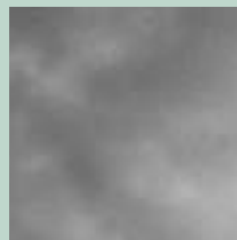
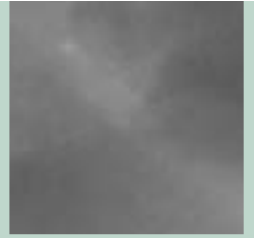


REALIZE

04 GLENDA



ACCOUNTABILITY TO ALL OUR COMMUNITIES Canfor has earned the reputation as an environmental leader in the forest industry and embraced the responsibilities to our local communities that come with that. Glenda Waddell, Canfor's Environment Manager in Prince George, lives this commitment every day as she implements our environmental programs in Northern B.C. Over the last year, she has been a part of many successes.

Realizing Our Responsibilities

or making sure we see the bigger picture





“ Whether it’s BioOil or energy generation, we continue to search for value-added applications for our wood residue.”



Air Quality Improvements

Canfor’s early closure of the Rustad operation beehive burner, the last of its kind in the Prince George area, represented a promise kept by Canfor to the community to help address air quality issues in the area. We continue to sponsor studies and participate in community air shed advisory panels with the objective of identifying other contributing factors to the Prince George air shed and finding solutions to further improve air quality.

Value-added Uses for Wood Residue

Value-added alternatives to disposing of wood residue generated by Canfor sawmill operations remains a top priority. In March of 2001, we signed a Memorandum of Understanding with Dynamotive Technologies Corp. whereby Canfor has provided conditioned wood residue feed stock to Dynamotive’s Vancouver pilot plant for the creation of BioOil, a clean burning, low emission, and greenhouse gas neutral fuel. Other value added opportunities continue to be explored for Canfor’s remaining wood residue.

Potable Water Program

As public focus on drinking water intensified with the tragedies in Walkerton, Ontario and North Battleford, Saskatchewan, Canfor engaged in a comprehensive program to assess and protect our own water supply systems. We prepared a preliminary assessment of our water systems, which supply over 6,000 people daily. Phase Two, which will be completed in 2002, will expand to include contractor-owned water systems, site inspections, and implementation of a water-sampling program. To ensure healthy water for the future, a new Canfor Water Management Standard is being implemented. Provincial officials have applauded Canfor’s proactive approach to this important issue.



“In 2001, we enhanced our reputation as a leader in the eco-certification of forestland and forest products.”



Forest Certification

Canfor completed the certification of the last of our area-based tenures to the Canadian Standards Association Sustainable Forest Management (CSA SFM) standard with the certification of Tree Farm Licence (TFL) 30 in Prince George. Canfor managed forestland certified to the CSA SFM standard now encompasses approximately 2.5 million cubic metres of harvest. The company also maintained the certification of its woodlands environmental management system (EMS) under the International Organization for Standardization (ISO) 14001 standard, covering roughly 9.3 million cubic metres of harvest.

Another certification highlight for Canfor in 2001 was becoming the first forest products company to qualify one of its mills to the Canadian Standards Association (CSA) Chain of Custody for Forest Products designation. This allows the sawmill to apply the CSA SFM mark on its packaging.

During the year, pre-assessment audits were conducted at the Prince George, Fort St. James and Fort St. John operations to determine readiness for implementation of the AF&PA Sustainable Forestry Initiative (SFI) standard. A CSA pre-assessment audit was also conducted at the Fort St. John operation. An SFI registration audit of the Prince George and Fort St. James operations will be conducted in 2002.

An important element of certification is a rigorous, effective audit program. During 2001, audits were conducted at all ten of Canfor's forestry operations. Where a few systems non-conformances or opportunities for improvement were reported, action plans to address deficiencies and improve performance were implemented. For example, through our ISO and CSA audits at our Englewood Operation, Canfor had to re-think, re-train, and re-structure our operational and environmental management to reflect new business realities. Although the poor market conditions did not provide the ideal environment in which to undertake this challenge, Canfor made the necessary changes because achieving the highest forest management practices will help to secure our long-term future.

