First Quarter Interim Report

For the three months ended March 31, 2001

Canfor Corporation

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To Our Shareholders,

Canfor Corporation earned a net income of $18.8 million or $0.22 per common share ($0.21 on a diluted basis) for the quarter. The Company was able to increase net income over the previous quarter as a result of reduced costs, the benefits of an insurance claim settlement of $8.5 million and the completion of the Howe Sound Pulp and Paper Limited restructuring. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the quarter were $63.5 million compared to $128.0 million for the same quarter in 2000 and $70.8 million in the fourth quarter of 2000.

Net sales of $481.6 million declined $26.2 million from the previous quarter as a result of lower pulp prices, lower lumber shipments and lower lumber prices experienced during the quarter.

In spite of the continued instability in the pulp and lumber markets, we are pressing forward on implementing our strategic plan. The focus remains on reducing operating costs and producing higher margin products and growing the Company.

During the quarter, we achieved a major strategic objective with the completion of the Howe Sound restructuring. This will enhance the economic viability of our partnership with Howe Sound while providing significant tax benefits to Canfor. As well during the quarter, we successfully completed a private placement debt issue for $220 million U.S.

Clearly, the biggest issue facing the Company going forward is the uncertainty around the expiration of the Softwood Lumber Agreement. U.S. lumber producers have launched both countervailing duty and anti-dumping suits against Canadian lumber exports and are asking their government to impose punitive duties and penalties in excess of 70 per cent.

This legal process has the potential to inflict enormous damage not only on Canadian companies but also on workers, their families and entire communities, as well as American consumers. For that reason, Canfor has joined with other lumber producers to mount a strong defence to the false claims of subsidization being leveled by U.S. producers. Our main focus over the coming weeks will continue to be on working with leaders of Canada's forest industry to ensure that this issue remains the number one trade priority for the Canadian Government and that we achieve the unfettered access to the U.S. marketplace that "free trade" implies.

The Board of Directors declared a dividend of $0.065 per common share, payable on June 29, 2001, to shareholders of record on June 15, 2001.

Peter J.G. Bentley
Chairman

David L. Emerson
President and Chief Executive Officer

The Management's Discussion and Analysis provides a review of the significant developments that have impacted Canfor's performance during the first quarter of 2001 relative to the last published annual results as at December 31, 2000 and relative to the comparative quarter in 2000. The following unaudited financial results along with Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements and notes thereto included in Canfor's Annual Report for the year ended December 31, 2000.

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

Results for the Quarter

(millions of dollars)	1st Quarter 2001	1st Quarter 2000	4th Quarter 2000
Net sales	$ 481.6	$ 618.1	$ 507.8
EBITDA	$ 63.5	$ 128.0	$ 70.8
Operating income	$ 35.7	$ 99.7	$ 42.0
Net income	$ 18.8	$ 53.4	$ 16.0
Earnings per share (dollars)			
Basic	$ 0.22	$ 0.64	$ 0.19
Diluted	$ 0.21	$ 0.58	$ 0.18

Canfor Corporation reported a net income of $18.8 million or $0.22 per common share ($0.21 on a diluted basis) for the quarter. This compares to the previous quarter net income of $16.0 million or $0.19 per common share and the first quarter 2000 net income of $53.4 million or $0.64 per common share. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the quarter were $63.5 million compared to $128.0 million for the same quarter in 2000 and $70.8 million in the fourth quarter of 2000. Net sales declined as a result of lower pulp prices, lower lumber shipments and lower lumber prices experienced during the quarter. However, the Company was able to increase net income over the previous quarter through cost reductions, the benefits of an insurance claim settlement of $8.5 million and a reduction of income tax resulting from the Howe Sound Pulp and Paper Limited restructuring.

Operating Results

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

WOOD PRODUCTS

Wood Products had an operating loss of $2.2 million for the quarter, an improvement of $1.9 million over the previous quarter but $41.2 million less than first quarter 2000 results. Negative influences during this quarter were lower market prices, lower shipments and production curtailments. Market prices for SPF lumber and plywood continued to fall throughout the quarter. The price for benchmark 2" x 4" SPF Random Lengths fell from an average of $199 U.S. per thousand board feet in the fourth quarter of 2000 and $330 U.S. per thousand board feet in the first quarter of 2000 to an average of $196 U.S. per thousand board feet in the current quarter. Due to quota restrictions under the Canada-U.S. Softwood Lumber Agreement (SLA) it was necessary to take approximately 168 million board feet of production downtime in the quarter. This compares to 113 million board feet and 69 million board feet of production downtime taken in the fourth quarter and first quarter of 2000 respectively. Reduced prices in the quarter were partially offset by focusing on producing higher margin products while experiencing lower log costs.

