



Canfor Corporation

Annual Information Form

**Information in this Annual Information Form
is as of February 5, 2004 unless otherwise indicated.**

FINANCIAL HIGHLIGHTS⁽¹⁾

	2003 ⁽⁶⁾	2002
Sales and income (millions of dollars)		
Net sales	\$2,095.5	\$2,112.3
Net income	153.3	11.5
Cash flow (millions of dollars)		
Cash flow from operations ⁽²⁾	\$ (1.3)	\$ 124.2
Per common share (dollars)		
Net income — basic	\$ 1.81	\$ 0.07
Net income — diluted	1.65	0.07
Common shareholders' equity	11.71	10.27
Financial position (millions of dollars)		
Working capital ⁽²⁾	\$ 254.2	\$ 273.2
Total assets	2,439.4	2,328.0
Long-term debt	478.0	643.4
Common shareholders' equity	1,089.0	953.9
Additional information ⁽³⁾		
Return on capital employed	10.3 %	2.7 %
Return on assets	7.1 %	1.9 %
Return on common shareholders' equity	15.0 %	1.2 %
Ratio of current assets to current liabilities	1.5:1	1.7:1
Ratio of net debt to common shareholders' equity	35:65	41:59
EBITDA (millions of dollars) ^{(2),(4)}	\$ 107.0	\$ 150.4
Capital expenditures (millions of dollars) ⁽²⁾	\$ 123.5	\$ 67.4
Number of employees at year-end ⁽⁵⁾	5,478	5,618
Employment costs (millions of dollars) ⁽⁵⁾	\$ 461.4	\$ 455.4

QUARTERLY FINANCIAL INFORMATION⁽¹⁾

	2003				2002			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Sales and income (millions of dollars)								
Net sales	\$527.4	\$483.3	\$555.1	\$529.7	\$505.9	\$577.0	\$548.9	\$480.5
Net income (loss)	40.2	(1.1)	80.1	34.1	11.1	70.2	(11.8)	(58.0)
Per common share (dollars)								
Net income (loss) — basic	0.48	(0.03)	0.97	0.40	0.12	0.85	(0.16)	(0.73)
Net income (loss) — diluted	0.43	(0.03)	0.86	0.37	0.12	0.75	(0.16)	(0.73)
Dividends paid	0.065	0.065	—	—	0.065	0.065	0.065	0.065

(1) The results of B.C. Chemicals have been reclassified as a discontinued operation. The division was sold on August 29, 2003.

(2) Prior years' have been restated to conform to the 2003 presentation.

(3) For additional information regarding definitions of financial terms, see the section of the Company's "Management's Discussion and Analysis of Financial Condition and Results of Operations 2003" entitled "Definitions of Selected Financial Terms", which are incorporated by reference herein.

(4) EBITDA represents operating income plus amortization.

(5) Excludes Canfor Corporation's proportionate share of Howe Sound Pulp and Paper Limited Partnership.

(6) Includes the results of Daaquam Lumber Inc. from June 1, 2003.

Changes in Accounting Policy — for information regarding changes in accounting policy, see the section of the Company's Consolidated Financial Statements for the year ended December 31, 2003 entitled "Notes to the Consolidated Financial Statements — Change in Accounting Policy", which are incorporated by reference herein.

FIVE YEAR SUMMARY⁽¹⁾

	2003 ⁽⁴⁾	2002	2001	2000	1999 ⁽⁵⁾
	(millions of dollars)				
Net sales ⁽²⁾	\$2,095.5	\$2,112.3	\$1,985.7	\$2,265.9	\$1,725.2
Net income from continuing operations ⁽²⁾ . . .	85.8	1.9	19.3	117.8	104.0
Net income	153.3	11.5	26.4	125.6	102.6
Total assets	2,439.4	2,328.0	2,378.8	2,440.5	2,347.6
Net cash (short-term indebtedness)	(57.4)	22.9	30.2	(23.6)	72.6
Short-term bank loans	82.1	—	—	205.4	225.4
Long-term indebtedness ⁽³⁾	535.2	694.8	767.4	450.5	471.8
	(dollars per common share)				
Net income (loss) from continuing operations					
— basic ⁽²⁾	\$ 0.98	\$ (0.05)	\$ 0.19	\$ 1.41	\$ 1.70
Net income (loss) from continuing operations					
— diluted ⁽²⁾	0.92	(0.05)	0.19	1.28	—
Net income — basic	1.81	0.07	0.27	1.50	1.68
Net income — diluted	1.65	0.07	0.27	1.36	1.66
Dividends paid	0.13	0.26	0.26	0.26	—

(1) The results of B.C. Chemicals have been reclassified as a discontinued operation. The division was sold on August 29, 2003.

(2) Prior years' have been restated to conform to the 2003 presentation.

(3) Includes current portion.

(4) Includes the results of Daaquam Lumber Inc. from June 1, 2003.

(5) 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.

2003

On January 1, 2003, Canfor terminated the designation of its U.S. dollar revenue stream as a hedge against its U.S. dollar long-term debt repayments. Consequently, any exchange gains or losses on long-term debt after this date are recognized into income. Included in net income for 2003 is a \$110.9 million foreign exchange gain on translation of U.S. dollar long-term debt.

Canfor's results were affected by \$151.7 million of expenses related to the softwood lumber trade dispute — \$134.3 million of countervailing duties ("CVD"), \$12.3 million of anti-dumping duties ("ADD") and \$5.1 million of legal and other costs.

On May 27, 2003, Canfor completed the acquisition of 100% of Daaquam Lumber Inc. ("Daaquam") and Produits Forestiers Anticosti Inc. ("Anticosti"). Daaquam is a lumber manufacturing company located in St. Just-de-Bretenières, Quebec with an annual lumber capacity of 150 million board feet, and holds timber-cutting rights in the surrounding region. Anticosti holds additional timber rights and has harvesting operations on Anticosti Island, Quebec.

On August 29, 2003, Canfor completed the sale of B.C. Chemicals, a division of Canadian Forest Products Ltd., to a limited partnership owned by Chemtrade Logistics Income Fund ("Chemtrade") for \$117.3 million.

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 (the "Howe Sound Partnership"). This generated savings of \$8.1 million of future income taxes in the year.

A gain of \$23.8 million was recorded from the sale of Coastal Operations property.

Under changes to British Columbia forestry legislation in the Spring of 2003, the Government of British Columbia reduced the allowable annual cut of most major forest tenure-holders in the province of British Columbia by 20%. The allocation of the take-back among the tenures held by Canfor, and the amount of compensation to be paid by the Government for such take-back, has not yet been determined. See “Wood Supply — Timber Resources” below. Unless otherwise indicated, specific references to Canfor’s allowable annual cut in the Province of British Columbia in this Annual Information Form are based on the actual allowable annual cut of Canfor in the period indicated without adjustment to recognize the impact of the take-back.

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 CVD and 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 that 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 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 3%, 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 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% of Northwood Inc. (“Northwood”) from The Mead Corporation (“Mead”) and Nexfor Inc. (“Nexfor”) for \$635 million, resulting in Northwood becoming a wholly owned subsidiary.

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.