FORESTRY

Compliance Report

Canfor’s performance regarding compliance under the Forest Acts of British Columbia and Alberta and the British Columbia *Forest Practices Code Act* continued to improve in 2001. *Figure 1* indicates the trend in determinations from the period 1997 to 2001 involving damage to the environment or trespass. In 2001, there were no determinations involving damage to the environment, however there were six determinations related to incidents in which operations were conducted outside approved boundaries.

Overall, a total of 109 non-compliance incidents occurred on Canfor forestry operations in 2001, 54 per cent fewer than in 2000, relative to the volume of timber harvested. *Figure 2* indicates the trend in total number of non-compliance incidents on Canfor operations reported to, or by government agencies in 2000 and 2001, per 100,000 cubic metres of timber harvested.

Despite our improved environmental performance, several administrative penalties were assessed in 2001 for contraventions that occurred in previous years. There were also two small assessments for contraventions that occurred in 2001. In all cases we undertook prompt mitigative measures and implemented operational controls to prevent recurrence of similar incidents.

Canfor woodlands operations reported 18 spills to government agencies in 2001, in accordance with legal reporting requirements. All spills were minor in nature and were appropriately managed. The majority of these spills were caused by the failure of hydraulic hoses on timber harvesting or log loading machines. Other causes included operators not following fueling procedures, failure of pumps or valves on fuel storage tanks, and leakage of fluids following motor vehicle accidents. Fuel management and spill awareness training was undertaken at all forestry operations during the year in order to reduce the number of spills in the future.

Performance Versus Objectives in 2001

Significant progress was made during the year in terms of meeting environmental objectives.

Forestry Principles

Objective: Prepare and adopt implementation plans for Canfor’s Forestry Principles for each forest region.

Performance: Implementation plans for Canfor’s Forestry Principles were completed and adopted at each of our four forest regions. The plans include specific strategies and actions to address issues unique to each region.

Number of significant non-compliance incident determinations on Canfor forestry operations

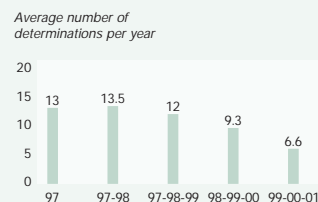


Figure 1 – Significant non-compliance determinations

Number of non-compliance incidents on Canfor forestry operations per 100,000 cubic metres of timber harvested

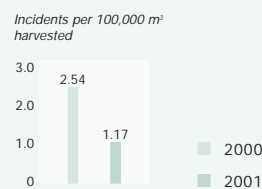


Figure 2 – Non-compliance incidents by volume of timber harvested

Forestry Research and Technology

Objective: Prepare a forestry research and technology strategy to guide investments and partnerships toward practical application of scientific knowledge at company operations.

Performance: A forestry research and technology strategy was prepared and presented to the Woodlands Managers Committee in December of 2001 and has been submitted to the Canfor executive for ratification.

Forest Practices Code Pilot at Fort St. John

Objective: Implement a Forest Practices Code Pilot Project at Canfor's Fort St. John operation.

Performance: the British Columbia government approved The Fort St. John Pilot Project Regulation, thereby allowing Canfor and our regional partners, Slocan Forest Products Ltd., Louisiana-Pacific Canada Ltd. and the Ministry of Forests' Small Business Forest Enterprise Program to undertake a results-based approach to forestry in the Fort St. John Timber Supply Area.

Technology Utilization in Environmental Documentation

Objective: Apply technology to assist and enhance Canfor's ability to maintain environmental records.

Performance: Applications developed by Genus Resource Management Technologies Inc., have been implemented or are being beta tested. These applications will be used by forestry staff to enhance the monitoring and measurement of environmental performance.

