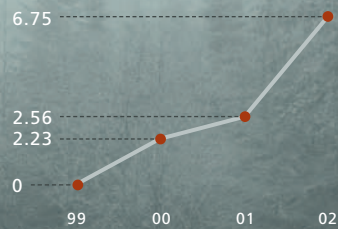


Certification

Harvest volume
(millions of m³)



Governed by Sustainable Forestry Management Certification (CSA and SFI)

Air Quality

Canfor is fully engaged in Air Quality Management in the communities where we operate. With a long history of burner closures, emission control upgrades and contributing to the cost of ambient monitoring equipment, staff have most recently stepped up to serve on newly formed committees in Prince George and in the Bulkley Valley. Research is pointing to a need to address area sources like road dust, vehicle emissions and wood stoves and Canfor is looking to participate wherever efficient, effective actions are identified.

Thermal Oil Systems Task Force

A task force was struck in 2002 to develop a Canfor Engineering Standard for Thermal Oil Systems. Several Canfor sawmills operate these systems that burn wood residue to heat oil for transfer to lumber dry kilns and buildings. This Standard will include environmental specifications for maintenance, operation, upgrades and design of new systems. These units represent a value-added use for the residue while offsetting the need for fossil fuels. Completion of the Standard is planned for the second quarter 2003.

Thermal oil system operators participated in an information exchange/training session in the Fall of 2002.

Value-added Uses for Wood Residue

Canfor is actively seeking opportunities to create value from the surplus wood residues generated at our sawmill operations. A \$1.7 million project completed in November 2002 at Northwood Pulp has improved the mill boiler controls and resulted in substantially increased wood residue incineration in the boilers. In addition to more efficiently burning wood residue that previously would have been burned in inefficient beehive burners, this project has reduced natural gas purchases and improved NW Pulp's bottom line. Canfor is also actively pursuing electricity cogeneration projects in Grande Prairie Alberta and Houston British Columbia, which will generate electricity from renewable sawmill wood residues, allow for the closure of beehive and silo burners, and reduce Canfor's particulate and greenhouse gas emissions.

Potable Water Program

An ambitious 18 month program to assess and protect Canfor's potable water systems concluded in late 2002. Trained Water System Managers are now in charge of the 43 Canfor-owned systems as well as a host of contractor facilities. A Canfor Water Management Standard outlines regulatory requirements, roles and responsibilities and the water sampling program. A module to house information on the complex and varied systems was developed by Genus™. This high-tech system also reminds operators when samples are due and provides an early warning to water quality issues identified at the lab. All Canfor systems have been assessed by L&M Engineering Limited of Prince George and work has already begun on recommendations for upgrades. Ministry of Health Planning staff have been supportive throughout this process.

FORESTRY

Compliance Report

In anticipation of the British Columbia government's transition to results-based forest practices legislation, Canfor continued to improve processes around the internal monitoring and reporting of our forestry practices. As a result, during 2002, 69% of all non-compliance incidents related to Canfor's forestry activities investigated by government agencies were originally detected and reported by Canfor staff. In all cases, Canfor promptly took necessary actions to mitigate any environmental consequences and correct conditions that may have led to the incident. A total of 96 non-compliance incidents occurred on company tenures during 2002, 12% fewer than in 2001.

Figure 1 – Non-compliance incidents by volume of timber harvested

Incidents Per 100,000 m³ Harvested (Canfor-wide)

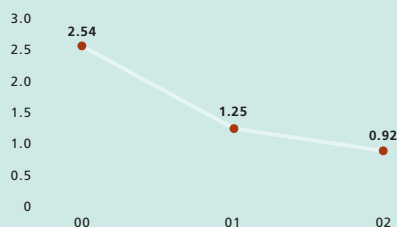


Figure 1 indicates the trend in total number of non-compliance incidents on Canfor operations per 100,000 cubic metres of timber harvested for the period 2000 to 2002.