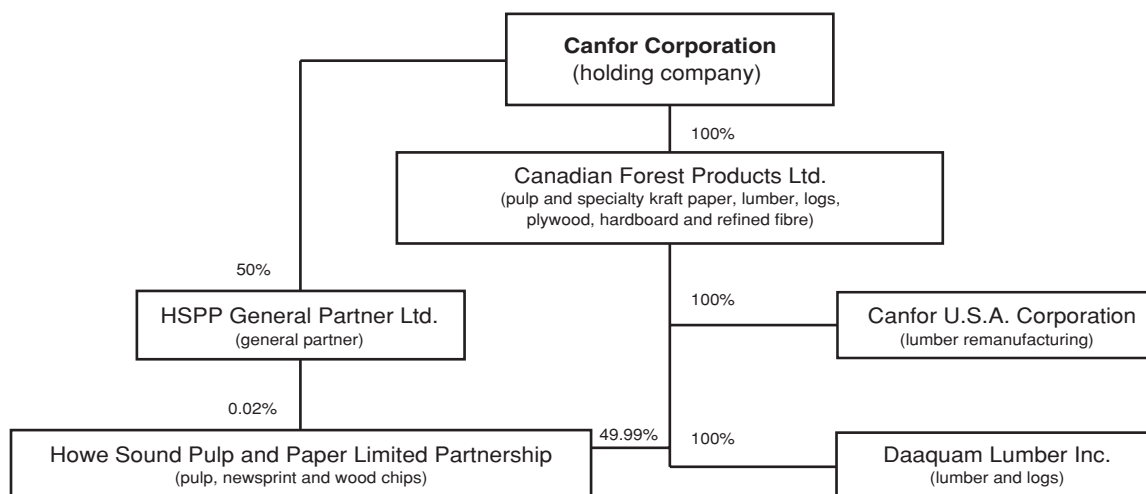
INCORPORATION

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, Howe Sound Partnership, which is constituted under the Partnership Act of British Columbia and Daaquam, which is constituted under the laws of Quebec.



Canfor completed the acquisition of all the shares of Northwood on November 23, 1999, with Northwood remaining 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 HSPG, the continuing entity being called Canadian Forest Products Ltd. (“CFP”). The Company completed the acquisition of all of the shares of Daaquam and Anticosti on May 27, 2003. Unless otherwise stated in this Annual Information Form, the results of the Northwood, Daaquam and Anticosti operations have been included in the Company’s financial information since the date of their acquisition.

In addition, Canfor has a minority interest in Seaboard General Partnership (“Seaboard”), formerly known as Seaboard Shipping Company Limited. Seaboard, 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% interest in HSPG was written off in 1998 after management of the Company determined that Canfor would not recover its investment in HSPG. 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”.

BUSINESS OF CANFOR

General Development

Canfor is a Canadian integrated forest products company based in Vancouver, British Columbia, employing approximately 5,500 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, northern Alberta and Quebec. 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 and 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 \$685 million in corporate acquisitions and strategic alliances, \$487.3 million in capital expenditures and \$19.7 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 2003, 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% interest in HSPP;
 - Sold its proprietary technology regarding phytosterol extraction;
 - Sold its lumber treating plant to Northwest Wood Preservers Ltd.;
 - Sold the B.C. Chemicals Division to Chemtrade; and

- Sold real property from its Coastal Operations.
- 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% 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 an initial target to achieve \$150 million in annualized benefits by the fourth quarter of 2003. The target was subsequently revised upward in 2003 to \$230 million in gross annualized benefits. For additional information regarding the CRMI Program, see the section of the Company’s “Management’s Discussion and Analysis of Financial Condition and Results of Operations 2003” entitled “Cost Reduction/Margin Improvement (“CRMI”) Program”, which is 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 were closed during the third quarter of 2003. For additional information, see “Wood Products”.
- In May 2003, Canfor acquired Daaquam and Anticosti in Quebec.
- On November 25, 2003, Canfor signed an agreement to acquire all the shares of Slocan Forest Products Ltd. (“Slocan”). Slocan shareholders will be entitled to receive 1.3147 common shares of Canfor for each Slocan share. The aggregate value of the transaction, including Slocan’s assumed net debt, is approximately \$620 million. For additional information regarding the Slocan acquisition, see the Material Change Report of Canfor dated December 1, 2003 and the section of the Company’s “Management’s Discussion and Analysis of Financial Condition and Results of Operations 2003” entitled “Agreement to Acquire Shares of Slocan Forest Products Ltd.”, each of which are incorporated by reference herein.

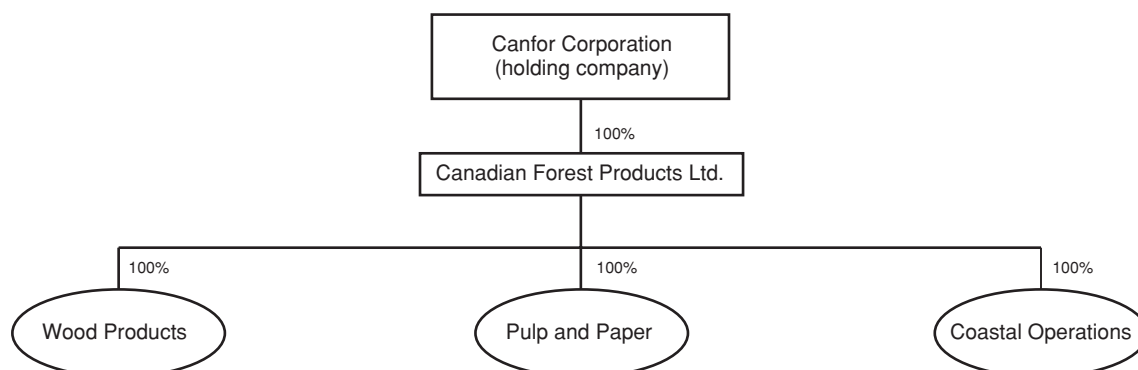
Trends, Events and Uncertainties

For additional information regarding changes to the Company’s business expected in 2004 and known trends, commitments, events or uncertainties, see the Company’s “Management’s Discussion and Analysis of Financial Condition and Results of Operations 2003”, 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 three wholly owned business segments: Wood Products, Pulp and 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:



- Nine sawmills in British Columbia, two in Alberta and one in Quebec, with an annual productive capacity of 3.2 billion board feet
- Finger-jointing and lumber remanufacturing operations
- Plywood mill with an annual production capacity of 179 million square feet (3/8" basis)
- Woodlands operations with an allowable annual cut of 8.0 million m³ (6.9 million m³ in British Columbia) (1)
- Lumber and plywood marketing
- Panel and Fibre operation

- Intercontinental Pulp and Northwood Pulp mills
Annual capacity:
Kraft pulp – 873,900 tonnes
- Prince George Pulp and Paper mill
Annual capacity:
Kraft pulp – 137,300 tonnes
Kraft paper – 142,200 tonnes
- Pulp and specialty kraft paper marketing
- Sodium chlorate and crude tall oil production (sold in August 2003)

- Englewood and Mainland logging operations
- Allowable annual cut of 1.5 million m³ (1)
- Coast Fibre Supply operation

Note:

- (1) Does not reflect a reduction to Canfor's allowable annual cut of 1.556 million cubic metres under changes to British Columbia forestry legislation in the Spring of 2003, pursuant to which the Government of British Columbia reduced the allowable annual cut of most major forest tenure-holders in the province of British Columbia by 20%. The allocation of this take-back among the tenures held by Canfor, and the amount of compensation to be paid by the Government for such take-back, has not yet been determined. See "Wood Supply — Timber Resources" below.

