Taylor is Chair of the Canadian Broadcasting Corporation, past Chair of the Vancouver Board of Trade, and the former Chair of Canada Ports Corporation. Ms. Taylor also holds directorships with Fairmont Hotels &amp; Resorts Inc., HSBC USA, HSBC North America and HSCB Holdings plc.</p>	<p>2000</p>

<sup>1</sup> Member of the Executive Committee.

<sup>2</sup> Member of the Audit Committee.

<sup>3</sup> Member of the Management Resources and Compensation Committee.

<sup>4</sup> Member of the Corporate Governance Committee.

<sup>5</sup> Member of the Environmental, Health and Safety Committee.

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

## **Officers**

The names and municipalities of residence of the officers of the Company and the offices held by them are as follows:

Name and Municipality of Residence	Office and Principal Occupation
P. J. G. Bentley, O.C., LL.D.	Vancouver, British Columbia Chairman
D. L. Emerson	Vancouver, British Columbia President and Chief Executive Officer
C. W. Reid	Surrey, British Columbia Group Vice-President, Finance and Chief Financial Officer
J. B. Engleson	Prince George, British Columbia Group Vice-President, Wood Products
B. R. Hislop	Vancouver, British Columbia Group Vice-President and Chief Technology Officer
R. A. Luoma	Prince George, British Columbia Group Vice-President, Pulp and Paper
J. R. Williams	Surrey, British Columbia Group Vice-President, Fibre Management
K. O. Higginbotham	Surrey, British Columbia Vice-President, Forestry and Environment
J. K. Pau	Vancouver, British Columbia Vice-President and Treasurer
R. L. Waldie	Prince George, British Columbia Vice-President, Human Resources
S. Yurkovich	Vancouver, British Columbia Vice-President, Corporate Affairs
D.M. Calabrigo	Surrey, British Columbia General Counsel and Corporate Secretary
K.J. Clayton	North Vancouver, British Columbia Corporate Controller

All of the above Directors and Officers have had the same or similar principal occupations with the organizations indicated for the last five years except that; prior to April 2002, Mr. Cliff was Chairman of BC Gas Inc. (1972-2002); prior to 1999, Mr. Cullen was Vice-Chairman of RBC Dominion Securities; prior to December 2002, Mr. Phelps was Chairman of the Advisory Board, Duke Energy Gas Transmission – Canada (2002) and Chairman (1992-2002) and President and Chief Executive Officer (1988-2002) of Westcoast Energy Inc.; prior to 1999, Mr. Riley was Vice-President of L.B.G. Capital, a Division of Levesque Beaubien Geoffrion Inc.; prior to 2000, Ms. Taylor was Chair, (1998-99), Acting Chair (1997-98) and Vice-Chair of Vancouver Port Corporation (1995-97); prior to January 1998, Mr. Emerson was President and Chief Executive Officer of the Vancouver International Airport Authority; prior to September 1998, Mr. Reid was Group Controller, Pulp and Paper of CFP and prior to November 1999, Mr. Reid was Corporate Controller of the Company; prior to February 2002, Mr. Luoma was Group Vice-President, Pulp of the Company and prior to November 1999, Mr. Luoma was Vice President, Pulp Operations of Northwood; prior to November 1999, Mr. Waldie was Vice-President, Human Resources and Secretary of Northwood; prior to February 2002, Mr. Williams was Vice-President, Coastal Operations and prior to November 1997, Mr. Williams was Vice-President, Fibre Supply of Pacific Forest Products Limited and prior to February 1999, Mr. Williams was Manager, Fibre Supply of CFP; prior to November 1999, Ms. Yurkovich was General Manager, Corporate Affairs of CFP; prior to February 2002, Ms. Hislop was Group Vice-President, Wood Products and prior to November 1999, Ms. Hislop was Group Vice-President, Northern Wood Products; prior to February 2002, Mr. Engleson was Vice-President, Wood Products, Prince George Region and prior to November 1999, Mr. Engleson was General Manager, Prince George Region; prior to January 2001, Mr. Calabrigo was General Counsel and Corporate Secretary of Viceroy Resource Corporation; prior to November 2002, Mr. Clayton was Assistant Corporate Controller; in 2001 Mr. Clayton was Group Reporting Manager for The BOC Group, England, and prior to October 2000, Mr. Clayton was Manager Corporate Accounting for CFP.

