



REALIZE

History shows that every once in awhile, the market experiences a downturn. But, history also shows that the market has always demonstrated the resiliency to rebound. Well beyond previous levels in fact. And so, even though this year has been far from ideal, we've continued to move forward. We've continued to improve our operations. We've made the necessary changes. And implemented our strategy. We've managed to transform things that were once 'what if's' into actuality.

And today, because of the dedicated commitment of our team, we're ready to realize greater success...

OPERATING HIGHLIGHTS

| | | 2001 | 2000 ⁽²⁾ |
|--|--|------------|---------------------|
| Sales and income (millions of dollars) | Net sales | \$ 1,985.6 | \$ 2,265.9 |
| | Operating income | 62.5 | 263.6 |
| | Net income | 26.4 | 125.6 |
| Cash flow (millions of dollars) | Cash flow from operations | \$ 118.8 | \$ 99.8 |
| | | | |
| Per common share (dollars) | Net income | \$ 0.27 | \$ 1.50 |
| | Net income – diluted | 0.27 | 1.36 |
| | Dividends | 0.26 | 0.26 |
| | Book Value | 10.35 | 10.24 |
| | Share price | | |
| | High | 12.60 | 19.80 |
| | Low | 8.05 | 7.65 |
| | Close - December 31 | 9.80 | 9.90 |
| | Common shares outstanding – weighted average | 81,088,847 | 81,086,831 |
| Financial position (millions of dollars) | Working capital | \$ 342.3 | \$ 71.1 |
| | Total assets | 2,378.8 | 2,440.5 |
| | Long-term liabilities | 831.0 | 465.7 |
| | Common shareholders' equity | 960.5 | 950.7 |
| | Total capitalization | 2,042.5 | 1,780.3 |
| Additional information | Return on capital employed | 3.5% | 9.3% |
| | Return on common shareholders' equity | 2.8% | 13.6% |
| | Ratio of current assets to current liabilities | 2.0:1 | 1.1:1 |
| | Ratio of net debt to common shareholders' equity | 43:57 | 42:58 |
| | EBITDA (millions of dollars) ⁽¹⁾ | \$ 168.5 | \$ 376.3 |
| | EBITDA margin | 8% | 17% |
| | Capital expenditures (millions of dollars) | \$ 54.7 | \$ 121.8 |

QUARTERLY FINANCIAL INFORMATION

| | 2001 | | | | 2000 | | | | |
|--|-----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 1st | 2nd | 3rd | 4th | 1st | 2nd | 3rd | 4th | |
| Sales and income (millions of dollars) | | | | | | | | | |
| | Net sales | \$ 481.6 | \$ 511.2 | \$ 535.3 | \$ 457.6 | \$ 618.1 | \$ 581.8 | \$ 558.2 | \$ 507.8 |
| | Net income (loss) | 18.8 | 10.1 | 19.6 | (22.1) | 53.4 | 32.1 | 24.1 | 16.0 |
| Per common share (dollars) | | | | | | | | | |
| | Net income – basic ⁽²⁾ | 0.22 | 0.11 | 0.23 | (0.29) | 0.64 | 0.38 | 0.28 | 0.19 |
| | Net income – diluted | 0.21 | 0.11 | 0.21 | (0.29) | 0.58 | 0.35 | 0.26 | 0.18 |

(1) EBITDA represents operating income plus depreciation, depletion and amortization.

(2) Certain comparative figures have been restated to conform to the 2001 presentation.

CORPORATE PROFILE

Canfor Corporation is a leading Canadian integrated forest products company based in Vancouver, B.C. The company employs approximately 6,800 people - 5,850 directly, and 950 through affiliated companies.

Canfor has extensive woodlands operations and manufacturing facilities in British Columbia and Alberta, and a lumber re-manufacturing plant in Washington State. The company is a major producer and supplier of lumber and bleached kraft pulp. It also produces semi-bleached and unbleached kraft pulp, bleached and unbleached kraft paper, plywood, remanufactured lumber products, hardboard paneling and a range of specialized wood products, including baled fibre and fibremat. Howe Sound Pulp and Paper Limited Partnership, owned equally by Canfor and Oji Paper Co., Ltd., produces bleached kraft pulp and newsprint.

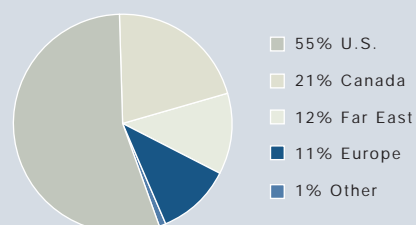
Canfor's products are sold in global markets. The company has marketing offices in Canada, Europe and Japan.

Canfor Corporation is listed on the Toronto Exchange and trades under the symbol 'CFP'. The main operating company is Canadian Forest Products Ltd., from which the name Canfor is derived.

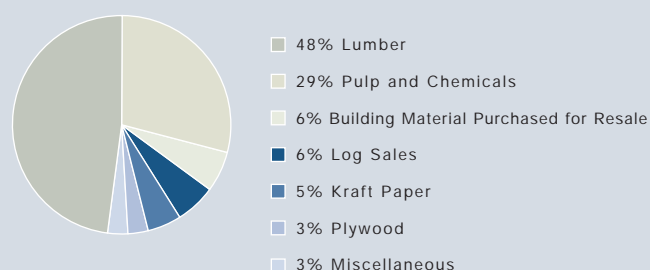
CANFOR BUSINESS UNITS

| Business Segment | Products | Primary Markets |
|--------------------------------|--|---|
| Wood Products | Softwood Lumber and Plywood | House construction and home repairs and renovations |
| Pulp Products | Premium Pulp | Raw material for paper manufacturing (printing, fine and tissue papers) |
| Pulp and Specialty Kraft Paper | Specialty Kraft Paper | High performance packaging papers and specialty papers |
| | Specialty Pulp | Raw material for paper manufacturing (base and electrical application papers) |
| Coastal Operations | | |
| <i>Coast Logging</i> | Primarily hemlock, cypress, Douglas fir and cedar logs | Coastal pulp mills and sawmills |
| <i>Panel & Fibre</i> | Hardboard products | Wall panels for home construction and renovations |
| | Refined fibre | Erosion control |
| | Fibremat | Car components (door panels, dashboards) |

Net sales by market



Net sales mix by product line



CANFOR OPERATIONS

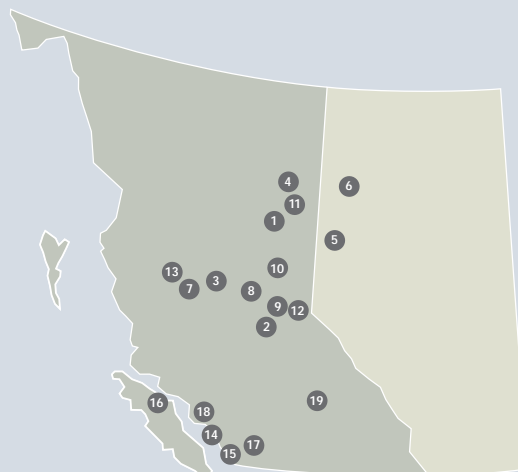
| Lumber (Mfbm) | 2001 Production (with curtailment) | 2002 Capacity |
|---------------------------------|--|------------------|
| Primary Mills | | |
| 1 Chetwynd | 122,530 | 222,400 |
| 2 Clear Lake | 125,607 | 137,500 |
| 3 Fort St. James | 164,576 | 273,600 |
| 4 Fort St. John | 146,837 | 200,000 |
| 5 Grande Prairie | 190,212 | 212,800 |
| 6 Hines Creek | 61,881 | 95,000 |
| 7 Houston | 373,835 | 443,400 |
| 8 Isle Pierre | 195,655 | 242,000 |
| 9 Prince George | 153,927 | 222,500 |
| 10 Polar | 192,961 | 263,700 |
| 9 Rustad | 233,616 | 322,200 |
| 11 Taylor | 52,862 | 80,000 |
| 12 Upper Fraser | 245,319 | 300,100 |
| Sub - total | 2,259,819 | 3,015,200 |
| Remanufacturing | | |
| Canfor USA ⁽¹⁾ | 91,110 | 160,000 |
| 2 Clear Lake | 29,466 | 39,400 |
| 5 Grande Prairie | 5,423 | 17,000 |
| 9 PG Wood Treating Plant | 5,534 | 7,000 |
| 13 Kyahwood ⁽³⁾⁽⁴⁾ | 25,100 | 28,200 |
| Sub - total | 156,633 | 251,600 |
| Total Lumber | 2,416,452 | 3,266,800 |
| Plywood^(Msf) | | |
| 9 North Central Plywood | 168,304 | 174,300 |
| Pulp^(mt) | | |
| 9 Prince George Pulp and Paper | 142,377 | 141,800 |
| 9 Intercontinental | 276,049 | 301,400 |
| 9 Northwood | 481,669 | 553,000 |
| 14 Howe Sound ⁽³⁾ | 338,463 | 347,700 |
| Total Pulp | 1,238,558 | 1,343,900 |
| Paper^(mt) | | |
| 9 Prince George Pulp and Paper | 108,775 | 134,400 |
| Newsprint^(mt) | | |
| 14 Howe Sound ⁽³⁾ | 204,440 | 206,300 |

(1) not shown

(2) jointly owned with Riverside Forest Products, Weldwood of Canada and West Fraser Timber

(3) includes 100 per cent of production

(4) 50 per cent joint venture



Other Operations

- 15 Corporate Office
- 15 Canfor Wood Products Marketing (Toronto, ON office not shown)
- 15 Canfor Pulp and Paper Marketing
- Canfor Georgia-Pacific Japan Corporation⁽¹⁾
- Canfor Europe⁽¹⁾
- 15 Canfor Research and Development Centre
- 9 BC Chemicals
- 16 Englewood
- 9 Executive Office
- 9 Administration Centre
- 17 Harrison
- 15 Panel and Fibre

Nurseries/Seed Orchards

- 9 J.D. Little Forest Centre
- 5 Grande Prairie
- 18 Sunshine Coast
- 19 Vernon Seed Orchard⁽²⁾

Woodlands

Prince George Operations
 Fort St. James Operations
 Houston Woodlands Operations
 Alberta-Peace Operations
 Coastal Operations

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting

Canfor Corporation's Annual General Meeting will be held at the Hotel Vancouver, Waddington Room, 900 W. Georgia St., Vancouver, B.C., on Friday, April 30, 2002 at 11:00 a.m.

Auditors

PricewaterhouseCoopers
 Vancouver, B.C.

Investor Contact

Charles W. Reid
 Group Vice-President,
 Finance and
 Chief Financial Officer
 Telephone: (604) 661-5200
 Fax: (604) 661-5429

Transfer Agent and Registrar

CIBC Mellon Trust Company
 Vancouver, Calgary, Regina,
 Winnipeg, Toronto, Montreal
 and Halifax

Canfor Corporation

Head Office
 2900-1055 Dunsmuir Street
 Post Office Box 49420
 Bentall Postal Station
 Vancouver, B.C.
 V7X 1B5

Telephone: (604) 661-5241
 Fax: (604) 661-5235
 E-mail: info@canfor.ca
 Web: www.canfor.com

Canfor also produces an

Annual Information Form. To obtain this publication or more information about the company, please contact Canfor Corporation, Corporate Affairs.

Stock Listing

Toronto Stock Exchange
 Symbol: CFP

01

LISA

Realizing Efficiencies

02

BRIAN

Realizing Synergies

03

DON

Realizing Our Strengths

04

GLENDIA

Realizing Our Responsibilities

05

CHARLES

Realizing Profitability

DEAR FELLOW INVESTOR,



Canfor is well

For companies in the Canadian forest products business, 2001 was a year most would like to forget. Commodity markets were terrible and U.S. protectionism in the softwood lumber sector once again reared its ugly head.

In Canfor's case, lumber and pulp markets, in combination, were depressed. The trade dispute cost the company in the hundreds of millions of dollars in revenue as we were forced to idle 22 percent of our lumber capacity while diverting substantial financial and management resources to deal with the problem. Add to this market curtailment of 10 percent of our pulp capacity and you can see why our profit was a modest \$26 million for the year.

positioned to take advantage of change ...

While 2001 may have been dismal, we are encouraged by what we believe lies ahead. Lumber markets have begun to rebound with pulp expected to follow suit and, for the first time in many decades, there is hope for a longer-term solution to softwood lumber trade problems. In addition, provincial forest policy reforms should encourage the evolution of a more competitive and more durable forest products industry in British Columbia.

At Canfor, we have been preparing for these changes for the past four years. We have significantly grown our core lumber and pulp businesses. More importantly, we have made dramatic improvements in operating efficiency and we have solidified our strategic market position through stronger branding, supply chain enhancements and a program of growth commensurate with the rapidly expanding needs of Canfor's prime customers.

We are now in a position to tap further synergies and efficiencies from capital investments and the integration of Northwood assets acquired in late 1999. This, coupled with recent organization changes, prepares the Company well to compete in an environment of more flexible, market-based regulation and competitive timber pricing.

Our focus on employee safety continued in 2001, with overall results again among the best in the industry. We can always do more, however, and our plan is to continue raising the performance bar. We will next turn to sectors outside the forest industry to benchmark best practices and further strengthen safety performance going forward.

Canfor's environmental and forest practices continued to evolve in 2001. Additional forest tenures were certified to the CSA sustainable forest management standard and progress continues in relation to greenhouse gas emissions and environmentally sound use of woodwaste.

The challenge of taking environmental and safety performance to new levels was also by the establishment in 2001 of an Environment and Safety Committee of the Board of Directors.

At Canfor, the people are our greatest strength and we thank them for their dedicated efforts. We regret that it has been such a difficult year for so many of them. These skilled employees, combined with the Company's harvesting rights and modern conversion facilities give us great confidence for our future.

Thanks also to our Board of Directors for their diligence and guidance they provided over the past year.

The company has gone through a dramatic change in the past few years. We are excited about the future and our ability to be ever more successful in a dynamic and changing industry. Canfor is positioned to take advantage of change and to reward our many owners for their confidence in our team. We want to be the forest products company of choice in Canada and we have confidence that our performance will increasingly justify that ambition in the months and years ahead.

... and we are encouraged



Peter J.G. Bentley
Chairman

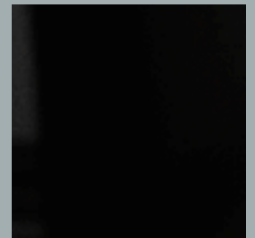
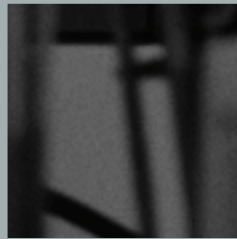
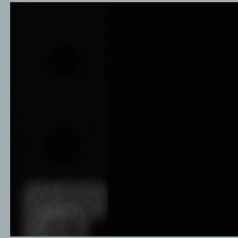
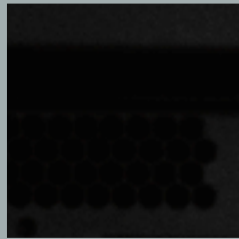
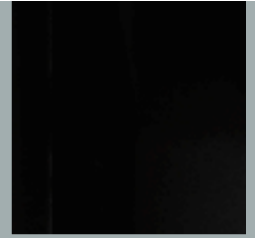


David L. Emerson
President and Chief Executive Officer

by what we believe lies ahead.



01 LISA



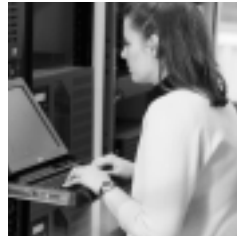
INTEGRATED SYSTEMS Take 13 different sawmills. Link them in one database. Not an easy task. But that's precisely the challenge given to Lisa Mast, Senior Business Analyst, Information Services Group. And, when work began and the efficiencies of a shared system became apparent, the job didn't just have to be done. It had to be done fast.



Realizing Efficiencies

or proof that less is more

“ To enjoy the economies of scale that being Canada’s largest lumber producer affords, all of our operations had to integrate – in effect, work as one mill.”



Lisa was part of the project team that was given the following mandate: support and assist Canfor’s Wood Products Group in managing information and leveraging that information to help them make better business decisions. The group meticulously reviewed various production, reporting, and auditing procedures throughout Canfor’s operations, and came back with ways to implement technology solutions to ensure consistency and improve the efficiency in these procedures. Here are just a few.

Canfor’s Wood Products Group had five different safety systems, representing a 3,500 plus strong workforce, to report accident statistics, payroll, and workers compensation functions. By reviewing the best practices of each system, Lisa and her team developed an easy to use, web-based safety system currently in use throughout the company. Linked to the company’s human resources information, the new system is also facilitating these functions.

As part of Canfor’s commitment to responsible forest stewardship, Canfor has certified all of its operations to the International Organization for Standardization (‘ISO’) 14001 standard and all of our area-based tenures to the Canadian Standards Association (CSA) Sustainable Forest Management (SFM) standard. To increase accuracy in reporting, as well as consistency in the internal auditing process, we’ve developed a standard environment auditing program for Canfor that allows information sharing and more accurate benchmarking for our operations.

Lisa’s team also contributed ideas to increase production efficiencies. Weekly costing reports of Canfor operations allow efficient and accurate comparisons of data amongst mill operators and managers. Comparing information from mill to mill, allows positive trends to be immediately replicated throughout the system.



“We’re beta-testing real time data sharing to enhance production performance of specific mill machinery.”



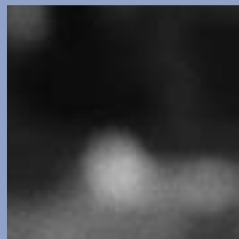
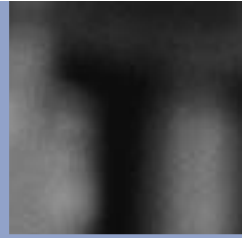
Efficiencies realized throughout Canfor operations were not limited to the contributions of Lisa and her team. Despite poor markets, the softwood lumber dispute, and resulting downtime, we enjoyed a five per cent improvement in our lumber recovery factor (LRF). Essentially, the improved LRF allowed for increased lumber production in 2001 over 2000, even though we took 22 per cent of our capacity out through downtime. This, combined with improving lumber productivity and implementing the Square Edge program without compromising the production of other product profiles, all bode well for capturing even more efficiencies in the future.

To better utilize wood waste throughout our Pulp and Paper Group, projects were developed to combat the dramatic rise in energy costs experienced in 2001. One such project included building a steam line between Canfor’s Intercontinental (Intercon) and Prince George Pulp and Paper (PGPP) operations, which allowed for the transfer of surplus steam.

This project not only lowered natural gas consumption in PGPP’s boilers, it also allowed more steam to run through Intercon’s co-generation turbine creating usable electricity.

These are all just a few examples of how Canfor continues to identify opportunities to create efficiencies in all parts of our business.

02 BRIAN



BECOMING A GLOBAL SUPPLIER Brian Yuen, Canfor Pulp and Paper Marketing Representative, offers an interesting perspective on the benefits of the Northwood acquisition. In addition to combining best practices and the efficiencies of managing a much larger fibre resource pool, it has offered up something even bigger. The world.

A black and white close-up portrait of a man with short, dark hair, looking slightly to the right of the camera with a neutral expression. He is wearing a dark, ribbed sweater over a light-colored collared shirt. The background is blurred, showing what appears to be an office or meeting room with a table and chairs.

