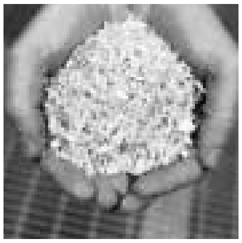
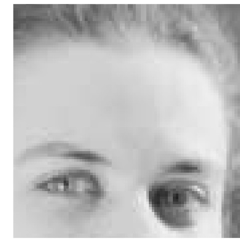
01

First Quarter Interim Report







Canfor Corporation

For the three months ended March 31, 2002

Canfor Corporation recorded a first quarter profit of $11.1 million or $0.12 per common share, on a diluted basis. This compares to a net loss of $22.1 million or $0.29 per common share, on a diluted basis, in the preceding quarter. The quarter was adversely impacted by a $0.14 per share or $11.7 million (after tax) provision for the potential liability relating to anti-dumping duties on softwood lumber shipped to the United States. In the preceding quarter, countervailing and anti-dumping duties negatively impacted the results by $0.26 per share or $20.9 million (after tax). The $11.1 million profit for the first quarter of 2002 compares to a profit of $18.8 million or $0.21 per common share in the first quarter of 2001. The 2001 result included unusual income of $6.5 million, after tax, arising from an insurance claim settlement.

Net Sales for the quarter were $506.7 million, an increase of $49.1 million over the previous quarter, largely due to higher lumber prices and shipment volumes.

We were pleasantly surprised by the sharp increase in lumber prices in the quarter. While seasonal demand is generally higher during the spring, continued low interest rates and the strengthening U.S. economy boosted housing construction. Our sawmills are running extremely well, delivering significant productivity improvements and lower conversion costs. While we were working our way through some operational issues on the pulp side of the business this quarter, we continued to avoid red ink even in the most difficult markets we've seen in years. Fortunately, we believe we have now seen the bottom of the pulp cycle and look forward to improving market conditions and productivity going forward in 2002.

Despite an enormous effort by both industry and governments in Canada, a durable solution to the softwood lumber dispute is not yet in sight. Provincial governments across Canada, led by the efforts of the Government of BC, have made substantial proposals for market based policy reforms. We fully support their stated direction and look forward to having the changes implemented as quickly as possible. We require clarity on all of these issues if we are to achieve the stability badly needed in our industry, in our communities and in the marketplace. While the prolonged fight may have hampered our ability to realize our untapped potential, our company continues to get stronger. We will continue to fight for a fair trading relationship. In the meantime, our focus on cost controls and productivity improvements will ready us for the substantial opportunities that lie ahead.

The Board of Directors declared a dividend of $0.065 per common share, payable on June 28, 2002, to shareholders of record on June 14, 2002.

Peter J.G. Bentley
Chairman

David L. Emerson
President and Chief Executive Officer

The Management's Discussion and Analysis provides a review of the significant developments that have impacted Canfor's performance during the first quarter of 2002 relative to the last published annual results as at December 31, 2001 and relative to the comparative quarter in 2001. The following unaudited financial results along with Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements and notes thereto included in Canfor's Annual Report for the year ended December 31, 2001.

Factors that could impact future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause results to be materially different than those implied in this discussion.

Results for the Quarter

(millions of dollars)	1st Quarter 2002	4th Quarter 2001	1st Quarter 2001
Net sales	**$ 506.7**	$ 457.6	$ 481.6
EBITDA	**$ 58.6**	$ 1.3	$ 63.8
Operating income	**$ 28.9**	$ (24.5)	$ 36.3
Net income	**$ 11.1**	$ (22.1)	$ 18.8
Earnings per share (dollars)			
Basic	**$ 0.12**	$ (0.29)	$ 0.22
Diluted	**$ 0.12**	$ (0.29)	$ 0.21

The increase of $25.1 million in Net Sales over the same quarter in 2001 was a result of a 36 per cent increase in lumber prices (before recording a $14.7 million provision for anti-dumping duty), a 29 per cent increase in lumber shipments, eight per cent higher pulp shipments, and the beneficial impact of a four per cent weakening of the Canadian dollar relative to the U.S. dollar. Partially offsetting these factors were the effects of 32 per cent lower pulp prices and 39 per cent less log sales by Coastal Operations. Net Sales increased by $49.1 million over the fourth quarter 2001, primarily the result of lumber prices being 21 per cent higher and lumber shipments 10 per cent higher.

Net Income for the quarter improved by $33.2 million over the fourth quarter 2001. The improvement is a result of both increased sales and the efficiencies associated with operating both pulp and sawmills uncurtailed during the quarter unlike in the previous quarter. The Net Income for the quarter was $7.7 million below the comparative quarter of 2001 as the impact of the lower pulp sales exceeded the improvement generated by higher lumber prices. Also, the results for the first quarter of 2001 included unusual income of $8.5 million, before tax, arising from an insurance claim settlement.