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

	Year ended December 31	
	2003	2002
	(millions of dollars)	
Wood Products	\$1,313.5	\$1,348.1
Pulp and Paper	664.9	641.6
Coastal Operations	117.1	122.6
Total sales	<u>\$2,095.5</u>	<u>\$2,112.3</u>

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

	Year ended December 31	
	2003	2002
Canada	21	20
United States	55	57
Europe	10	10
Far East and other	14	13
Total	<u>100%</u>	<u>100%</u>

WOOD SUPPLY

Timber Resources

Canfor harvests timber in British Columbia, northern Alberta and southern Quebec, and has a total allowable annual cut of 9.5 million cubic metres. This does not include reductions to Canfor's allowable annual cut in British Columbia by 1.556 million cubic metres in the Spring of 2003 as a result of the fundamental changes described below to legislation governing the British Columbia forest industry, the implementation of which is pending. Notwithstanding these reductions, Canfor's fibre base continues to be one of the largest in 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, Alberta and Quebec, which permit the harvesting of Crown timber.

The following table sets forth Canfor's timber resources as at December 31, 2003:

	Productive Area ⁽¹⁾ (hectares)	Allowable Annual Cut ⁽¹⁾ (cubic metres)
British Columbia		
Tenures having regulated sustained yields		
Area-based — Tree Farm Licences ⁽²⁾	883,743	1,799,854
Volume-based — Forest Licences (replaceable)	N/A	6,205,591
— Forest Licences (non-replaceable)	N/A	280,478
Tenures without regulated sustained yields		
Timber Licences ⁽³⁾	2,200	120,000
Crown Granted Land (fee simple) ⁽⁴⁾	1,768	N/A
Alberta		
Tenures having regulated sustained yields		
Forest Management Agreement	331,187	630,400
Timber Quotas	N/A	253,425
Quebec		
Tenures having regulated sustained yields		
Forest Management Contract	N/A	175,000
Timber Supply and Forest Management Agreement	N/A	38,300
Total	<u>1,218,898</u>	<u>9,503,048</u>

Notes:

(1) Does not include the reduction by 1.556 million cubic metres of Canfor's allowable annual cut in British Columbia described below.

(2) Comprised of TFL 37 (Englewood), TFL 48 (Chetwynd) and TFL 30 (McGregor).

(3) Total inventory volume of 716,500 cubic metres to be depleted over the next seven years.

(4) 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% 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. In 2003, the Government of the Province of British Columbia passed legislation that has delayed the further replacement of all Forest Licences in B.C. until the provincial process for consultation and accommodation of First Nations has been completed. Canfor holds one non-replaceable Forest Licence expiring in 2011. Canfor also holds two non-replaceable Forest Licences under joint venture agreements with West Moberley First Nations expiring in 2023 and 2024. 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 expires in 2018, Pulpwood Agreement No. 3 expires in 2020, and Pulpwood Agreement No. 7 expires in 2022. None of the Pulpwood Agreements are replaceable under the Forest Act. 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.

For each Forest Licence and TFL, an allowable annual cut (“AAC”) is determined. The actual cut in any one year may vary from year to year provided that the actual cut over a five-year period does not exceed 110% of the aggregate AAC for that period.

In 1997, Canfor prepared a timber supply analysis as part of the Management Plan for TFL 37 (Englewood). 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”). 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. In January 2003, the province approved the extension of the current AAC for TFL 37 (Englewood) through to 2006. In December 2003, the term of the current Management Plan was extended to June 30, 2005 to better align the next timber supply analysis with approved management strategies.

In 1996, the Provincial Chief Forester approved a new AAC of 514,000 cubic metres for TFL 48 (Chetwynd). The approval represented a 12% 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%) in coniferous annual cut from the previous AAC.

In 1995, the Provincial Chief Forester approved an AAC of 350,000 cubic metres for TFL 30 (McGregor). The AAC represented a decrease in annual harvest of 57,000 cubic metres, or 14% from the previous AAC. In 2003, the AAC for TFL 30 was further reduced by an additional 6% to 330,000 cubic metres based on an analysis of future timber yields.

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%) than the previous AAC. The new AAC represented a 24% 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. In March 2003, a further determination provided for an additional AAC increase of 100,000 cubic metres for the Fort St. John TSA. A similar adjustment made in May 2003 resulted in an increase of 127,000 cubic metres of coniferous AAC for the Dawson Creek TSA, which has yet to be allocated.

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% increase over the previous AAC for the area.

In the Spring 2003 legislative sitting, the Government of British Columbia introduced nine different Bills affecting forestry operations in the province. The legislative changes were described in the Provincial Government’s December 2001 submission to the Canada — United States Softwood Lumber Trade Discussions entitled “British Columbia Proposed Forest Policy Changes”.

Three of the Bills (Bill 28, Bill 29 and Bill 45) represent a significant change in the management of timber resources in B.C., both for Canfor and all other major forest products companies within the Province.

The Forestry Revitalization Act (Bill 28) provides for the reduction of the total AAC of major forest tenures by 20% and specifies the total amount to be taken from major licensees in the Province. For Canfor, this amount totalled 1.556 million cubic metres. The area reductions contemplated by the take-back can be made equally or unequally to one or more licenses held by Canfor and an order of the Minister is required by March 31, 2006 to determine exact application of the take-back. Until the application of these reductions to the tenures held by Canfor has been implemented and levels of compensation determined, Canfor is not able to assess the full impact of the take-back on its operations or business. The government has promised to provide fair compensation for the taking under Bill 28 but the actual mechanism for determining the level of compensation has yet to be drafted into regulation.

The Forest (Revitalization) Amendment Act, 2003 (Bill 29) provides for the reduction of cut control constraints (including the elimination of annual cut controls), the elimination of timber processing and appurtenancy requirements, and the reduction of tenure transfer and change of control constraints. Companies will also be given unilateral rights to consolidate and subdivide major forest tenures.

Previously, the Forest Act had provided 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. Under Bill 29, the government’s consideration of changes of control or tenure transfers is limited to the impact of such changes or transfers on competition in the standing timber markets, log markets or chip markets.

The Forest (Revitalization) Amendment Act (No.2), 2003 (Bill 45) is primarily concerned with the modification of Forest Act provisions to facilitate the elimination of existing administrative barriers to entry that may constrain the implementation of a new competitive timber pricing system.

For a further discussion of these changes, see the “Risks and Uncertainties — Provincial Forest Policy Reform” section of the Company’s “Management’s Discussion and Analysis of Financial Condition and Results of Operations 2003”, which is incorporated by reference herein.

In northern Alberta, Canfor has a Forest Management Agreement (“FMA” #9900037) under which it undertakes to manage an area of Crown forestland. This FMA was renewed in 1999 for a 20-year period. In June 2003, the Government of Alberta approved the Detailed Forest Management Plan for the FMA and determined the coniferous AAC for the term of the FMA (1999-2019) to be 630,400 cubic metres.

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 AAC and an aggregate allowable cut over a five-year period. The actual cut during each five-year period must be at least 60% 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% of the aggregate allowable cut for that period.