Realizing Synergies

or how 1 + 1 = 3

2001 was a year where the synergies created by the Northwood acquisition were truly realized within Canfor's Pulp and Paper Group. The company now markets nearly double the amount of pulp and paper as we did just a couple of years ago - with the same marketing organization. As a result, selling costs per tonne of pulp and paper have dropped significantly.



“The added production capacity lets us satisfy the supply obligations of contract customers while giving us the flexibility to pursue new markets.”



With the additional capacity, we now market 1.4 million tonnes of pulp. That allows us to aggressively pursue other markets while fulfilling the supply obligations of current contract customers. Without the additional capacity, Canfor would not have been able to make the gains in the Asian markets in 2001 where prices were more attractive than in North America and Europe. Our improved capacity also allows us the flexibility to expand our presence in specific product segments. For example, in 2001 Canfor became a bigger player as a supplier of pulp for premium tissue makers.

With the growth in supply and customer service capacity, Canfor has the ability to be a global supplier and attract much larger customer orders for specialty products in regions that would not have been possible in the past. Canfor now finds itself delivering even more high-quality pulp and paper products to the far reaches of the world.

“Customers from around the world are seeking the quality products we produce from our superior northern fibre base”



Operationally, we have been improving the coordination of our fibre supply between the Wood Products Group and the Pulp and Paper Group. By enhancing our efforts in this area, our pulp mills are able to manage chip inventories at an optimal level. In addition, a new chip handling facility at our Intercon operation allows the mill to manage lower inventories while improving fibre yield. Intercon’s improved fibre yield placed the mill in the top quartile in North America for this category.

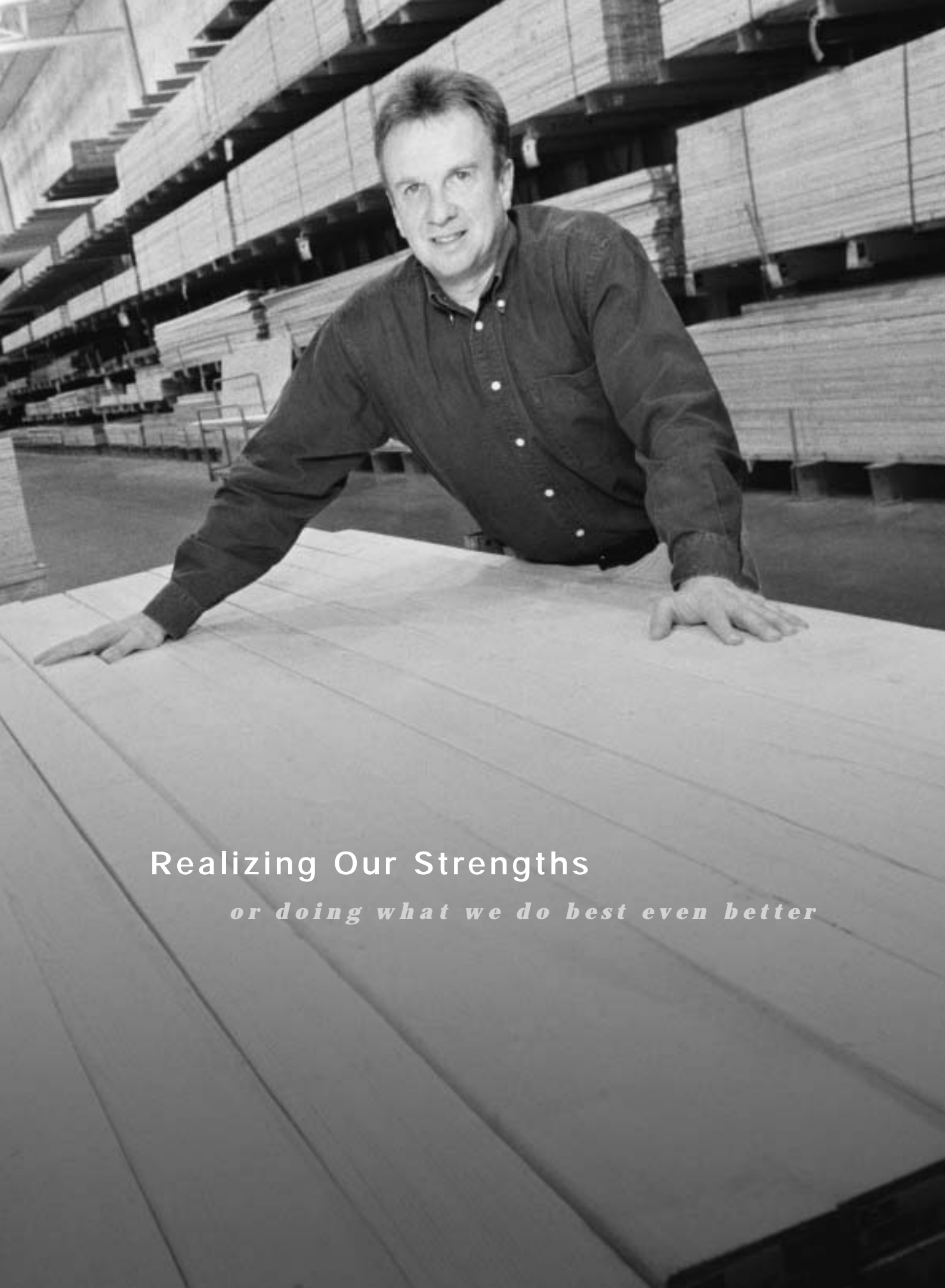
Canfor continues to target the niche specialty paper market. Canfor’s KODIAK KRAFT™ and POLAR KRAFT™ specialty papers offer customers cost-effective alternatives to traditional packaging papers. We continue to improve our paper operation to meet product specifications and satisfy customer demands.

While the pulp and paper markets had a challenging year in 2001, we’ve taken the necessary steps to realize the synergies from the Northwood acquisition. We’ve made operational improvements, combined best practices of our mills, and we are well positioned for increased profitability when the markets rebound.

03 DON



CUSTOMER SERVICE Don Kayne, Vice-President, Canfor Wood Products Marketing, promotes what he calls a “culture of trust and reliability”. The strategy to achieve this is a simple one: Provide a quality product; anticipate your customers’ needs; and continually remind yourself you have to earn their business each and every day.



Realizing Our Strengths

or doing what we do best even better



“To supply some of the most prominent home centres, professional builders, and industrial customers throughout North America and Asia, you have to be committed to earning their business.”

Canfor's superior northern fibre base, investments in technology, and asset base have all helped us become Canada's largest lumber producer. But perhaps what has helped Canfor most has been our commitment to customers.

With home centre customers in North America, Canfor's wood products marketing team, spearheaded by long-time Canfor employee Jack MacMillan, invested a number of years in developing relationships and understanding customer needs. They then took action to meet those needs like establishing re-load centres close to customers' retail outlets to help them with more efficient product distribution.

Over the years, Canfor has enhanced those relationships by developing an integrated supply chain management system. In addition to being one of the first to bar code individual pieces of lumber, Canfor also developed a vendor management inventory system that allows us to directly manage customer inventories. In addition, Canfor developed 'Square Edge', a proprietary appearance grade lumber that fulfills the home centre's customers' increasing demand for a higher quality product.

Canfor has also anticipated our customer's needs in helping them to provide a product that comes from responsibly managed forestlands. Canfor has aggressively pursued third party certification and today we are a leader in producing quality wood products from sustainably managed forests. We continually keep our customers informed of our environmental progress so that they have the most current information to pass on when their customers ask.

“We’re looking forward to extending the Canfor promise of customer service to new partners around the world.”

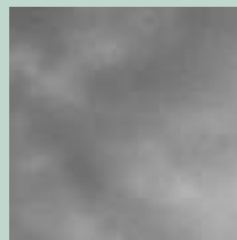


The development of the home centre customer base is no different than the development of other customer segments for Canfor Wood Products Marketing Group. Whether it be establishing specific mill partnerships for offshore customers or developing a web-based transaction site for professional dealers and industrial clients, Canfor remains committed to its customers.

Also part of that commitment, is a pledge to growing with our customers. To keep pace, we’ve had to increase our production capacity. Through the cumulative effects of strategic capital investments, best production practices, and the refinement of our Square Edge production process, Canfor has realized significant production capacity gains.

Our current annual production capacity exceeds three billion board feet, up from 2.6 billion last year. In 2001, Canfor produced more lumber despite curtailing 22 per cent of its capacity due to uncertainties and risks related to the trade dispute with the U.S. Our capacity increase is partly due to what we call “the right log to the right mill at the right time”. Making this happen requires that our woodlands, manufacturing and marketing groups work in concert. We are doing just that – optimizing the value from our fibre base while ensuring that our products match the needs of our customers.

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

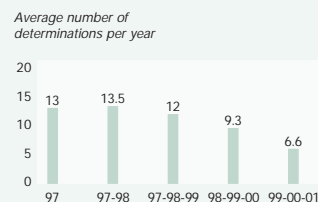


Figure 1 - Significant non-compliance determinations

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

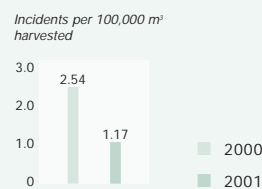


Figure 2 - Non-compliance incidents by volume of timber harvested

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.

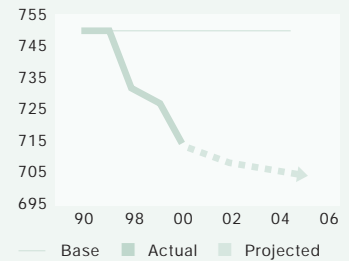
Performance: Following shutdown of Canfor's Rustad Sawmill burner in December 2000, several months ahead of the regulated phase-out date, wood residue from the mill has been directed to Canfor's Prince George area pulp and paper mills. This has increased Canfor's overall utilization of sawmill residues 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."



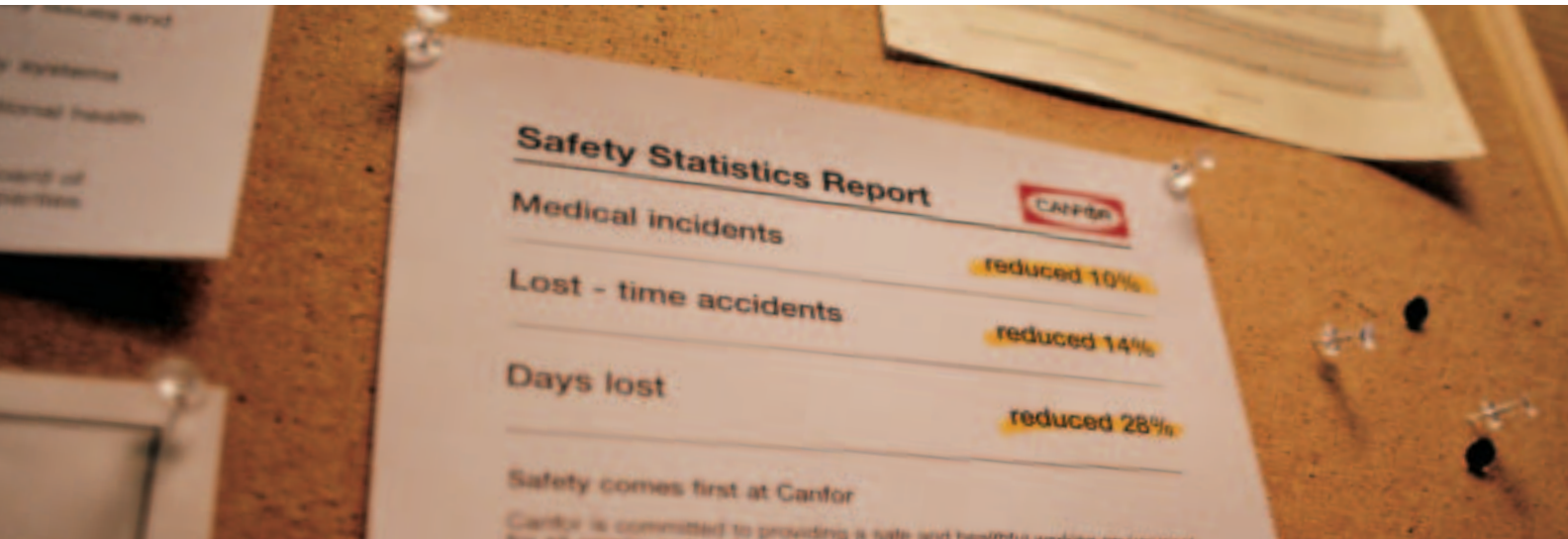
Our involvement with the United Way is not limited to simply making financial contributions. We seek out unique and innovative ways to participate in activities that will have a significant benefit to the community using our "human capital". Our support of the United Way in 2001 included lending volunteers 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.

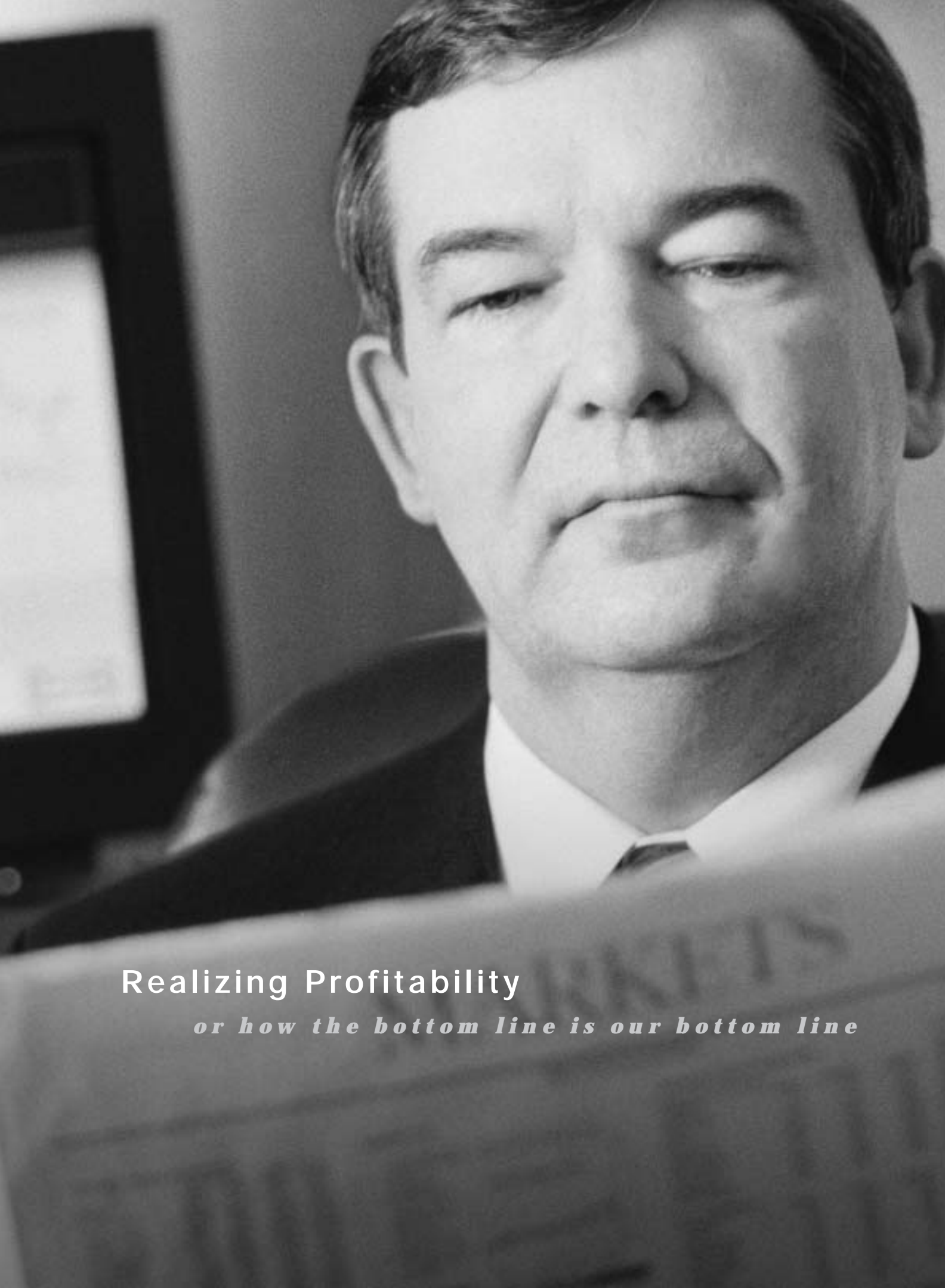
In addition to its commitment to safety, Canfor continues to work with its employees to create a working environment that promotes peak performance while creating opportunities for employees in incentive programs, benefits packages and career development.

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.

05 CHARLES

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ENSURING SHAREHOLDER VALUE Charles Reid, Group Vice-President, Finance and Chief Financial Officer has one primary objective – position Canfor to cover costs of capital during market downturns and be extremely profitable during good markets. In 2001 we experienced poor markets for both lumber and pulp. Despite this, Canfor remained profitable. We also improved working capital and increased liquidity, positioning the company to take full advantage of the market recovery to come.



Realizing Profitability

or how the bottom line is our bottom line

SUMMARY OF OPERATING RESULTS

| year ended December 31 | 2001 | 2000 ⁽¹⁾ |
|--|-------------------|---------------------|
| Sales Volume – major products | | |
| Lumber – MMfbm ⁽²⁾ | 2,265.9 | 2,193.0 |
| Plywood – 000 Msf 3/8" ⁽²⁾ | 161.6 | 163.2 |
| Pulp – 000 mt ⁽³⁾ | 940.1 | 952.5 |
| Specialty Kraft Paper – 000 mt | 106.7 | 105.7 |
| Logs – 000 m ³ | 1,240.8 | 1,574.1 |
| (millions of dollars) | | |
| Net Sales | | |
| Wood Products | \$ 1,149.2 | \$ 1,179.6 |
| Pulp Products | 499.5 | 667.2 |
| Pulp and Specialty Kraft Paper | 177.2 | 221.9 |
| Coastal Operations | 159.8 | 197.2 |
| Total net sales | \$ 1,985.7 | \$ 2,265.9 |
| Segmented Operating Income | | |
| Wood Products | \$ 68.2 | \$ 40.9 |
| Pulp Products | 31.4 | 197.4 |
| Pulp and Specialty Kraft Paper | (7.3) | 41.5 |
| Coastal Operations | (0.1) | 23.9 |
| Total segmented operating income | 92.2 | 303.7 |
| Non-segmented Income (Expenses) | | |
| Non-segmented expenses | (29.7) | (40.1) |
| Equity in income of affiliated companies | 1.1 | 1.2 |
| Net interest expense | (64.2) | (60.4) |
| Other income (expense) | (0.3) | 7.5 |
| Unusual items | 8.5 | (2.5) |
| Total non-segmented expenses | (84.6) | (94.3) |
| Net Income Before Income Taxes | 7.6 | 209.4 |
| Income tax recovery (expense) | 18.8 | (83.8) |
| Net income | \$ 26.4 | \$ 125.6 |
| Cash flow from operating activities | \$ 118.8 | \$ 99.8 |
| (dollars per common share) | | |
| Net income | \$ 0.27 | \$ 1.50 |
| Net income – diluted | \$ 0.27 | \$ 1.36 |

(1) Certain comparative figures have been restated to conform to the 2001 presentation.

