



S e c o n d Q u a r t e r I n t e r i m R e p o r t

For the six months ended June 30, 2001

Canfor Corporation

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To Our Shareholders,

Canfor Corporation earned a net income of \$10.1 million or \$0.11 per common share (\$0.11 on a diluted basis) for the quarter. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the quarter were \$57.6 million compared to \$93.7 million for the same quarter in 2000 and \$63.5 million in the first quarter of 2001. The net income for the quarter was impacted by a \$7.2 million, after tax, foreign exchange loss realized on long-term debt repayments made during the quarter. This loss was charged against net sales and allocated across the business segments.

Net Sales during the quarter were \$511.2 million, an increase of \$29.6 million over the previous quarter. The increase is largely the result of higher lumber prices and a weaker Canadian dollar.

Although we continue to see very significant operational improvements, our quarterly results were hampered by the deteriorating pulp market and the uncertainty arising from the Canada/U.S. softwood lumber dispute. Pulp prices fell by over 20 per cent from the prior quarter or 23 per cent from the same quarter in 2000. In an effort to continue to manage our production in line with shipments, production was curtailed by approximately 28,000 tonnes. Canfor has announced a further 19,000 tonne curtailment for the third quarter.

On the lumber side, in spite of the fact that prices were higher and our overall lumber production capacity has increased significantly, our shipments were eight per cent lower than the same period last year. Our decision to curtail shipments results directly from the continued threat of countervailing duty and anti-dumping actions precipitated by a lack of resolution to the softwood lumber dispute. Despite buoyant prices for lumber, Canfor, and many other softwood lumber producers, have been curtailing shipments to the United States in an effort to avoid creating an export surge that would be used by the U.S. industry to justify the imposition of countervailing and/or anti-dumping duties on a retroactive basis. Canfor took approximately 63 million board feet of production downtime in the quarter. This compares to 178 million board feet and 45 million board feet of downtime taken in the first quarter of 2001 and second quarter of 2000 respectively. A further 200 million board feet of curtailment is planned for the third quarter.

The biggest issue facing the Company continues to be the trade actions initiated by U.S. lumber producers. As Canfor is Canada's largest softwood lumber producer, the Company has been identified as one of six respondents in the anti-dumping action. We have prepared a rigorous defence in this case, as well as against countervailing duty allegations. Nevertheless, U.S. trade laws are designed to protect U.S. producers and punish Canadian competitors. This issue will only be resolved by forceful negotiations by the Government of Canada supported by governments of producing provinces. Prolonged litigation will hurt companies, workers, communities and our customers. Preliminary talks have begun and that is a positive sign.

The Board of Directors declared a dividend of \$0.065 per common share, payable on September 28, 2001, to shareholders of record on September 14, 2001.



Peter J.G. Bentley
Chairman



David L. Emerson
President and Chief Executive Officer

Management's Discussion and Analysis

The Management's Discussion and Analysis provides a review of the significant developments that have impacted Canfor's performance during the second quarter of 2001 relative to the last published annual results as at December 31, 2000 and relative to the comparative quarter in 2000. 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, 2000.

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)	2nd Quarter 2001	2nd Quarter 2000	Six months ended 2001	Six months ended 2000
Net sales	\$ 511.2	\$ 581.8	\$ 992.8	\$ 1,199.9
EBITDA	\$ 57.6	\$ 93.7	\$ 121.1	\$ 221.7
Operating income	\$ 30.7	\$ 66.6	\$ 66.4	\$ 166.3
Net income	\$ 10.1	\$ 32.1	\$ 28.9	\$ 85.5
Earnings per share				
Basic	\$ 0.11	\$ 0.38	\$ 0.33	\$ 1.03
Diluted	\$ 0.11	\$ 0.35	\$ 0.32	\$ 0.92