Operating Results

The following discussion relates to the operating segments and the non-segmented items as per the Statement of Segmented Information in the Financial Statements.

In anticipation of the significant revisions expected to be made by the Government of British Columbia to provincial forest policy, the following changes were made in the first quarter:

- a separate company-wide fibre management group was established to coordinate fibre support for all wood processing facilities, while maximizing the financial contribution of woodlands to Canfor. This group will incorporate the interior woodland operations currently reported in the Wood Products segment and the coastal logging operations which are currently reported in the Coastal Operations segment;
- all wood products manufacturing operations, including Panel and Fibre, are now managed by the Wood Products segment;
- Pulp and Specialty Kraft Paper will be aligning itself with the Pulp Products segment.

The impact on the presentation of the group results in the first quarter is relatively minor. With the creation of the separate Fibre Management Group, it will take some time to establish new reporting systems and processes before the Group's results can be reported separately. Consequently, the Fibre Management group will not be reported as a separate segment until the first quarter of 2003. Also, the Pulp and Specialty Kraft Paper segment and the Pulp Products segment will continue to report separately. The only change reflected in this quarterly report is that the Panel and Fibre operation is included in the Wood Products segment, and all comparative figures have been restated accordingly.

WOOD PRODUCTS

The Wood Products segment reported an operating income of $37.2 million for the quarter, compared to a loss of $13.8 million in the previous quarter and a $0.9 million loss in the same quarter of 2001. The improvement in both cases is a function of both higher lumber prices and increased shipment volume. Demand for lumber was strong in the quarter with housing starts in both Canada and the U.S. being above expectations as a result of continued low interest rates and mild weather in major consuming regions.

Benchmark 2" x 4" SPF Random Lengths lumber prices averaged $266 U.S. per thousand board feet during the quarter compared to $221 U.S. in the previous quarter and $196 U.S. in the first quarter of 2001. Mill nets were enhanced by the impact of a relatively weaker Canadian dollar, with the exchange rate moving from an average of $1.00 U.S. equals $1.580 Cdn. in the last quarter of 2001 and $1.528 Cdn. in the first quarter of 2001, to $1.594 Cdn. in the current quarter.

The sawmills ran full for the first quarter of 2002 whereas in the fourth quarter 2001, and the first quarter of 2001, 219 million board feet and 168 million board feet of production curtailment were taken respectively. Production for the quarter was at full capacity but shipments have been hindered by constraints on drying capabilities and some transportation challenges.

Canfor was subject to anti-dumping duties (ADD) in the first quarter of 2002 at a rate of 5.96 per cent and provided $14.7 million for the period. In the previous quarter ADD was applicable for only part of the quarter, as it commenced on November 6, 2001 and $6.5 million was provided. Also in the previous quarter, Canfor was subject to countervailing duty (CVD) of 19.31 per cent, and had provided an amount of $19.5 million for the period to December 15, 2001 when the duty was suspended. No provision for CVD was required in the first quarter of 2002.

PULP PRODUCTS

The Pulp Products segment recorded operating income of $0.6 million for the quarter compared to $3.3 million in the previous quarter and $37.3 million in the first quarter of 2001. The decline of $2.7 million from the previous quarter and $36.7 million from the first quarter 2001 is primarily attributable to declining selling prices, which have now reached levels that have historically reflected the bottom of the pulp cycle. List Northern Bleached Softwood Kraft (NBSK) prices for pulp delivered to northern Europe averaged $450 U.S. per tonne during the first quarter, declining to a low of $435/440 U.S. per tonne at the end of the quarter. This compares to an average of $468 U.S. per tonne in the previous quarter and $665 U.S. per tonne in the first quarter of 2001. The impact of the decline of pulp prices was partially offset by a decrease in fibre costs. Unit costs at the Northwood mill were high for the quarter as a result of a number of production interruptions. These reliability problems have now been resolved.

March 2002 Norscan statistics indicate that market pulp fundamentals are improving, with producer inventory levels down 118,000 tonnes in the month, to a level of 1,695,000 tonnes, and modest improvements in demand. As a result, prices appear to have bottomed and Canfor, along with some other producers, has announced increased prices effective May 1, to $490 U.S. in the Americas and $470 U.S. in Europe.

PULP AND SPECIALTY KRAFT PAPER

The Pulp and Specialty Kraft Paper segment suffered an operating loss of $3.6 million compared to the $1.0 million operating income in the previous quarter and the $1.8 million operating income reported in the same quarter of 2001. During the quarter, the segment was affected by lower pulp and paper prices, and by operating problems on the paper machine. North American kraft paper prices decreased by approximately five per cent on unbleached products and slightly less for the bleached products in the first quarter. Shipments of both paper and pulp were lower than the previous quarter. This, combined with the paper production problems and the impact on paper mill nets, led to the decline in income for the quarter from the previous quarter.