(2) Lumber and plywood sales volume represents Canfor production only.

(3) Pulp sales volume excludes HSPP sales volume of 338.5 (000 mt) in 2001 and 324.7 (000 mt) in 2000.

The Management's Discussion and Analysis provides a review of the significant developments that have impacted Canfor's performance during 2001 relative to 2000. Factors that could impact future operations are also discussed. These factors may be impacted by known and unknown risks and uncertainties that may cause the actual results to be materially different than those stated in this discussion.

Throughout the discussion, reference has been made to EBITDA which represents operating income plus depreciation, depletion and amortization.

Overview of 2001

2001 was a difficult year for Canfor Corporation ("Canfor" or the "Company"). Markets were weak for both of Canfor's core businesses: lumber and pulp. Pulp prices started the year at \$710 U.S. per tonne before dropping to a low of \$450 U.S. per tonne. The uncertainty arising from the Canada/U.S. softwood lumber dispute and the economic slowdown in the U.S. caused significant volatility in the lumber market in 2001. Lumber prices ranged from \$376 U.S. per thousand board feet for random length 2"x4" SPF to an equivalent price of \$155 U.S. per thousand board feet after including the impact of countervailing and anti-dumping duties. The Company responded to these difficult and uncertain markets by curtailing pulp production by nearly ten per cent and lumber production by approximately 22 per cent of capacity, while reducing costs and limiting capital spending.

Commodity products are cyclical in nature and tend to rise and fall with general economic conditions. This was the case in the fourth quarter of 2001. This quarter Canadian lumber producers were hampered by combined countervailing and anti-dumping duties averaging 32 per cent, a slowdown in both U.S. and global economies, continued low prices in pulp and the virtual shutdown of the market for coastal logs, all of which coincided with the seasonal decline for commodity products. The poor market and economic conditions were reflected in the Company's disappointing fourth quarter loss of \$22.1 million ending the Company's 11 consecutive quarters of net income.

While masked by low prices and production curtailments, there were many outstanding operating accomplishments during 2001. Productivity gains, product mix changes to higher margin products and better utilization of raw materials are some examples.

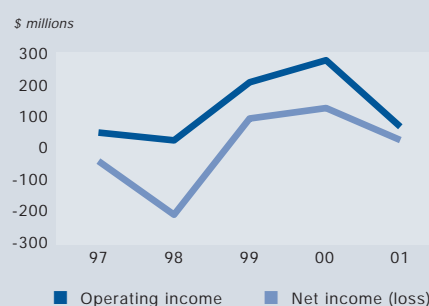
Some 2001 corporate highlights include:

- the reorganization of Howe Sound Pulp and Paper Limited into a limited partnership which will allow Canfor to reduce taxable income by over \$643 million over the next seven years,
- the successful issuance of \$220 million U.S. of long-term debt at favourable interest rates; the debt was used to retire short-term debt, finance the Howe Sound reorganization and for general business purposes,
- completion of the latest phase of Canfor's environmental strategy through the certification of 180,000 hectares of forestlands to Canadian Standards Association (CSA) standards; Canfor now has over 1.68 million hectares of forestlands certified to CSA standards.

The largest disruption to Canfor's results in 2001 was created by the Canada/U.S. softwood lumber dispute. Not only did Canfor expend \$7.2 million on legal and other costs, the dispute also cost Canfor thousands of hours of management time to deal with investigations, complete questionnaires and the verification processes. Senior management also spent considerable time in a proactive leadership role defending the interests of Canfor and the industry. In addition, Canfor's results were negatively impacted by recording a provision of \$45.7 million for countervailing and anti-dumping duties levied by the U.S. Department of Commerce. Had the duties not been levied, Canfor's earnings would have been \$0.67 per common share, instead of the reported \$0.27 per share in 2001.

Canfor believes the U.S. Department of Commerce's countervailing and anti-dumping investigations against the Company are arbitrary, discriminatory and capricious in nature. This has led Canfor to file a Notice of Intent to Submit a Claim to Arbitration against the Government of the United States for damages of not less than \$250 million

Net income and operating income



U.S. under the North American Free Trade Agreement (NAFTA). The Notice alleges that the U.S. has violated several provisions of NAFTA through its preliminary determinations in the countervailing and anti-dumping proceedings.

Despite the market turbulence and the disruption caused by the softwood lumber dispute, Canfor has improved working capital, increased liquidity and improved its operations to a point where it is better positioned to continue to weather the current economic slowdown. Going forward, Canfor is ready to take advantage of improvements in the global economy and an end to the uncertainties caused by the softwood lumber dispute. Canfor's strategy remains to focus on the controllable areas of the business – production and distribution of quality products, costs, higher margin product expansion, productivity and fibre utilization. Combining this with Canfor's culture of continuous improvement should allow each business segment to meet its goal of achieving a before tax return on capital employed of 18 per cent under adverse market conditions.

Operating Results

The following discussion of Canfor's operating results relates to the operating segments and the non-segmented items as per the Statement of Segmented Information in its Financial Statements. Canfor's operations include the following operating segments: Wood Products, Pulp Products, Pulp and Specialty Kraft Paper and Coastal Operations.

WOOD PRODUCTS

The goal of the Wood Products segment is to be a low cost producer supplying high quality, branded products.

The segment consists of logging and forestry operations, which harvest over 7.9 million cubic metres of allowable annual cut. The forest operations support 13 sawmills, a plywood manufacturing facility, three re-manufacturing operations, two whole log-chipping plants, and a wood treatment plant. The operations have the annual capacity to produce over three billion board feet of lumber, 174 million square feet of plywood (3/8" basis) and over 1.8 million oven-dried tonnes of wood chips. The operations, employing approximately 3,500 people, are located within the Prince George and Peace regions of British Columbia and in northern Alberta. Results for the Wood Products segment for 2001 and 2000 are as follows:

| (millions of dollars) | 2001 | 2000 |
|---|------------|------------|
| Net sales | \$ 1,149.2 | \$ 1,179.6 |
| Operating income | \$ 68.2 | \$ 40.9 |
| EBITDA | \$ 109.2 | \$ 86.5 |
| EBITDA margin | 10% | 7% |
| Capital expenditures | \$ 17.6 | \$ 71.6 |
| Lumber shipments (millions of board feet) | | |
| Canfor produced | 2,266 | 2,193 |
| Other producers | 274 | 376 |
| Plywood shipments (millions of square feet 3/8" basis) | 162 | 163 |
| Chip shipments (thousands of oven-dried tonnes) | 1,372 | 1,455 |
| Average random length 2"x4" SPF lumber price (\$U.S. per thousand board feet) | \$ 251 | \$ 257 |
| Average U.S. dollar to one Canadian dollar | \$ 0.646 | \$ 0.674 |

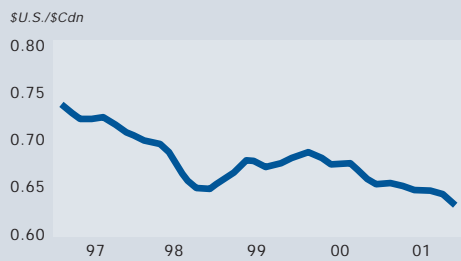
Markets

Lumber market conditions were volatile during the year. In the first quarter of 2001, the uncertainty surrounding the expiry of the Canada/U.S. softwood lumber dispute, combined with low seasonal demand, caused prices to be near all time lows. In the second quarter, despite an increase in price and demand, Canfor carefully managed shipments to the U.S. to avoid retroactive punitive damages upon the expiry of the Softwood Lumber Agreement (SLA). The lowering of shipments by most of the Canadian industry allowed European producers to gain U.S. market share at the expense of Canadian producers. In the third quarter, as an economic slowdown was becoming a reality in North America, demand for lumber began to soften, causing lumber prices to decline. Also during

the quarter, the Canadian industry was levied a preliminary countervailing duty rate of 19.31 per cent. In the fourth quarter, preliminary anti-dumping duties were levied in addition to the countervailing duties, which brought both duties to an industry average of approximately 32 per cent. During strong markets, duties of this nature are generally absorbed by the market, but when markets are weak, these duties are primarily absorbed by the producers, which was the case in 2001. With the economic slowdown apparent and the U.S. and Canadian governments exploring a negotiated settlement to the softwood lumber dispute, buyers in the fourth quarter became cautious, limiting purchases to a "just-in-time" approach.

During 2001, lumber prices fluctuated from \$376 U.S. per thousand board feet of random length 2"x4" SPF in May to an equivalent price of \$155 U.S. per thousand board feet (after deducting countervailing and anti-dumping duties) in November. Some relief was obtained in 2001 through the weakened Canadian dollar and moderately strong U.S. housing starts, which averaged 1.6 million for the year.

\$U.S./\$Cdn average annual exchange rate



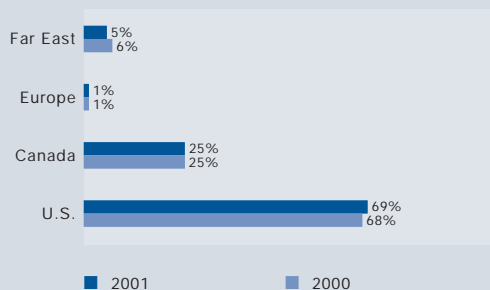
North American lumber prices* and housing starts



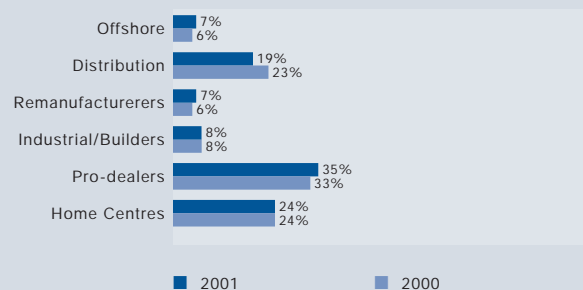
* Average 2"x4" SPF random length price (F.O.B. Mill)
- Source Random Lengths publication.

Despite significant production curtailments, lumber shipments from Canfor's operations increased by three per cent or 73 million board feet over 2000. Shipments to the U.S. increased one per cent indicating the strength of the U.S. housing market in 2001, which was primarily a result of low interest rates. During 2001, Canfor continued to focus its attention on the growing home centre market while also branching out into the rapidly growing housing component market. (To reduce the cost of homes, a growing number of structural components of a home are being pre-built in a plant and shipped to the home site rather than being built on site.) In addition, Canfor continued to explore the vast markets in China and Korea.

Lumber sales by region



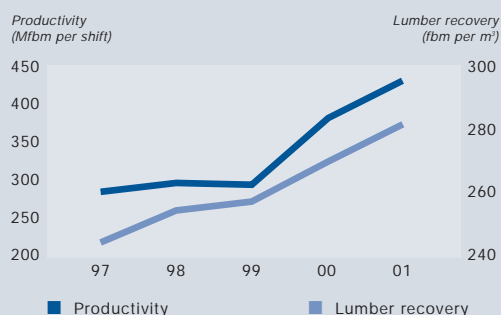
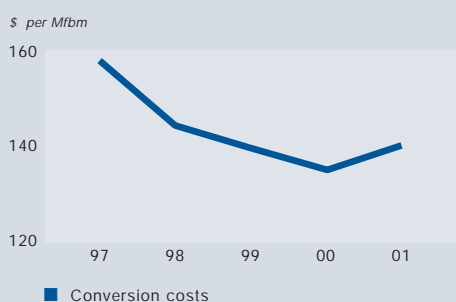
Lumber sales by market segment



Operating Performance

Production curtailments resulting from the aforementioned lumber market conditions had a major impact on the results of the segment. Approximately 22 per cent, or 658 million board feet, of Canfor's primary milling capacity was curtailed in 2001, which is the equivalent to the annual production of three mills and 550 jobs. Also recorded in operating income in 2001 were \$52.9 million of expenditures related to the softwood lumber dispute consisting of \$39.3 million and \$6.4 million of countervailing and anti-dumping duties respectively, and \$7.2 million of legal and other costs incurred to support the position of the Company and the Canadian lumber industry. However, it was not all bad news in the segment. Masked in the results, and difficult to achieve when curtailing operations, were several significant operational improvements. These efficiencies resulted from the recently completed three-year capital program, improved fibre utilization and a number of continuous improvement successes. Over the past three years, the segment has improved productivity by 44 per cent (on a Mfbm per shift basis), increased lumber recovery by 12 per cent, lowered conversion costs by four per cent, improved product mix by 28 per cent (to where approximately 41 per cent of lumber produced is of higher margin) and increased lumber capacity by 15 per cent to three billion board feet. (High margin lumber products are "appearance grades", such as those sold into the home centres and Japanese markets or those considered to be specialty products such as finger-jointed, fascia and machine stress rated products.) The growth in production capacity is a result of the recent capital investments and improved fibre utilization. The increased capacity, combined with the Company's focused marketing expertise, established distribution systems and extensive fibre base, should allow Canfor to continue its strategy to grow with its valued customers over the long-term.

Operating Improvements



Outlook

While it is difficult to predict the end of the economic slowdown, signs of a turnaround are evident. Low interest rates, the economic stimulus package introduced late in 2001 by the U.S. Federal Government and growing consumer confidence should result in improvements in lumber demand during the second half of 2002. As consumer confidence returns, housing starts and repair and remodeling expenditures are expected to increase. Therefore, lumber prices are expected to remain relatively low in the first half of the year before improving during the third quarter.

Although Japanese housing starts have declined from previous levels and are expected to remain low for 2002, western style 2"x4" housing starts are expected to continue to gain market share as a result of the implementation of the new Japanese Quality Assurance Standards law. China and Korea will also see an increase in the consumption of construction lumber as the 2"x4" housing market grows in each country.

Plywood markets are expected to be lower in the first half of the year, because of lower housing starts, before improving in the second half of the year.

Production curtailments have lowered Canfor's inventory levels at year-end, which should allow its mills to operate at full capacity in 2002 and allow the segment to take full advantage of operating efficiencies and the related savings. The segment is ready for the proposed policy changes in the province of British Columbia to a more market-oriented and less bureaucratic policy environment.

PULP PRODUCTS

The goal of the Pulp Products segment is to be a low cost producer supplying superior strength reinforcing pulp.

Canfor's pulp, which is produced from long northern British Columbia wood fibres, offers the strength sought by paper makers. This segment consists of the Intercontinental and Northwood pulp mills and a chemical operation, all located within five kilometres of each other in Prince George, British Columbia. The mills have the capacity to produce over 854 thousand tonnes of premium pulp. The segment directly employs approximately 970 people. The results of the Pulp Products segment for 2001 and 2000 were as follows:

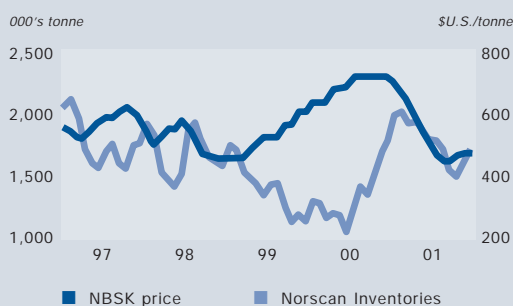
| (millions of dollars) | 2001 | 2000 |
|---|----------|----------|
| Net sales | \$ 499.5 | \$ 667.2 |
| Operating income | \$ 31.4 | \$ 197.4 |
| EBITDA | \$ 66.7 | \$ 232.6 |
| EBITDA margin | 13% | 35% |
| Capital expenditures | \$ 11.8 | \$ 19.8 |
| Average pulp price – delivered to Northern Europe (\$ U.S. per tonne) | \$ 537 | \$ 682 |
| Pulp shipments (thousands of tonnes) | 792 | 790 |

Markets

The largest contributor to the decline in operating income for the segment was the decrease in pulp prices during the year. Pulp prices are quite susceptible to supply and demand imbalances, which tend to cause price fluctuations. Due to the slowdown in the global economy and the build-up of producer inventories, pulp prices fell dramatically during the year. List prices started the year at \$710 U.S. per tonne for pulp bound for the northern European market, before falling to a low of \$450 U.S. per tonne at the end of the third quarter. On average, pulp prices declined 21 per cent in 2001. The waning demand for pulp through the first half of 2001, in combination with increasing inventory levels, resulted in significant production curtailment by the industry. Canfor's Pulp Products segment followed suit by curtailing production by approximately nine per cent (76 thousand tonnes) of capacity during the year. The curtailments taken by the industry allowed prices to rebound slightly to close the year at \$470 U.S. per tonne, a 34 per cent decline from the previous year's closing price. NORSCAN inventories ended the year at 1.7 million tonnes, four per cent lower than the previous year but still higher than desired as the market enters into a quarter of seasonal inventory build-up. (1.5 million tonnes of NORSCAN pulp inventories is considered the market supply and demand equilibrium level.)

With the low demand for pulp in North America and Europe and the desire to reduce inventories, more of Canfor's sales in 2001 went into expanding customer relationships in the Far East market. In periods of ample supply, sales into the Far Eastern countries, such as China, tend to sell at discounts off list prices, thus further driving down selling prices.

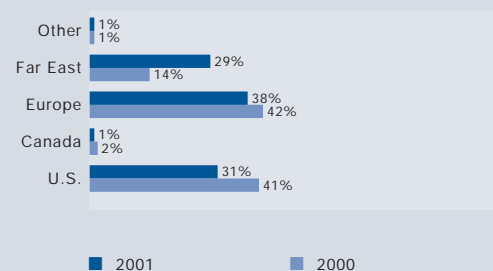
NBSK pulp prices/chemical pulp producers inventories*



* Average price paid by contract buyer, delivered to Northern Europe/Norscan Chemical Paper Grade Market Pulp Producer Inventories – Source: Forest Products Association Canada (FPAC).

Pulp sales by region

(Includes pulp sales for Pulp and the Pulp and Specialty Kraft Paper segments)



Operating Performance

As a result of the curtailments taken by the segment in 2001, unit costs were significantly higher than in 2000. Curtailments were taken by both shutting down the mills, which are very expensive to restart, and production slowdowns, where the digesters are slowed and hence have the same effect as a shutdown without the added start-up expenses. The impact of curtailment increased unit production costs by six per cent. If not for the curtailments, unit production costs would have been at 2000 levels.

Outlook

Pulp prices and shipments are expected to be weak in the first quarter of 2002, due to seasonally lower demand and an anticipated weak economic performance in the U.S., Europe and Japan. However, demand is expected to improve as the quarter progresses and an anticipated U.S. economic recovery takes hold. European economies are expected to improve in the second half of 2002, and combined with continued strong GDP growth and pulp consumption in China, should enable stronger pulp shipments to these markets as the year progresses. Pulp prices are expected to be under downward pressure during the early part of the year but are expected to stabilize late in the first quarter, and improve in the second and third quarters as the pulp demand and supply balance is restored. A steep run-up in pulp prices is not forecasted, especially when the economic recovery in 2002 is expected to be moderate. Some additional pulp capacity, primarily hardwood, will come on stream after mid-year providing a further reason for only modest price increases.

Through production curtailments, the Pulp Products segment has reduced inventory levels, which should allow Canfor to operate at full capacity in 2002. Operating at full capacity should allow the segment to take advantage of operating efficiencies and the related savings.

PULP AND SPECIALTY KRAFT PAPER

The goal of the Pulp and Specialty Kraft Paper segment is to produce high value, high performance papers for sale in niche paper markets.