PULP PRODUCTS

Operating income for the Pulp Products segment was $37.3 million, $5.4 million lower than in the previous quarter and $14.9 million lower than the first quarter in 2000. The biggest reason for this quarter's decline relative to the corresponding quarter in 2000 was reduced shipments as a result of the current slowing of the economy and the anticipation of lower prices. The decline this quarter over the previous quarter is attributable to lower pulp prices. Pulp prices declined throughout the quarter, starting the quarter at $710 U.S. per tonne and ending at $620 U.S. per tonne. In an effort to manage inventories, production was reduced by 23,100 tonnes during the quarter. More production will be taken out of the market in the second quarter of 2001 through production slowdowns and the annual maintenance shutdown at the Intercontinental Pulp Mill.

PULP AND SPECIALTY KRAFT PAPER

Operating income for the Pulp and Specialty Kraft Paper segment was $1.8 million, down from $8.9 million in the fourth quarter of 2000 and $6.2 million lower than first quarter 2000. The group was hampered by lower pulp prices, paper quality difficulties and lower pulp and paper shipments as compared to the fourth quarter of 2000. Lower pulp and paper shipments caused the decline from the corresponding quarter in 2000. Production curtailment of pulp was 8,500 tonnes for the quarter with further curtailments expected throughout the second quarter. Paper prices remained firm throughout the quarter. The Prince George Pulp and Paper mill will take their annual maintenance shutdown in the second quarter. During the shutdown, the mill will install a new headbox on the kraft paper machine. This installation is expected to increase production of high margin kraft paper by 39,000 tonnes per year.

COASTAL OPERATIONS

Operating income for Coastal Operations was $6.2 million, compared to $7.5 million in the fourth quarter of 2000 and $9.5 million in the first quarter of 2000. The decline over the previous quarter was primarily due to a seasonal decline in production only partially offset by higher prices. As a result of poor weather conditions, production was curtailed for 11 operating days in the quarter.

NON-SEGMENTED ITEMS

(millions of dollars)	1st Quarter 2001	1st Quarter 2000	4th Quarter 2000
Corporate costs	$ (7.4)	$ (9.0)	$ (13.0)
Equity income (loss) of affiliated companies	$ (1.0)	$ 2.4	$ (1.4)
Net interest expense	$ (15.6)	$ (14.0)	$ (14.7)
Other income (expense)	$ 1.4	$ 0.8	$ 0.3
Unusual items	$ 8.5	–	$ (2.5)

Corporate costs for the quarter decreased $5.6 million over the previous quarter. The decline is attributed to a reduction of corporate and information services costs. The increase in net interest expense of $0.9 million over the fourth quarter is a reflection of the increase in short-term indebtedness incurred during the quarter to finance the winter log inventory build up. Other income items include a $1.4 million gain on the sale of land while the $8.5 million in unusual items reflects the insurance claim settlement.

Income from affiliates has improved $0.4 million over the previous quarter while declining $3.4 million over the same quarter in 2000. Canfor's affiliate companies suffered from the same low lumber prices and low sales volume as did the Wood Products segment.

Although Canfor no longer consolidates Howe Sound Pulp and Paper Limited Partnership into its financial results, this operation reported a net loss of $23.3 million in the quarter. The majority of the loss is attributed to a foreign exchange loss relating to repayment of long-term debt as part of the restructuring. Lower pulp prices and lower shipment volumes also contributed to the loss.

Outlook

With the expiration of the SLA and the filing of a countervailing duty petition and an antidumping petition by U.S. softwood lumber producers, there continues to be a high degree of confusion in the U.S. marketplace. Although lumber prices published by Random Lengths have risen, lumber suppliers are concerned about potential retroactivity of a duty and what their ultimate price of lumber will be. It is expected that lumber prices will move higher in the next quarter to incorporate the anticipated duty and customers replenish inventories for the summer building season. Overall world demand for pulp in the second quarter is expected to remain weak. With excess pulp inventories at the producer level, prices in North America and Europe may fall further, until enough downtime has been taken to reverse the inventory trend and inventories have been brought back to the one-month supply level. Canfor management's assessment is that the balance will return in the second half of 2001.