Canfor's management expects no further price erosion in the kraft paper markets either in North America or Europe.

COASTAL OPERATIONS

The Coastal Operations segment reported an operating income of $1.3 million in the quarter, compared to a fourth quarter loss of $9.3 million and $4.9 million income for the first quarter 2001. The segment now consists of the Coastal Logging operations only, following the transfer of the Panel and Fibre operation to the Wood Products segment. Coastal logging operations commenced in late February after being curtailed since November 15, 2001. The coastal log market has stabilised in the first quarter, following the virtual collapse of the market in the previous quarter that resulted from the uncertain softwood lumber situation, weakness in the Japanese market and weakening pulp markets.

NON-SEGMENTED ITEMS

(millions of dollars)	1st Quarter 2002	4th Quarter 2001	1st Quarter 2001
Corporate costs	**$ (6.6)**	$ (5.7)	$ (6.8)
Equity income (loss) of affiliated companies	**$ (0.1)**	$ (0.6)	$ (1.0)
Net interest expense	**$ (15.4)**	$ (14.7)	$ (15.6)
Other income (expense)/Unusual items	**$ (0.8)**	$ (0.4)	$ 9.3

Corporate costs for the quarter increased by $0.9 million over the previous quarter and are $0.2 million lower than the preceding year. The overall increase over the previous quarter is attributed to an increase in general administration costs and increased spending on research and development.

Income from affiliates has increased by $0.9 million and $0.5 million, respectively, over the previous quarter and same quarter in 2001. Canfor's affiliated wood products companies are generally impacted by the same factors as previously discussed in the Wood Products segment.

The net interest expense of $15.4 million for the current quarter is $0.7 million higher than the previous quarter and is mainly the result of the increased seasonal investment in working capital due to the build-up of log inventories.

Although Canfor no longer consolidates Howe Sound Pulp and Paper Limited Partnership (HSLP) into its financial results, it is required to include its share of the limited partnership income or loss, within the limits imposed by the Income Tax Act (Canada), in its calculation of taxable income. This had the effect of increasing Canfor's future income tax recovery in the current period by $2.3 million, based upon HSLP's net loss of $13.4 million in the same period.

Outlook

With continued low interest rates, economic stimulus packages from various governments and a pick-up in consumer confidence levels, management expects that pulp and log markets should continue to improve over the balance of 2002.

After strong price growth in the first quarter, the ongoing uncertainty surrounding the outcome of softwood lumber trade issue has resulted in some falling back of lumber prices in the early part of the second quarter. As the U.S. economy continues to strengthen, higher employment and increased consumer confidence, combined with relatively low interest rates, are expected to fuel steady demand for new housing and remodelling. However, there remains considerable uncertainty as to the extent to which the announced CVD and ADD will be passed on to consumers through increasing lumber prices. Although Japanese housing starts have declined from previous levels and are expected to remain low for 2002, western style 2" x 4" housing starts are expected to continue gaining market share as a result of the implementation of the new Quality Assurance Standards law. China and Korea are also expected to see an increase in the consumption of construction lumber as the 2" x 4" housing market grows in each country.

Norscan pulp inventories are projected to continue to fall during the second quarter because of stronger seasonal demand and the U.S. economic recovery. Spring maintenance downtime at pulp mills will also reduce inventories, moving inventory levels into supply/demand alignment. A number of suppliers, including Canfor, have announced price increases of $30 - $40 U.S. per tonne effective May 1, 2002. Pulp demand is expected to ease during the summer months, and the higher prices may generate some inventory depletion in China. Norscan inventories are expected to rise as a result, before dropping again in the fall, as demand strengthens for seasonal reasons and the fall maintenance closures reduce supply. The impact of increased Eucalyptus pulp supply expected in the second quarter will have an impact as the second half progresses as it could weaken hardwood pulp markets, threatening the pulp price recovery. The strength of pulp demand, which will be determined primarily by the global economic recovery, will be the decisive factor in determining whether this additional supply impairs the recovery. Canfor's management expects that prices will continue on a modest uptrend throughout the second half of the year.