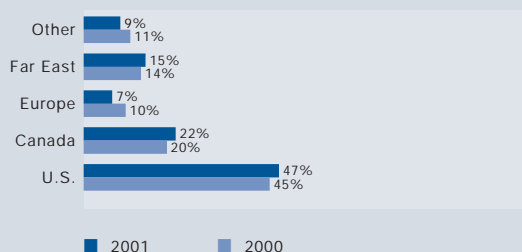
This segment, which consists of the Prince George Pulp and Paper mill, at optimum product mix levels, has the capacity in 2002 to produce over 135 thousand tonnes of kraft paper and 140 thousand tonnes of pulp. The mill is located in Prince George, British Columbia. The segment directly employs approximately 420 people. Results of the segment for 2001 and 2000 are as follows:

| (millions of dollars) | 2001 | 2000 |
|--|----------|----------|
| Net sales | \$ 177.2 | \$ 221.9 |
| Operating income (loss) | \$ (7.3) | \$ 41.5 |
| EBITDA | \$ 6.9 | \$ 55.6 |
| EBITDA margin | 4% | 25% |
| Capital expenditures | \$ 14.7 | \$ 10.3 |
| Average Canfor paper selling prices (\$Cdn per metric tonne) | \$ 840 | \$ 847 |
| Average pulp price – delivered to Northern Europe (\$U.S. per tonne) | \$ 537 | \$ 682 |
| Specialty kraft paper shipments (thousands of tonnes) | 107 | 106 |
| Pulp shipments (thousands of tonnes) | 148 | 163 |

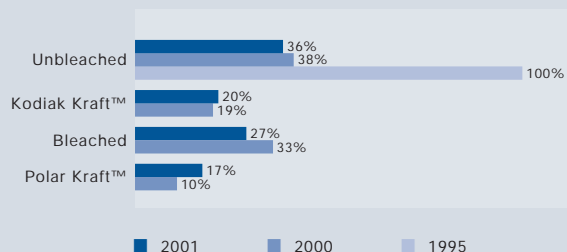
Markets

The decrease in operating income in 2001 from 2000 is due partly to lower pulp prices and partly to production difficulties arising from the start-up of the new head-box on the paper line. Unlike the decline in pulp prices, average kraft paper selling prices were strong early in the year, only to slip slightly in the second half of the year in response to the economic downturn. On average, however, paper prices only declined one per cent in 2001 to an average of \$840 Cdn per tonne. The focus of the mill continues to be on the paper line. With the completion of the head-box project, the mill has completed its three-year mill modernization program. During the last two quarters of 2001, the investments in the paper line have improved the product mix to further expand high margin niche markets, increased efficiency, reduced costs and increased capacity. Emphasis on product development has changed the paper line from producing 100 per cent low margin, unbleached kraft paper in 1995 to producing only 36 per cent in 2001 in favour of high margin POLAR KRAFT™ product. (POLAR KRAFT™ and KODIAK KRAFT™ are Canfor brand names for bleached and unbleached high performance papers.)

Paper sales by region



Paper sales by product



Operating Performance

The decrease in operating income in the segment in 2001 from 2000 is also attributable to the costs incurred to fine-tune the quality and efficiency of the paper line arising from the capital investments over the past year. Production costs were also negatively impacted by the 17 thousand tonnes of pulp production curtailments during the year. Despite a 15 per cent decrease in fibre costs, on average, unit costs increased by nine percent in 2001 from 2000. With the start-up curve of the new head-box capital project now complete, the mill should be able to produce over 25 thousand more tonnes of paper in 2002 than in 2001. The segment's goal is to stay flexible in offering a wide range of specialty pulp and high performance paper products to meet various customer demands.

Outlook

Canfor has been able to carve out markets with independent converters and flexible packaging users for high performance papers. The multi-wall bag segment of the market, such as cement bags, is now trending towards the use of high performance paper. High performance paper offers stronger bags while using less paper, which reduces costs for these manufacturers. The segment's strategic direction to produce high performance and specialty papers continues to be well received by customers. High performance paper is now the largest growth segment in all major paper markets and this trend is expected to continue in the coming year. Specialty grades of pulp are targeted for niche markets that value the superior quality of long-fibre pulp that Canfor produces. Throughout 2002, the Company will continue to develop new specialty grades of pulp to meet customer demands. Although overall prices are expected to remain low until the economy improves in the second half of 2002, Canfor should be able to see consistent margin improvements by continuing to increase the proportion of high value papers.

COASTAL OPERATIONS

Canfor's Coastal Operations segment is comprised of the Coastal Logging operations (which includes the Englewood and Mainland logging operations and the Coast Fibre Supply operation) and the Panel and Fibre operation. The goal of the Coastal Logging operations is to be a low cost producer of fibre while emphasizing safety, sustainable forest management and environmental compliance. The Coastal Logging operations harvest over 1.5 million cubic metres of allowable annual cut each year. The Panel and Fibre operation, which is located in New Westminster, British Columbia, is focused on being the supplier of choice for high quality, value-added products in the decorative wall paneling, baled fibre, hydroseeding and woodmat industries. Raw materials for the wall paneling and fibre lines are from recycled urban wood waste. The segment directly employs approximately 600 people. The results for the segment for 2001 and 2000 were as follows:

| (millions of dollars) | 2001 | 2000 |
|--|----------|----------|
| Net sales | \$ 159.8 | \$ 197.2 |
| Operating income (loss) | \$ (0.1) | \$ 23.9 |
| EBITDA | \$ 10.1 | \$ 37.1 |
| EBITDA margin | 6% | 19% |
| Capital expenditures | \$ 7.4 | \$ 12.3 |
| Log shipments (thousands of cubic metres) | 1,241 | 1,574 |
| Hardboard (millions of square feet - 3/8" basis) | 35 | 34 |
| Refined fibre and fibremat (thousands of oven-dried metric tonnes) | 40 | 37 |

Markets

a) **Coastal Logging** - The average price for logs weakened throughout 2001, with the steepest decline coming in the fourth quarter. The softening in demand for logs can be primarily attributed to continuing softwood lumber dispute uncertainties, declining pulp markets and the poor economic conditions in Japan. In response to market conditions, production curtailments and logging shutdowns were widespread in the coastal portion of the industry during 2001 and Canfor was no exception.

b) **Panel and Fibre** - The Panel and Fibre operation performed exceptionally well in 2001. Wall paneling product sales were strong as sales outstripped production in 2001. Despite the strong demand, wall paneling sale prices decreased an average of four per cent, which is a reflection of the softening economy. Fibremat sales were lower in 2001 than in 2000 because of a decline in demand from the automotive industry. Baled fibre sales and ECOFIBRE™, sales were at record levels in 2001 as the operation expanded into new markets. (ECOFIBRE™ is a Canfor brand name for a wood fibre product used for erosion control.)

Operating Performance

a) **Coastal Logging** - Operating income for the logging operation decreased by \$24.3 million from 2000 to 2001. The weak coastal log market, combined with production issues, forced Canfor to curtail production by 270 thousand cubic metres or 18 per cent of its allowable annual cut. While log prices dropped five per cent in the year, stumpage dropped by only three per cent. Curtailments and production issues increased production costs by 14 per cent during the year.

b) **Panel and Fibre** - Strong demand allowed the wall paneling and fibre lines to run at full capacity during the year. Full production allowed for operating efficiencies, which improved production by five per cent. Tight cost controls reduced operating costs by a further four per cent in 2001 after the nine per cent reduction achieved in 2000. The operation contributed approximately \$6.7 million of operating income, essentially offsetting the operating loss incurred by the Coastal Logging operations.

Outlook

a) **Coastal Logging** - The outlook for 2002 reflects a continuing slow demand for logs in the first half of the year. Some improvement in prices and demand is expected during the third and fourth quarters in anticipation of reduced uncertainty arising from the softwood lumber dispute and an economic recovery. Through production curtailments, the Coastal Logging operations have lowered overall inventory levels, and started 2002 with a higher valued mix of logs in inventory. The lower inventory levels allow Canfor to be ready to operate as market conditions in 2002 warrant.

b) **Panel and Fibre** - Sales for wall paneling and ECOFIBRE™ are expected to stay strong throughout 2002 as customer demand for both products exceeds the plant's current production capacity. Meanwhile, demand for baled fibre and fibremat has experienced a slight decline due to the recent economic slowdown but is expected to rebound once the economy improves.

NON - SEGMENTED EXPENSES

Non-segmented expenses, comprised of corporate costs, information technology costs and research and development costs, decreased by \$10.4 million from 2000 to 2001. The decrease reflects the British Columbia provincial government's phasing out of the province's corporate capital tax, which amounted to \$3.5 million, and a general reduction of corporate expenses.

Canfor's Research and Development group, the only corporately owned and operated forest products research facility of its type in British Columbia, provides an important competitive advantage to Canfor. During 2001, Canfor's research group focused on:

- new product development
- increasing premium pulp quality
- alternative methods of bleaching and pulping
- increasing efficiencies in mill processes
- maximizing wood utilization from optimizing underutilized species of fibre, and
- utilization of product waste into saleable products.

Canfor's research and development expenditures amounted to \$4.5 million in both 2001 and 2000.

Canfor's affiliated companies, which are accounted for on an equity basis, consist of Lakeland Mills Ltd., The Pas Lumber Company Ltd., and Kyahwood Forest Products joint venture. Lakeland and The Pas operate sawmills in the Prince George region and supply wood chips to Canfor's pulp mills. Kyahwood, which is owned 49 per cent by Canfor, is a value-added lumber facility in Moricetown, British Columbia. The combined income of these affiliates decreased by \$0.1 million from 2000 to 2001.

Net interest expense, as detailed in Note 11 to the Financial Statements, increased by \$3.8 million in 2001 from 2000, which was the cost of financing the build up of inventories early in 2001.

Other income of \$7.5 million in 2000 was made up of the sale of redundant assets acquired in the purchase of Northwood Inc.

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

INCOME TAXES

Income taxes, as detailed in Note 13 to the Financial Statements, include the following:

On March 10, 2001, Canfor and Oji Paper Co., Ltd. ("Oji Paper") of Japan, 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 a result of the reorganization, Howe Sound was amalgamated with Canadian Forest Products Ltd. ("CFP"), Canfor's principal operating subsidiary, and approximately \$643 million of tax losses of Howe Sound became available to reduce the future taxable income of CFP. CFP has seven years in which to utilize these losses. Also, as part of the reorganization, CFP made a payment of \$60.2 million to the Partnership, which was applied to reduce its long-term debt. CFP has agreed to make further payments to the Partnership, up to a maximum of \$62.1 million, as it utilizes the tax losses of Howe Sound. Canfor wrote off its interest in the joint venture in 1998 and no longer reflects its share of Howe Sound's results. Canfor's method of accounting for its interest in the Partnership has not changed as a result of the reorganization.

The new provincial government in British Columbia has instilled a more competitive tax regime for manufacturers in the province, reducing the corporate tax rate by three per cent. This allowed Canfor to recover \$18.7 million in future income taxes in its 2001 results. The phase out, which commenced in 2001, of the province's corporate capital tax has reduced that tax by \$3.5 million in the year. Likewise, the elimination of the provincial sales tax on manufacturing equipment, which became effective July 31, 2001, will save Canfor millions of dollars annually.

Also included in the income tax recovery recorded in 2001 are future income tax savings arising from Canfor's share of the operating losses within Howe Sound Pulp and Paper Limited Partnership. This has generated savings of \$6.3 million of future income taxes.

Outlook

While 2001 was a difficult year, Canfor has focused on the controllable aspects of its business that will allow it to take advantage of better markets once the general economy improves and allow the Company to continue to weather the impact of the softwood lumber dispute. From an operational perspective, Canfor has reduced inventories, completed a successful three-year mill modernization program, increased capacity and instilled a continuous improvement culture which seeks operating efficiencies and expanded product lines. From a corporate perspective, reduced taxes, an improved working capital position, increased liquidity, prudent conservation of cash, lower capital investment requirements and well-scheduled debt repayments through to 2006, will ensure that the operations are ready to take advantage of the economic recovery. Canfor expects to return to higher profitability once the markets and the economy rebound in the second half of 2002.

Sensitivities

The sensitivity of Canfor's results to changes in its product prices while operating at full capacity, expressed in terms of after-tax earnings, is estimated to be approximately as follows:

(millions of dollars)

| | |
|--|---------|
| Lumber - \$10 U.S. change per thousand board feet | \$ 30.5 |
| Pulp - \$10 U.S. change per tonne | 12.1 |
| Specialty Kraft Paper - \$10 U.S. change per tonne | 1.6 |
| Canadian dollar - \$0.01 U.S. change per Canadian dollar | 19.4 |

Summary of Financial Position

The following table summarizes Canfor's financial position as at the end of the years 2001 and 2000 and the cash flow related to the changes in financial position for those years.

| (millions of dollars) | 2001 | 2000 |
|---|------------|------------|
| Net cash (short-term indebtedness) | \$ 30.2 | \$ (23.6) |
| Operating working capital | 399.9 | 382.1 |
| Short-term bank loans | - | (205.4) |
| Current portion of long-term debt | (52.7) | (49.6) |
| Current portion of deferred reforestation | (33.9) | (35.4) |
| Income taxes recoverable (payable) | (1.2) | 3.0 |
| Net working capital | 342.3 | 71.1 |
| Long-term investments | 71.3 | 74.0 |
| Property, plant, equipment and timber | 1,469.0 | 1,518.4 |
| Deferred charges | 159.9 | 116.8 |
| Net assets | \$ 2,042.5 | \$ 1,780.3 |
| Long-term debt | \$ 714.7 | \$ 400.9 |
| Countervailing and anti-dumping duties provision | 47.4 | - |
| Deferred reforestation provision | 42.3 | 42.4 |
| Other long-term provisions and accruals | 26.6 | 22.4 |
| Future income taxes - net | 147.0 | 363.9 |
| Deferred credit | 104.0 | - |
| Common shareholders' equity | 960.5 | 950.7 |
| Total capitalization | \$ 2,042.5 | \$ 1,780.3 |
| Ratio of current assets to current liabilities | 2.0:1 | 1.1:1 |
| Ratio of net debt to common shareholders' equity | 43:57 | 42:58 |
| Cash generated from (used in) | | |
| Operating activities | \$ 118.8 | \$ 99.8 |
| Dividends | (21.1) | (21.1) |
| Financing activities | 77.8 | (55.5) |
| Investing activities | (121.7) | (119.4) |
| Increase (decrease) in net cash (short-term indebtedness) | \$ 53.8 | \$ (96.2) |

Changes in Financial Position

Canfor's ratio of current assets to current liabilities improved to 2.0:1 at the end of 2001 from 1.1:1 at the end of 2000. The improvement is primarily the result of the repayment of short-term debt out of the proceeds from a long-term debt issue and the reduction of accounts payable and accrued liabilities, which were partially offset by the reduction of inventories. Canfor's ratio of net debt to equity declined slightly to a ratio of 43:57. Canfor's net debt to equity ratio would have been 42:58 had the Canadian dollar not weakened in 2001 and remained at 2000 values.

The changes in the components of these ratios during 2001 are detailed in the Consolidated Cash Flow Statement of the Financial Statements. The more significant changes are discussed below.

Operating Activities

Cash generated from operating activities during 2001 is \$19.0 million higher than the amount generated in 2000. The increase is primarily the result of changes in non-cash working capital items contributing \$0.8 million of cash in 2001, whereas in 2000, changes in these items required \$142.3 million of cash. The decrease in net income, discussed previously under "Operating Results," partially offset the impact of the changes in the non-cash working capital items.

In 2001, the major changes in non-cash working capital were the reduction of accounts payable and accrued liabilities by \$67.5 million and the reduction of inventories by \$42.1 million. The reduction in inventories was driven by the desire to build a strong liquidity position in case of a possible prolonged economic slowdown and a lengthy softwood lumber dispute.

The \$47.4 million provision for countervailing and anti-dumping duties in 2001 did not require any use of cash since, as discussed in Note 19 to the Financial Statements, any payments of this provision are not expected to occur before 2004.

Financing Activities

In 2001, Canfor issued \$321.5 million (equivalent to \$220 million U.S.) in long-term debt at an average interest rate of 7.91 per cent. Proceeds from the loan were used to repay \$205.4 million of short-term indebtedness, which consisted of \$175.4 million of bank loans and \$30.0 million of acquisition loans arising from the Northwood acquisition in 1999, to finance the Howe Sound reorganization and for general business purposes. Also during the year, the Company repaid \$50.1 million of long-term debt and received proceeds of \$18.8 million on the closure of a cross currency swap.

The Company continued to pay quarterly cash dividends of \$0.065 per common share or \$0.26 per common share for the year (\$21.1 million in total) to its shareholders.

Investing Activities

Due to uncertainties in the marketplace and having completed its mill modernization program during the year, Canfor reduced its capital investments by \$67 million in 2001 compared to 2000. With the mill modernization program, Canfor spent over \$179 million in strategic capital in the last three years. Of the \$54.7 million spent on capital expenditures in 2001, \$22.5 million was invested in high return, low risk strategic projects that either increased or improved productive capacity, product quality, plant efficiency, and fibre yield, or reduced operating costs. The balance of \$32.2 million was spent on maintenance of business projects.

As previously discussed under "Income Taxes," \$69.4 million was paid for the restructuring of Howe Sound as a limited partnership in 2001, of which \$60.2 million was paid to the limited partnership and the balance incurred as costs of the restructuring.

Financial Requirements and Liquidity

At the end of 2001, Canfor had a cash position of \$32.3 million and unused bank operating lines of credit of \$197.9 million. Provisions contained in Canfor's long-term borrowing agreements limit the amount of indebtedness that 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 are determined by reference to consolidated net earnings less certain restricted payments. As at December 31, 2001, the Company would be permitted under these agreements to incur \$135.2 million (2000 - \$377.6 million) of additional long-term debt and pay up to \$79.1 million (2000 - \$80.7 million), or \$0.98 per share (2000 - \$0.99 per share), in dividends on its Common Shares. The agreements do not restrict payment of dividends on preferred shares or dividends paid in Common Shares of the Company.

For 2002, Canfor is planning capital expenditures of approximately \$73 million. The largest commitment for 2002 is \$10 million of maintenance of business capital for a new recovery boiler precipitator in the Prince George Pulp and Paper mill. In addition to the normal maintenance of business capital spending, Canfor is planning to spend approximately \$22 million on strategic projects targeted to reduce costs and increase the value of its products in the marketplace.

In 2002, \$52.7 million is required for installment payments on long-term debt.

Canfor intends to finance its planned capital expenditures and scheduled debt repayments from cash generated from its operations.

Risks and Uncertainties

Virtually all companies in the forest industry in North America, including Canfor, face similar business risks and uncertainties. These risks and uncertainties fall into the general business areas of markets, international commodity prices, currency exchange rates, environmental issues, forest land base, government regulations and, for Canadian companies, trade barriers and aboriginal land claims.

The future effects of the various uncertainties and potential risks described in the following paragraphs cannot be quantified or predicted. However, Canfor does not foresee unmanageable adverse effects on its operations, and believes that it is well positioned to deal with such matters as may arise.

CANADA/U.S. SOFTWOOD LUMBER DISPUTE

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 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. As a result of these petitions, the DOC and the ITC have initiated CVD and AD investigations.