Canfor Corporation reported a net income of \$10.1 million or \$0.11 per common share (\$0.11 on a diluted basis) for the quarter. This compares to the previous quarter net income of \$18.8 million or \$0.22 per common share and the second quarter 2000 net income of \$32.1 million or \$0.38 per common share. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the quarter were \$57.6 million compared to \$63.5 million in the first quarter of 2001 and \$93.7 million for the same quarter in 2000. Over the previous quarter, the increase of \$29.6 million in net sales was a result of a 53 per cent increase in lumber prices, a seven per cent increase in lumber shipments and a weakened Canadian dollar against the U.S. dollar, which was partially offset by a 21 per cent decrease in pulp prices. The net income for the quarter was impacted by a \$7.2 million, after tax, foreign exchange loss realized on long-term debt repayments made during the quarter. This loss was charged against net sales and allocated across the business segments.

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.

WOOD PRODUCTS

The Wood Products group had an operating income of \$55.0 million for the quarter, an improvement of \$57.2 million over the previous quarter and \$32.9 million more than the second quarter 2000 result. This improvement was largely the result of higher lumber prices which peaked at \$376 U.S. and then fell back to end the quarter at \$268 U.S. per thousand board feet for the benchmark 2" x 4" SPF Random Lengths. On average, prices were \$300 U.S. per thousand board feet which is substantially higher than the \$196 U.S. average in the first quarter of 2001 and the \$275 U.S. per thousand board feet average in the same quarter of 2000. The results for the group were adversely impacted by its portion of the foreign exchange loss on debt repaid in the quarter, which amounted to \$4.8 million.

Despite buoyant prices for lumber, Canfor, and many other softwood lumber producers, have been curtailing shipments to the United States in an effort to avoid creating an export surge that would be used by the U.S. protectionists to justify the imposition of countervailing and/or anti-dumping duties on a retroactive basis. Canfor took approximately 63 million board feet of production downtime in the quarter. This compares to 178 million board feet and 45 million board feet of downtime taken in the first quarter of 2001 and second quarter of 2000 respectively. A further 200 million board feet of curtailment is planned for the third quarter.

Overall, Canfor has taken or planned over 440 million board feet of curtailment, which represents approximately 15 per cent of its lumber production capacity. Given the continued threat of punitive trade actions by the U.S., Canfor management believes this curtailment to be both prudent and necessary.

Despite significant curtailments, the Wood Products group has achieved operational improvements on an annualized basis which have reduced costs by 13 per cent, improved lumber recovery by five per cent and increased productivity per man hour by 18 per cent compared with 2000. While these improvements are being overshadowed by the impact of U.S. trade actions, the group is well positioned to realize its full potential once the uncertainty is removed.

PULP PRODUCTS

The Pulp segment recorded an operating loss of \$5.3 million, compared to a profit of \$37.3 million in the previous quarter and \$40.1 million profit in the second quarter of 2000. The slow-down in the global economy and the build-up of producer inventories has caused a dramatic decline in pulp prices. List Northern Bleached Softwood Kraft (NBSK) pulp prices, delivered to northern Europe, averaged \$550 U.S. per tonne during the quarter, \$115 U.S. per tonne lower than the previous quarter and \$175 U.S. per tonne lower than the same quarter in 2000. In addition, the operating loss included \$1.9 million of foreign exchange loss incurred on the debt repaid in the quarter.

In an effort to balance inventories, production was reduced by approximately 23,000 tonnes during the quarter. A further 19,000 tonnes of production curtailment is planned for the third quarter, which will bring the total curtailment to 65,000 tonnes or eight per cent of production capacity. In addition, the Northwood pulp mill will take its annual maintenance shut in September.

PULP AND SPECIALTY KRAFT PAPER

The Pulp and Specialty Kraft Paper segment recorded an operating loss of \$12.2 million in the quarter. This compares unfavourably to the \$1.8 million operating income in the first quarter of 2001 and the \$10.9 million operating profit reported in the same quarter of 2000. The results were hampered by falling pulp prices and paper quality difficulties. In addition, the operating loss included \$0.4 million of the foreign exchange loss incurred on the debt repaid in the quarter.