Summary of Financial Position

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

(millions of dollars)	1st Quarter 2002	4th Quarter 2001	1st Quarter 2001
Ratio of current assets to current liabilities	**1.8:1**	2.0:1	1.7:1
Ratio of net debt to common shareholders' equity	**44:56**	43:57	46:54
Net Cash Flow	**$ (26.4)**	$ 61.7	$ (16.1)
comprised of:			
Cash Flow from (used in) operating activities	**$ (9.3)**	$ 66.7	$ (59.2)
Cash Flow from (used in) financing activities	**$ (4.8)**	$ 8.7	$ 110.5
Cash Flow from (used in) investments	**$ (12.3)**	$ (13.7)	$ (67.4)

Changes in Financial Position

The changes in the components of these ratios during the quarter are detailed in the Consolidated Cash Flow Statements of the Financial Statements. The more significant changes in the quarter are discussed below.

Cash used by operations improved by $49.9 million over the same quarter in 2001, but is $76.0 million less than that generated in the previous quarter. The improvement in cash from operations over the same period last year is mostly reflective of improvements in working capital, and is the result of timing differences with respect to spring logging and the subsequent payments to contractors. The increased use of cash this quarter over the previous quarter is primarily due to the seasonal build-up of log inventories. Interest paid in the quarter was $21.9 million, which is more than the $12.9 million paid in the same period last year because of the timing of the payments required under the terms of the new debt taken out last year. The Company recovered $1.8 million in income taxes ($7.6 million in 2001). No cash has been paid to date for CVD and ADD.

Net cash provided by financing activities was $115.3 million less than the same period in 2001 and $13.5 million less than the previous quarter. The decrease in the current quarter figure from the same period last year is due primarily to the fact that in the first quarter of 2001, the Company raised $220 U.S. million in debt, which was used to retire previously held debt, to finance the Howe Sound Pulp and Paper restructuring, and for general working capital purposes. The previous quarter included a $16.6 million receipt of proceeds from the closure of the $100 U.S. million cross currency swap.

Net cash used in investing activities decreased $55.1 million in the current quarter from the same quarter in 2001 and by $1.4 million from the fourth quarter 2001. The decline in the current quarter is due to the expenditure of $60.2 million in the first quarter of 2001 relating to the restructuring of Howe Sound Pulp and Paper Limited. This payment represented part of the compensation made by Canfor to secure access to the approximately $643 million of tax losses of Howe Sound Pulp and Paper Limited. During the quarter, $8.3 million was invested in the capital program as compared to $18.0 million in the fourth quarter of 2001 and $9.2 million in the first quarter of 2001.

Liquidity and Financial Requirements

Canfor ended the first quarter with a cash position of $23.9 million and $148.0 million of unused bank operating lines of credit compared to the December 31, 2001 position of $32.3 million of cash and $197.9 million of unused bank operating lines. The amount of credit available has been reduced at March 31, 2002 by $31.9 million as a result of the standby letters of credit that are required as collateral on the surety bonds posted for the CVD and ADD.

Provisions contained in Canfor's long-term borrowing agreements limit both the amount of indebtedness the Company can incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is $82.2 million or $1.01 per share. The Company can incur an additional $144.2 million of long-term debt under these borrowing arrangements.

Risks and Uncertainties

A comprehensive discussion of Risks and Uncertainties was included in the 2001 Annual Report. An update of that discussion is included below.

CANADA/U.S. SOFTWOOD LUMBER DISPUTE

On March 22, 2002, the U.S. Department of Commerce (DOC) announced its final determination on both the countervailing duty (CVD) and anti-dumping duty (ADD) investigations. It ruled that the CVD rate be adjusted to 19.34 per cent. On April 25, 2002, the DOC announced a further revision of the CVD rate to 18.79 per cent, which will apply retroactively. The DOC did not find any supporting evidence of Critical Circumstances and so no duty will be assessed on the retroactive period May 19, 2001 to August 16, 2001. The DOC also ruled that Canadian producers/exporters of softwood lumber have sold their product below fair value and assessed an individual ADD of 5.96 per cent on Canfor, down from the preliminary rate of 12.98 per cent, effective retroactively to November 6, 2001. This reduced ADD rate, which is the second lowest of the six companies subjected to detailed anti-dumping investigations and substantially lower than the average ADD rate of 8.43 per cent applicable to the rest of the industry, resulted in a minor adjustment to Canfor’s accrual for 2001, which has been reflected in income in the current period.

For the period from August 17, 2001 to December 15, 2001, the Company recorded a provision for CVD of $40.0 million (before taxes) at the preliminary rate of 19.31 per cent. Since the preliminary CVD rate was suspended on December 15, 2001, 120 days after the preliminary determination, which is in accordance with U.S. law, Canfor will not be providing for any CVD from December 16, 2001 to the final order date in May 2002. Canfor has recorded a provision of $21.2 million, before taxes, for ADD for the period from November 6, 2001 to March 31, 2002 ($14.7 million in the current quarter). Bonds have been posted as security for the duties.