In the Province of Quebec, the Minister of Natural Resources, Wildlife and Parks has a number of tools for allocating timber harvesting rights and associated forest resource management responsibility. They include Timber Supply and Forest Management Agreements (“TSFMA”) and Forest Management Contracts (“FMC”). Both require the agreement holder to fulfil similar management obligations in regards to planning, monitoring, and reporting activities. A TSFMA is a volume-based agreement that authorizes an owner of a wood processing mill to harvest an annual amount of volume from a specified timber supply area. A licence holder is evaluated based on the collective forest management and environmental performance of all operators within the timber supply area and on the effective utilization of the allocated volume by the individual mill owner. A FMC is an agreement by which a single licensee is responsible for the management of a specified forest area.

In May 2003, Canfor completed the purchase of Daaquam and Anticosti, two privately owned lumber and timber harvesting companies based in Quebec. Anticosti has woodlands and harvesting operations on Anticosti Island located in the Gulf of St. Lawrence and holds a FMC with an AAC of 175,000 cubic metres. Daaquam maintains a TSFMA near Saint Just-de-Bretonnières with an annual harvest allocation of 38,300 cubic metres. The company secures an additional annual volume of 363,000 cubic metres through procurement contracts with local suppliers in Ontario, Quebec and the U.S.

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

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 was 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 of the Chetwynd sawmill. The Chetwynd mill expansion was completed in 2000. In 2001, Canfor negotiated joint venture agreements with the West Moberly First Nation for both licences. In 2003, Canfor completed similar improvements to the Fort St. John sawmill. The provincial government subsequently issued forest licence documents for each tenure in 2003. The effective date is February 12, 2003 for the Forest Licence in the Dawson Creek TSA and January 1, 2004 for the Forest Licence in the Fort St. John TSA.

Within the Fort St. John TSA, Canfor also 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 2003, negotiations were concluded with Tembec Inc. towards a timber tenure management agreement to manage a 20-year non-replaceable forest licence with a coniferous AAC of 83,494 cubic metres. A letter of understanding has been signed and the final document is expected to be ratified in early 2004.

The mountain pine beetle continues to pose a significant threat to the lodgepole pine forests of British Columbia. Lodgepole pine accounts for 25% of the total timber volumes harvested in British Columbia and 50% of the total timber volumes harvested by Canfor in the Prince George Region. The present outbreak has spread over ten million hectares of land or greater than 10% of the province's commercial forestland base. This is an increase of 26% in area infested since 2001. More importantly, the volume infested has grown from 71.8 million cubic metres in 2001 to 173.5 million cubic metres in 2003.

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 provincial 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 is being 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations 2003", in particular the section entitled "Risks and Uncertainties — Aboriginal Issues", which is 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 FMA's except forest fire protection, which is a responsibility of the Province of Alberta. In Quebec, Canfor is responsible for all aspects of forest management on lands specified within its FMC's. The lands held under TFL's, FMA's, FMC's, TSFMA's, 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 Alberta, British Columbia and Quebec, 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 passed legislation (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 August 2003, further amendments were made to the regulations under the Forest Practices Code including changes to the Forest Road Regulation and the Timber Harvesting and Silvicultural Practices Regulation.

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 100 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 2003, involved the planting of 52.3 million seedlings on 37,668 hectares. This compares to 29,559 hectares harvested during 2003.

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 April 2003, Canfor entered into an agreement with the Government under which the Government will fund \$8.1 million for land based investments across British Columbia. Canfor is responsible for the implementation and delivery of these investments within this program.

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.

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 have been 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 in 2001 to 1.7 million hectares.

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 November 2003, Canfor announced the conclusion of registration audits for its Houston Operations in the Morice TSA and for the Fort St. John TSA Pilot Project. Both operations have been recommended for

certification to CSA Sustainable Forest Management Standard (CAN/CSA-Z809-02). The CSA certification of the Houston Operations applies to Canfor's AAC of 1.1 million cubic metres, covering a forest area of 475,000 hectares. The Fort St. John CSA certification is unique in that the certificate will be issued to a group of participants operating in the TSA including: BC Timber Sales, Cameron River Logging Ltd., CFP, Louisiana-Pacific Canada Ltd., Slocan and Tembec Inc. The certification will cover a forest area of 4.2 million hectares and a combined AAC for the participants of 2.1 million cubic metres.

As a result, Canfor now has a total AAC of 8.5 million cubic metres or 91% of its harvest volume (prior to the Governments' 20% take-back) certified to a Sustainable Forest Management ("SFM") standard under either the CSA or SFI programs.

Canfor maintains a corporate web site, which is accessible to the public via the Internet address www.canfor.com. The web site provides comprehensive information on Canfor's operations, products and forest management activities.

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:

	Year ended December 31	
	2003	2002
	(thousands of cubic metres)	
Production from timber tenures ⁽¹⁾		
Coastal British Columbia	1,257	1,335
Northern Interior of British Columbia	8,161	8,170
Northern Alberta	1,094	889
Eastern Region (Quebec)	59	N/A
Total production	<u>10,571</u>	<u>10,394</u>
Purchases		
Logs	3,581	2,792
Chips ⁽²⁾	4,467	4,231
Total purchases	<u>8,048</u>	<u>7,023</u>
Total production and purchases	<u>18,619</u>	<u>17,417</u>
Trades and sales		
Logs ⁽³⁾	1,721	1,463
Chips ⁽⁴⁾	482	343
Total traded and sales	<u>2,203</u>	<u>1,806</u>
Total available for conversion into finished goods	<u>16,416</u>	<u>15,611</u>
Total converted by Canfor and Howe Sound Partnership into finished goods	<u>15,757</u>	<u>15,796</u>

(1) Does not include the reduction by 1.556 million cubic metres of Canfor's allowable annual cut in British Columbia. See "Wood Supply — Timber Resources" above.

- (2) Included in chip purchases are 381,142 cubic metres (2002 — 437,248 cubic metres) purchased from Lakeland and The Pas, in which Canfor owns a one-third interest.
- (3) These sales are primarily coastal logs that are traded to obtain chips and waste materials.
- (4) Included in chip sales are 398,875 cubic metres (2002 — 342,769 cubic metres) of chips sold by the Alberta operations and 82,575 cubic metres of chips sold by the Quebec operations where Canfor does not have a pulp mill. Results of the Quebec operations are included from the completion of the acquisition of Daaquam and Anticosti on May 27, 2003.

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 situation 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 cubic metres. Canfor has a 49% 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% 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 jointly accepted 20-year non-replaceable Forest Licences in the Dawson Creek and the Fort St. John TSA's. See "Wood Supply — Timber Resources" above.

WOOD PRODUCTS

Canfor currently operates nine sawmills and a plywood mill in the northern interior of British Columbia, two sawmills in northern Alberta and one sawmill in Quebec. These sawmills have the annual capacity to produce over 3.2 billion board feet of lumber ranking Canfor as one of the largest softwood lumber producers in North America. The Wood Products segment also includes the Panel and Fibre operation, located in New Westminster, British Columbia.

As previously mentioned under "Business of Canfor", the Upper Fraser and Taylor sawmills were closed during the third quarter of 2003. A capital investment of \$40 million to upgrade the Fort St. John and Prince George sawmills allowed 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 two mill closures.