British Columbia government agencies assessed eleven administrative penalties under the *Forest Practices Code Act* to Canfor during 2002, totalling \$10,645. None of the assessments involved environmental damage. Six of the incidents for which penalties were assessed occurred prior to 2002. Several other determinations of non-compliance were declared by government agencies, but no monetary penalties were assessed, in part because of the minor nature of the infractions and Canfor's prompt mitigation and corrective action. The company also received two official written warnings for non-compliance under the British Columbia *Pesticide Control Act*, following audits of herbicide application records. These incidents were related to administrative procedures and did not result in any environmental consequences.

No administrative penalties were assessed to Canfor by Alberta government agencies in 2002, although Canfor reported several incidents involving small quantities of herbicide application outside of prescribed treatment boundaries.

Canfor forestry operations reported twelve spills to government agencies in 2002. Eleven of the spills occurred in British Columbia and one occurred in Alberta. All spills were minor in nature and were appropriately managed. Six of the spills were the result of equipment failure, four followed motor vehicle accidents, one resulted from an act of vandalism and one resulted from the sinking of a boom boat. Only the boom boat incident resulted in the release of controlled products to water bodies. In that case approximately eight litres of diesel was released, but was promptly contained and recovered. A fire started due to spontaneous combustion in a large debris pile at a dry land sort.

Certification

Although the majority of Canada's forest industry is now moving toward environmental certification of its operations, Canfor's reputation as a leader in the eco-certification of forestland and forest products continued to grow in 2002.

All Canfor forest operations in the Prince George and Quesnel Timber Supply Areas and Tree Farm Licence (TFL) 30 were certified to the Sustainable Forestry Initiative® (SFISM) Standard of sustainable forestry during the year. This represented the first SFISM certification for Canfor and the largest, by area, in Canada. With the addition of the SFISM certified area to the suite of tenures already certified to the Canadian Standards Association (CSA) Sustainable Forest Management (SFM) Standard, Canfor now has more than half of its tenure area governed by certified SFM plans. This includes 73% of the company's annual harvest volume. Meanwhile, the Environmental Management System (EMS) for forestry operations underwent a comprehensive third party assessment in 2002 and the system has been recommended for re-registration under the ISO 14001 standard. The scope of Canfor's forestry EMS includes all Canfor forestry tenures.

SFISM and CSA registration audits at the Fort St. John and Houston operations are planned for 2003. If successful, the registrations will increase Canfor's managed forestland certified to an SFM standard by an additional 4.9 million hectares.

Performance Versus Objectives in 2002

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

Objective: Conduct activities consistent with project plans.

Figure 2 – Trespass or environmental damage determinations

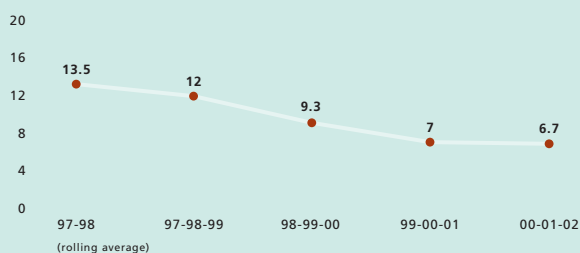


Figure 2 indicates the trend in trespass or environmental damage determinations for the period 1997 to 2002. These incidents are usually caused by a failure to follow project plans. All determinations during 2002 in this category were related to minor boundary trespasses that occurred during timber harvesting operations.

Performance: Riparian resources, including those habitats associated with streams and lakes, are an ecologically significant component of forests. Canfor takes special care when conducting activities adjacent to riparian resources and we established a number of targets to improve our performance in these areas.

Figure 3 – Non-compliance incidents related to riparian resources

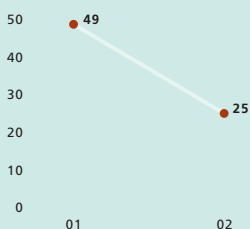


Figure 3 illustrates one aspect of the company's performance related to riparian management; a reduction in the number of non-compliance incidents related to riparian resources in 2002 compared to the previous year.