Objectives and Targets for 2002

Canfor has established seven environmental objectives for 2002, aimed at achieving continuous improvement in our forestry operations. Specific and measurable targets for each of these objectives are set at either the corporate or regional level.

(Consistent with Plans) Conduct all activities consistent with project plans.

(Spills) Prevent spills and leaks of harmful products.

(Fire) Minimize the impact on forest resources resulting from uncontrolled fire.

(Strategic Planning) Balance environmental, economic and social objectives in forest-level planning.

(Operational Planning) Incorporate management strategies into operational plans to address significant aspects.

(Public Communication) Improve public and employee confidence in our environmental practices.

(Use of Chemicals) Minimize impacts to other resources due to misapplication of chemicals.

MANUFACTURING

Compliance Report

Canfor is committed to transparency in our environmental reporting and includes compliance reporting as part of this process. The following is an inventory of compliance for Canfor's manufacturing operations, including Howe Sound Pulp and Paper Limited Partnership (HSLP).

In 2001, Canfor and HSLP had the following non-compliance situations (reported in accordance with government non-compliance reporting criteria):

Effluent

Permitted Total Suspended Solids (TSS) levels were exceeded on two consecutive months in a pulp mill effluent. Operational issues contributing to the elevated TSS levels have been resolved. One sample of process water discharge from a hardboard operation to a Regional District secondary effluent treatment system marginally exceeded permitted phenol levels. Measures have been taken to reduce the risk of phenol permit exceedances.

Air

One beehive burner regularly operated below approval temperature due to lack of fuel in the afternoon shift. Compliance has been achieved through a combination of reprogramming the burner controller and increased mill operating shifts. Two beehive burners operated below required temperatures for several days. Operation and maintenance issues associated with the low operating temperatures have been resolved. Several burners occasionally operated below required temperatures due to temporary operational problems. A total reduced sulphur emission limit was exceeded on one day during a recovery boiler start-up following a pulp mill shut. A particulate emission limit for a smelt-dissolving tank was marginally exceeded on two consecutive tests due to a solids build-up on the scrubber. The scrubber was cleaned and modified to prevent future problems.

Land

Yard maintenance resulted in an uncharacteristic amount of wood waste causing an exceedance of permitted volume of woodwaste to landfill.

Spills

Canfor and HSLP manufacturing operations had eight reportable spills in 2001. Seven of these spills were minor in nature and all were appropriately addressed. Spills included: two spills of washed pulp filtrate to the ground; a leak of sulphur dioxide to the air from a railcar; a spill of Crude Tall Oil to the ground during transfer to a storage tank; a spill of hydraulic oil to the ground due to a broken hose; a spill of dryer wash water to frozen ground; a small spill of diluted sludge to the ocean; and a spill of wood chips to the ocean from a barge. Charges were laid against HSLP for a spill that occurred in 2000.

Performance Versus Objectives in 2001

Wood Residue Utilization

Objective: We will review opportunities towards substantially increasing utilization of our sawmill wood residues and meeting our beehive burner phase-out commitments.

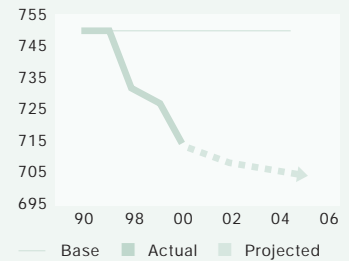
Performance: Following shutdown of Canfor's Rustad Sawmill burner in December 2000, several months ahead of the regulated phase-out date, wood residue from the mill has been directed to Canfor's Prince George area pulp and paper mills. This has increased Canfor's overall utilization of sawmill residues from 30 per cent to almost 40 per cent. Projects currently under consideration, if successful, will increase Canfor's overall wood residue utilization to approximately 65 per cent by the end of 2005.

Greenhouse Gases (GHG)

Objective: We will develop a strategy to further reduce our greenhouse gas emissions so we are positioned to meet future climate change requirements.