Restructuring Howe Sound Pulp and Paper Limited

The restructuring of Howe Sound Pulp and Paper Limited into a limited partnership was completed during the quarter. This is discussed in further detail in Note 3 of the Consolidated Financial Statements.

Summary of Financial Position

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

(millions of dollars)	1st Quarter 2001	1st Quarter 2000	4th Quarter 2000
Ratio of current assets to current liabilities	1.7:1	1.1:1	1.1:1
Ratio of net debt to common shareholders' equity	48:52	46:54	43:57
Net Cash Flow			
comprised of:	$ (14.5)	$ (101.0)	$ (15.2)
Cash Flow from (used in) operating activities	$ (57.6)	$ (65.3)	$ 24.8
Cash Flow from (used in) financing activities	$ 110.6	$ (5.4)	$ (7.8)
Cash Flow from (used in) investments	$ (67.5)	$ (30.4)	$ (32.2)

Changes in Financial Position

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

Net cash used by operations was $7.7 million lower than the same quarter in 2000 and $82.4 million more than the previous quarter. The increased usage of cash this quarter over the previous quarter is primarily due to a seasonal build up of log inventories and from lower sales prices. Interest paid in the quarter was $15.8 million. The Company recovered $7.6 million in income taxes in the quarter.

Net cash provided by financing activities was $110.6 million in the quarter, or an increase of $116 million from the same quarter in 2000 and $118.4 million from the previous quarter. A total of $220 million U.S. of private placement debt was raised during the quarter. The new debt was used to pay down the $205.4 million Cdn acquisition loan used in the 1999 Northwood Inc. acquisition, to finance the Howe Sound restructuring and for general working capital purposes. Canfor also paid dividends of $5.3 million or $0.065 per common share in the quarter. Canfor's net debt-to-equity ratio increased marginally to 48:52 from 46:54 in the same quarter in 2000.

Net cash used in investing activities was $67.5 million for the quarter, which was an increase of $35.3 million from the fourth quarter of 2000 and $37.1 million from the first quarter of 2000. The major expenditure in the current quarter resulted from the restructuring of Howe Sound Pulp and Paper Limited, as discussed in Note 3 of the Financial Statements. The current quarter included investing $9.2 million in the Company's capital program as compared to $30.3 million in the first quarter of 2000 and $27.5 million in the fourth quarter of 2000. With the decline in the lumber and pulp markets, the Company has been prudently managing its discretionary capital program to focus on primarily high return, low risk projects. The Company also received proceeds of $1.9 million on a sale of land in the quarter.

Liquidity and Financial Requirements

At the end of the quarter, Canfor had short-term indebtedness of $79.5 million and $120.5 million of unused bank operating lines of credit as compared to the December 31, 2000 balances of $65.0 million of short-term indebtedness and $85.0 million of unused bank operating lines of credit. The $14.5 million increase from the December 31, 2000 balance of short-term indebtedness is primarily due to the seasonal build up of inventories. During the quarter, Canfor secured another $50 million of bank operating lines of credit, bringing the total operating lines of credit available to the Company to $200 million.

Provisions contained in Canfor's long-term borrowing agreements limit both the amount of indebtedness the Company can incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is $89 million or $1.10 per share. The Company can incur an additional $24 million of long-term debt under these borrowing arrangements.

Risks and Uncertainties

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

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

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

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

In the AD case, based on seven pricing comparisons across Canada, alleged dumping margins of between 22.5 per cent and 72.9 per cent were indicated in the petition. The petition did not specifically identify the names of producers / exporters alleged to have made sales at less than fair value. Rather, petitioners state that virtually all Canadian softwood lumber producers have sold the Subject Merchandise in the U.S. at less than fair value.

Both petitions are currently being reviewed by the U.S. Department of Commerce and U.S. International Trade Commission for merit. If there is a finding of critical circumstances, a possibility exists that both CVD and AD may be applied retroactively to a date not yet determined. More information will be available throughout the second quarter. The future effects of the various uncertainties and potential risks described in the foregoing cannot be quantified or predicted. Canfor's management is assessing its alternatives under the various duty scenarios that could arise from these petitions.