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 and machine stress rated lumber facilities at its Grande Prairie, Prince George and Houston sawmills. 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:

	Year ended December 31	
	2003⁽²⁾	2002
	(Mfbm) ⁽¹⁾	
Production		
British Columbia	2,518,418	2,650,137
Alberta	308,926	309,996
Quebec	65,976	—
	<u>2,893,320</u>	<u>2,960,133</u>
Sales	<u>2,941,959</u>	<u>2,817,312</u>

(1) Mfbm denotes thousand foot board measure.

(2) Includes volume from Daaquam from June 1, 2003.

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 2003.

In addition to the sawmill facilities, Canfor operates a plywood mill in Prince George, British Columbia. This mill has a production capacity of 179 million square feet (3/4" basis) of plywood and is certified with respect to Canadian softwood and Douglas fir plywood and for Japanese grading standards. The mill has been modernized over the past few years to automate some of its more labour-intensive production stages and to increase the mill's efficiency when processing smaller diameter logs.

Fibre Management

The Fibre Management Group was established in 2002 with the mandate to coordinate the raw material fibre supply for all the manufacturing facilities. This group oversees the woodlands operations of northern and coastal British Columbia and of northern Alberta, with the goal of reducing costs and maximizing the value from the fibre resource.

Interior Fibre Operations

The Interior Fibre Management group harvests logs from tenures located in northern British Columbia and northern Alberta. The total AAC for these areas was approximately 8.0 million cubic metres in 2003. It is anticipated the revised level of AAC will be 6.3 million cubic metres of annual cut, net of the above-mentioned take-back, with any shortfall in mill requirements being made up with purchased wood (see "Wood Supply — Timber Resources" above).

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	
	2003	2002
Log Production (cubic metres)	9,254,289	9,058,299
Log Purchases (cubic metres)	2,589,422	2,014,657
Wood Chip Production (oven-dried tonnes)	1,484,198	1,669,234

Lumber and Plywood Distribution

Canfor markets 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 2003, approximately 75% of Canfor’s lumber sales were made to United States markets and 18% to Canadian markets. Virtually all lumber destined for North America was shipped by truck and rail. Canfor leases a fleet of 300 railway cars to ensure adequate rail car supply throughout the year. The remaining 7% of shipments went offshore, principally to Japan, but also to Korea, China, Taiwan and Europe. Lumber going overseas traveled 80% by container ship and 20% by break-bulk (non-container) carrier.

Lumber Markets and Competitive Position

In 2003, strong housing activity was a key contributor to the U.S. economy. Very low mortgage rates significantly increased housing affordability for first-time homebuyers. Favourable demographic trends also contributed as baby boomers are in their peak earning years. Single-family starts were the highest since 1978 at 1.5 million units, a 10% increase over 2002. For the year, total housing starts were 1.8 million units⁽¹⁾, 7% higher than 2002. In Canada, low interest rates also resulted in increased housing starts of 218,000 units⁽²⁾, up 7% from 204,000 units in 2002.

Increased housing construction translated to strong demand for building materials by North American homebuilders. Canfor’s sales to professional building materials suppliers (“Pro Dealers”) and industrial customers reached record levels. During the year, customers continued to demand higher quality lumber and increased product consistency. Reflecting this trend, Random Lengths Publications, which publishes weekly lumber prices, changed the benchmark Western Spruce-Pine-Fir (“S-P-F”) product from “Standard and Better” to “#2 and Better” (“#2&Btr”) effective April 1, 2003. They also changed the base price to include mill returns from underweight shipments, freight rebates and prepaid freight, which effectively added US \$25 per Mfbm⁽³⁾ to the previously reported price.

Home improvement retailers such as Home Depot and Lowe’s also benefited from the rise in housing activity. Strong sales of existing homes, the continuing appreciation of home values and low mortgage rates resulted in many homeowners renovating their homes. The low interest rates encouraged mortgage refinancing, which reduced monthly mortgage payments and increased disposable household income for home renovation projects.

During the year, the Canadian dollar appreciated 21% against the U.S. dollar and resulted in considerably reduced sales revenue for Canadian producers. The weakening U.S. dollar also affected the Euro, which strengthened 17% against the U.S. dollar. This resulted in reduced shipments from European producers to the United States.

To counter the impact of the CVD and ADD duties and a much higher Canadian dollar, Canadian producers significantly increased sawmill production in order to lower their per unit production costs. As a result, lumber prices were low for the first half of the year. By the summertime, however, less efficient producers were forced to curtail production. In addition, logging restrictions imposed due to forest fires that occurred in the interior of British Columbia resulted in extremely low log inventories during a time when lumber demand

(1) Source: U.S. Census Bureau
(2) Source: Statistics Canada
(3) Source: Random Lengths Publications

was strong and rising. This eventually caused Western SPF 2" × 4" #2&Btr prices to increase from US\$247 per Mfbm in the second quarter to US\$316 per Mfbm in the third quarter, an appreciation of 28%. For 2003, the average price of Western SPF 2" × 4" #2&Btr was US\$277 per Mfbm, 2% higher than the average price of US\$270 per Mfbm in 2002.

Japan's economy started to show signs of recovery in 2003 with increases in consumer spending and capital investment. Although total housing starts increased by only 1,000 units to 1.152 million units⁽⁴⁾ during 2003, wooden 2" × 4" housing, which constitutes approximately 45% of total housing, increased by 20,000 units during 2003. Canfor's J-grade lumber destined for Japan goes into wooden 2" × 4" housing, which has experienced steady growth for many years and which totaled 81,000 units, 3% higher than in 2002⁽⁴⁾. The Japanese government provided an incentive for new homeowners whereby they can deduct up to ¥ 500,000 a year from their income taxes for the next ten years.

Other important offshore markets for Canfor are Korea, China and Taiwan. Canfor's shipments to these countries increased by 38% over 2002. Strong sales to China reflected Canfor's efforts to grow market share in the expanding western-style housing market. In November, the Chinese Ministry of Construction released the Chinese Timber Structural Design Building Code, which features North American-style wood-frame construction. Canadian technical experts assisted in developing the construction, fire and seismic standards for the code. The acceptance of this code is expected to promote the use of Canadian SPF dimension and stud lumber in wooden housing construction.

Plywood Markets and Competitive Position

Canfor's plywood is used in home construction and specialty applications. Approximately 73% of Canfor's plywood sales were in Canada, 21% went to the U.S. and 6% went to Japan. The very strong housing demand in 2003 in North America resulted in panel products being in short supply during the second half of the year. This resulted in Canadian SPF Plywood prices increasing from an average of CN\$359 per thousand square feet⁽⁵⁾ ($\frac{3}{8}$ " basis) in the first half of 2003 to an average of CN\$480 per thousand square feet in the second half of 2003. For the full year, plywood prices rose by 10% from 2002 to CN\$421 per thousand square feet in 2003.