Pulp production was curtailed by approximately 4,700 tonnes during the quarter (13,300 tonnes on a year-to-date basis). The mill also took its annual maintenance shutdown in the second quarter. During the shut, a new headbox was installed on the kraft paper machine. Although still in start-up phase, the installation has been successful and is well on its way to increasing production of high-margin kraft paper by 39,000 tonnes per year.

COASTAL OPERATIONS

Operating income for the Coastal Operations segment was \$1.9 million, compared to \$6.2 million in the first quarter of 2001 and \$4.1 million in the second quarter of 2000. The decline was primarily due to a softening in the coastal log market, which has reduced both sale prices and volumes. As a result of the weaker market, production was curtailed for approximately 20 operating days in the quarter. Further curtailments are expected in the third quarter.

NON-SEGMENTED ITEMS

(millions of dollars)	2nd Quarter 2001	2nd Quarter 2000	Six months ended 2001	Six months ended 2000
Corporate costs	\$ (8.7)	\$ (10.6)	\$ (16.1)	\$ (19.6)
Equity income of affiliated companies	\$ 1.3	\$ 0.6	\$ 0.3	\$ 3.0
Net interest expense	\$ (16.9)	\$ (16.5)	\$ (32.5)	\$ (30.5)
Unusual items	\$ 0.2	\$ 5.5	\$ 10.1	\$ 6.3

Corporate costs for the quarter increased \$1.3 million over the previous quarter but on a year-to-date basis are \$3.5 million lower than the preceeding year. The overall decline is attributed to a reduction of Corporate

and Information Services costs. The increase in net interest expense of \$2.0 million over the previous year is a reflection of the increase in short-term indebtedness incurred from the build-up of inventories.

Income from affiliates has improved by \$2.3 million and \$0.7 million, respectively, over the previous quarter in 2001 and same quarter in 2000. Canfor's affiliated wood product companies benefited from the same price increases as the previously discussed Wood Products segment.

Although Canfor no longer consolidates Howe Sound Pulp and Paper Limited Partnership into its financial results, this operation reported a net loss of \$6.2 million in the quarter (\$29.5 million loss on a year-to-date basis). The majority of the loss is attributed to lower pulp prices, softening newsprint prices and a foreign exchange loss relating to repayment of long-term debt as part of the restructuring that occurred in the first quarter.

Outlook

The filing of countervailing duty and anti-dumping charges against the Canadian lumber industry continues to over-shadow North American lumber markets. Although market inventories have been replenished, most suppliers are expected to limit sawmill production, thereby limiting supply for the third quarter. Lumber demand is expected to weaken slightly in the third quarter, given slower economic growth in the U.S., before strengthening in the fall. Prices are expected to remain near current levels throughout the remainder of the year.

Overall, world demand for pulp in the third quarter is expected to remain weak. Paper mills are scheduling more downtime than normal over the summer months in response to lower paper demand. Producer pulp inventories have dropped in the second quarter but are still above normal. Pulp prices have fallen since the beginning of the year and are now close to historic lows. As a consequence, many pulp mills are taking downtime in the third quarter. Canfor's management assessment is that this will set the stage for a recovery starting in the fourth quarter.

Summary of Financial Position

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

(millions of dollars)	2nd Quarter 2001	2nd Quarter 2000	Six months ended 2001	Six months ended 2000
Ratio of current assets to current liabilities			1.7:1	1.1:1
Ratio of net debt to common shareholders' equity			47:53	46:54
Net Cash Flow	\$ (52.3)	\$ (47.2)	\$ (66.8)	\$ (148.3)
comprised of:				
Cash Flow from (used in) operating activities	\$ 36.9	\$ 38.6	\$ (20.7)	\$ (26.7)
Cash Flow from (used in) financing activities	\$ (59.2)	\$ (58.0)	\$ 51.3	\$ (63.4)
Cash Flow from (used in) investments	\$ (30.0)	\$ (27.8)	\$ (97.4)	\$ (58.2)

Changes in Financial Position

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

Net cash provided by operations was \$1.7 million lower than the same quarter in 2000 and \$6.0 million less on a year-to-date basis than in 2000. Interest paid in the quarter was \$17.2 million or \$33.0 million on a year-to-date basis (\$30.5 million in 2000). On a year-to-date basis, the Company has paid \$0.9 million in income taxes (\$142.4 million in 2000).