Objective: Prevent spills and leaks of harmful products.

Performance: Canfor contractor crews, and company crews at coastal operations continued to demonstrate a

high level of awareness of emergency preparedness and response procedures. Although the corporate target of zero reportable spills on forestry operations was not achieved in 2002, the response to spills that occurred during the year was prompt and effective.

Objective: Minimize the impact on forest resources resulting from uncontrolled fire.

Performance: Uncontrolled fire is recognized as one of the highest risk environmental aspects affecting forestry operations. Consequently, Canfor has developed numerous operational controls to manage our activities in such a way as to prevent forest fires and to respond promptly when required with appropriate fire fighting resources. Targets associated with this objective were satisfactorily met at all company operations during the year.

Objective: Balance environmental, economic and social objectives in forest-level planning.

Performance: This objective was addressed through targets contained in SFM plans that are in place at all Canfor forest regions. Reporting on the status of these targets is communicated through SFM annual reports, and results are verified through third party audits as a component of SFM certification.

Objective: Incorporate management strategies into operational plans to address significant aspects.

Performance: The process for risk ranking of Canfor's environmental aspects for forestry operations was completely revised during 2002, in order to improve the transition from strategic level SFM plans to operational phases when on-the-ground activities are carried out. Significant progress was made during the year to implement monitoring and measurement processes, designed to verify that plans are achieving intended results. This included the implementation of several new or enhanced information management modules developed by *Genus RMT*.

Objective: Improve public and employee confidence in our environmental practices.

Performance: Several targets were set and achieved at each Canfor forest region to improve communication with the public. Examples include the ongoing participation of public advisory groups or committees in the SFM planning process and creation of opportunities for the involvement of aboriginal people in forestry planning activities.

Objective: Minimize impacts to other resources due to misapplication of chemicals.

Performance: The application of chemicals on Canfor forest tenures is primarily limited to the use of herbicide for vegetation management on some reforested areas. As these activities are strictly governed by legislation, all targets reflect the necessity that herbicide application be in conformance with legal requirements. In 2002, herbicide program performance targets were substantially met at all operations. Several minor incidents occurred where a small amount of herbicide was applied outside proposed treatment boundaries. No environmental damage occurred as a result of these incidents and all were promptly reported to government agencies.

Objectives and Targets for 2003

2003 environment objectives for forestry have been expanded to capture the social and economic aspects of our operations and enable us to apply sustainable forest management principles at all our operating areas. Specific targets for each objective have been set at all Canfor forest regions.

(Biological Diversity) Conserve biological diversity by maintaining ecosystem, species and genetic diversity at a landscape level.

(Ecosystem Resilience and Productivity) Conserve ecosystem processes by maintaining healthy, resilient and productive forest ecosystems.

(Global Ecological Cycles) Maintain forest conditions and management activities that contribute to the health of global ecological cycles.

(Pollution) Minimize impacts to other resources by preventing spills and leaks of harmful products and the misapplication of chemicals.

(Balanced Use of Forests) Plan and conduct activities to provide a balanced mix of timber and non-timber benefits.

(Human Health and Safety) Operate in a manner that protects human health and safety.

(Community Involvement) Create opportunities for interested parties to have input into forest planning activities.

(Aboriginal Interests) Incorporate aboriginal interests into strategic and operational planning.

(Accountability) Communicate our sustainable forest management performance to interested parties.

(Timber Supply) Manage the forest to produce a long term supply of affordable timber.

(Fair Return on Investment) Manage the forest to provide a fair return on investment.

(Fair Distribution of Benefits and Costs from the Forest) Manage the forest to provide economic benefits to local communities, shareholders and government.

(Mutually Beneficial Business Relationships with Aboriginal People) Pursue business partnerships and cooperative working arrangements with aboriginal people.