Panel and Fibre

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 48 million square feet ($\frac{3}{8}$ " 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 2,754 persons in its Wood Products operations in British Columbia, 314 persons in its operations in Alberta, 144 persons in its operations in the United States and 436 persons in its Quebec operations. Of these, approximately 62% 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"). Collective agreements with

(4) Source: Japan Wood-Products Research Information Centre

(5) Source: Crow's Publications

IWA-Canada, which represents the majority of the workers in the British Columbia operations, expired in June 2003. Negotiations between Canfor and IWA-Canada for the renewal of the agreement covering the majority of Canfor's B.C. Interior sawmills were successfully concluded in October and, at the time of writing, the Union was conducting ratification votes at each operation. The agreement provides for wage increases totalling 11% over a six-year term. Other collective agreements, which expired on this same date, were the CEP agreement covering the Taylor operation and the PPWC agreement representing the plywood production and maintenance employees at Canfor's plywood operation. Negotiations for the renewal of the latter agreements were ongoing at the time of writing.

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 contracts provide for wage increases of 2% in the first year and 2% in each of the remaining years and expire in February 2004.

A collective agreement was negotiated in 1999 with IWA-Canada for the Panel and Fibre operation providing a wage increase of 2% 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 2003 provincial statistics compiled by the Forest Industry Advisory Service ("FIAS") covering ten multi-division interior lumber operations, Canfor's sawmills ranked second in the Interior industry in lost-time frequency and fourth in medical incidents rates.

PULP AND PAPER

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, Northwood and Prince George Pulp and Paper facilities located in Prince George, in the central interior of British Columbia.

The three mills are relatively close in proximity to each other, with the Northwood Pulp mill located approximately five kilometres from the Intercontinental Pulp and Prince George Pulp and Paper mills.

The following table sets forth the daily and annual production capacities as at December 31, 2003:

	Daily Capacity	Annual Capacity
	(tonnes)	
Kraft Pulp		
Intercontinental Pulp Mill ⁽¹⁾	876	311,000
Northwood Pulp Mill ⁽²⁾	1,568	562,900
Prince George Pulp and Paper Mill ⁽³⁾	385	137,300
Kraft Paper		
Prince George Pulp and Paper Mill ⁽³⁾	398	142,200
Total capacity	3,227	1,153,400

- (1) Assuming continuous operation for an average of 355 operating days per annum.
- (2) Assuming continuous operation for an average of 359 operating days per annum.
- (3) Assuming continuous operation for an average of 357 operating days per annum

All three of the Canfor Prince George mills have Quality Management Systems registered under ISO 9001:2000 and Environmental Management Systems registered under ISO 14001:1998. The current registrations are in effect until May 2006.

The configuration of the Prince George Pulp and Paper 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, high porous, bleached and unbleached kraft papers, and specialty papers where profit margins are higher.

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. In 2003 Canfor began production of two additional products, PolAir P™ and KodAir P™. These highly porous papers are especially suited for high performance multiwall bag applications, which require rapid air release during filling.

Production and Sales Summary

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

	Year ended December 31	
	2003	2002
	(tonnes)	
Pulp production		
Intercontinental Pulp Mill	308,862	304,656
Northwood Pulp Mill	543,725	538,413
Prince George Pulp and Paper Mill	139,506	158,411
	<u>992,093</u>	<u>1,001,480</u>
Pulp sales		
Intercontinental Pulp Mill	308,867	302,735
Northwood Pulp Mill	550,841	532,746
Prince George Pulp and Paper Mill	139,470	158,045
	<u>999,178</u>	<u>993,526</u>

Both Intercontinental Pulp and Northwood Pulp mills set production records again in 2003. Much of this can be attributed to improved equipment reliability through better maintenance and operating practices and continued development of synergies between all three mills. Northwood Pulp reliability improved due to solving digester operational problems, improved recovery boiler performance, and improved vibration and lubrication initiatives. During the annual shutdown, Northwood Pulp made changes to improve digester chip feed and therefore increased sprint capacity. During the year Intercontinental Pulp took another step up in productivity as digester operation was pushed to higher sprint rates through control improvements. Intercontinental Pulp maintained good operating reliability throughout 2003.

Other accomplishments in 2003 for the mills included a 32% improvement in Medical Incident Rates ("MIR") over 2002, focus on CRMI initiatives, significant reductions in energy usage and divestiture of the B.C. Chemicals operation.

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

	Year ended December 31	
	2003	2002
	(tonnes)	
Kraft paper production	128,515	107,598
Kraft paper sales	121,373	108,913

During 2003 the paper machine operated at near full production with the exception of the annual maintenance shutdown taken during the second quarter. Paper production and quality has achieved significant improvement throughout the year and in 2003 produced more paper than ever before in its history.

Pulp and Paper Marketing and Distribution

Canfor, through its 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 Asian markets.

In May 1999, Canfor formed a joint marketing company with Georgia-Pacific Corporation for the sale and marketing of market pulp in Japan. 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 2003, the approximate geographic distribution of pulp sales was 34% to the European market, 34% to Asia and 32% to North America.

Canfor sells specialty kraft paper directly in North America and through an agency to offshore markets. The approximate distribution of specialty kraft paper sales in 2003 was 73% to North America, 8% to the Far East, 10% to Europe and 9% to other markets.

Canfor uses various modes of surface transportation to distribute the pulp and paper products it sells. Rail and truck carriers serve North American markets. Export markets are served by rail or truck to modern forest products terminals at Vancouver and Squamish, British Columbia, where the products are transferred to vessels. Dedicated forest products vessels, multi-cargo vessels or container carriers transport products to major markets in Europe, Japan and Asia.

Pulp and Paper Markets and Competitive Position

Over the long-term, global consumption of paper and paperboard is forecasted to expand at a rate approximating the general expansion of the economy. It is expected that substantial additional quantities of virgin papermaking fibres will be required.

Economic growth at the beginning of 2003 was restrained in the world's major economies. Stock markets were still nervous about corporate governance shortcomings revealed in 2002 at some large U.S. based companies. The invasion of Iraq and the consequent hostilities also impacted economic performance well into 2003. Finally, SARS had a significant negative effect upon Asian economies and world trade. These influences kept consumer confidence muted through much of the first half of the year.

As 2003 progressed, there was a general improvement in consumer sentiments in North America and Europe, which led to strong real GDP growth in the second half. The expanding trade deficit in the United States led to dramatic weakening of the U.S. dollar during the course of 2003.

One of Canfor's competitive advantages is its enviable customer base. These are customers who have a technical requirement for premium NBSK pulp, who are dominant in their field, and who are interested in developing partnerships. Our market approach is designed to take advantage of the strong northern fibre, consistency of product quality, and flexible bleaching technology.

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 that Canfor's competitive position is further enhanced by cost reduction initiatives implemented in recent years. With these initiatives, Canfor expects to be well positioned to compete in the global marketplace.

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 decline in strength of the United States dollar during 2003 has enhanced the competitive position of Canadian producers relative to European countries, which are the major competition in NBSK.

The kraft high performance paper industry is characterized by relatively few competitors. Although the commodity kraft paper industry in developed markets is stable, there is a conversion beginning in North America from commodity to high strength specialty kraft papers. Canfor is well positioned to capitalize on this change. The marketing strategy has emphasized working with independent converters and flexible packaging

end-users to create customer demand for new high performance products. Price levels in the kraft paper market have tended to be fairly stable, with niche market producers enjoying generally good operating rates.

Chemicals

On August 29, 2003, the Company completed the sale of its B.C. Chemicals division to Chemtrade for \$117.3 million. This chemical operation is located adjacent to Canfor's Prince George Pulp and Paper and Intercontinental Pulp mills and produces sodium chlorate and crude tall oil. In connection with the sale, Canfor entered into several long term agreements with Chemtrade to ensure the continuation of a secure supply of sodium chlorate to Canfor's Prince George pulp facilities and the continued processing by the operation of soap skimmings from those mills into crude tall oil (which is used in the pulping process).

