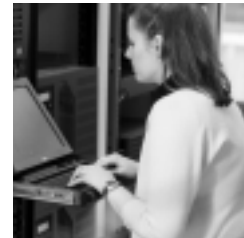


02

Second Quarter Interim Report



Canfor Corporation

For the six months ended June 30, 2002

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Canfor Corporation earned a net income of \$70.2 million, or \$0.75 per common share on a diluted basis for the second quarter of 2002. This compares to an income of \$10.1 million, or \$0.11 per share, for the same three months of 2001. Net income for the six months to June 30, 2002 is \$81.3 million, or \$0.87 per share, which is \$52.4 million more than the net income of \$28.9 million, or \$0.32 per share, earned for the same period in 2001.

The net income for the quarter was favourably impacted by the reversal of previously expensed countervailing and anti-dumping duties of \$48.0 million and a \$10.0 million gain on the sale of the former Eburne Sawmill site (both after tax). The quarter was adversely affected by a \$6.9 million after-tax foreign exchange loss on long-term debt repayments made during the quarter. This loss was charged against net sales and allocated across the business segments. Net income for the quarter was also adversely impacted by \$17.2 million, after tax, due to countervailing and anti-dumping duties, imposed since May 22, 2002.

Net sales during the quarter were \$577.1 million, an increase of \$70.4 million over the previous quarter. The increase is largely the result of higher lumber shipments, higher pulp prices and additional log sales on the coast.

The company is pleased to see the reversal of accrued duties from 2001 and the first quarter of 2002. While the quarterly results reflect this reversal, this financial aberration masks the ongoing havoc that the softwood lumber trade dispute continues to inflict. Finding a durable solution to this dispute must remain the top priority of both provincial and federal governments if we are to address the uncertainty and concern of employees, customers and the communities where we operate.

Canfor will continue to run its operations to capacity, in order to meet customer needs and minimize costs. In all areas of the company, cost control will be a top priority.

Operationally, Canfor mills are running well and have continued to meet or exceed performance targets. With pulp prices improving as inventories decline and demand for lumber remaining strong, Canfor believes there is market upside over the balance of the year. The challenge remains to drive hard on the cost side of the business and remain profitable in spite of the punishing duties imposed by the U.S. Canfor will also continue to work with both the provincial and federal governments to resolve this issue.

The Board of Directors declared a dividend of \$0.065 per common share, payable on September 30, 2002, to shareholders of record on September 13, 2002.



Peter J.G. Bentley
Chairman



David L. Emerson
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides a review of the significant developments that have impacted Canfor's performance during the second quarter of 2002 relative to the previous quarter and the last published annual results as at December 31, 2001 and, also, relative to the comparative quarter in 2001. 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, 2001.

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

Results for the Quarter

(millions of dollars)	2nd Quarter 2002	1st Quarter 2002	2nd Quarter 2001	6 months ended 2002	6 months ended 2001
Net sales	\$ 577.1	\$ 506.7	\$ 511.2	\$1,083.8	\$ 992.8
EBITDA	\$ 113.9	\$ 58.6	\$ 57.6	\$ 172.5	\$ 121.4
Operating income	\$ 86.3	\$ 28.9	\$ 31.0	\$ 115.2	\$ 67.3
Net income	\$ 70.2	\$ 11.1	\$ 10.1	\$ 81.3	\$ 28.9
Earnings per share (dollars)					
Basic	\$ 0.85	\$ 0.12	\$ 0.11	\$ 0.97	\$ 0.33
Diluted	\$ 0.75	\$ 0.12	\$ 0.11	\$ 0.87	\$ 0.32

The net income of \$70.2 million or \$0.85 per common share (\$0.75 on a diluted basis) for the quarter is a significant improvement compared to both the previous quarter and the same quarter in 2001. In order to appropriately compare the underlying performance of the respective quarters the following items included in the current quarter net income need to be considered:

1. \$48.0 million, after tax, reversal of previously expensed countervailing (CVD) and anti-dumping (ADD) duties (see note 5 to the Financial Statements). Of this amount, \$11.7 million relates to duties recorded in the first quarter of 2002 and \$36.3 million relates to duties recorded in the last two quarters of 2001.
2. The current quarter also includes an after-tax gain of \$10.0 million realized on the sale of the Eburne property (the site of the former Eburne Sawmill which was closed down in 1998). The proceeds of this sale are to be received over a 24 month period and are secured by a mortgage on the property.
3. A foreign exchange loss of \$6.9 million realized on U.S. dollar denominated long-term debt repayments made in the quarter. This loss was charged against net sales because the debt was hedged against U.S. dollar revenue streams. A similar loss of \$7.2 million was reported in the second quarter of 2001. There was no similar item in the preceding quarter.
4. The current quarter includes \$17.2 million, after tax, of CVD and ADD imposed on lumber shipments to the U.S. since May 22, 2002. This compares to \$11.7 million of duties in the previous quarter and no duties in the second quarter of 2001.

Over the previous quarter, the increase of \$70.4 million in net sales was a result of a three per cent increase in pulp prices, a 10 per cent increase in lumber shipments and a 96 per cent increase in coastal log sales. The benefit of these factors is partially offset by the impact of a 2.5 per cent strengthening of the Canadian dollar relative to the U.S. dollar in the second quarter.