On August 9, 2001, the DOC announced their belief that imports of softwood lumber from Canada are subsidized and imposed a preliminary CVD rate of 19.31 per cent on sales from August 17, 2001 to December 15, 2001. Bonds were posted on sales of softwood lumber to the U.S. during this period. The DOC also made a preliminary determination that Critical Circumstances exist and that Canadian producers will also be levied 19.31 per cent duty on a retroactive basis on shipments for the 90-day period from May 19, 2001 to August 16, 2001. Canfor's management, in conjunction with the other major companies in the Canadian forest industry, believes the likelihood of the Critical Circumstances determination being upheld is not determinable at this time, and therefore has not accrued any amount for the period from May 19, 2001 to August 16, 2001. If there is a finding of Critical Circumstances and the CVD rate is confirmed at 19.31 per cent, the retroactive CVD for Canfor will amount to \$34.9 million. Canada is vigorously contesting the preliminary ruling. Canada has successfully defended three previous similar CVD petitions to the World Trade Organization. For the period from August 17, 2001 to December 15, 2001, the Company accrued CVD of \$40.9 million at the preliminary rate of 19.31 per cent. Since the preliminary CVD was suspended on December 15, 2001, 120 days after the preliminary determination, which is in accordance with U.S. law, Canfor will not be accruing any countervailing duty from December 16, 2001 to the final order date, which is expected in May 2002.

The Company estimates that for every one per cent change in the CVD rate, Net Sales and Operating Income in the Wood Products segment would change by \$2.1 million on the amount accrued for the period from August 17, 2001, to December 16, 2001 and by \$1.8 million on the retroactive amount relating to the period from May 19, 2001 to August 16, 2001.

On October 31, 2001, the DOC announced their belief that Canfor has been dumping product into the U.S. marketplace, which has caused injury or a threat of injury to the U.S. industry. The company specific AD preliminary rate assigned to Canfor was 12.98 per cent for products sold into the U.S. market commencing November 6, 2001. The DOC did not find Critical Circumstances in its preliminary AD ruling. The Company is currently undergoing a verification process by the DOC, which will determine the final rate. The Company has accrued AD duties of \$6.5 million, based upon Canfor's estimated duty rate of 6.13 per cent, which was determined using the DOC's methodology, except for certain aspects of the DOC's approach in setting the preliminary rate that Canfor believes were incorrect and will be changed upon final determination or subsequent appeal.

The Company estimates that for every one per cent change in the AD rate, Net Sales and Operating Income in the Wood Products segment would change by \$1.0 million on the amount accrued for the period from November 6, 2001, to December 31, 2001.

Sometime in March 2002, the DOC is expected to announce its final determination of CVD and AD rates. In May 2002, the ITC is expected to make a final determination regarding the time period to which the duties apply, which will be based upon its determination on the existence of injury or threat of injury. Depending upon the level of injury, the ITC may determine that both duties are payable from May 2002 onwards, or CVD from August 2001 and AD from November 2001 onwards, or AD from November 2001 and CVD from May 2001 onwards. The countervailing and anti-dumping duties accrued to the final order date will not be payable until the completion

of the first administrative review, which is currently expected to occur sometime in 2004. Payment could be delayed beyond that point if any legal appeals are still in process.

FINANCIAL MARKET RISK

Demand for forest products, both pulp and paper and wood products, is closely related to global business conditions and tends to be cyclical in nature, with product prices subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of the products sold are denominated in United States dollars. Thus, foreign currency relationships pose a significant uncertainty. Shifts in these relationships can have a significant impact, positive or negative, on profits from operations. A weakening Canadian dollar relative to the U.S. dollar has operating benefits to the Company. By maintaining a substantial proportion of its debt in United States dollars, Canfor has partially mitigated the impact of currency fluctuations in that currency. The sensitivity of Canfor's results to currency swings and prices for its principal products is discussed under "Operating Results." Since Canfor's long-term debt is primarily fixed in rate, there is no significant impact to net income when interest rates change. Canfor, from time to time, uses derivative markets to hedge future movements of exchange rates or commodity prices. As at year-end, Canfor does not have any interest rate or currency swaps in place and has not sold forward any part of its production.

LABOUR AGREEMENTS

No collective agreements are up for renewal in 2002.

ENVIRONMENTAL ISSUES

There is uncertainty over the potential impact of existing environmental legislation. Of continuing concern is 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. The British Columbia pulp and paper industry has indicated to the provincial government that going to zero AOX is not required from an environmental perspective, nor is it financially viable for mills to convert their processes. British Columbia is the only jurisdiction in the world with such a requirement. 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. The panel has been directed to examine relevant, peer-reviewed scientific literature on the environmental impact of chlorinated organic compounds in pulp mill effluent, with a report to be made public by March 15, 2002. The Minister has indicated that any standard established by government must be supported by the best available science and deliver a proven environmental benefit. 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.

Canada-wide standards have been established by the Government of Canada for respirable particulate ("PM 2.5") and ozone levels in the ambient air. The standard will be effective in 2010 following additional technical, scientific and economic analysis required to be complete by the end of 2005. The PM 2.5 standard could require future source reductions of particulate emissions from Canfor's pulp, paper and sawmill facilities.

The Federal Minister of Environment has re-introduced into Parliament a Species at Risk Act. The Act would provide for regulatory restrictions on the use of public and private lands to protect critical habitat for any wildlife species listed as endangered or threatened. Of the more than 350 species considered at risk in Canada, 26 are located in the working forests of British Columbia. The economic implications of this Act are potential reductions in timber harvests and increases in harvesting costs in British Columbia.

ENVIRONMENTAL CERTIFICATIONS

In recent years, environmental groups have been lobbying consumers to purchase products that have been certified by an independent third party as having been derived from well-managed forests. Pressure from the environmental groups has resulted in retailers of wood products requesting that producers provide them with verification that the products are "environmentally friendly." Canfor has responded by attaining the International Organization for Standardization ("ISO") 14001 environmental management systems certification for all of its forest operations. In addition, Canfor has achieved certification under the Canadian Standards Association ("CSA") standard for sustainable forest management (Sustainable Forest Management System Standard CAN/CSA Z809-96) for its Forest Management Agreement area at Grande Prairie, Alberta and for its Tree Farm Licences at its Chetwynd, Englewood, and Prince George, British Columbia operations. Canfor is committed to certifying

its volume-based tenures under the CSA standard in the near future. Canfor continues to monitor other certification standards, such as the Forest Stewardship Council where regional standards for British Columbia and Alberta have not yet been developed. The Prince George region is expected to be certified by the end of 2002 to the Sustainable Forestry Initiative which was developed by the American Forest and Paper Association.

MOUNTAIN PINE BEETLE

The mountain pine beetle currently poses a significant threat to the lodgepole pine forests in the west-central interior region of British Columbia. Lodgepole pine accounts for 25 per cent of the total timber volume harvested in British Columbia and 50 per cent of the total timber volume harvested by Canfor in the region. The present outbreak covers over eight million hectares of land or 10 per cent of the province's land base. This is an increase of 80 per cent from the area infected in 2000. Canfor is aggressively working with the Ministry of Forests and other operators in the area to implement a program to mitigate the spread of infestation by redirecting planned timber development over the next five years to infected regions. Therefore, approximately 80 per cent of Canfor's planned log consumption in the Prince George region will be from beetle-attacked stands. In the short-term, Canfor does not expect any significant changes to its operations as a result of the epidemic. However, should the outbreak continue to spread, potential implications to Canfor include a change in lumber product mix, increased costs and a potential decrease in quality of lumber and chips produced.

ABORIGINAL ISSUES

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Canfor's forest tenures are situated, creating uncertainty as to the status of competing property rights. The federal and provincial governments have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve these land claims. The impact, if any, on Canfor and its tenures resulting from aboriginal land claims and the continuing treaty negotiation and settlement process cannot be predicted with certainty at this time.

PROVINCIAL FOREST POLICY REFORM

It is anticipated that there will be significant changes in provincial forest policy in British Columbia and, perhaps, in Alberta in 2002 stemming from the Canada/U.S. softwood lumber dispute. The exact nature of the changes is presently unknown; however, a new stumpage system could require the tenure holders to put some of their allowable annual cut up for auction. As long as the former tenure holders are allowed to participate in the auction process, they will have the opportunity to replace the timber volume put up for auction, possibly buying timber closer or more suitable to a particular operation.

CLAIMS

Woodworkers for Fair Forest Policy Society and an individual have filed a petition against the Minister of Forests seeking a judicial review of various issues in connection with Canfor's TFL 37 (Englewood) and, among other things, the cancellation of the TFL. The action results from the closure of the Eburne Sawmill in 1998. Canfor has been added as a party to the proceedings, which were heard in October 2000. The Supreme Court of British Columbia dismissed the claims of the petitioners with costs, but the petitioners have filed a notice of appeal to the Court of Appeal. Canfor's management believes that the claims of the petitioners are without merit.

NAFTA LAWSUIT

On November 5, 2001, Canfor filed a Notice of Intent to Submit a Claim to Arbitration against the Government of the United States for damages under the North American Free Trade Agreement (NAFTA). The Notice alleges that the U.S. has violated several provisions of Chapter 11 of NAFTA as a result of the U.S. Department of Commerce's preliminary determination in the countervailing and anti-dumping proceedings. The Notice further alleges that these preliminary determinations were made in an arbitrary, discriminatory and capricious manner and accordingly the U.S. has failed to provide Canfor with the type of treatment required under NAFTA. The Notice seeks damages for not less than \$250 million U.S. Canfor is presently preparing its Claim, which it expects to submit before the end of the second quarter of 2002. Once Canfor has submitted its Claim, Canfor and the U.S. Government have 90 days to each nominate an arbitrator and to jointly nominate a chair. If the tribunal is not fully constituted within that time, the Secretary-General of the World Bank's International Centre for the Settlement of Investment Disputes may be requested to appoint any remaining arbitrators. Once the tribunal is fully constituted, it will determine when the Claim will proceed.

MANAGEMENT'S RESPONSIBILITY

The information and representations in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with accounting principles generally accepted in Canada and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material. The financial information presented throughout this report is consistent with that contained in the consolidated financial statements.

Canfor maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. The Internal Audit Department performs independent reviews of the accounting records and related procedures. The Internal Audit Department reports its findings and recommendations both to management and the Audit Committee.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and Management's Discussion and Analysis. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of four Directors who are not employees of the Company. The Committee meets periodically throughout the year with management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements and Management's Discussion and Analysis have been reviewed by the Audit Committee, which recommended their approval by the Board of Directors. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, whose report follows.

February 6, 2002



David L. Emerson
*President &
Chief Executive Officer*



Charles W. Reid
*Group Vice-President,
Finance & Chief Financial Officer*

To the Shareholders of Canfor Corporation

We have audited the consolidated balance sheets of Canfor Corporation as at December 31, 2001 and December 31, 2000 and the consolidated statements of income and earnings reinvested in the business and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and December 31, 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.



February 6, 2002

Chartered Accountants
Vancouver, B.C.

CONSOLIDATED STATEMENTS OF INCOME

AND EARNINGS REINVESTED IN THE BUSINESS

| year ended December 31 (thousands of dollars) | 2001 | 2000 |
|--|---------------------|--------------|
| Net sales | \$ 1,985,661 | \$ 2,265,891 |
| Costs and expenses | | |
| Manufacturing and product costs | 1,759,288 | 1,822,098 |
| Depreciation, depletion and amortization | 106,013 | 112,691 |
| Selling and administration | 57,857 | 67,508 |
| | 1,923,158 | 2,002,297 |
| Operating income | 62,503 | 263,594 |
| Equity income of affiliated companies (Note 3) | 1,108 | 1,237 |
| Interest expense (Note 11) | (64,209) | (60,416) |
| Other income (expense) | (266) | 7,466 |
| Unusual items (Note 15) | 8,462 | (2,549) |
| Income before income taxes | 7,598 | 209,332 |
| Income tax recovery (expense) (Note 13) | 18,772 | (83,756) |
| Net income | \$ 26,370 | \$ 125,576 |
| Net income per common share (in dollars) (Note 18) | | |
| Basic | \$ 0.27 | \$ 1.50 |
| Diluted | \$ 0.27 | \$ 1.36 |
| Earnings reinvested in the business at beginning of year | \$ 151,376 | \$ 110,461 |
| Net income for the year | 26,370 | 125,576 |
| Common share dividends | (21,083) | (21,083) |
| Interest on equity component of convertible subordinated debentures, net of income taxes (Note 8) | (4,720) | (4,283) |
| Premium on stock options exercised | - | (156) |
| Prior period adjustment (Note 1) | - | (59,139) |
| Earnings reinvested in the business at end of year | \$ 151,943 | \$ 151,376 |

CONSOLIDATED CASH FLOW STATEMENTS

| year ended December 31 (thousands of dollars) | 2001 | 2000 |
|--|------------------|---------------------|
| Cash generated from (used in) | | |
| Operating activities | | |
| Net income | \$ 26,370 | \$ 125,576 |
| Items not affecting cash: | | |
| Depreciation, depletion and amortization | 106,013 | 112,691 |
| Future income taxes | (34,042) | 12,664 |
| Countervailing and anti-dumping duty provision (Note 19) | 47,355 | - |
| Other | (27,723) | (8,814) |
| Non-cash working capital changes (see below) | 847 | (142,302) |
| | 118,820 | 99,815 |
| Financing activities | | |
| Proceeds from long-term borrowing | 321,458 | - |
| Repayment of term bank loan (Note 6) | (175,438) | - |
| Repayment of acquisition bank loan (Note 6) | (30,000) | (20,000) |
| Repayment of long-term debt | (50,098) | (30,202) |
| Proceeds on settlement of cross-currency swap (Note 16) | 18,784 | - |
| Dividends paid to common shareholders | (21,083) | (21,083) |
| Interest on convertible subordinated debentures, net of income taxes | (4,279) | (4,686) |
| Other | (2,697) | (592) |
| | 56,647 | (76,563) |
| Investing activities | | |
| Howe Sound Pulp and Paper Limited Partnership (Note 17) | (60,184) | - |
| Purchase of property, plant, equipment and timber | (54,742) | (121,802) |
| Proceeds from sale of property, plant and equipment | 3,476 | 10,976 |
| Other | (10,221) | (8,603) |
| | (121,671) | (119,429) |
| Increase (decrease) in net cash (short-term indebtedness) | 53,796 | (96,177) |
| Net cash (short-term indebtedness) at beginning of year | (23,585) | 72,592 |
| Net cash (short-term indebtedness) at end of year | \$ 30,211 | \$ (23,585) |
| Net cash (short-term indebtedness) comprises | | |
| Cash | \$ 8,325 | \$ 16,693 |
| Temporary investments | 23,999 | - |
| Operating bank loans | (2,113) | (40,278) |
| | \$ 30,211 | \$ (23,585) |
| Non-cash working capital changes | | |
| Accounts receivable | \$ 12,541 | \$ 51,390 |
| Income taxes | 3,012 | (93,834) |
| Future income taxes | 14,734 | 13,638 |
| Inventories | 42,129 | (1,143) |
| Prepaid expenses | (4,113) | (2,123) |
| Accounts payable and accrued liabilities | (67,456) | (110,230) |
| | \$ 847 | \$ (142,302) |

Interest paid in 2001 was \$64,858 (2000 - \$61,343) and income taxes recovered were \$5,768 (2000 - \$159,984 paid).

CONSOLIDATED BALANCE SHEETS

as at December 31 (thousands of dollars)

2001

2000

Assets

Current assets

| | | |
|-------------------------------|----------------|----------------|
| Cash | \$ 8,325 | \$ 16,693 |
| Temporary investments | 23,999 | – |
| Accounts receivable | | |
| Trade | 176,852 | 179,630 |
| Other | 28,482 | 38,244 |
| Income taxes recoverable | – | 2,972 |
| Future income taxes (Note 13) | 13,249 | 27,983 |
| Inventories (Note 2) | 411,545 | 453,673 |
| Prepaid expenses | 16,159 | 12,046 |
| Total current assets | 678,611 | 731,241 |

Long-term investments (Note 3) 71,275 74,043

Property, plant, equipment and timber (Note 4) 1,469,036 1,518,444

Deferred charges (Note 5) 159,913 116,761

\$ 2,378,835 \$ 2,440,489

Approved by the board



Director, R.L. Cliff



Director, D.L. Emerson

CONSOLIDATED BALANCE SHEETS

| as at December 31 (thousands of dollars) | 2001 | 2000 |
|--|---------------------|---------------------|
| Liabilities | | |
| Current liabilities | | |
| Operating bank loans (Note 6) | \$ 2,113 | \$ 40,278 |
| Term bank loan (Note 6) | – | 175,438 |
| Acquisition bank loan (Note 6) | – | 30,000 |
| Accounts payable and accrued liabilities | 246,458 | 329,531 |
| Current portion of long-term debt (Note 7.1) | 52,744 | 49,569 |
| Current portion of deferred reforestation | 33,867 | 35,392 |
| Income taxes payable | 1,161 | – |
| Total current liabilities | 336,343 | 660,208 |
| Long-term debt | | |
| Long-term debt (Note 7.1) | 706,482 | 384,215 |
| Convertible subordinated debentures – liability component (Note 8) | 8,215 | 16,731 |
| Total long-term debt | 714,697 | 400,946 |
| Other accruals and provisions (Note 9) | 116,286 | 64,790 |
| Future income taxes, net (Note 13) | 146,952 | 363,858 |
| Deferred credit (Note 17) | 104,037 | – |
| Shareholders' Equity | | |
| Share capital (Note 10) | 657,714 | 657,714 |
| Convertible subordinated debentures – equity component (Note 8) | 146,785 | 138,269 |
| Earnings reinvested in the business | 151,943 | 151,376 |
| Foreign exchange translation adjustment | 4,078 | 3,328 |
| | 960,520 | 950,687 |
| Commitments and contingencies (Note 19) | | |
| | \$ 2,378,835 | \$ 2,440,489 |

STATEMENTS OF SEGMENTED INFORMATION

| (thousands of dollars) | Net Sales To External Customers (Note a) | Net Sales To Other Segments (Note b) | Operating Income (Loss) | Depreciation, Depletion and Amortization | Capital Expenditures | Identifiable Assets (Note c) |
|-------------------------------------|---|---|-------------------------------|--|-------------------------|--|
| Year ended December 31, 2001 | | | | | | |
| Wood Products | \$ 1,149,225 | \$ 83,220 | \$ 68,150 | \$ 41,093 | \$ 17,655 | \$ 973,254 |
| Pulp Products | 499,471 | - | 31,419 | 35,316 | 11,805 | 716,982 |
| Pulp and Specialty | | | | | | |
| Kraft Paper | 177,163 | - | (7,267) | 14,229 | 14,715 | 182,223 |
| Coastal Operations | 159,802 | 9,774 | (100) | 10,228 | 7,366 | 89,671 |
| Corporate | - | - | (29,699) | 5,147 | 3,201 | 416,705 |
| | \$ 1,985,661 | \$ 92,994 | \$ 62,503 | \$ 106,013 | \$ 54,742 | \$ 2,378,835 |

Year ended December 31, 2000

| | | | | | | |
|--------------------|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Wood Products | \$ 1,179,649 | \$ 117,807 | \$ 40,914 | \$ 45,617 | \$ 71,620 | \$ 967,094 |
| Pulp Products | 667,194 | - | 197,398 | 35,181 | 19,764 | 802,330 |
| Pulp and Specialty | | | | | | |
| Kraft Paper | 221,888 | - | 41,509 | 14,088 | 10,277 | 175,514 |
| Coastal Operations | 197,160 | 13,546 | 23,921 | 13,176 | 12,253 | 109,143 |
| Corporate | - | - | (40,148) | 4,629 | 7,888 | 386,408 |
| | \$ 2,265,891 | \$ 131,353 | \$ 263,594 | \$ 112,691 | \$ 121,802 | \$ 2,440,489 |

year ended December 31 (thousands of dollars)

2001

2000

Sales by location of customer

| | | |
|--------------------|---------------------|---------------------|
| Canada | \$ 420,598 | \$ 464,490 |
| United States | 1,085,718 | 1,214,386 |
| Europe | 224,426 | 338,765 |
| Far East and other | 254,919 | 248,250 |
| | \$ 1,985,661 | \$ 2,265,891 |

- (a) No single customer accounted for ten per cent or more of the Company's total sales.
(b) Sales to other segments are accounted for at prices which approximate market.
(c) Substantially all of the Company's property, plant, equipment and timber is located in Canada.