Net cash used in financing activities was \$59.2 million in the quarter, or an increase of \$1.2 million from the same quarter in 2000; however, on a year-to-date basis, \$114.7 million more cash was generated from financing activities than in 2000. During the quarter, Canfor made debt repayments of \$50.1 million. During 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.

Canfor paid dividends of \$5.2 million or \$0.065 per common share in the quarter. Canfor's net debt-to-equity ratio increased marginally to 47:53 from 46:54 in the same period in 2000.

Net cash used in investing activities was \$30.0 million for the quarter. On a year-to-date basis, this is an increase of \$39.2 million from the same six month period in 2000 and, on a quarter-over-quarter basis, an increase of \$2.2 million from the second quarter of 2000. The current quarter included investing \$16.6 million in the Company's capital program as compared to \$33.5 million in the second quarter of 2000 and \$9.2 million in the first quarter of 2001. The Company's capital program remains focussed on maintaining its operations while conserving its cash in view of the uncertain market conditions currently prevailing.

Liquidity and Financial Requirements

At the end of the quarter, Canfor had net short-term indebtedness of \$131.8 million and \$118.3 million of unused bank operating lines of credit as compared to the December 31, 2000 balances of \$65.0 million of short-term indebtedness and \$109.7 million of unused bank operating lines of credit. The \$66.8 million increase from the December 31, 2000 balance of short-term indebtedness is primarily due to the build-up of inventories.

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 \$90.2 million or \$1.11 per share. The Company can incur an additional \$126.4 million of long-term debt under these borrowing arrangements.

Risks and Uncertainties

A comprehensive discussion of Risks and Uncertainties issues was included in the 2000 Annual Report. An update of that discussion is included below.

Collective agreements with the unions representing employees at Canfor's two Alberta sawmill operations expired in February 2001. Negotiations at one sawmill were successfully concluded during the first quarter. The agreement follows the B.C. pattern on wages and benefits. Negotiations continue at the other sawmill. No work stoppages have occurred nor are any expected.

The Canada/U.S. Softwood Lumber Agreement expired on March 31, 2001 without being renewed or replaced. On April 2, 2001 countervailing duty (CVD) and anti-dumping (AD) petitions covering certain softwood lumber products (Subject Merchandise) from Canada were filed with the U.S. Department of Commerce and the U.S. International Trade Commission. The petitioners allege they account for over 90 per cent of U.S. softwood lumber production in 2000 and, accordingly, claim that at least three-quarters of the U.S. lumber industry supports the petitions. The period of investigation is April 1, 2000 to March 31, 2001. As a result of these petitions, the Department of Commerce and the U.S. International Trade Commission have initiated anti-dumping and countervailing duty investigations.

The country-wide alleged subsidy rate named in the CVD petition is 39.9 per cent. As in previous CVD cases, the main focal point of this petition is the allegation that Canadian stumpage systems, which determine the price of timber from provincial and federal crown lands, provide a countervailable subsidy to Canadian producers. Canada has successfully defended three previous similar CVD petitions.

In the AD case, based on seven pricing comparisons across Canada, alleged dumping margins of between 22.5 per cent and 72.9 per cent were indicated in the petition. Canfor has been named as a mandatory respondent in the AD case and is currently in the process of completing the Department of Commerce's questionnaire.

The amount, if any, of anti-dumping and/or countervailing duties that might be levied cannot be determined at this time. If there is a finding of critical circumstances, a possibility exists that both CVD and AD may be applied retroactively to a date not yet determined but not earlier than into the second quarter of 2001. The future effects of the various uncertainties and potential risks described in the foregoing cannot be quantified or predicted. Should duties be applied retroactively, the cost of the retroactive portion will not be recoverable from the Company's customers. Canfor's management is assessing its alternatives under the various duty scenarios that could arise from these petitions.