Human Resources

Canfor employs approximately 1,242 people in its Pulp and Paper group which includes the Intercontinental Pulp Mill, Northwood Pulp Mill, Prince George Pulp and Paper Mill and the pulp and paper marketing operation. Approximately 77% of these employees are covered by collective agreements with the CEP and PPWC unions. Negotiations between Canfor and its two unions (CEP and PPWC) for the renewal of the agreements covering its pulp and paper operations were successfully concluded and ratified in late 2002 and mid 2003. The agreements provide for wage increases totalling 11% over a five-year term.

In the B.C. primary pulp and paper sector, Canfor's three mills ranked first, second and third in terms of MIR and first, third and seventh in terms of lost-time frequency among the ten reporting mills.

A major organizational restructuring of the pulp and paper group resulted in a reduction of approximately 96 employees by year-end. These reductions were achieved primarily through early retirements.

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 logged on tenures having an AAC of 1.475 million cubic metres per year in 2003, but will be subject to reductions in AAC as a result of recent changes to British Columbia forestry legislation (see "Wood Supply — Timber Resources" above). 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:

	Year ended December 31	
	2003	2002
	(cubic metres)	
Production	1,257,475	1,335,895
Sales/trade	1,236,988	1,228,891

In 2003, due to a combination of a rapidly declining log market, the impending labour unrest and the remaining 2003 cut control, logging production was curtailed for the month of July. There were no market-related production curtailments during 2002.

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 chipped by Howe Sound Partnership's Westcoast Cellulofibre operation are sold to that operation at market value. Logs that cannot be used by Westcoast Cellulofibre 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 378 people in its Coastal Operations, of which 84% are covered by collective agreements with IWA-Canada. Formal negotiations for renewal of the Coast Master Agreement commenced on April 28, 2003. IWA-Canada conducted strike action by staging a one-day study session, which resulted in Forest Industrial Relations ("FIR") imposing new terms and conditions of employment. The IWA called for an immediate industry wide coastal strike on November 21, 2003. On December 14, 2003 FIR and IWA-Canada agreed to an immediate return to work under the old 2000 - 2003 Coast Master Agreement as part of a provincial government initiative to enable a mediation-arbitration process to reach a new labour agreement. This process will take into account the economic viability and competitiveness of the coastal forest industry as well as labour relations stability and the interests of unions and employees.

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 three years and the operation has experienced an improvement in its safety performance in several areas. Between 2000 and 2003, the lost time accidents were reduced by 35% and the MIR was reduced by 71%.

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 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. In 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. 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 lightweight newsprint required by the Japanese market.

During 2003, the Partnership's operations were in substantial compliance with applicable environmental requirements, except for incidents which have not had, nor are they expected to have, a material effect on the Partnership or its operations.

The following table sets forth the daily and annual production capacities of the Partnership's market pulp and newsprint operations as at December 31, 2003:

	<u>Daily Capacity</u>	<u>Annual Capacity⁽¹⁾</u>
	(tonnes)	
Pulp	1,121	398,000
Newsprint	585	207,000

(1) Assuming continuous operation for an average of 355 operating days per annum for pulp and 354 days for newsprint.

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

	<u>Year ended December 31</u>	
	<u>2003</u>	<u>2002</u>
	(tonnes)	
Pulp production	364,917	342,883
Pulp sales	361,749	343,429
Newsprint production	202,643	206,112
Newsprint sales	203,069	207,797

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. There were no payments made in 2003.

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 tax rate changes 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; designing and operating its facilities to comply with or surpass legal requirements; setting environmental objectives and targets to reduce the risk of pollution and achieve continual improvement in environmental performance; and 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 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 registrations 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 2003. The Rustad sawmill EMS attained ISO 14001 registration in the fourth quarter of 2002.

During 2003, Canfor's operations were in substantial compliance with environmental requirements except for incidents which have not had, nor are they expected to have, a material effect on Canfor or its operations.

Canfor has seven remaining wood residue burners at its sawmills in B.C. and Alberta, including three Tier 1 burners which, under the B.C. Wood Residue Burner and Incinerator Regulation, are required to cease operation by, June 30, 2005. Upon completion of construction, scheduled for the fourth quarter of 2004, a 25 Megawatt ("MW") electricity cogeneration facility adjacent to the Grande Prairie sawmill will eliminate Canfor's one remaining Alberta burner. A wood residue fuelled 48 MW cogeneration facility planned for the Prince George Pulp and Paper mill in Prince George, will result in the shut down of the Canfor Polar sawmill Tier 1 burner and the Canfor Isle Pierre sawmill burner in early 2005. Canfor, Weldwood and West Fraser are working with a potential developer towards establishment of a 50 MW cogeneration facility at Canfor's Houston sawmill, which would eliminate Canfor's and Weldwood's Tier 1 burners in Houston and up to three other Weldwood and West Fraser sawmill burners. Canfor is continuing to evaluate alternatives to create value from surplus wood residues and shut down beehive burners, including wood fuelled sawmill energy systems and additional supply to pulp mills, pellet and particleboard manufacturers.

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 held several meetings with full engagement on the part of Canfor staff. Committees have begun to approach airshed management by gaining better knowledge of source impacts, modeling and applying the principle of cost/effectiveness to the planning of management actions.

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:

- 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
- to maintain and enhance Canfor's environmental performance and to pursue new opportunities.

During 2003, 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 under-utilized 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 2003 and \$3.5 million in 2002.

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:

<u>Name and Municipality of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
P. J. G. Bentley, O.C., LL.D. ^{(1),(4),(5)} Vancouver, British Columbia	Chairman of the Board, Canfor Background: Peter J. G. Bentley is Chairman of Canfor and of the Company's principal subsidiary, CFP, and Co-chairman and a director of HSPP General Partner 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 President and a director of Sierra Mountain Minerals Inc. 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, and a Trustee and Past Chairman of the VGH and UBC Hospital Foundation. He also served for many years as a director of Bank of Montreal and Shell Canada Ltd. Mr. Bentley has been appointed Chancellor of the University of Northern British Columbia effective May 2004. Mr. Bentley holds an Honourary Law degree from the University of British Columbia.	1966
R. L. Cliff, C.M., F.C.A. ^{(1),(2),(3)} 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 Terasen Inc. from 1972 to 2002. Mr. Cliff received his Commerce Degree from the University of B.C. and qualified as a Chartered Accountant in 1954.	1983
M.L. Cullen ^{(2),(3)} Vancouver, 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 Terasen Inc., British Columbia Ferry Corporation and Wajax Limited. Mr. Cullen received a commerce degree from the University of Ottawa and a MBA from the University of Western Ontario.	2000

Name and Municipality of Residence	Principal Occupation and Background	Director Since
C. W. Daniel, O.C., LL.D. ^{(3),(5)} Toronto, Ontario	<p data-bbox="608 161 981 188">Corporate Director; Consultant</p> <p data-bbox="608 215 1278 534">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 Ltd. 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. and Northgate Exploration. Mr. Daniel holds a Bachelor of Applied Science degree in Engineering and an Honourary Law degree, both from the University of Toronto.</p>	1985
D. L. Emerson ⁽¹⁾ Vancouver, British Columbia	<p data-bbox="608 549 957 576">President and C.E.O., Canfor</p> <p data-bbox="608 602 1278 1367">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: Terasen 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.</p>	1998