Basis of Presentation of Financial Statements

These financial statements include the accounts of Canfor Corporation (the Company) and its subsidiary companies, hereinafter referred to as "Canfor". Equity investments are accounted for by recording the original investment at cost and subsequently adjusting for its prorated share of post acquisition earnings.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect Canfor's financial position.

Significant areas requiring the use of management estimates are deferred reforestation costs, inventory valuations and rates for depreciation, depletion and amortization.

Valuation of Inventories

Inventories of wood products, pulp and kraft paper are valued at the lower of average cost and net realizable value. Logs and chips are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost. Processing materials and supplies are valued at the lower of average cost and replacement cost.

Temporary Investments

Temporary investments comprise Bankers Acceptances, commercial paper and other short-term instruments and are valued at cost, which approximates fair value.

Property, Plant, Equipment and Timber

Canfor capitalizes the costs of major replacements, extensions and improvements to plant and equipment, together with related interest incurred during the construction period on major projects.

The rates of depreciation are based upon depreciating the assets over the following estimated productive lives:

| | |
|--|----------------|
| Buildings | 10 to 50 years |
| Mobile equipment | 3 to 20 years |
| Pulp and kraft paper machinery and equipment | 20 years |
| Sawmill machinery and equipment | 5 to 12 years |
| Logging machinery and equipment | 4 to 20 years |
| Logging roads and bridges | 5 to 20 years |
| Other machinery and equipment | 3 to 20 years |

Depreciation of logging and manufacturing assets is calculated on a unit of production basis.

Depreciation of plant and equipment not employed in logging and manufacturing is calculated on a straight-line basis.

Amortization of logging roads and depletion of timber are calculated on a basis related to the volume of timber harvested.

Deferred Charges

Software development costs relating to major systems are deferred and amortized over periods not longer than ten years.

Deferred Reforestation

Canfor accrues the cost of the reforestation required under its timber harvest agreements at the time that the timber is harvested.

Employee Benefit Plans

Canfor has various defined benefit plans providing both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry-union plans. Canfor also provides certain health care benefits to eligible retired employees.

Canfor accrues the costs and related obligations of employee benefit plans using the projected benefit actuarial method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. The difference between costs of employee benefits charged against earnings and Canfor's contributions to the plans is included in deferred charges or post employment benefits provision on the balance sheet.

For hourly employees covered by forest industry-union defined benefit pension plans, earnings are charged with Canfor's contributions required under the collective agreements.

Foreign Currency

The majority of Canfor's sales and long-term debt are denominated in foreign currencies. Foreign currencies are translated into Canadian dollars using the temporal method as follows:

- Monetary assets and liabilities at year-end or applicable hedged exchange rates; non-monetary assets and liabilities at historical rates; revenues and expenses at exchange rates prevailing at the time the transaction occurs.
- Exchange gains or losses are reflected in income immediately, with the exception of unrealized translation gains or losses related to Canfor's U.S. dollar long-term debt, which are hedged with future revenue streams and, from time to time, with a combination of future revenue streams, forward exchange contracts and cross-currency swaps. Any exchange gains or losses on these items are deferred and reflected in income at the time that the debt is repaid.

Canfor's foreign operations are considered to be self-sustaining and the assets and liabilities are translated using the current rate method. The translation gain or loss is included as a component of shareholders' equity.

Income Taxes

Canfor accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the accounting basis and the tax basis of assets and liabilities. These temporary differences are measured using the current tax rates and laws expected to apply when these differences reverse. Future tax benefits, such as capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in income tax rates is recognized in earnings in the period that includes the substantive enactment date.

Financial Instruments

Where applicable, comments with respect to financial instruments appear in the relevant note. The fair values of financial instruments are only indicated where they differ materially from their carrying value.

Stock-based Compensation Plans

Canfor has a share option agreement and a stock option performance plan, which are described in Note 10. No compensation expense is recorded at the time that the options are issued to employees, as the options are issued at the market price. When employees exercise stock options, any cash consideration is credited to share capital. When employees settle stock options for cash, a compensation expense is recorded.

1. Accounting Policies

The principal accounting policies followed by Canfor are summarized under the caption Summary of Principal Accounting Policies.

Changes in Accounting Policies

Effective January 1, 2000, Canfor adopted, as required, the new recommendations of the Canadian Institute of Chartered Accountants relating to accounting for pensions and other post employment benefits and accounting for income taxes.

The change in accounting for pension and other post employment benefits, which has been applied prospectively, related principally to accruing the cost of post employment benefits other than pensions over the working lives of the employees. These costs were previously expensed when paid. This change had no material effect on the Company's earnings for the year.

The change in accounting for income taxes, which has been applied retroactively without restatement of prior periods, reflects the tax effect of differences between the book and tax basis of assets and liabilities based on current tax rates. Previously, deferred income taxes reflected the tax effect, based on historical income tax rates, of revenue and expense items reported for accounting purposes in periods different than for tax purposes. The cumulative effect, as at January 1, 2000, of adopting this new accounting policy was to increase fixed assets by \$126.4 million, increase future income tax liabilities (previously described as deferred income taxes) by \$185.5 million and reduce retained earnings by \$59.1 million.

Effective January 1, 2000, Canfor also adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the calculation of earnings per share. The change in calculation of earnings per share primarily relates to the approach used to determine the dilutive effect of stock options. Under the previous method, it was assumed that all outstanding stock options were exercised during the period. Imputed after-tax earnings on the proceeds were added to net income and the number of options exercised was added to the weighted average number of shares for the calculation of diluted earnings per share (formerly referred to as fully diluted earnings per share). The new method assumes that stock options are only exercised when the exercise price is below the average market price of the shares. It also assumes that the Company will use any proceeds to purchase its common shares at their average market price during the period. Consequently, there is no imputed income on the proceeds and weighted average shares are only increased by the difference between the number of options exercised and number of shares purchased by the Company. The effect of adopting this new policy for the year ended December 31, 2000 was to increase diluted earnings per share by \$0.04.

2. Inventories

| (thousands of dollars) | 2001 | 2000 |
|-------------------------------------|-------------------|-------------------|
| Wood products, pulp and kraft paper | \$ 215,634 | \$ 251,916 |
| Logs and chips | 127,316 | 133,125 |
| Processing materials and supplies | 68,595 | 68,632 |
| | \$ 411,545 | \$ 453,673 |

3. Long-term Investments

| (thousands of dollars) | 2001 | 2000 |
|---------------------------------------|------------------|------------------|
| Equity investments* | | |
| Cost of common shares | \$ 45,135 | \$ 45,135 |
| Accumulated equity income | 1,182 | 1,275 |
| Preferred shares | | |
| Seaboard Shipping Company Limited** | 11,413 | 11,500 |
| Other deposits, loans and investments | 13,545 | 16,133 |
| | \$ 71,275 | \$ 74,043 |

* Canfor owns a one-third interest in Lakeland Mills Ltd. and The Pas Lumber Company Ltd., which own sawmills in the Prince George, British Columbia region (Note 19). The combined assets and liabilities of the two mills are \$125.8 million (2000 - \$125.4 million) and \$72.0 million (2000 - \$71.2 million), respectively.

**During the year, Seaboard Shipping Company Limited issued further preferred shares in the amount of \$1.0 million (2000 - \$1.9 million), and subsequently redeemed preferred shares in the amount of \$1.1 million (2000 - \$2.1 million).

4. Property, Plant, Equipment and Timber

| December 31, 2001 (thousands of dollars) | Cost | Accumulated Depreciation and Depletion | Net Book Value |
|--|---------------------|--|---------------------|
| Land | \$ 14,443 | \$ - | \$ 14,443 |
| Pulp and kraft paper mills | 1,114,925 | 455,990 | 658,935 |
| Wood products mills | 505,060 | 290,920 | 214,140 |
| Logging buildings and equipment | 64,998 | 52,637 | 12,361 |
| Logging roads and bridges | 231,739 | 162,484 | 69,255 |
| Other equipment and facilities | 120,221 | 61,809 | 58,412 |
| Timber | 481,680 | 40,190 | 441,490 |
| | \$ 2,533,066 | \$ 1,064,030 | \$ 1,469,036 |

Included in the above are assets under construction in the amount of \$10.3 million (2000 - \$24.3 million), which are not being depreciated.

| December 31, 2000 (thousands of dollars) | Cost | Accumulated Depreciation and Depletion | Net Book Value |
|--|---------------------|--|---------------------|
| Land | \$ 14,633 | \$ - | \$ 14,633 |
| Pulp and kraft paper mills | 1,089,047 | 411,845 | 677,202 |
| Wood products mills | 510,056 | 265,855 | 244,201 |
| Logging buildings and equipment | 67,105 | 51,177 | 15,928 |
| Logging roads and bridges | 214,791 | 151,676 | 63,115 |
| Other equipment and facilities | 108,635 | 52,464 | 56,171 |
| Timber | 481,542 | 34,348 | 447,194 |
| | \$ 2,485,809 | \$ 967,365 | \$ 1,518,444 |

5. Deferred Charges

| (thousands of dollars) | 2001 | 2000 |
|--|-------------------|-------------------|
| Prepaid pension benefits (Note 12) | \$ 69,553 | \$ 61,436 |
| Unrealized foreign exchange loss on long-term debt | 74,054 | 43,076 |
| Software development costs | 14,316 | 12,196 |
| Debt issue and other expenses | 1,990 | 53 |
| | \$ 159,913 | \$ 116,761 |

Deferred charges expensed during the year amounted to \$10.7 million (2000 - \$6.1 million).

6. Bank Loans

In 2001, Canfor repaid its term and acquisition bank loans, which were used to finance the acquisition of Northwood Inc. in 1999.

Canfor has \$197.9 million of unused bank operating lines of credit as of December 31, 2001 (2000 – \$109.7 million).

7. Long-term Debt

7.1 Summary of Long-term Debt

| (thousands of dollars) | 2001 | 2000 |
|---|-------------------|-------------------|
| Privately placed senior notes | | |
| \$40,000 U.S. (2000 – \$60,000 U.S.) interest at 7.75%, repayable in five equal annual instalments commencing June 1, 1999 | \$ 63,824 | \$ 90,012 |
| \$37,500 U.S. (2000 – \$50,000 U.S.) interest at 7.73%, repayable in four equal annual instalments commencing June 28, 2001 | 59,835 | 75,010 |
| \$125,000 U.S. interest at 8.24%, repayable in four equal annual instalments commencing September 1, 2004 | 199,450 | 187,525 |
| \$50,000 U.S. interest at 6.82%, repayable in five equal semi-annual instalments commencing April 1, 2005 | 79,780 | 75,010 |
| \$30,000 U.S. interest at 7.64%, repayable March 14, 2006 | 47,868 | – |
| \$33,000 U.S. interest at 7.74%, repayable March 1, 2007 | 52,655 | – |
| \$15,000 U.S. interest at 7.88%, repayable March 1, 2008 | 23,934 | – |
| \$45,000 U.S. interest at 7.98%, repayable March 1, 2009 | 71,802 | – |
| \$97,000 U.S. interest at 8.03%, repayable in three equal annual instalments commencing March 1, 2009 | 154,773 | – |
| Other loans | 3,750 | 4,000 |
| Capital leases | 1,555 | 2,227 |
| | 759,226 | 433,784 |
| Less current portion of long-term debt: | | |
| Notes and agreements payable | 52,107 | 49,007 |
| Amounts due on capital leases | 637 | 562 |
| | 52,744 | 49,569 |
| | \$ 706,482 | \$ 384,215 |

The agreements relative to the 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 \$135.2 million additional long-term debt (at December 31, 2000 – \$377.6 million additional long-term debt could be incurred) and pay up to \$79.1 million or \$0.98 per share in dividends on its Common Shares (2000 – dividends up to \$80.7 million or \$0.99 per share could be paid).

7.2 Fair Value

The fair value of long-term debt at December 31, 2001 was \$774 million.

7.3 Debt Repayments

Repayments on long-term debt and capital leases for the next five years are as follows:

(thousands of dollars)

| | |
|------|-----------|
| 2002 | \$ 52,744 |
| 2003 | 52,196 |
| 2004 | 69,999 |
| 2005 | 82,162 |
| 2006 | 129,643 |

8. Convertible Subordinated Debentures

On November 23, 1999, the Company issued \$155.0 million of unsecured convertible subordinated debentures as part of the purchase price payable by the Company for all the outstanding shares of Northwood Inc. The debentures bear interest at 6.25 per cent per annum, payable semi-annually, and mature on November 23, 2006. The debentures are convertible, at the holder's option, into common shares of the Company at a conversion price of \$13.20 per share. Upon a change of control of the Company, each holder may require the Company to purchase the holder's debentures at 100 per cent of principal plus accrued and unpaid interest. After three years, the debentures are redeemable at the option of the Company at 100 per cent of principal plus accrued and unpaid interest, provided that from the third year to the fifth year the debentures may only be redeemed if the weighted average closing price of the Company's common shares for the 20 consecutive trading days ending five days prior to the date on which notice of redemption is given exceeds 120 per cent of the conversion price. The Company has the option to satisfy its obligation to pay any portion of the applicable principal and interest, or redemption or purchase price, by delivery of shares to the trustee and subsequent sale of such shares and delivery to the holders of cash equal to the principal and interest, or redemption or purchase price, of the debentures.

The convertible subordinated debentures are being accounted for in accordance with their substance and are presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. The liability component represents the net present value of the outstanding interest payments to November 23, 2002, the first date the Company has the option to retire the debentures through the issue of shares. The difference between the debt component and the face value of the debentures is classified as equity. The equity component of the debentures is increased over the term to the full face value by charges to retained earnings and a corresponding reduction in interest expense.

In computing basic earnings per share, the charges to retained earnings are deducted from net earnings to arrive at net earnings attributable to common shareholders.

The fair value of the convertible subordinated debentures at December 31, 2001 approximated their carrying value.

9. Other Accruals and Provisions

(thousands of dollars)

| | 2001 | 2000 |
|--|------------|-----------|
| Countervailing and anti-dumping duty provision (Note 19) | \$ 47,355 | \$ - |
| Deferred reforestation | 42,314 | 42,386 |
| Post-employment benefits (Note 12) | 23,012 | 16,110 |
| Other long-term liabilities | 3,605 | 6,294 |
| | \$ 116,286 | \$ 64,790 |

10. Share Capital

Authorized

10,000,000 preferred shares, with a par value of \$25 each

1,000,000,000 common shares without par value

(thousands of dollars)

| | 2001 | 2000 |
|--|-------------------|------------|
| Issued | | |
| 81,088,847 common shares (2000 – 81,088,847) | \$ 657,714 | \$ 657,714 |

Stock Options

The Company has a share option agreement and a stock option performance plan for selected officers and senior managers. The stock option performance plan provides for the issuance of up to a maximum of 5.8 million common shares (2000 – 5.3 million), subject to shareholders' approval, at an exercise price equal to the market price of the Company's common shares on the date of grant. However, under both plans there are various criteria that limit the amount of options exercisable during each option year within the option period. A summary of the status of the two plans as of December 31, 2001 and 2000, and changes during the years ending on those dates is presented below:

| | 2001 | | 2000 | |
|--|-----------|------------------------------------|-----------|------------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at the beginning of the year | 4,023,600 | \$ 11.58 | 2,655,000 | \$ 9.14 |
| Granted | 908,250 | 8.34 | 1,400,000 | 16.13 |
| Exercised | (5,000) | 7.30 | (31,400) | 8.32 |
| Cancelled | (40,000) | 17.64 | – | – |
| Outstanding at the end of the year | 4,886,850 | \$ 10.93 | 4,023,600 | \$ 11.58 |

The following table summarizes information about stock options outstanding at December 31, 2001:

| range of exercise prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|------------------------|--|------------------------------------|------------------------|------------------------------------|
| | Options Outstanding | Weighted Average Remaining Life (years) | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |
| \$ 7.30 | 100,000 | 2.1 | \$ 7.30 | 10,000 | \$ 7.30 |
| \$ 8.30 to \$ 8.66 | 996,750 | 8.7 | 8.34 | 100,000 | 8.66 |
| \$ 9.25 to \$11.80 | 2,430,100 | 1.5 | 9.26 | 592,350 | 9.25 |
| \$15.80 | 1,230,000 | 1.4 | 15.80 | – | – |
| \$18.75 | 130,000 | 1.4 | 18.75 | – | – |
| | 4,886,850 | – | \$ 10.93 | 702,350 | \$ 9.14 |

Employee Share Purchase Plan

Canfor has a share purchase plan, which is available to all employees. Purchases of common shares under this plan occur on the open market. Under the plan, the employees can purchase up to 10 per cent of their base salary or wage. Canfor matches 30 per cent of the first five per cent of the amount contributed by the employee and pays the share purchase plan brokerage fees.