Consolidated Statement of Income and Earnings Reinvested in the Business

(unaudited) (millions of dollars)	3 months ended June 30		6 months ended June 30	
	2001	2000	2001	2000
Net sales	\$ 511.2	\$ 581.8	\$ 992.8	\$ 1,199.9
Costs and expenses				
Manufacturing and product costs	436.3	470.8	840.0	945.9
Depreciation, depletion and amortization	26.9	27.1	54.7	55.4
Selling and administration	17.3	17.3	31.7	32.3
	480.5	515.2	926.4	1,033.6
Operating income	30.7	66.6	66.4	166.3
Equity income of affiliated companies	1.3	0.6	0.3	3.0
Interest expense	(16.9)	(16.5)	(32.5)	(30.5)
Other income	0.2	5.5	1.6	6.3
Unusual items	-	-	8.5	-
Income from continuing operations before income taxes	15.3	56.2	44.3	145.1
Income tax expense (Note 5)	(5.2)	(24.1)	(15.4)	(59.6)
Net income	\$ 10.1	\$ 32.1	\$ 28.9	\$ 85.5
Net income per common share (in dollars) (Note 6)				
Basic	\$ 0.11	\$ 0.38	\$ 0.33	\$ 1.03
Diluted	\$ 0.11	\$ 0.35	\$ 0.32	\$ 0.92
Weighted average number of common shares			81,088,847	81,084,793
Currently outstanding number of common shares			81,088,847	81,088,847
Diluted number of common shares			92,900,711	93,135,302
Earnings reinvested in the business at beginning of year			\$ 151.4	\$ 110.5
Net income for the year to date			28.9	85.5
Common share dividends			(10.5)	(10.5)
Interest on equity component of convertible subordinated debentures, net of taxes			(2.3)	(2.3)
Prior period adjustment			-	(59.1)
Earnings reinvested in the business at end of current period			\$ 167.5	\$ 124.1
Financial Statistics and Ratios				
EBITDA * (millions of dollars)			\$ 121.1	\$ 221.7
EBITDA margin *			12%	18%
Ratio of current assets to current liabilities			1.7 : 1	1.1 : 1
Ratio of net debt to shareholders' equity			47 : 53	46 : 54

* EBITDA represents operating income plus depreciation, depletion and amortization.

Consolidated Cash Flow Statement

(unaudited) (millions of dollars)	3 months ended June 30		6 months ended June 30	
	2001	2000	2001	2000
Cash generated from (used in)				
Operating activities				
Net income from continuing operations	\$ 10.1	\$ 32.1	\$ 28.9	\$ 85.5
Items not affecting cash:				
Depreciation, depletion and amortization	26.9	27.1	54.7	55.4
Other items not involving cash	4.4	(11.3)	9.8	8.0
Non-cash working capital changes	(4.5)	(9.3)	(114.1)	(175.6)
	36.9	38.6	(20.7)	(26.7)
Financing activities				
Proceeds from long-term borrowing	-	-	321.5	-
Repayment of term bank loan	-	-	(175.4)	-
Repayment of long-term debt	(50.1)	(30.2)	(50.1)	(30.2)
Repayment of acquisition bank loan	-	(20.0)	(30.0)	(20.0)
Payment of capital lease liabilities	(0.1)	(0.2)	(0.3)	(0.3)
Dividends paid to common shareholders	(5.2)	(5.2)	(10.5)	(10.5)
Interest on convertible debentures, net of taxes	(1.9)	(2.3)	(1.9)	(2.3)
Other	(1.9)	(0.1)	(2.0)	(0.1)
	(59.2)	(58.0)	51.3	(63.4)
Investing activities				
Howe Sound Pulp and Paper Limited Partnership (Note 3)	(8.8)	-	(69.0)	-
Property, plant, equipment and timber	(16.6)	(33.5)	(25.8)	(63.8)
Proceeds on disposal of assets and investments	0.6	6.8	2.6	7.3
Other	(5.2)	(1.1)	(5.2)	(1.7)
	(30.0)	(27.8)	(97.4)	(58.2)
Increase (decrease) in net cash (short-term indebtedness)	(52.3)	(47.2)	(66.8)	(148.3)
Net cash (short-term indebtedness) at beginning of period	(79.5)	(70.9)	(65.0)	30.2
Net cash (short-term indebtedness) at end of period	\$ (131.8)	\$ (118.1)	\$ (131.8)	\$ (118.1)
Net cash (short-term indebtedness) comprises				
Cash and temporary investments	\$ 10.3	\$ 16.6	\$ 10.3	\$ 16.6
Unpresented cheques and operating bank loans	(142.1)	(134.7)	(142.1)	(134.7)
	\$ (131.8)	\$ (118.1)	\$ (131.8)	\$ (118.1)
Non-cash working capital changes				
Accounts receivable	\$ (15.2)	\$ 17.9	\$ (17.6)	\$ 13.3
Income taxes	(14.7)	(26.9)	(2.6)	(89.0)
Future income taxes	2.6	-	2.7	(1.5)
Inventories	119.7	134.1	(72.4)	(76.9)
Prepaid expenses	(16.0)	(10.2)	(13.9)	(7.3)
Accounts payable and accrued liabilities	(80.9)	(124.2)	(10.3)	(14.2)
	\$ (4.5)	\$ (9.3)	\$ (114.1)	\$ (175.6)