## **Shareholder Rights Plan**

On November 19, 1999, the Board of Directors of the Company (the "Board") approved the adoption, effective as at November 23, 1999, of a shareholder rights plan (the "Shareholder Rights Plan"). The purpose of the Shareholder Rights Plan is to discourage discriminatory or unfair take-over offers for the Company and provide the Board with time, if appropriate, to pursue alternatives to maximize shareholder value in the event of an unsolicited takeover bid for the Company.

This Shareholder Rights Plan was approved at the Annual General Meeting of shareholders held on April 28, 2000. Pursuant to the terms of the Shareholder Rights Plan, the Plan must be reconfirmed by more than 50 per cent of the votes cast at the Annual General Meeting of the shareholders of the Company to be held on April 29, 2003. If the Rights Plan is not reconfirmed, it will terminate at the end of the Annual General Meeting.

## **Shareholdings of Directors and Senior Officers**

As at February 6, 2003, the Directors and senior officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 1,490,865 Common Shares representing approximately 1.8 per cent of the outstanding Common Shares.

As at February 6, 2003, Matthews-Cartier Holdings Limited ("MCHL") owned or exercises control or direction over 20,897,994 Common Shares representing approximately 25.8 per cent of the outstanding Common Shares of the Company. MCHL is owned indirectly by trusts for the benefit of members of the Prentice and Bentley families of Vancouver. The late Mr. J. G. Prentice and the late Mr. L. G. Bentley were the founders of Canfor. Mrs. M. E. Hurst and Mrs. E. R. Jarvis are the daughters of Mr. and Mrs. Prentice and Mr. P. J. G. Bentley is the son of Mr. and Mrs. Bentley. Under a Shareholders Agreement to which MCHL, various holding companies and the trustees of the trusts are parties, the Common Shares owned or controlled by MCHL will, at the Company's Annual General Meeting to be held on April 29, 2003, be voted for the election of one nominee of the Hurst and Jarvis families combined and two nominees of the Bentley family. Mrs. M. E. Hurst, Mr. P. J. G. Bentley and Ms. B. R. Hislop are the nominees and are trustees of the trusts. The Company understands that members of the families and their associates owned, in addition, approximately 2.1 per cent of the outstanding Common Shares.

## **Markets for Securities**

The Common Shares are listed and traded on The Toronto Stock Exchange under the symbol CFP. The main operating company is CFP, from which the name Canfor is derived.

**Dividends**

The declaration and payment of dividends is at the discretion of the Company's Board of Directors. The following dividends (per share) were paid in the years ended December 31 in 2002 and 2001.

	2002	2001
Common shares	\$ 0.26	\$ 0.26

The amount of dividends the Company is permitted to pay under its term loan agreements is determined by reference to consolidated net earnings less certain restricted payments. As at December 31, 2002, the Company would be permitted under these agreements to pay up to \$68.7 million or \$0.85 per share in dividends on its Common Shares. The agreements do not restrict payment of dividends on preferred shares or dividends paid in Common Shares of the Company.

**Security**

The Company's operating lines of credit and term indebtedness are unsecured.

**Additional Information**

Reference is made to the sections of the Company's Annual Report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements," which are incorporated by reference.

Additional information, including Directors' and Officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Information Circular for the Annual General Meeting of the Company held on April 30, 2002. Additional financial information is provided in the Company's comparative financial statements for the year ended December 31, 2002, which are contained in the Annual Report.

The Company will provide upon request to the Secretary of the Company, 1500-550 Burrard Street, Bentall 5, Vancouver, British Columbia V6C 2C1:

- a) at no cost when the securities of the Company are in the course of a distribution under a short form prospectus or a preliminary short form prospectus,
  - (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
  - (ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Company that have been filed, if any, for every period subsequent to the financial statements for its most recently completed financial year;
  - (iii) one copy of the information circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of Directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate, and;
  - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or
- b) at any time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