Under U.S. law, provisional anti-dumping measures are limited to no more than six months. As a result, lumber will enter the U.S. duty free during the period between April 22, 2002 and somewhere between May 17 and May 23, 2002, when the final CVD and ADD orders are expected to be published. This is expected to create uncertainty in lumber prices as producers and buyers try to take advantage of the duty-free gap.

In May 2002, the U.S. International Trade Commission (ITC) is expected to make a final determination regarding the time period to which the duties will apply based upon its determination of the existence of injury or threat of injury. If threat of injury only is determined, all existing accruals will be reversed and duties will apply only from the date the final order is imposed. If present injury is determined, the final rates will apply from the date the accruals were commenced. The CVD and ADD accrued up to the date of the final order will not be payable until the completion of the first administrative review, which is currently expected to occur in November 2004, or finalization of any appeals, which could extend beyond 2004. Duties on shipments to the U.S. after the date of the final order will require cash payments.

Canfor and other Canadian forest product companies, the Federal Government and Canadian provincial governments (“Canadian Interests”) categorically deny the U.S. allegations and strongly disagree with the countervailing and dumping determinations made by the ITC and DOC. Canadian Interests continue to aggressively defend the Canadian industry in this U.S. trade dispute and are appealing the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the rates established in the investigations, the final liability for the assessment of countervailing and dumping duties will not be determined until each annual administrative review process is complete.

ENVIRONMENTAL ISSUES

There is some uncertainty over the potential impact of the British Columbia pulp and paper effluent regulation, which requires mills to completely eliminate organochlorine discharge (measured as “AOX”) in mill effluent, by December 31, 2002. In December 2001, B.C.’s Minister of Water, Land and Air Protection announced that an independent scientific advisory panel had been appointed to review the scientific basis of the zero AOX requirements. In March 2002, the scientific advisory panel reported that they did not find any evidence that the current level of AOX discharge from British Columbia's bleached kraft pulp mills presents a demonstrable risk to the ambient aquatic environment that could be attributed to AOX. They also reported that there was no evidence available to indicate that further reductions of effluent AOX would result in any demonstrable environmental benefit. Based on the conclusions of the scientific advisory panel, Canfor’s management is optimistic that the Government of the Province of British Columbia will amend the requirement for pulp and paper mills to achieve zero AOX.

CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS REINVESTED IN THE BUSINESS

(unaudited) (millions of dollars)	3 months ended March 31, 2002	3 months ended March 31, 2001
Net sales	**$ 506.7**	$ 481.6
Costs and expenses		
Manufacturing and product costs	**434.9**	403.7
Depreciation, depletion and amortization	**29.7**	27.5
Selling and administration	**13.2**	14.1
	477.8	445.3
Operating income	**28.9**	36.3
Equity loss of affiliated companies	**(0.1)**	(1.0)
Interest expense	**(15.4)**	(15.6)
Other income (expense)	**(0.8)**	0.8
Unusual items	**–**	8.5
Income before income taxes	**12.6**	29.0
Income tax expense (Note 5)	**(1.5)**	(10.2)
Net income	**$ 11.1**	$ 18.8
Net income per common share (in dollars) (Note 6)		
Basic	**$ 0.12**	$ 0.22
Diluted	**$ 0.12**	$ 0.21
Earnings reinvested in the business at beginning of year	**$ 151.9**	$ 151.4
Net income for the year to date	**11.1**	18.8
Common share dividends	**(5.3)**	(5.3)
Interest on equity component of convertible subordinated debentures, net of taxes	**(1.4)**	(1.1)
Earnings reinvested in the business at end of current period	**$ 156.3**	$ 163.8

(unaudited) (millions of dollars)	3 months ended March 31, 2002	3 months ended March 31, 2001
Cash generated from (used in)		
Operating activities		
Net income	**$ 11.1**	$ 18.8
Items not affecting cash:		
Depreciation, depletion and amortization	**29.7**	27.5
Countervailing and anti-dumping duty provision (Note 9)	**13.9**	–
Income taxes	**1.6**	10.5
Other items not involving cash	**16.2**	(4.8)
Non-cash working capital changes	**(81.8)**	(111.2)
	(9.3)	(59.2)
Financing activities		
Proceeds from long-term borrowing	**–**	321.5
Repayment of term bank loan	**–**	(175.4)
Repayment of acquisition bank loan	**–**	(30.0)
Proceeds from exercise of stock options	**0.6**	–
Dividends paid to common shareholders	**(5.3)**	(5.3)
Other	**(0.1)**	(0.3)
	(4.8)	110.5
Investing activities		
Howe Sound Pulp and Paper Limited Partnership (Note 8)	**(4.2)**	(60.2)
Property, plant, equipment and timber	**(8.3)**	(9.2)
Proceeds on disposal of property, plant and equipment	**0.2**	2.0
	(12.3)	(67.4)
Increase (decrease) in net cash (short-term indebtedness)	**(26.4)**	(16.1)
Net cash (short-term indebtedness) at beginning of period	**30.2**	(23.6)
Net cash (short-term indebtedness) at end of period	**$ 3.8**	$ (39.7)
Net cash (short-term indebtedness) comprises		
Cash and temporary investments	**$ 23.9**	$ 13.1
Operating bank loans	**(20.1)**	(52.8)
	$ 3.8	$ (39.7)
Non-cash working capital changes		
Accounts receivable	**$ (21.3)**	$ (2.4)
Income taxes	**2.2**	12.1
Inventories	**(207.5)**	(192.1)
Prepaid expenses	**5.7**	2.1
Accounts payable and accrued liabilities	**139.1**	69.1
	$ (81.8)	$ (111.2)