Interest paid by continuing operations for the six months ended June 30, 2001 was \$33.0 million (2000 - \$30.5 million) and income taxes paid were \$0.9 million (2000 - paid \$142.4 million).

Consolidated Balance Sheet

(millions of dollars)	as at June 30 2001 (unaudited)	as at December 31 2000 (audited)
ASSETS		
Current assets		
Cash	\$ 10.3	\$ 16.7
Accounts receivable		
Trade	217.2	179.6
Other	18.4	38.2
Income taxes recoverable	5.2	3.0
Future income taxes	25.3	28.0
Inventories	526.1	453.7
Prepaid expenses	26.0	12.1
Total current assets	828.5	731.3
Long-term investments	75.7	74.0
Property, plant, equipment and timber	1,490.6	1,518.4
Deferred charges	121.4	116.8
	\$ 2,516.2	\$ 2,440.5
LIABILITIES		
Current liabilities		
Unpresented cheques	\$ 60.4	\$ 41.4
Operating bank loans (Note 4)	81.7	40.3
Term bank loan	-	175.4
Acquisition bank loan	-	30.0
Accounts payable and accrued liabilities	270.4	288.1
Current portion of long-term debt	50.4	49.6
Current portion of deferred reforestation	34.0	35.4
Total current liabilities	496.9	660.2
Long-term liabilities		
Long-term debt (Note 4)	658.7	384.2
Convertible subordinated debentures - liability component	12.6	16.7
Deferred reforestation	53.0	42.4
Post employment benefits	19.7	16.1
Other liabilities	6.2	6.3
Total long-term liabilities	750.2	465.7
Future income taxes, net	184.6	363.9
Deferred income tax credit (Note 3)	113.6	-
SHAREHOLDERS' EQUITY		
Share capital	657.7	657.7
Convertible subordinated debentures - equity component	142.4	138.3
Earnings reinvested in the business	167.5	151.4
Foreign exchange translation adjustment	3.3	3.3
Total shareholders' equity	970.9	950.7
Contingent liability (Note 8)		
	\$ 2,516.2	\$ 2,440.5