11. Interest Expense

| (thousands of dollars) | Long-term | Short-term | Total |
|------------------------|-----------|------------|-----------|
| December 31, 2001 | | | |
| Total interest cost | \$ 55,722 | \$ 11,545 | \$ 67,267 |
| Less: Interest income | 149 | 2,260 | 2,409 |
| Interest capitalized | - | 649 | 649 |
| | \$ 55,573 | \$ 8,636 | \$ 64,209 |
| December 31, 2000 | | | |
| Total interest cost | \$ 36,277 | \$ 26,761 | \$ 63,038 |
| Less: Interest income | - | 1,695 | 1,695 |
| Interest capitalized | - | 927 | 927 |
| | \$ 36,277 | \$ 24,139 | \$ 60,416 |

12. Employee Future Benefits

Information about Canfor's defined benefit plans, in aggregate, is as follows:

| (thousands of dollars) | 2001 | | 2000 | |
|--|-----------------------|---------------------|-----------------------|---------------------|
| | Pension Benefit Plans | Other Benefit Plans | Pension Benefit Plans | Other Benefit Plans |
| Plan assets, at fair market value | | | | |
| Beginning of year | \$ 422,089 | \$ - | \$ 389,864 | \$ - |
| Actual return on plan assets | (36,697) | - | 51,374 | - |
| Canfor contributions | 1,735 | 1,528 | 1,078 | 1,454 |
| Employee contributions | 1,236 | - | 1,101 | - |
| Benefit payments | (19,493) | (1,528) | (21,328) | (1,454) |
| End of year * | \$ 368,870 | \$ - | \$ 422,089 | \$ - |
| Pension and other retirement benefit provisions | | | | |
| Beginning of year | \$ 297,689 | \$ 43,377 | \$ 284,853 | \$ 40,715 |
| Interest cost | 21,569 | 3,176 | 20,259 | 2,981 |
| Current service cost - Canfor | 9,723 | 1,181 | 9,252 | 1,135 |
| Current service cost - employees | 1,236 | - | 1,101 | - |
| Benefit payments | (19,493) | (1,528) | (21,328) | (1,454) |
| Actuarial loss | 1,942 | 10,588 | 3,535 | - |
| Plan amendments | 5,382 | - | 17 | - |
| End of year | \$ 318,048 | \$ 56,794 | \$ 297,689 | \$ 43,377 |
| Plan surplus (deficit) | \$ 50,822 | \$ (56,794) | \$ 124,400 | \$ (43,377) |
| Surplus (deficit) | | | | |
| Plan surplus (deficit) | \$ 50,822 | \$ (56,794) | \$ 124,400 | \$ (43,377) |
| Unamortized deficit (surplus) on adoption of new pension plan accounting policy (Note 1) | (42,816) | 27,685 | (46,550) | 29,650 |
| Unamortized past service costs | 5,087 | - | 16 | - |
| Unamortized excess of actual investment losses (gains) over expected actuarial return | 51,969 | 10,588 | (18,813) | - |
| | 65,062 | (18,521) | 59,053 | (13,727) |
| Post employment provision recognized in the Consolidated Balance Sheets (Note 9) | (4,491) | (18,521) | (2,383) | (13,727) |
| Prepaid pension benefits (Note 5) | \$ 69,553 | \$ - | \$ 61,436 | \$ - |

* Canfor has adopted a measurement date of September 30th for accounting purposes. At December 31, 2001, the market value of the plan assets had increased by \$15.5 million.

Included in the above pension and other retirement benefit provisions and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

| (thousands of dollars) | 2001 | | 2000 | |
|---|-----------------------|---------------------|-----------------------|---------------------|
| | Pension Benefit Plans | Other Benefit Plans | Pension Benefit Plans | Other Benefit Plans |
| Fair value of plan assets | \$ 8,795 | \$ – | \$ 14,435 | \$ – |
| Pension and other retirement benefit provisions | (21,822) | (56,794) | (24,598) | (43,377) |
| Plan deficit | \$ (13,027) | \$ (56,794) | \$ (10,163) | \$ (43,377) |

Canfor's expense (income) for company-sponsored benefit plans is:

| (thousands of dollars) | 2001 | | 2000 | |
|---|-----------------------|---------------------|-----------------------|---------------------|
| | Pension Benefit Plans | Other Benefit Plans | Pension Benefit Plans | Other Benefit Plans |
| Interest cost | \$ 21,569 | \$ 3,176 | \$ 20,259 | \$ 2,981 |
| Current service cost | 9,723 | 1,181 | 9,252 | 1,135 |
| Expected return on plan assets | (31,896) | – | (29,268) | – |
| Amortization of deficit (surplus) on adoption of new pension plan accounting policy | (3,734) | 1,965 | (3,734) | 1,965 |
| Other | 167 | – | 902 | – |
| Expense (income) recognized in the current year | \$ (4,171) | \$ 6,322 | \$ (2,589) | \$ 6,081 |

In addition to the above, Canfor's expense for forest industry-union defined benefit pension plans, which is equal to contributions made in the period, amounted to \$16.6 million in 2001 (2000 - \$16.7 million).

The actuarial assumptions used in measuring Canfor's benefit plan provisions are as follows:

| (weighted-average assumptions as of December 31, 2001 and 2000) | Pension Benefit Plans | Other Benefit Plans |
|---|---------------------------------------|---------------------|
| Discount rate | 7.25% | 7.25% |
| Rate of compensation increase | 3.00% for 5 years 5.00% thereafter | n/a |
| Expected long-term rate of return on plan assets | 7.70% | n/a |

For measurement purposes, an annual rate of increase in the per capita cost of covered health care benefits of 5.7 per cent was assumed for 2001. The rate was assumed to decrease annually to 4.2 per cent by 2008 and remain at that level thereafter.

13. Income Taxes

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities are as follows:

| (thousands of dollars) | 2001 | | 2000 | |
|--|------------------|---------------------|------------------|---------------------|
| | Current | Long-term | Current | Long-term |
| Future income tax assets | | | | |
| Capital loss carry forward | \$ - | \$ 25,341 | \$ - | \$ 33,741 |
| Accruals not currently deductible | 12,684 | 32,934 | 25,038 | 15,972 |
| Post employment benefits | - | 10,365 | - | 8,454 |
| Loss carry forward arising from restructuring of Howe Sound Pulp and Paper Limited Partnership (Note 17) | - | 185,181 | - | - |
| Other | 565 | 1,896 | 2,945 | 2,918 |
| | \$ 13,249 | \$ 255,717 | \$ 27,983 | \$ 61,085 |
| Future income tax liabilities | | | | |
| Depreciable capital assets | \$ - | \$ (375,964) | \$ - | \$ (401,148) |
| Deferred pension costs | - | (25,369) | - | (23,589) |
| Other | - | (1,336) | - | (206) |
| | \$ - | \$ (402,669) | \$ - | \$ (424,943) |
| Future income taxes, net | \$ 13,249 | \$ (146,952) | \$ 27,983 | \$ (363,858) |

The components of income tax recovery (expense) are as follows:

| (thousands of dollars) | 2001 | 2000 |
|------------------------|------------------|--------------------|
| Current | \$ (14,531) | \$ (70,896) |
| Future* | 34,042 | (12,664) |
| Affiliates | (739) | (196) |
| | \$ 18,772 | \$ (83,756) |

* On July 30, 2001, the Government of the Province of British Columbia introduced legislation to decrease the provincial general corporate income tax rate from 16.5 per cent to 13.5 per cent, effective January 1, 2002. As required by the Canadian Institute of Chartered Accountants, Canfor has applied the rate reduction, as of its substantive enactment date, to all temporary differences that are expected to reverse after January 1, 2002. This had the effect of reducing Canfor's net future income tax liability and expense for 2001 by \$18.7 million.

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

| (thousands of dollars) | 2001 | 2000 |
|---|-------------------|--------------------|
| Accounting net earnings before income taxes: | \$ 7,598 | \$ 209,332 |
| Income tax expense at statutory tax rate | \$ (3,001) | \$ (82,686) |
| Large corporation tax | (4,279) | (2,796) |
| Change in provincial general corporate income tax rate | 18,737 | - |
| Howe Sound Pulp and Paper Limited Partnership losses (Note 17) | 6,297 | - |
| Amounts not deductible for tax purposes and other tax adjustments | 1,018 | 1,726 |
| Income tax recovery (expense) | \$ 18,772 | \$ (83,756) |
| Effective income tax rate | N/A | 40.0% |

14. Related Party Transactions

Canfor markets the pulp production of Howe Sound Pulp and Paper Limited Partnership (Note 17) for which it received commissions totaling \$3.0 million in 2001 (2000 – \$3.6 million) under the terms of its agency sales agreement. Canfor provides management, fibre supply and other services to Howe Sound Pulp and Paper Limited Partnership at cost, for which it received \$2.0 million in fees for 2001 (2000 – \$1.9 million). Canfor also sells logs to Howe Sound Pulp and Paper Limited Partnership, which amounted to \$13.6 million in 2001 (2000 – \$16.1 million).

Canfor purchases pulp chips and lumber from Lakeland Mills Ltd. and The Pas Lumber Company Ltd. at market prices. During 2001, Canfor purchased \$13.5 million in pulp chips and \$9.0 million in lumber (2000 – \$13.7 million and \$14.4 million respectively).

15. Unusual Items

| (thousands of dollars) | 2001 | 2000 |
|------------------------|----------|------------|
| Insurance claim | \$ 8,462 | \$ – |
| Plant closure | – | (3,100) |
| Gain on sale of patent | – | 551 |
| | \$ 8,462 | \$ (2,549) |

16. Financial Instruments

Currency Risk

Currency Swaps

At December 31, 2000, Canfor had \$125.0 million U.S. of cross currency swaps, which effectively fixed, at an exchange rate of \$1 U.S. equals \$1.4035 Cdn., the amount of Canadian dollars required to repay its U.S. dollar term loan of that amount. The swaps were terminated during 2001 and a gain of \$18.8 million was realized and applied against the deferred charge for foreign exchange on the outstanding term debt.

Forward Exchange Contracts

A significant portion of Canfor's income from operations is generated from sales denominated in U.S. dollars. In order to manage some of the risk associated with fluctuating exchange rates, Canfor enters into forward exchange contracts from time to time. At December 31, 2001, there were no forward exchange contracts outstanding (2000 – \$40.0 million U.S. were outstanding).

17. 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 \$643.0 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 \$60.2 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 \$62.1 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 and a deferred credit (\$178.9 million and \$104.0 million at December 31, 2001, respectively). The deferred credit will be recognized in income as the Howe Sound tax loss is applied to reduce CFP's taxable income.

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.

While Canfor does not reflect the limited partnership's results in its earnings, it is required to include its share of the limited partner's income or loss, within the limits imposed by the Income Tax Act (Canada), in the calculation of taxable income. This had the effect of increasing Canfor's future income tax recovery in 2001 by \$6.3 million. Any income tax expense incurred by Canfor will be reimbursed by the limited partnership.

The following financial information for 2001 reflects 100 per cent of the joint venture's operations from January 1, 2001 to March 9, 2001 and 100 per cent of the Partnership's operations from March 10, 2001 to its year-end of January 3, 2002. The comparative figures reflect 100 per cent of the joint venture's operations for 2000.

Statement of Net Income of Howe Sound Pulp and Paper Limited Partnership

| (thousands of dollars) | January 3 2001 | December 31 2000 |
|--|-------------------|---------------------|
| Net sales | \$ 368,549 | \$ 481,572 |
| Costs and expense | 391,890 | 386,550 |
| Operating income (loss) | (23,341) | 95,022 |
| Interest expense and foreign exchange loss | (31,955) | (31,882) |
| Income (loss) before income taxes | (55,296) | 63,140 |
| Income tax expense | (493) | (2,666) |
| Net income (loss) | \$ (55,789) | \$ 60,474 |

Statement of Financial Position of Howe Sound Pulp and Paper Limited Partnership

| (thousands of dollars) | January 3 2001 | December 31 2000 |
|------------------------|---------------------|---------------------|
| Assets | | |
| Current assets | \$ 122,921 | \$ 196,085 |
| Fixed assets | 922,411 | 957,075 |
| Other assets | 78,055 | 84,382 |
| | \$ 1,123,387 | \$ 1,237,542 |
| Liabilities* | | |
| Current liabilities | \$ 92,810 | \$ 81,412 |
| Long-term debt | 538,599 | 669,742 |
| Other liabilities | 2,983 | 1,791 |
| Equity | 488,995 | 484,597 |
| | \$ 1,123,387 | \$ 1,237,542 |

* The liabilities of Howe Sound Pulp and Paper Limited Partnership are non-recourse to Canfor.

Statement of Changes in Cash Position of Howe Sound Pulp and Paper Limited Partnership

| (thousands of dollars) | January 3 2001 | December 31 2000 |
|--|-------------------|---------------------|
| Operating | | |
| Net income (loss) | \$ (55,789) | \$ 60,474 |
| Adjustments for non-cash items: | | |
| Depreciation, depletion and amortization | 45,854 | 45,584 |
| Other operating items | 44,243 | 4,825 |
| | 34,308 | 110,883 |
| Financing | | |
| Repayment of long-term debt | (132,759) | (24,593) |
| Issue of partnership share | 60,185 | - |
| | (72,574) | (24,593) |
| Investing | (13,474) | (14,657) |
| Increase (decrease) in net cash for year | \$ (51,740) | \$ 71,633 |

18. Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are based on the weighted average number of common shares, convertible subordinated debentures and stock options outstanding at the beginning of or granted during the period.

(thousands of dollars, except for number of shares and per share amounts)

| | 2001 | 2000 |
|---|------------------|------------|
| Basic Earnings | | |
| Net income | \$ 26,370 | \$ 125,576 |
| Less interest on equity component of convertible subordinated debentures, net of income taxes | (4,720) | (4,283) |
| Income available to common shareholders | 21,650 | 121,293 |
| Diluted Earnings | | |
| Add back interest on equity and liability components of convertible subordinated debentures | – ^(a) | 5,380 |
| Income available to common shareholders | \$ 21,650 | \$ 126,673 |
| Weighted average number of common shares | 81,088,847 | 81,086,831 |
| Incremental shares from stock options | 166,756 | 192,750 |
| Shares issuable upon conversion of convertible subordinated debentures | – ^(b) | 11,742,424 |
| Diluted number of common shares | 81,255,603 | 93,022,005 |
| Basic earnings per share | \$ 0.27 | \$ 1.50 |
| Diluted earnings per share | \$ 0.27 | \$ 1.36 |

(a) Anti-dilutive – \$5,429

(b) Anti-dilutive – 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 2001 (2000 – 3,316,250) but were not included in the computation of dilutive 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.

19. Commitments and Contingencies

a. Operating Leases

The future minimum lease payments under operating leases are as follows:

(thousands of dollars)

| | |
|------------------------------|-----------|
| 2002 | \$ 19,791 |
| 2003 | 14,778 |
| 2004 | 9,851 |
| 2005 | 6,186 |
| 2006 | 3,018 |
| Thereafter | 14,997 |
| Total minimum lease payments | \$ 68,621 |

b. Canfor's investment in Lakeland Mills Ltd. and The Pas Lumber Company Ltd. is pledged as security for the bank debt of those mills.

c. As at December 31, 2001, Canfor had commitments to purchase capital assets valued at approximately \$10.7 million.

d. 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, they 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.

On August 9, 2001, the DOC issued its preliminary determination in the countervailing duty investigation ("Countervailing Case") and imposed a preliminary duty rate of 19.31 per cent to be posted by cash deposits or bonds on the exports of softwood lumber to 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 duties on exports of softwood lumber 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 of 12.98 per cent on Canfor. The anti-dumping duty rate applies to all exports of softwood lumber into the U.S. on or after November 6, 2001.

The final amount and effective date of countervailing and anti-dumping duties that may be assessed on Canadian softwood lumber exports to the U.S., cannot be determined at this time and will depend on determinations yet to be made by the DOC and ITC and any reviewing courts, North American Free Trade Agreement ("NAFTA") or World Trade Organization ("WTO") panels to which those determinations may be appealed.

For accounting purposes, Canfor has accrued \$40.9 million for the period from August 17, 2001 to December 15, 2001 representing the preliminary countervailing duty rate determined by the DOC of 19.31 per cent. Canfor has not accrued any duty for the period from May 19, 2001 to August 16, 2001 (estimated to be \$34.9 million) as management believes that the likelihood of Critical Circumstances in the Countervailing Case is not determinable at this time. In addition, Canfor accrued \$6.5 million for anti-dumping duties for the period from November 6, 2001 to December 31, 2001 representing Canfor's estimated duty rate of 6.13 per cent, which was determined using the DOC's methodology, except for certain aspects of the DOC's approach in setting the preliminary rate that Canfor believes were incorrect and will be changed upon final determination or subsequent appeal. Any adjustments to the financial statements resulting from a change in the final countervailing and anti-dumping duty rates or Critical Circumstances determination in the Countervailing Case will be made prospectively.

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 preliminary 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. Depending on the outcome of the final phase of the investigations, Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the preliminary 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.

The countervailing and anti-dumping duties accrued up to the date of the final order, currently expected in May 2002, will not be payable until the completion of the first administrative review, which is currently expected to occur in the last half of 2004. Payment could be delayed beyond that point if any legal appeals are still in process.

20. Comparative Figures

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

SUBSIDIARY COMPANIES

(wholly owned)

Operating Companies

Canadian Forest Products Ltd.

Canfor Europe

Canfor Panel and Fibre
Marketing Ltd.

Canfor Pulp and Paper
Marketing Ltd.

Canfor U.S.A. Corporation

Canfor Wood Products
Marketing Ltd.

Genus Resource Management
Technologies Inc.

Howe Sound Transportation Company
Limited

Nanika Timber Limited

Inactive/Holding Companies

317231 British Columbia Ltd.

615157 B.C. Ltd.

B.C. Chemicals Ltd.

Canfor Hong Kong Corporation

Canfor Japan Corporation

Canfor Limited

Eburne Sawmills Limited

Northwood Properties Limited

Willowdale Storage Inc.

JOINT VENTURES

(proportionately consolidated)

Canfor Georgia-Pacific Japan
Corporation (50% interest)

PARTNERSHIPS

Howe Sound Pulp and Paper
Limited Partnership
(49.99% interest) (Note 17)

HSPP General Partner Ltd.
(50% interest)

INVESTMENTS

(equity accounted)

Kyahwood Forest Products

Lakeland Mills Ltd.

The Pas Lumber Company Ltd.

Vernon Seed Orchard Co.

DEFINITIONS OF SELECTED FINANCIAL TERMS

Book Value per Share

is the shareholders' equity, including the equity component of the convertible subordinated debentures, at the end of the year, divided by the number of common shares outstanding at the end of the year plus the number of common shares exchangeable for the convertible subordinated debentures.

Capital Employed

consists of the funds invested or retained in Canfor in the form of shares or liabilities. It is composed of unrepresented cheques, current bank loans (net of cash and temporary investments), current portion of long-term debt, long-term debt, future income taxes arising from timing differences and shareholders' equity. Long-term liabilities and other accruals such as deferred reforestation costs,

unfunded pension and post employment benefits, countervailing and antidumping duty provisions and unrealized foreign exchange losses on long term debt are specifically excluded because they do not represent borrowed funds or funds invested by shareholders.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

represents operating income plus depreciation, depletion and amortization.

Net Debt

is total debt less cash and temporary investments.

Net Income per Common Share

is calculated as described in Note 18 to the Consolidated Financial Statements.

Return on Assets

is equal to net income plus interest, after tax, divided by the average of the total assets at the beginning and end of the year.

Return on Capital Employed

is equal to net income plus interest, after tax, divided by the average of the capital employed during of the year.

Return on Common Shareholders' Equity

is equal to net income for the year, divided by the average of total shareholders' equity at the beginning and end of the year.