Interest paid for the three months ended March 31, 2002 was $21.9 million (2001 - $12.9 million) and income taxes recovered were $1.8 million (2001 - $7.6 million).

CONSOLIDATED BALANCE SHEETS

(millions of dollars)	as at March 31 2002 (unaudited)	as at December 31 2001 (audited)
ASSETS		
Current assets		
Cash	**$ 23.9**	$ 8.3
Temporary investments	**–**	24.0
Accounts receivable		
Trade	**204.9**	176.9
Other	**21.8**	28.5
Future income taxes	**12.2**	13.2
Inventories	**619.0**	411.5
Prepaid expenses	**10.5**	16.2
Total current assets	**892.3**	678.6
Long-term investments	**71.5**	71.3
Property, plant, equipment and timber	**1,448.5**	1,469.0
Deferred charges	**158.6**	159.9
	$ 2,570.9	$ 2,378.8
LIABILITIES		
Current liabilities		
Operating bank loans (Note 2)	**$ 20.1**	$ 2.1
Accounts payable and accrued liabilities	**380.6**	246.4
Current portion of long-term debt	**52.7**	52.7
Current portion of deferred reforestation	**37.0**	33.9
Income taxes payable	**3.3**	1.2
Total current liabilities	**493.7**	336.3
Long-term debt		
Long-term debt (Note 2)	**705.4**	706.5
Convertible subordinated debentures - liability component	**6.0**	8.2
Total long-term debt	**711.4**	714.7
Other accruals and provisions (Note 3)	**151.3**	116.3
Future income taxes, net	**144.8**	147.0
Deferred credit	**102.1**	104.0
SHAREHOLDERS' EQUITY		
Share capital - 81,153,510 shares outstanding	**658.3**	657.7
Convertible subordinated debentures - equity component	**149.0**	146.8
Earnings reinvested in the business	**156.3**	151.9
Foreign exchange translation adjustment	**4.0**	4.1
Total shareholders' equity	**967.6**	960.5
Contingent liability (Note 9)		
	$ 2,570.9	$ 2,378.8

APPROVED BY THE BOARD

Director, R.L. Cliff

Director, D.L. Emerson

(unaudited) (millions of dollars)	Wood Products (Note c)	Pulp Products	Pulp and Specialty Kraft Paper	Coastal Operations (Note c)	Corporate and Other	Consolidated
3 months ended March 31, 2002						
Net sales to external customers	**$ 340.9**	**107.2**	**39.4**	**19.2**	**–**	**$ 506.7**
Net sales to other segments (Note b)	**$ 19.4**	**–**	**–**	**1.2**	**–**	**$ 20.6**
Operating income (loss)	**$ 37.2**	**0.6**	**(3.6)**	**1.3**	**(6.6)**	**$ 28.9**
Depreciation, depletion and amortization	**$ 13.7**	**9.2**	**3.7**	**1.4**	**1.7**	**$ 29.7**
Capital expenditures	**$ 4.5**	**1.1**	**1.0**	**0.4**	**1.3**	**$ 8.3**
Identifiable assets	**$ 1,193.7**	**717.5**	**178.5**	**71.3**	**409.9**	**$ 2,570.9**
3 months ended March 31, 2001						
Net sales to external customers	$ 254.6	150.5	45.4	31.1	–	$ 481.6
Net sales to other segments (Note b)	$ 26.3	–	–	3.5	–	$ 29.8
Operating income (loss)	$ (0.9)	37.3	1.8	4.9	(6.8)	$ 36.3
Depreciation, depletion and amortization	$ 11.5	9.3	3.4	2.2	1.1	$ 27.5
Capital expenditures	$ 1.8	1.7	3.6	1.8	0.3	$ 9.2
Identifiable assets	$ 1,165.1	792.2	191.0	83.1	403.5	$ 2,634.9