Performance: Canfor has prepared a greenhouse gas strategy, which we project will result in Canfor successfully meeting Canada's Kyoto GHG reduction target of six per cent below 1990 levels before the 2008 to 2012 reporting deadline.

Canfor's GHG emissions profile 1990-2005



Certification

Objective: Our Prince George Pulp and Paper (PGPP), Intercontinental (Intercon) and Howe Sound Pulp And Paper Limited Partnership (HSLP) mills will successfully retain ISO 14001 status. The Northwood Pulp Mill will obtain certification to the ISO 14001 by mid 2001.

Performance: PGPP, Intercon, and HSLP successfully retained ISO 14001 certification, and the Northwood Pulp Mill was certified to ISO 14001 in June 2001.

Audits

Objective: We will carry out internal audits of all pulp and paper mills, five sawmill operations, our plywood plant and all of our forest regions.

Performance: Internal audits were completed as planned and, in addition, an audit tracking and follow-up system was implemented for all operations.

EMS

Objective: Our sawmill operations will implement key elements of the ISO 14001 standard.

Performance: All sawmill operations have identified and ranked site-specific environmental aspects, and management reviews to establish Objectives and Targets were completed by several operations.

Objectives and Targets for 2002

The following are corporate level objectives and targets for 2002.

(Wood Residue Utilization) We will continue to pursue opportunities to substantially increase utilization of our sawmill wood residues and thereby achieve our beehive burner phase-out commitments.

(Greenhouse Gases) We will implement our greenhouse gas strategy.

(Audits) We will carry out corporate environmental audits of one pulp mill, four sawmill operations, two remanufacturing plants, and a chemical plant.

(EMS) Management reviews will be completed and environmental Objectives and Targets established at all of our sawmill operations.

(Potable Water Program) We will develop and implement a Canfor water management standard which includes operator training, water quality testing, an emergency response plan and a data management system.

Commitment to Communities

Community enhancement was the focus of Canfor's sponsorship and donation programs in 2001. To us, community enhancement means supporting initiatives that make a great place to live even better. One example of our community partnerships is Canfor's long-standing relationship with the United Way agencies that serve our operating communities. In 2001, almost \$200,000 was contributed to United Way organizations throughout British Columbia and Alberta through generous employee and matching corporate donations.



"Canfor is committed to investing in the communities in which we work and live."