CANFOR CORPORATION

2001 SELECTED QUARTERLY FINANCIAL INFORMATION

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | year ended Dec 31, 2001 |
|--|-------------|-----------|----------|-----------|----------------------------|
| | (unaudited) | | | | (audited) |
| Sales and income (millions of dollars) | | | | | |
| Net sales | \$ 481.6 | \$ 511.2 | \$ 535.3 | \$ 457.6 | \$ 1,985.7 |
| Manufacturing and product costs | 403.7 | 436.3 | 474.9 | 444.4 | 1,759.3 |
| Depreciation, depletion and amortization | 27.5 | 26.6 | 26.1 | 25.8 | 106.0 |
| Selling and administration | 14.1 | 17.3 | 14.6 | 11.9 | 57.9 |
| Operating income (loss) | 36.3 | 31.0 | 19.7 | (24.5) | 62.5 |
| Equity income (loss) of affiliated companies | (1.0) | 1.3 | 1.4 | (0.6) | 1.1 |
| Interest expense | (15.6) | (16.9) | (17.0) | (14.7) | (64.2) |
| Other income (expense) | 0.8 | (0.1) | (0.6) | (0.4) | (0.3) |
| Unusual items | 8.5 | – | – | – | 8.5 |
| Income (loss) before income taxes | 29.0 | 15.3 | 3.5 | (40.2) | 7.6 |
| Income tax recovery (expense) | (10.2) | (5.2) | 16.1 | 18.1 | 18.8 |
| Net income (loss) | \$ 18.8 | \$ 10.1 | \$ 19.6 | \$ (22.1) | \$ 26.4 |
| Per common share (dollars) | | | | | |
| Basic | \$ 0.22 | \$ 0.11 | \$ 0.23 | \$ (0.29) | \$ 0.27 |
| Diluted | 0.21 | 0.11 | 0.21 | (0.29) | 0.27 |
| Cash generated from (used in) (millions of dollars) | | | | | |
| Operating activities | \$ (59.2) | \$ 56.9 | \$ 54.4 | \$ 66.7 | \$ 118.8 |
| Financing activities | | | | | |
| Long-term debt | 116.1 | (50.1) | – | – | 66.0 |
| Dividends paid | (5.3) | (5.2) | (5.3) | (5.3) | (21.1) |
| Other | (0.3) | (3.3) | 1.4 | 14.0 | 11.8 |
| | 110.5 | (58.6) | (3.9) | 8.7 | 56.7 |
| Investing activities | | | | | |
| Property, plant, equipment and timber | (7.2) | (16.0) | (10.2) | (17.8) | (51.2) |
| Other | (60.2) | (14.0) | (0.4) | 4.1 | (70.5) |
| | (67.4) | (30.0) | (10.6) | (13.7) | (121.7) |
| Increase (decrease) in net cash | \$ (16.1) | \$ (31.7) | \$ 39.9 | \$ 61.7 | \$ 53.8 |
| Summary of consolidated shipments (unaudited) | | | | | |
| Logs – 000 m ³ | 301.6 | 302.4 | 369.3 | 267.5 | 1,240.8 |
| Lumber – MMfbm | | | | | |
| Canfor produced | 512.9 | 547.7 | 603.7 | 601.6 | 2,265.9 |
| Other producers | 72.6 | 64.8 | 68.7 | 67.7 | 273.8 |
| Total Lumber | 585.5 | 612.5 | 672.4 | 669.3 | 2,539.7 |
| Plywood – 000 Msf 3/8" basis | 37.4 | 44.5 | 39.6 | 40.1 | 161.6 |
| Pulp – 000 mt | | | | | |
| Canfor produced | | | | | |
| Pulp segment | 184.9 | 212.4 | 199.0 | 195.7 | 792.0 |
| Pulp and Specialty Kraft Paper segment | 31.3 | 35.9 | 39.3 | 41.6 | 148.1 |
| Marketed on behalf of HSLP* | 71.9 | 101.9 | 83.8 | 80.9 | 338.5 |
| Total Pulp | 288.1 | 350.2 | 322.1 | 318.2 | 1,278.6 |
| Kraft paper – 000 mt | 24.6 | 26.4 | 28.3 | 27.4 | 106.7 |

Certain previously published figures have been restated to conform to the current presentation.
* Howe Sound Pulp and Paper Limited Partnership, herein referred to as HSLP.

2000 SELECTED QUARTERLY FINANCIAL INFORMATION

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | year ended Dec 31, 2000 |
|--|-------------|----------|----------|----------|----------------------------|
| | (unaudited) | | | | (audited) |
| Sales and income (millions of dollars) | | | | | |
| Net sales | \$ 618.1 | \$ 581.8 | \$ 558.2 | \$ 507.8 | \$ 2,265.9 |
| Manufacturing and product costs | 475.1 | 470.8 | 459.1 | 417.1 | 1,822.1 |
| Depreciation, depletion and amortization | 28.3 | 27.1 | 28.5 | 28.8 | 112.7 |
| Selling and administration | 15.0 | 17.3 | 15.3 | 19.9 | 67.5 |
| Operating income | 99.7 | 66.6 | 55.3 | 42.0 | 263.6 |
| Equity income (loss) of affiliated companies | 2.4 | 0.6 | (0.4) | (1.4) | 1.2 |
| Interest expense | (14.0) | (16.5) | (15.2) | (14.7) | (60.4) |
| Other income | 0.8 | 5.5 | 0.9 | 0.3 | 7.5 |
| Unusual items | - | - | - | (2.5) | (2.5) |
| Income before income taxes | 88.9 | 56.2 | 40.6 | 23.7 | 209.4 |
| Income tax expense | (35.5) | (24.1) | (16.5) | (7.7) | (83.8) |
| Net income | \$ 53.4 | \$ 32.1 | \$ 24.1 | \$ 16.0 | \$ 125.6 |
| Per common share (dollars) | | | | | |
| Basic | \$ 0.64 | \$ 0.38 | \$ 0.28 | \$ 0.19 | \$ 1.50 |
| Diluted | 0.58 | 0.35 | 0.26 | 0.18 | 1.36 |
| Cash generated from (used in) (millions of dollars) | | | | | |
| Operating activities | \$ (69.5) | \$ 76.2 | \$ 55.5 | \$ 37.6 | \$ 99.8 |
| Financing activities | | | | | |
| Long-term debt | - | (50.2) | - | - | (50.2) |
| Dividends paid | (5.3) | (5.2) | (5.3) | (5.3) | (21.1) |
| Other | (0.1) | (2.6) | (0.1) | (2.5) | (5.3) |
| | (5.4) | (58.0) | (5.4) | (7.8) | (76.6) |
| Investing activities | | | | | |
| Property, plant, equipment and timber | (29.8) | (26.7) | (27.8) | (26.5) | (110.8) |
| Other | (0.6) | (1.1) | (1.2) | (5.7) | (8.6) |
| | (30.4) | (27.8) | (29.0) | (32.2) | (119.4) |
| Increase (decrease) in net cash | \$ (105.3) | \$ (9.6) | \$ 21.1 | \$ (2.4) | \$ (96.2) |
| Summary of consolidated shipments (unaudited) | | | | | |
| Logs – 000 m ³ | 301.7 | 384.8 | 473.5 | 414.1 | 1,574.1 |
| Lumber – MMfbm | | | | | |
| Canfor produced | 498.1 | 593.2 | 512.2 | 589.5 | 2,193.0 |
| Other producers | 126.5 | 88.1 | 83.0 | 78.2 | 375.8 |
| Total Lumber | 624.6 | 681.3 | 595.2 | 667.7 | 2,568.8 |
| Plywood – 000 Msf 3/8" basis | 48.0 | 35.4 | 39.2 | 40.6 | 163.2 |
| Pulp – 000 mt | | | | | |
| Canfor produced | | | | | |
| Pulp segment | 229.1 | 186.4 | 200.2 | 173.9 | 789.6 |
| Pulp and Specialty Kraft Paper segment | 47.0 | 42.0 | 41.9 | 32.0 | 162.9 |
| Marketed on behalf of HSLP | 87.0 | 87.5 | 86.1 | 64.1 | 324.7 |
| Total Pulp | 363.1 | 315.9 | 328.2 | 270.0 | 1,277.2 |
| Kraft paper – 000 mt | 27.6 | 27.3 | 25.7 | 25.1 | 105.7 |

Certain previously published figures have been restated to conform to the current presentation.

CANFOR CORPORATION – FIVE-YEAR COMPARATIVE REVIEW

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Sales and income (millions of dollars) | | | | | |
| Net sales | \$ 1,985.7 | \$ 2,265.9 | \$ 1,741.2 | \$ 1,424.7 | \$ 1,553.5 |
| Manufacturing and product costs | 1,759.3 | 1,822.1 | 1,414.3 | 1,260.1 | 1,359.7 |
| Depreciation, depletion and amortization | 106.0 | 112.7 | 70.2 | 65.2 | 67.1 |
| Selling and administration | 57.9 | 67.5 | 47.9 | 59.6 | 63.7 |
| Operating income | 62.5 | 263.6 | 208.8 | 39.8 | 63.0 |
| Equity income (loss) of affiliated companies | 1.1 | 1.2 | 7.8 | (5.6) | 0.7 |
| Interest expense | (64.2) | (60.4) | (33.2) | (38.0) | (34.2) |
| Other income (expense) | (0.3) | 7.5 | (0.5) | 1.4 | 3.1 |
| Unusual items | 8.5 | (2.5) | – | (38.0) | (39.3) |
| Income (loss) from continuing operations | | | | | |
| before income taxes | 7.6 | 209.4 | 182.9 | (40.4) | (6.7) |
| Income tax recovery (expense) | 18.8 | (83.8) | (76.0) | 12.4 | 4.6 |
| Income (loss) from continuing operations | | | | | |
| before losses related to Howe Sound | 26.4 | 125.6 | 106.9 | (28.0) | (2.1) |
| Discontinued operations | – | – | (4.3) | (3.8) | (2.9) |
| Loss from and write-off of investment | | | | | |
| in Howe Sound, net of taxes | – | – | – | (171.9) | (27.9) |
| Net income (loss) | \$ 26.4 | \$ 125.6 | \$ 102.6 | \$ (203.7) | \$ (32.9) |
| Per common share (dollars) | | | | | |
| Before discontinued operations and | | | | | |
| losses related to Howe Sound | \$ 0.27 | \$ 1.50 | \$ 1.75 | \$ (0.48) | \$ (0.04) |
| Basic | 0.27 | 1.50 | 1.68 | (3.49) | (0.56) |
| Diluted | 0.27 | 1.36 | 1.66 | (3.49) | (0.56) |
| Dividends paid on common shares | 0.26 | 0.26 | – | 0.065 | 0.26 |
| Book value per share | 10.35 | 10.24 | 9.72 | 7.30 | 10.83 |
| Assets and capitalization (millions of dollars) | | | | | |
| Working capital | \$ 342.3 | \$ 71.1 | \$ (15.2) | \$ 261.0 | \$ 307.7 |
| Long-term investments | 71.3 | 74.0 | 69.8 | 62.2 | 62.1 |
| Property, plant, equipment and timber | 1,469.0 | 1,518.4 | 1,384.8 | 610.4 | 641.9 |
| Other assets and deferred charges | 159.9 | 116.8 | 93.1 | 99.3 | 66.6 |
| Howe Sound assets | – | – | – | – | 171.9 |
| Net assets | \$ 2,042.5 | \$ 1,780.3 | \$ 1,532.5 | \$ 1,032.9 | \$ 1,250.2 |
| Long-term debt | \$ 714.7 | \$ 400.9 | \$ 442.1 | \$ 473.0 | \$ 474.4 |
| Other accruals and provisions | 116.3 | 64.8 | 49.6 | 37.7 | 39.4 |
| Future income taxes | 147.0 | 363.9 | 139.0 | 96.2 | 104.4 |
| Deferred credit | 104.0 | – | – | – | – |
| Common shareholders' equity | 960.5 | 950.7 | 901.8 | 426.0 | 632.0 |
| Total capitalization | \$ 2,042.5 | \$ 1,780.3 | \$ 1,532.5 | \$ 1,032.9 | \$ 1,250.2 |
| Additions to property, plant, equipment | | | | | |
| and timber (millions of dollars) | \$ 54.7 | \$ 121.8 | \$ 119.9 | \$ 40.8 | \$ 60.5 |

CANFOR CORPORATION – FIVE-YEAR COMPARATIVE REVIEW

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|----------|-----------|-----------|---------|---------|
| Cash generated from (used in) (million of dollars) | | | | | |
| Operating activities ^(a) | \$ 118.8 | \$ 99.8 | \$ 225.3 | \$ 83.3 | \$ 61.5 |
| Financing activities | | | | | |
| Long-term debt | 66.0 | (50.2) | 19.5 | (12.2) | (7.5) |
| Common shares | – | 0.1 | 239.5 | – | – |
| Dividends paid | (21.1) | (21.1) | – | (3.8) | (15.2) |
| Interest on convertible subordinated debentures, net of income tax | (4.3) | (4.7) | – | – | – |
| Other | 16.1 | (0.7) | – | – | – |
| | 56.7 | (76.6) | 259.0 | (16.0) | (22.7) |
| Investing activities | | | | | |
| Property, plant, equipment and timber | (51.2) | (110.8) | (119.9) | (40.8) | (60.5) |
| Howe Sound Pulp and Paper Limited Partnership | (60.2) | – | – | – | – |
| Investment in subsidiaries and affiliates | – | – | (433.2) | – | – |
| Other | (10.3) | (8.6) | 13.5 | 8.4 | 23.2 |
| | (121.7) | (119.4) | (539.6) | (32.4) | (37.3) |
| Increase (decrease) in net cash | | | | | |
| From continuing operations ^(a) | 53.8 | (96.2) | (55.3) | 34.9 | 1.5 |
| From discontinued operations | – | – | 13.8 | 3.9 | (1.4) |
| | \$ 53.8 | \$ (96.2) | \$ (41.5) | \$ 38.8 | \$ 0.1 |
| Financial statistics | | | | | |
| EBITDA | 168.5 | 376.3 | 279.0 | 105.0 | 130.1 |
| Return on capital employed | 3.5% | 9.3% | 12.3% | (10.9)% | 0.3% |
| Return on common shareholders' equity | 2.8% | 13.6% | 15.4% | (38.5)% | (5.0)% |
| Ratio of current assets to current liabilities ^(b) | 2.0:1 | 1.1:1 | 1.0:1 | 1.7:1 | 2.1:1 |
| Ratio of net debt to shareholders' equity ^{(a), (b)} | 43:57 | 42:58 | 41:59 | 48:52 | 39:61 |
| Production statistics | | | | | |
| Pulp – 000 mt | 900.1 | 980.1 | 521.8 | 453.2 | 428.3 |
| Kraft paper – 000 mt | 108.8 | 109.9 | 103.7 | 104.6 | 95.6 |
| Lumber – MMfbm | 2,260.3 | 2,235.3 | 1,423.8 | 1,378.3 | 1,425.6 |
| Plywood – 000 Msf 3/8" basis | 168.7 | 158.7 | – | – | – |
| Hardboard – 000 Msf 3/8" basis | 24.8 | 24.1 | 22.9 | 23.8 | 23.8 |
| Refined fibre – 000 mt | 40.2 | 38.5 | 33.9 | 29.4 | 36.0 |
| Sales by product line | | | | | |
| Log sales | 6% | 7% | 10% | 9% | 6% |
| Pulp and kraft paper | 34 | 39 | 26 | 26 | 23 |
| Lumber – Canfor produced | 48 | 41 | 42 | 46 | 50 |
| Lumber – Other producers | 6 | 8 | 17 | 14 | 14 |
| Plywood | 3 | 2 | – | – | – |
| Miscellaneous | 3 | 3 | 5 | 5 | 7 |
| | 100% | 100% | 100% | 100% | 100% |
| Sales by market | | | | | |
| Canada | 21% | 20% | 22% | 21% | 17% |
| United States | 55 | 54 | 56 | 58 | 54 |
| Europe | 11 | 15 | 10 | 11 | 13 |
| Far East | 12 | 10 | 11 | 9 | 15 |
| Other | 1 | 1 | 1 | 1 | 1 |
| | 100% | 100% | 100% | 100% | 100% |

(a) Prior years' figures have been restated to conform to the 2001 presentation.

(b) For 1998 and prior years, ratios have been restated to exclude the assets, liabilities and debt of Howe Sound Pulp and Paper Limited.

DIRECTORS AND OFFICERS

Directors

The names, principal occupations, municipalities of residence, and the periods during which they have been Directors of the Company are as below. For more information visit www.canfor.com.

P.J.G. Bentley, O.C., LL.D. ⁽¹⁾⁽⁴⁾⁽⁵⁾
Chairman of the Board,
Canfor Corporation
Vancouver, British Columbia
Director since 1966

R.L. Cliff, C.M., F.C.A. ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
Chairman of the Board,
BC Gas Inc.
West Vancouver, British Columbia
Director since 1983

M.L. Cullen ⁽²⁾⁽³⁾
Corporate Director;
Financial Consultant
Vancouver, British Columbia
Director since 2000

C.W. Daniel, O.C., LL.D. ⁽³⁾⁽⁵⁾
Corporate Director;
Consultant
Toronto, Ontario
Director since 1985

D.L. Emerson ⁽¹⁾
President and Chief Executive Officer,
Canfor Corporation
Vancouver, British Columbia
Director since 1998

M.E. Hurst ⁽⁴⁾⁽⁵⁾
Educational Author
Vancouver, British Columbia
Director since 1987

J.B. Jarvis ⁽¹⁾⁽²⁾
Corporate Director
Vancouver, British Columbia
Director since 1966

P.A. Lusztig ⁽²⁾⁽⁴⁾⁽⁵⁾
Dean Emeritus,
University of British Columbia;
Commissioner (Federal),
B.C. Treaty Commission
Vancouver, British Columbia
Director since 1983

E.P. Newell, O.C. ⁽³⁾⁽⁴⁾
Chairman and Chief Executive Officer,
Syncrude Canada Inc.
Fort McMurray, Alberta
Director since 1999

M.E.J. Phelps, O.C. ⁽¹⁾⁽³⁾⁽⁴⁾
Chairman and Chief Executive Officer,
Westcoast Energy Inc.
West Vancouver, British Columbia
Director since 1990

R.T. Riley ⁽⁴⁾⁽⁵⁾
Vice-President of L.B.G.
Capital, a Division
of National Bank Financial
Montreal, Quebec
Director since 1987

C. Taylor ⁽⁵⁾
Chair of the Canadian
Broadcasting Corporation
Vancouver, British Columbia
Director since 2000

Officers

The names, offices held, and municipalities of residence of the officers of the Company and the offices held by them are as below. For more information visit www.canfor.com.

P.J.G. Bentley, O.C., LL.D.
Chairman
Vancouver, British Columbia

D.L. Emerson
President and Chief Executive Officer
Vancouver, British Columbia

C.T. Hazelwood
Executive Vice-President, Operations
Prince George, British Columbia

A.G. Armstrong, Q.C.
Senior Vice-President,
Corporate Development
Vancouver, British Columbia

C.W. Reid
Group Vice-President,
Finance and Chief Financial Officer
Surrey, British Columbia

B.R. Hislop
Group Vice-President, Wood Products
Vancouver, British Columbia

R.A. Luoma
Group Vice-President, Pulp
Prince George, British Columbia

K.O. Higginbotham
Vice-President,
Forestry and Environment
Surrey, British Columbia

J.K. Pau
Vice-President and Treasurer
Vancouver, British Columbia

R.L. Waldie
Vice-President, Human Resources
Prince George, British Columbia

J.R. Williams
Vice-President,
Coastal Operations
Surrey, British Columbia

S. Yurkovich
Vice-President, Corporate Affairs
Vancouver, British Columbia

D.M. Calabrigo
General Counsel
and Corporate Secretary
Surrey, British Columbia

R.B. Haslam
Corporate Controller
West Vancouver, British Columbia

(1) Member of the Executive Committee, which acts generally on behalf of the Board of Directors between meetings.

(2) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.

(3) Member of the Management Resources and Compensation Committee, which makes recommendations to the Board regarding the Company's pension plans and the remuneration of its Directors and senior officers and ensures management development and succession programs are in place.

(4) Member of the Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.

(5) Member of the Environmental, Health and Safety Committee, which develops, reviews and makes recommendations on matters related to the Company's environmental, health and safety policies, and monitors compliance with those policies and with government regulations.

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



www.canfor.com