Consolidated Statement of Income and Earnings Reinvested in the Business

(unaudited) (millions of dollars)	3 months ended March 31, 2001	3 months ended March 31, 2000
		(Note 10)
Net sales	$ 481.6	$ 618.1
Costs and expenses		
Manufacturing and product costs	403.7	475.1
Depreciation, depletion and amortization	27.8	28.3
Selling and administration	14.4	15.0
	445.9	518.4
Operating income	35.7	99.7
Equity income (loss) of affiliated companies	(1.0)	2.4
Interest expense	(15.6)	(14.0)
Other income (expense)	1.4	0.8
Unusual items (Note 5)	8.5	–
Income from continuing operations before income taxes	29.0	88.9
Income tax expense (Note 6)	(10.2)	(35.5)
Net income	$ 18.8	$ 53.4
Net income per common share (in dollars) (Note 7)		
Basic	$ 0.22	$ 0.64
Diluted	$ 0.21	$ 0.58
Weighted average number of common shares	81,088,847	81,081,068
Currently outstanding number of common shares	81,088,847	81,082,747
Diluted number of common shares	92,845,508	93,148,910
Earnings reinvested in the business at beginning of year	$ 151.4	$ 110.5
Net income for the year to date	18.8	53.4
Common share dividends	(5.3)	(5.3)
Interest on equity component of convertible subordinated debentures, net of taxes	(1.1)	(1.1)
Prior period adjustment	–	(59.1)
Earnings reinvested in the business at end of current period	$ 163.8	$ 98.4
Financial Statistics and Ratios		
EBITDA * (millions of dollars)	$ 63.5	$ 128.0
EBITDA Margin *	13%	21%
Ratio of current assets to current liabilities	1.7 : 1	1.1 : 1
Ratio of net debt to shareholders' equity	48 : 52	46 : 54

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

Consolidated Cash Flow Statement

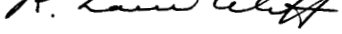
(unaudited) (millions of dollars)	3 months ended March 31, 2001	3 months ended March 31, 2000
Cash generated from (used in)		
Operating activities		
Net income from continuing operations	$ 18.8	$ 53.4
Items not affecting cash:		
Depreciation, depletion and amortization	27.8	28.3
Other items not involving cash	5.4	19.3
Non-cash working capital changes	(109.6)	(166.3)
	(57.6)	(65.3)
Financing activities		
Proceeds from long-term borrowing	321.5	–
Repayment of term bank loan	(175.4)	–
Repayment of acquisition bank loan	(30.0)	–
Payment of capital lease liabilities	(0.2)	(0.1)
Dividends paid to common shareholders	(5.3)	(5.3)
	110.6	(5.4)
Investing activities		
Howe Sound Pulp and Paper Limited Partnership (Note 3)	(60.2)	–
Property, plant, equipment and timber	(9.2)	(30.3)
Proceeds on disposal of assets, investments and other	1.9	(0.1)
	(67.5)	(30.4)
Increase (decrease) in net cash (short-term indebtedness)	(14.5)	(101.1)
Net cash (short-term indebtedness) at beginning of period	(65.0)	30.2
Net cash (short-term indebtedness) at end of period	$ (79.5)	$ (70.9)
Net cash (short-term indebtedness) comprises		
Cash and temporary investments	$ 13.1	$ 14.5
Unpresented cheques and operating bank loans	(92.6)	(85.4)
	$ (79.5)	$ (70.9)
Non-cash working capital changes		
Accounts receivable	$ (2.4)	$ (4.6)
Income taxes	12.1	(62.1)
Future income taxes	0.1	(1.5)
Inventories	(192.1)	(211.0)
Prepaid expenses	2.1	2.9
Accounts payable and accrued liabilities	70.6	110.0
	$ (109.6)	$ (166.3)

Interest paid by continuing operations for the three months ended March 31, 2001 was $15.8 million (2000 - $14.1 million) and income taxes recovered were $7.6 million (2000 - paid $95.6 million).