SUMMARY OF CONSOLIDATED SHIPMENTS

3 months ended March 31 (unaudited)	2002	2001
Logs - 000 m^3	**184.7**	301.6
Lumber - MMfbm		
Canfor produced	**664.3**	512.9
Other producers	**53.6**	72.6
Total Lumber	**717.9**	585.5
Plywood - 000 Msf 3/8"	**41.6**	37.4
Pulp - 000 mt		
Canfor produced		
Pulp segment	**200.4**	184.9
Pulp and Specialty Kraft Paper segment	**36.5**	31.3
Marketed on behalf of HSLP (Note d)	**82.2**	71.9
Total Pulp	**319.1**	288.1
Kraft paper - 000 mt	**25.8**	24.6

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

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

c. Wood Products' sales for the quarter include sales of Canfor produced lumber of $285.1 million (2001: $194.0 million) and sales of hardboard and refined fibre and fibremat of $5.5 million and $3.9 million respectively (2001: $4.4 million and $5.3 million). The hardboard and refined fibre and fibremat product lines were previously included with the Coastal Operations segment. Comparative figures have been restated.

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

e. Certain 2001 figures have been restated to conform to the current year's presentation.

1. These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor's Annual Report for the year ended December 31, 2001.

These interim financial statements follow the same accounting policies and methods of computation as used in the 2001 consolidated financial statements.

The quarterly results are not necessarily indicative of results to be expected for an entire year.

2. Bank Indebtedness and Long-Term Debt

At March 31, 2002, Canfor had $148.0 million of unused bank operating lines of credit. The amount of credit available under these lines of credit has been reduced by $31.9 million as a result of the standby letters of credit that are required as collateral, beginning this year, on the surety bonds posted for the countervailing and anti-dumping duties (Note 9).

The agreements relative to Canfor's privately placed senior notes contain provisions limiting the amount of indebtedness that Canfor and its designated subsidiaries can incur and the amount of dividends payable on its common shares. Under these agreements, Canfor and its designated subsidiaries can presently incur $144.2 million additional long-term debt and pay up to $82.2 million or $1.01 per share in dividends on its common shares.

At March 31, 2002, the fair value of Canfor's long-term debt was $760.5 million and the fair value of the convertible subordinated debentures was $149.3 million.

3. Other accruals and provisions is comprised of:

(millions of dollars)	March 31, 2002	December 31, 2001
Countervailing and anti-dumping duty provision (Note 9)	**$ 61.2**	$ 47.4
Deferred reforestation	**58.2**	42.3
Post employment benefits	**25.4**	23.0
Other liabilities	**6.5**	3.6
Total other accruals and provisions	**$ 151.3**	$ 116.3

4. Effective January 1, 2002, the Canadian Institute of Chartered Accountants amended its accounting policy for foreign currency translation to eliminate the deferral and amortization method of accounting for unrealized translation gains and losses on long-term monetary assets and liabilities. As permitted by the revised policy, Canfor continues to hedge its U.S. dollar long-term debt with its future U.S. dollar revenue streams, and, therefore, no change in accounting for the unrealized translation loss on its long-term debt was required.

A foreign exchange loss of $0.7 million on the revaluation of foreign currency denominated working capital balances is included in net income for the current quarter.

5. The components of income tax expense are as follows:

(millions of dollars)	3 months ended March 31, 2002	3 months ended March 31, 2001
Current	**$ (21.6)**	$ (9.8)
Future	**15.8**	(3.3)
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**2.3**	–
Affiliates	**0.1**	0.4
	(3.4)	(12.7)
Less amortization of deferred credit on utilization of acquired tax losses (Note 8)	**1.9**	2.5
	$ (1.5)	$ (10.2)

6. Earnings per share is calculated as follows:

(millions of dollars except for number of shares and per share amounts)	3 months ended March 31, 2002	3 months ended March 31, 2001
Basic Earnings		
Net income	**$ 11.1**	$ 18.8
Less interest on equity component of convertible debentures, net of taxes	**(1.4)**	(1.1)
Income available to common shareholders	**9.7**	17.7
Diluted Earnings		
Add back interest on equity and liability components of convertible debentures	– (a)	1.3
Income available to common shareholders	**$ 9.7**	$ 19.0
Weighted average number of common shares	**81,100,991**	81,088,847
Incremental shares from stock options	**242,202**	11,797
Shares issuable upon conversion of convertible debentures	– (a)	11,742,424
Diluted number of common shares	**81,343,193**	92,843,068
Basic earnings per share	**$ 0.12**	$ 0.22
Diluted earnings per share	**$ 0.12**	$ 0.21

(a) Anti-dilutive – $1.5 million interest and 11,742,424 shares issuable

Options to purchase 3,287,750 common shares at various prices, from $7.30 to $18.75 per share, were outstanding during the period ending March 31, 2002, but were not included in the computation of diluted earnings per share either because the options' exercise prices were greater than the average market price of the common shares or, in the case of performance-based stock options, market value targets had not been met.