APPROVED BY THE BOARD



Director, R.L. Cliff



Director, D.L. Emerson

Statement of Segmented Information

(unaudited) (millions of dollars)	Net sales to external customers	Net sales to other segments	Operating income (loss)	Depreciation, depletion and amortization	Net capital expenditures
3 months ended June 30, 2001					
Wood Products (Note c)	\$ 302.0	\$ 27.3	\$ 55.0	\$ 10.6	\$ 1.7
Pulp Products	128.8	–	(5.3)	8.5	4.2
Pulp and Specialty Kraft Paper	39.7	–	(12.2)	3.2	8.4
Coastal Operations (Note d)	40.7	2.2	1.9	3.0	1.3
Corporate	–	–	(8.7)	1.6	1.0
	\$ 511.2	\$ 29.5	\$ 30.7	\$ 26.9	\$ 16.6

3 months ended June 30, 2000					
Wood Products (Note c)	\$ 320.4	\$ 36.6	\$ 22.1	\$ 10.8	\$ 22.8
Pulp Products	159.2	–	40.1	7.7	6.5
Pulp and Specialty Kraft Paper	56.1	–	10.9	3.7	0.5
Coastal Operations (Note d)	46.1	3.4	4.1	3.8	3.7
Corporate	–	–	(10.6)	1.1	–
	\$ 581.8	\$ 40.0	\$ 66.6	\$ 27.1	\$ 33.5

3 months ended June 30	2001	2000
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Summary of consolidated shipments

Logs - 000 m ³	302.4	384.8
Lumber - MMfbm		
Canfor produced	547.7	593.2
Other producers	64.8	88.1
Total Lumber	612.5	681.3
Plywood - 000 Msf 3/8"	44.5	35.4
Pulp - 000 mt		
Canfor produced		
Pulp segment	212.4	186.4
Pulp and Specialty Kraft Paper segment	35.9	42.0
Marketed on behalf of HSLP (Note e)	101.9	87.5
Total Pulp	350.2	315.9
Kraft paper - 000 mt	26.4	27.3

- Sales to other segments are accounted for at prices which approximate market.
- 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.
- Wood Products sales for the quarter include sales of Canfor produced lumber of \$256.1 million (2000: \$260.7 million). The year-to-date sales of Canfor produced lumber are \$450.1 million (2000: \$502.8 million).

Notes to the Consolidated Financial Statements

1. These interim financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report for the year ended December 31, 2000.

These interim financial statements follow the same accounting policies and methods of computation as used in the 2000 consolidated financial statements.

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

3. Howe Sound Pulp and Paper Limited Partnership

On March 10, 2001, Canfor and Oji Paper Co., Ltd., its 50 per cent co-venturer in the Howe Sound Pulp and Paper Limited ("Howe Sound") joint venture, transferred the business of Howe Sound into a limited partnership, Howe Sound Pulp and Paper Limited Partnership ("the Partnership"). The Partnership continues to be jointly owned by Canfor and Oji and continues to carry on the existing operations of Howe Sound.

As part of the reorganization, Howe Sound was amalgamated with Canadian Forest Products Ltd. ("CFP"), Canfor's principal operating subsidiary, and approximately \$630 million of tax losses of Howe Sound became available to reduce the future taxable income of CFP. Also, as part of the reorganization, CFP made a payment of \$60 million to the Partnership which was applied to reduce the long-term debt of Howe Sound assumed by the Partnership. CFP has agreed to make further payments to the Partnership, up to a maximum of \$60 million, contingent upon its ability to utilize the tax losses of Howe Sound and payable upon utilization of the losses. These future payments will be recognized as a future income tax asset when they are made.

As a result of this reorganization, CFP recorded a future income tax asset of \$193.2 million and a deferred income tax credit of \$119.4 million. This deferred credit will be recognized in income as the Howe Sound tax loss is applied to reduce CFP's taxable income (\$5.8 million has been recognized as of June 30, 2001).

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 the result of the reorganization.

4. Bank Indebtedness and Long-Term Debt

The agreements relative to Canfor's privately placed senior notes contain provisions limiting the amount of indebtedness that the Company and its designated subsidiaries can incur and the amount of dividends payable on its common shares. Under these agreements, the Company and its designated subsidiaries can presently incur \$126.4 million additional long-term debt and pay up to \$90.2 million or \$1.11 per share in dividends on its common shares.