Consolidated Balance Sheet

(millions of dollars)	as at March 31 2001 (unaudited)	as at December 31 2000 (audited)
ASSETS		
Current assets		
Cash	$ 13.1	$ 16.7
Accounts receivable		
Trade	194.2	179.6
Other	26.1	38.2
Income taxes recoverable	–	3.0
Future income taxes	27.8	28.0
Inventories	645.8	453.7
Prepaid expenses	9.9	12.1
Total current assets	916.9	731.3
Long-term investments	72.9	74.0
Property, plant, equipment and timber	1,500.3	1,518.4
Deferred charges	144.8	116.8
	$ 2,634.9	$ 2,440.5
LIABILITIES		
Current liabilities		
Unpresented cheques	$ 39.8	$ 41.4
Operating bank loans (Note 4)	52.8	40.3
Term bank loan	–	175.4
Acquisition bank loan	–	30.0
Accounts payable and accrued liabilities	362.0	288.1
Current portion of long-term debt	52.3	49.6
Current portion of deferred reforestation	34.0	35.4
Income taxes payable	8.2	–
Total current liabilities	549.1	660.2
Long-term liabilities		
Long-term debt (Note 4)	728.7	384.2
Convertible subordinated debentures - liability component	14.7	16.7
Deferred reforestation	59.4	42.4
Post employment benefits	17.9	16.1
Other liabilities	4.7	6.3
Total long-term liabilities	825.4	465.7
Future income taxes, net (Note 3)	177.8	363.9
Deferred income tax credit (Note 3)	116.9	–
SHAREHOLDERS' EQUITY		
Share capital	657.7	657.7
Convertible subordinated debentures - equity component	140.3	138.3
Earnings reinvested in the business	163.8	151.4
Foreign exchange translation adjustment	3.9	3.3
Total shareholders' equity	965.7	950.7
Subsequent event (Note 9)		
	$ 2,634.9	$ 2,440.5

APPROVED BY THE BOARD



Director, R.L. Cliff

Director, D.L. Emerson

Statement of Segmented Information

(unaudited) (millions of dollars)	Net sales to external customers	Net sales to other segments	Operating income (loss)	Depreciation, depletion and amortization	Net capital expenditures	Identifiable assets
3 months ended March 31, 2001						
Wood Products (Note c)	$ 244.9	$ 26.3	$ (2.2)	$ 11.2	$ 1.8	$ 1,141.3
Pulp Products	150.5	–	37.3	9.3	1.7	792.2
Pulp and Specialty Kraft Paper	45.4	–	1.8	3.4	3.6	191.0
Coastal Operations (Note d)	40.8	3.5	6.2	2.5	1.8	106.9
Corporate	–	–	(7.4)	1.4	0.3	403.5
	$ 481.6	$ 29.8	$ 35.7	$ 27.8	$ 9.2	$ 2,634.9
3 months ended March 31, 2000 (Note f)						
Wood Products (Note c)	$ 340.7	$ 26.5	$ 39.0	$ 11.7	$19.2	$ 1,226.3
Pulp Products	175.8	–	52.2	9.2	6.4	819.1
Pulp and Specialty Kraft Paper	57.4	–	8.0	3.3	1.5	169.9
Coastal Operations (Note d)	44.2	2.1	9.5	2.9	3.1	110.9
Corporate	–	–	(9.0)	1.2	0.1	357.7
	$ 618.1	$ 28.6	$ 99.7	$ 28.3	$30.3	$ 2,683.9

3 months ended March 31	2001	2000
Summary of consolidated shipments		
Logs - 000 m^3	301.6	301.7
Lumber - MMfbm		
Canfor produced	512.9	498.1
Other producers	72.6	126.5
Total Lumber	585.5	624.6
Plywood - 000 Msf 3/8"	37.4	48.0
Pulp - 000 mt		
Canfor produced		
Pulp segment	184.9	229.1
Pulp and Specialty Kraft Paper segment	31.3	47.0
Marketed on behalf of HSLP (Note e)	71.9	87.0
Total Pulp	288.1	363.1
Kraft paper - 000 mt	24.6	27.6

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

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

c. Wood Products sales for the quarter include sales of Canfor produced lumber of $194.0 million (2000: $242.1 million).

d. Coastal Operations results for the quarter include hardboard sales and refined fibre and fibremat sales of $4.4 million and $5.3 million respectively (2000: $4.3 and $4.9 million).

e. Canfor is responsible for marketing, on a commission basis, the pulp production of Howe Sound Pulp and Paper Limited Partnership ("HSLP"), formerly Howe Sound Pulp and Paper Limited ("HSPP").

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

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

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

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

3. Howe Sound Pulp and Paper Limited Partnership

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

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

As a result of this reorganization, CFP recorded a future income tax asset of $193.2 million and a deferred income tax credit of $119.4 million. This deferred credit will be recognized in income as the Howe Sound tax loss is applied to reduce CFP's taxable income ($2.5 million has been recognized as of March 31, 2001).