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 2002, Canfor and HSLP had the following non-compliance situations (reported in accordance with government non-compliance reporting criteria):

Air

One beehive burner regularly operated below approval temperature due to lack of fuel on the afternoon shift. Improvements have been made to the burner structure and operating controls are being optimized to ensure compliance. A written warning was received for one burner failing to meet temperature compliance for several days in the first quarter and two burners failed to meet compliance temperature for four and five days in the first four months of 2002. Two written warnings were issued for burner noncompliance incidents that occurred in 2001. At pulp mill operations, a particulate test on a smelt dissolving tank stack and a lime kiln stack failed to meet Permit limit. Reduced scrubber efficiency at a chemical plant caused the plant to exceed the Permitted limit for vented chlorine emissions for a period of one day.

Effluent

On two occasions at a chemical plant, small quantities of process liquor were released to a tank which discharges to the river. Preventive measures have been implemented.

Landfill

N/A

Spills

Canfor and HSLP manufacturing operations had 17 reportable spills in 2002. All have been contained, cleaned up and preventive actions taken. Spills included: two spills

of log conditioning chest water to ground; two low volume spills of black liquor to ground; six spills of pulpmill process effluent/clarifier sludge/ filtrate to ground; three spills of hydraulic oil to ground; one spill each of caustic soda, reactor spent acid and crude tall oil to ground; and one spill of chlorine dioxide to ground.

Performance versus Objectives in 2002

Wood Residue Utilization

Objective: We will continue to pursue opportunities to substantially increase utilization of our sawmill wood residues and thereby achieve our beehive burner phase-out commitments.

Performance: Canfor implemented the Northwood Pulp Mill boiler controls project in 2002 and is actively pursuing two significant biomass electricity cogeneration projects (Grande Prairie and Houston) which will substantially increase our wood residue utilization.

Greenhouse Gases (GHG)

Objective: We will implement our greenhouse gas strategy.

Performance: Canfor's greenhouse gas emissions for 2001 (the most recent reporting year under Canada's Voluntary Climate Registry Program) were 8-9% below 1990 levels and below Canada's Kyoto commitment of 6% below 1990 levels by 2010 – 2012. We are projecting that with projects underway or contemplated, Canfor's GHG emissions will be 10 – 15% below 1990 levels by 2005.

Audits

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

Performance: Internal audits were carried out as planned and, in addition, an internal pre-registration audit was conducted at the Rustad Sawmill in preparation for the ISO 14001 registration audit.

EMS

Objective: Management reviews will be completed and environmental objectives and targets established at all of our sawmill operations.

Performance: Management reviews have been completed and environmental objectives and targets have been set at all sawmills as well as two remanufacturing plants, one plywood plant and one wood treating plant. In addition,

in December 2002, the Rustad Sawmill EMS received registration to the ISO 14001 Standard for environmental management.

Potable Water Program

Objective: 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.

Performance: Water System Managers have been trained. A water quality testing program has been implemented and the data management system is functioning. The Canfor Water Management Standard, with an Emergency Response Plan template, has been approved by Senior Management. In addition, all Canfor-owned water supply systems have been assessed by a qualified engineering firm.

Objectives and Targets for 2003

The following are corporate level objectives and targets for 2003.

(Wood Residue Utilization) We will continue to actively pursue opportunities to substantially increase utilization of our sawmill wood residues such as electricity cogeneration at our pulp mills and sawmills and wood residue fueled energy systems at our sawmills.

(Greenhouse Gases) Through projects which increase utilization of our sawmill wood residues and offset electricity and natural gas purchases, we will continue to reduce our greenhouse gas emission profile.

(Audits) We will carry out corporate environmental audits of three pulp mills, four sawmill operations, one panel board plant, and a wood treating plant.

(Wood Products EMS Enhancement) We will enhance Wood Products EMS including training needs assessments relative to significant aspects, emergency/spill response training and EMS documentation.

(Thermal Oil Systems) We will complete and implement a Canfor Engineering Standard for Thermal Oil Systems that ensures environmental aspects relating to these systems are considered and managed.