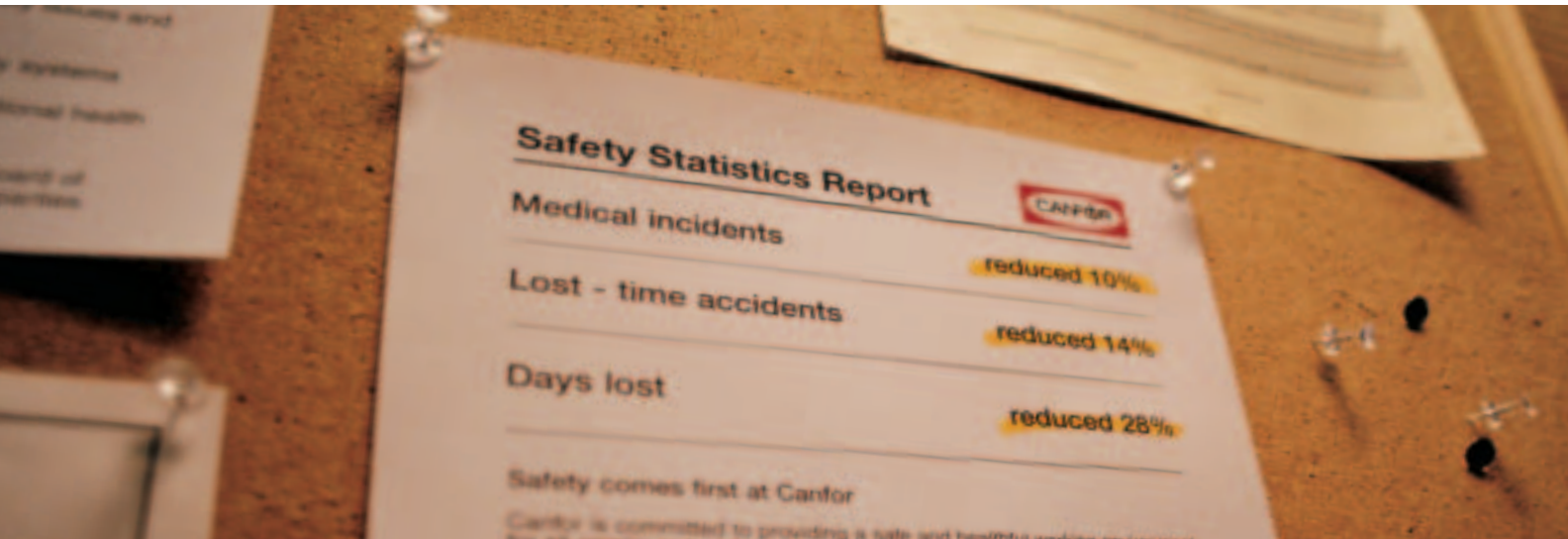
Our involvement with the United Way is not limited to simply making financial contributions. We seek out unique and innovative ways to participate in activities that will have a significant benefit to the community using our "human capital". Our support of the United Way in 2001 included lending volunteers from our Prince George operations to participate in Prince George's very first United Way 'Day of Caring'. After one full workday and a couple of late evenings, our volunteers converted an old attic into the Canfor Children's Magic Playroom for the children of women who stay at the Phoenix Transition House.

Canfor also committed to be the title sponsor of the United Way of the Lower Mainland's 'Canfor Building Family Foundations'; a program that will help build strong families by ensuring children have a healthy start in life and the support and guidance they need growing up.

We have a profound interest in the well being of our employees, their families and in the enhancement of the places they call "home". For this reason, Canfor supported over 300 organizations and initiatives in our operating communities in 2001.

Please visit www.canfor.com to find out more about Canfor's sponsorship programs.

“Everyone at Canfor subscribes to the company philosophy that ‘Safety Comes First at Canfor’.”



Commitment to Employees

The key ingredient to the success of our company lies in our people. Canfor is committed to retaining and attracting top-notch talent by providing a work environment that is stimulating and challenging while ensuring a safe and healthy workplace for our employees.

Each year Canfor undertakes an internal safety audit of its operations to determine the winner of the President's Safety Award. The audits are conducted by Canfor employees and based on strict safety criteria. This year's President's Safety Award in the under 400,000 man-hours category was won by the Polar sawmill operation in Bear Lake, B.C. The over 400,000 man-hour category went to Canfor's Northwood Pulp Mill in Prince George, B.C. Canfor was also recognized by the industry for safety performance. Canfor's northern sawmills were ranked first in the Interior sawmill sector in terms of both lost-time accident frequency and medical incident frequency. Canfor's Intercon Pulp Mill won the BC Pulp and Paper Employee Relations Forum award for the lowest medical incident rate in the province while the Northwood Pulp Mill ranked second.

In addition to its commitment to safety, Canfor continues to work with its employees to create a working environment that promotes peak performance while creating opportunities for employees in incentive programs, benefits packages and career development.

In 2001, Canfor and the IWA Canada, Local 1-424 signed the first ever High Performance Work Organization Agreement for Canfor's Rustad sawmill. The Agreement outlines a Union-Management Partnership to improve operational efficiencies, profitability and the health, safety and well being of the employees. Canfor is also implementing a work process refinement and improvement initiative incorporating employee feedback to implement efficient work processes, while eliminating unnecessary procedures and tasks.



www.canfor.com