Canfor wrote off its investment in the joint venture in 1998 and no longer reflects its share of the joint venture's results in its earnings. Canfor's method of accounting for its interest in the Partnership will not change as the result of the reorganization.

4. Bank Indebtedness and Long-Term Debt

During the first quarter of 2001, Canfor obtained additional financing in the form of a $50 million bank operating line and a private placement of $220 million U.S. The private placement has an average interest rate of 7.9 per cent and an average term of 7.8 years, with repayments commencing on March 1, 2006.

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 $23.6 million additional long-term debt and pay up to $89.0 million or $1.10 per share in dividends on its common shares.

The fair value of long-term debt at March 31, 2001 was $814 million.

At March 31, 2001, Canfor had $107.4 million of unused bank operating lines of credit, after deducting unpresented cheques.

5. Unusual Items includes a fire insurance claim settlement in the net amount of $8.5 million, before taxes.

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

(millions of dollars)	3 months ended March 31, 2001	3 months ended March 31, 2000
Current	$ 9.8	$ 34.5
Future	3.3	0.4
Affiliates	(0.4)	0.6
	12.7	35.5
Less deferred income tax credit realized as a result of the reorganization of Howe Sound (Note 3)	(2.5)	–
	$ 10.2	$ 35.5

7. Earnings per share is calculated as follows:

(millions of dollars except for number of shares and per share amounts)	3 months ended March 31, 2001	3 months ended March 31, 2000
Net income	$ 18.8	$ 53.4
Less interest on equity component of convertible debentures, net of taxes	(1.1)	(1.1)
Income available to common shareholders - Re: Basic earnings per share	17.7	52.3
Add back interest on equity and liability components of convertible debentures	1.3	1.4
Income available to common shareholders - Re: Diluted earnings per share	$ 19.0	$ 53.7
Weighted average number of common shares	81,088,847	81,081,068
Shares issuable upon conversion of convertible debentures	11,742,424	11,742,424
Stock options	14,237	325,418
Diluted number of common shares	92,845,508	93,148,910
Basic earnings per share	$ 0.22	$ 0.64
Diluted earnings per share	$ 0.21	$ 0.58

Additional options to purchase 3,790,200 common shares at various prices, from $7.30 to $18.75 per share, were outstanding during the first quarter of 2001 but were not included in the computation of diluted earnings per share either because the options' exercise prices were greater than the average market price of the common shares or, in the case of performance-based stock options, market value targets had not been met.

Stock Options:

During the first quarter of 2001, additional stock options were granted, subject to shareholder approval, to purchase 896,750 common shares at an exercise price of $8.30 per share, subject to various criteria that limit the number of options exercisable during each option year. These options expire on January 29, 2011. During the same period, 40,000 previously issued stock options expired.

8. Financial Instruments

At March 31, 2001, Canfor has entered into forward exchange contracts totaling $20 million U.S., fixed at rates ranging from 1.5147 to 1.5471 through June 2001. The unrecognized loss of $1.0 million as at March 31, 2001 has been deferred and will offset foreign exchange on U.S. dollar revenues in the contract period.

The fair value of Canfor's $125.0 million U.S. cross currency swap at March 31, 2001 is $10.2 million U.S.

9. Subsequent Event

On April 2, 2001 petitions for the imposition of antidumping and countervailing duties on softwood lumber from Canada were filed with the U.S. Department of Commerce and the U.S. International Trade Commission by the Coalition for Fair Lumber Imports Executive Committee, the United Brotherhood of Carpenters and Joiners of America, and the Paper, Allied-Industrial, Chemical and Energy Workers International Union. Petitioners allege antidumping duties ranging between 22.5 per cent and 72.9 per cent, and countervailing duties of at least 39.9 per cent should be imposed on imports of certain softwood lumber from Canada.

In response to the petitions, the International Trade Commission has instituted a preliminary injury investigation and the Department of Commerce is expected to decide whether to initiate antidumping and countervailing duty investigations on April 23, 2001. The amount of antidumping and/or countervailing duties, if any, that may be assessed on imports of softwood lumber from Canadian exporters, including the Company, cannot be determined at this time and will depend on factual and legal determinations yet to be made by the Department of Commerce and the International Trade Commission and any reviewing courts, NAFTA panels or WTO panels to which those determinations are appealed.

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

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