Name and Municipality of Residence	Principal Occupation and Background	Director Since
B. R. Hislop ⁽⁵⁾ Vancouver, British Columbia	Group Vice-President and Chief Technology Officer, Canfor Background: Ms. Hislop is the Company's Group Vice-President and Chief Technology Officer (2002 to present). She has previously held the positions with the Company of Group Vice-President, Wood Products (November 1999 to February 2002) and Group Vice-President, Northern Wood Products (June 1998 to November 1999). Ms. Hislop is President and C.E.O. of Genus Resource Management Technologies Inc., a wholly owned subsidiary of the Company. Ms. Hislop has been a Company employee for 27 years. She was previously a Director of the Company from April 27, 1987 to November 23, 1999. Ms. Hislop is a director of the Bank of Canada, Forintek Canada Corp. and Hudson's Bay Company.	2003
M. E. Hurst ^{(4),(5)} Vancouver, British Columbia	Educational Author 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. During her career, she has been a teacher with the Vancouver School Board, an educational consultant and a Sessional Lecturer at the University of British Columbia.	1987
M. J. Korenberg ^{(2),(4)} Vancouver, British Columbia	Managing Director, Vice-Chairman of The Jim Pattison Group Background: Mr. Korenberg is a director of Jim Pattison Group Inc. (and its affiliates), a trustee of Westshore Terminals Income Fund and an adjunct professor, Faculty of Law, University of British Columbia. From June 2001 to April 2003, he was a director of Slocan.	2003
P. A. Lusztig, C.G.A. ^{(2),(4)} Vancouver, British Columbia	Dean Emeritus, University of British Columbia Background: Dean Emeritus, Faculty of Commerce and Business Administration, The University of British Columbia, Mr. Lusztig is Chair and Trustee of the Health Benefit Trust (B.C.). He served as the federal commissioner for the B.C. Treaty Commission (Federal) until 2003. 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.	1983

Name and Municipality of Residence	Principal Occupation and Background	Director Since
E. P. Newell, O.C., LL.D. ^{(3),(4)} Edmonton, Alberta	Corporate Director Background: Mr. Newell retired as Chairman and C.E.O. of Syncrude Canada Limited in December 2003. He is Chair of <i>CAREERS...The Next Generation</i> 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. He holds Honorary Law degrees from the University of British Columbia, the University of Alberta and Athabasca University.	1999
J. A. Pattison, O.C., O.B.C. ⁽¹⁾ Vancouver, British Columbia	President, Managing Director, Chief Executive Officer and Chairman, The Jim Pattison Group. Background: Mr. Pattison is a director of Jim Pattison Group Inc. (and its affiliates). From June 2001 to April 2003, he was a director of Slocan.	2003
M. E. J. Phelps, O.C. ^{(1),(3),(4)} West Vancouver, British Columbia	Chairman, Dornoch Capital Inc. 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. The federal government appointed Mr. Phelps as Chairman of “The Wise Persons’ Committee”, a panel developed to review Canada’s system of securities regulation. 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.	1990
R. T. Riley ^{(4),(5)} Montreal, Quebec	Vice-President of L.B.G. Capital, a Division of National Bank Financial Background: Mr. Riley is Vice-President of L.B.G. Capital, a division of National Bank Financial, an investment dealer. He is currently a director of Optimum General Inc. He received his Mechanical Engineering Degree from McGill University 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.	1987

<u>Name and Municipality of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
C. Taylor, O.C. ⁽⁵⁾ Vancouver, British Columbia	Chair of the Canadian Broadcasting Corporation 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 & Resorts Inc., HSBC USA, HSBC North America and HSBC Holdings plc.	2000

- (1) Member of the Capital Projects Committee.
(2) Member of the Audit Committee.
(3) Member of the Management Resources and Compensation Committee.
(4) Member of the Corporate Governance Committee.
(5) 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:

<u>Name</u>	<u>Municipality of Residence</u>	<u>Office and Principal Occupation</u>
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
R. Belanger	Lac Beauport, Quebec	Senior Vice-President, Eastern Operations and Corporate Development
D. M. Calabrigo	Surrey, British Columbia	Vice-President, Human Resources, General Counsel and Corporate Secretary
K. O. Higginbotham	Surrey, British Columbia	Vice-President, Forestry and Environment
D. B. Kayne	Tsawwassen, British Columbia	Vice-President, Wood Products Marketing
J. K. Pau	Vancouver, British Columbia	Vice-President and Treasurer
S. Yurkovich	Vancouver, British Columbia	Vice-President, Corporate Affairs
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., now Terasen Inc. (1972-2002); prior to April 2003, Mr. Lusztyg served as the federal commissioner for the B.C. Treaty Commission (Federal)(1995-2003); prior to December 2003, Mr. Newell was Chairman (1994) and Chief Executive Officer (1989) of Syncrude Canada Ltd.; prior to December 2002, Mr. Phelps was 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) of Vancouver Port Corporation (1995-97); 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, was Vice President, Pulp Operations of Northwood; prior to November 1999, Mr. Williams was Vice-President, Coastal Operations 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 July 2003, Mr. Calabrigo was General Counsel and Corporate Secretary and 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; prior to May 2003, Mr. Belanger was President and C.E.O. Bois Daaquam Inc. (1996) and Chairman and C.E.O. of Produits Forestiers Anticosti Inc. (1996); prior to January 2001, Mr. Kayne was General Manager, Wood Products Sales and Marketing.

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 and the Shareholder Rights Plan was reconfirmed by the Company’s shareholders at its annual general meeting held on April 29, 2003.

Shareholdings of Directors and Senior Officers

As at February 5, 2004, the Directors and senior officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 16,987,610 Common Shares representing approximately 20.9% of the outstanding Common Shares.

As at February 5, 2004, Matthews-Cartier Holdings Limited (“MCHL”) owned or exercises control or direction over 21,324,984 Common Shares representing approximately 26.2% 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. L. G. Bentley were the founders of Canfor.

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.

	<u>2003</u>	<u>2002</u>
Common shares	\$0.13	\$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, 2003, the Company would be permitted under these agreements to pay up to \$164.3 million or \$2.02 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.

Conflicts of Interest

Great Pacific Industries Inc., a company beneficially owned by James A. Pattison, owns approximately 20% of the outstanding shares of Slocan. Great Pacific Industries Inc. has entered into a support agreement with each of Canfor and Slocan to support the proposed combination of the companies (see "Business of Canfor" above). Each of Mr. Pattison and Michael J. Korenberg, who is Managing Director, Vice-Chairman of The Jim Pattison Group, abstained from voting as directors of Canfor to approve the combination in light of the conflict of interest they had, or may potentially have, in respect of that transaction.

Additional Information

Reference is made to the Company's "Management's Discussion and Analysis of Financial Condition and Results of Operations 2003" and "Consolidated Financial Statements" for the year ended December 31, 2003, which are incorporated by reference herein. 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 29, 2003. Additional financial information is provided in the Company's comparative financial statements for the year ended December 31, 2003.

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 other 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.

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