The fair value of long-term debt at June 30, 2001 was \$726 million.

At June 30, 2001, Canfor had \$118.3 million of unused bank operating lines of credit.

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

(millions of dollars)	3 months ended June 30, 2001	3 months ended June 30, 2000	6 months ended June 30, 2001	6 months ended June 30, 2000
Current	\$ 11.7	\$ 22.9	\$ 21.5	\$ 57.4
Future	(3.7)	0.9	(0.4)	1.3
Affiliates	0.5	0.3	0.1	0.9
	8.5	24.1	21.2	59.6
Less deferred income tax credit realized as a result of the reorganization of Howe Sound (Note 3)	(3.3)	-	(5.8)	-
	\$ 5.2	\$ 24.1	\$ 15.4	\$ 59.6

6. Earnings per share is calculated as follows:

(millions of dollars except for number of shares and per share amounts)	3 months ended June 30, 2001	3 months ended June 30, 2000 (Restated)	6 months ended June 30, 2001	6 months ended June 30, 2000 (Restated)
Net income	\$ 10.1	\$ 32.1	\$ 28.9	\$ 85.5
Less interest on equity component of convertible debentures, net of taxes	(1.2)	(1.2)	(2.3)	(2.3)
Income available to common shareholders - Re: Basic earnings per share	8.9	30.9	26.6	83.2
Add back interest on equity and liability components of convertible debentures	1.4	1.5	2.7	2.9
Income available to common shareholders - Re: Diluted earnings per share	\$ 10.3	\$ 32.4	\$ 29.3	\$ 86.1
Weighted average number of common shares	81,088,847	81,088,517	81,088,847	81,084,793
Shares issuable upon conversion of convertible debentures	11,742,424	11,742,424	11,742,424	11,742,424
Stock options	124,643	290,752	69,440	308,085
Diluted number of common shares	92,955,914	93,121,693	92,900,711	93,135,302
Basic earnings per share	\$ 0.11	\$ 0.38	\$ 0.33	\$ 1.03
Diluted earnings per share	\$ 0.11	\$ 0.35	\$ 0.32	\$ 0.92

Additional options to purchase 3,264,200 common shares at various prices, from \$7.30 to \$18.75 per share, were outstanding during the second quarter of 2001 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.

Stock Options:

During the second quarter of 2001, additional stock options were granted to purchase 11,500 common shares at an exercise price of \$11.80 per share, subject to various criteria that limit the number of options exercisable during each option year. These options expire on January 29, 2011.

7. Financial Instruments

On June 29, 2001, Canfor settled \$5.0 million U.S. of its \$125.0 million U.S. cross currency swap and recognized a gain of \$0.6 million Canadian. The fair value of the remaining \$120.0 million U.S. swap at June 30, 2001 is \$10.4 million Canadian.

8. 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 and the U.S. International Trade Commission by the Coalition for Fair Lumber Imports Executive Committee, the United Brotherhood of Carpenters and Joiners of America, and the Paper, Allied-Industrial, Chemical and Energy Workers International Union. Petitioners allege anti-dumping duties ranging between 22.5 per cent and 72.9 per cent and countervailing duties of at least 39.9 per cent should be imposed on imports of certain softwood lumber from Canada. A possibility exists that both duties may be applied retroactively to an, as yet, undetermined date not earlier than in the second quarter.

The Department of Commerce has initiated anti-dumping and countervailing duty investigations. The amount of anti-dumping and/or countervailing duties, if any, that may be assessed on imports of softwood lumber from Canadian exporters, including the Company, cannot be determined at this time and will depend on factual and legal determinations yet to be made by the Department of Commerce, the International Trade Commission and any reviewing courts, NAFTA panels or WTO panels to which those determinations are appealed. The Company cannot determine whether or not retroactive application of anti-dumping and/or countervailing duties will be levied and, therefore, has not recorded such costs. The cost of any retroactive duties will not be recoverable from the Company's customers.

9. Certain 2000 figures have been reclassified to conform to the 2001 presentation.



Canfor Corporation

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