7. Stock-Based Compensation

On February 5, 2002, Canfor granted 714,500 stock options to employees at an exercise price of $9.80, which was the market price on that date. These options expire on February 5, 2012. One third of the options are exercisable after each of the first, second and third years.

Canadian generally accepted accounting principles encourage, but do not require, application of a fair value based method of accounting for the type of stock options described above. Under this method, the fair value of a stock option is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock, its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option.

As permitted by Canadian generally accepted accounting principles, Canfor has elected not to use the fair value based method of accounting for stock options because of the theoretical nature of the calculation and Canfor's limited use of stock-based compensation. Accordingly, no compensation expense was recorded at the time that the above options were granted. Had compensation cost been determined based on the fair value at the grant date consistent with the fair value based method of accounting, the resulting after-tax compensation cost for options granted after January 1, 2002 would have amounted to approximately $1.4 million. This amount would have been recognized over three years, which is the period of service during which the options will be earned by the employees, and would not have had a material impact on Canfor's net income and earnings per share in the current quarter.

8. The payments to Howe Sound Pulp and Paper Limited Partnership represent compensation under the agreement of March 10, 2001, by which Canfor acquired approximately $643 million of tax losses of the former Howe Sound Pulp and Paper Limited. Under the terms of that agreement, a portion of the compensation was paid at closing and a portion is to be paid as the tax losses are utilized by Canfor.

9. Contingent Liability

On April 2, 2001, petitions for the imposition of anti-dumping and countervailing duties on softwood lumber from Canada were filed with the U.S. Department of Commerce (“DOC”) and the U.S. International Trade Commission (“ITC”) by certain U.S. industry and trade groups (the “Petitioners”).

In response to the petitions, the ITC conducted a preliminary injury investigation and on May 16, 2001, it determined that there was a reasonable indication that the lumber industry in the United States was threatened with material injury by reason of softwood lumber imports from Canada. As a result of this determination, detailed investigations were conducted.

On August 9, 2001, the DOC issued its preliminary determination in the countervailing duty investigation and imposed a preliminary duty rate of 19.31 per cent on exports of softwood lumber into the U.S. on or after August 17, 2001. The DOC also made a preliminary determination that certain circumstances may have existed which may result in the duties applying retroactively to May 19, 2001 (“Critical Circumstances”). The preliminary duty rate of 19.31 per cent was suspended on December 15, 2001, 120 days after the preliminary determination, in accordance with U.S. law.

On October 31, 2001, the DOC issued its preliminary determination in the anti-dumping duty investigation and imposed a company specific preliminary duty rate on Canfor of 12.98 per cent on exports of softwood lumber into the U.S. on or after November 6, 2001.

On March 22, 2002, the DOC announced its final determinations on both the countervailing duty and anti-dumping investigations. It ruled that the countervailing duty rate be adjusted to 19.34 per cent. On April 25, 2002, the DOC announced a further revision of the countervailing duty rate to 18.79 per cent, which will apply retroactively. The DOC did not find any supporting evidence of Critical Circumstances and so no duty will be assessed on the retroactive period May 19, 2001 to August 16, 2001. The DOC also ruled that Canadian producers/exporters of softwood lumber have sold their product below fair value and assessed an individual anti-dumping duty of 5.96 per cent on Canfor.

For accounting purposes, Canfor has accrued $40.0 million for countervailing duties for the period from August 17, 2001 to December 15, 2001 and $21.2 million for anti-dumping duties for the period from November 6, 2001 to March 31, 2002, based upon the 19.31 per cent and 5.96 per cent duty rates, respectively.

In May 2002, the ITC is expected to make a final determination regarding the time period to which the duties will apply based upon its determination of the existence of injury or threat of injury. If threat of injury only is determined, all existing accruals will be reversed and duties will apply only from the date the final order is imposed. If present injury is determined, the final rates will apply from the date the accruals were commenced. The countervailing and anti-dumping duties accrued up to the date of the final order will not be payable until the completion of the first administrative review, which is currently expected to occur in November 2004, and finalization of any appeals, which could extend beyond 2004. Duties on shipments after the date of the final order will require the posting of cash deposits.

Canfor and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the countervailing and dumping determinations made by the ITC and DOC. Canadian Interests continue to aggressively defend the Canadian industry in this U.S. trade dispute and are appealing the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the rates established in the investigations, the final liability for the assessment of countervailing and dumping duties will not be determined until each annual administrative review process is complete.

10. Certain 2001 figures have been reclassified to conform to the current year's presentation.

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