Operating Results

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

WOOD PRODUCTS

The Wood Products segment reported an operating income of \$91.8 million for the quarter, an improvement of \$54.6 million over the previous quarter and \$35.0 million more than the second quarter 2001 result. As mentioned earlier, this improvement reflects the benefit of the reversal of previously expensed CVD and ADD. The amount reversed in the current quarter was \$60.5 million, before tax, of which \$14.7 million was credited directly to sales revenue, while \$45.8 million, which related to the previous year, is shown as a separate item on the income statement. Net sales for the current quarter are after deducting \$21.6 million of combined ADD and CVD for lumber shipments to the U.S. since May 22, 2002.

As of May 22, 2002, Canfor has been posting cash deposits for CVD and ADD at rates of 18.79 per cent and 5.96 per cent, respectively, on softwood lumber shipments to the U.S. While cash deposits for ADD are being made at the prescribed rate of 5.96 per cent, the expense is being accrued at 2 per cent, which is a conservative estimate of the rate that will be applicable to Canfor based on applying calculation methodology used by the U.S. Department of Commerce to Canfor's current product shipment profile. The CVD cash deposits are being expensed at the prescribed duty rate.

If the impact of duties were excluded from the current and previous quarter, the operating incomes would have been \$53.0 million and \$51.9 million respectively. In the current quarter the volume of lumber shipped was approximately 12 per cent higher than the first quarter, the benefit of which more than offsets the detrimental impact of the stronger Canadian dollar and the marginally lower average lumber prices. The price for the benchmark product 2" x 4" SPF Random Lengths declined slightly from an average of \$266 U.S. per thousand board feet in the first quarter to \$263 U.S. in the second quarter. The results for the segment were adversely impacted by its portion of the foreign exchange loss on debt repaid in the second quarter, which amounted to \$5.2 million. No such exchange loss was required in the previous quarter.

From an operational perspective, the sawmills ran at record levels. Building on their first quarter performance our mills continue to meet or exceed key performance indicators. Production for the quarter was 782 million board feet, which is six per cent higher than our previous best performance.

In the comparative second quarter of 2001, 63 million board feet of downtime was taken to avoid retroactivity of CVD and ADD. In addition to taking this downtime, shipments to the U.S were curtailed to further avoid the potential for retroactive duties. The second quarter 2001 income of \$56.8 million was still better than the current quarter despite these curtailments primarily because lumber prices were significantly higher, with the benchmark product 2" x 4" SPF Random Lengths price averaging \$300 U.S. per thousand board feet. The second quarter 2001 result included a foreign exchange loss on debt repaid of \$4.8 million.

The Panel business generated operating income of \$2.5 million for the second quarter, which is a solid improvement over the first quarter income of \$1.4 million.

PULP PRODUCTS

The Pulp segment recorded an operating income of \$4.2 million, compared to an income of \$0.6 million in the previous quarter and loss of \$5.3 million in the second quarter of 2001. The improvement in income for the second quarter 2002 over the previous quarter is a result of 17 per cent higher shipment volumes, higher mill nets and improved mill productivity.

List Northern Bleached Softwood Kraft (NBSK) pulp prices delivered to Northwest Europe averaged \$463 U.S. per tonne during the quarter, \$15 U.S. per tonne higher than the previous quarter but \$87 U.S. per tonne lower than the same quarter in 2001. The pulp market strengthened in the second quarter, led by a strong demand for hardwood pulp in Asia and Europe. Norscan pulp inventories declined from 1,695,000 tonnes at the end of March 2002 to 1,343,000 tonnes at the end of June, the lowest level since June 2000. During the quarter, NBSK prices recovered from the March lows of \$435/440 U.S. per tonne in Northwest Europe and \$460 U.S. per tonne in North America to the June levels of \$475/480 U.S. and \$500 U.S. in Northwest Europe and North America respectively. The price increase in Asian markets was more dramatic as shown by the bellwether Chinese market where prices rose from \$350/360 U.S. in March to \$470 U.S. in June.

The Intercontinental mill was down for 10.5 days in the quarter for its annual maintenance shut. In the first quarter 2002, the Northwood mill suffered some production interruptions that have been resolved and daily production in the second quarter was seven per cent better than the first quarter. The second quarter 2001 result was adversely impacted by the decision to curtail production by approximately 23,000 tonnes in order to balance inventories, in addition to the Intercontinental mill taking its annual maintenance shutdown. The second quarter result included \$1.3 million of foreign exchange losses incurred on the debt repaid in the quarter. In comparison, there was no such exchange loss in the previous quarter, and a loss of \$0.4 million in the second quarter of 2001.

PULP AND SPECIALTY KRAFT PAPER

The Pulp and Specialty Kraft Paper segment recorded an operating loss of \$3.5 million in the quarter, which is marginally better than the loss of \$3.6 million in the first quarter. In the same quarter in 2001 the segment reported a loss of \$12.2 million. The loss for the current quarter was exacerbated by the effect of the major maintenance shutdown taken in April and continues to reflect paper quality issues experienced by the mill. In an attempt to control the paper quality problems, the machine was operated at slower speeds throughout the quarter, resulting in a sales shortfall from planned levels of approximately 3,000 tonnes for the quarter. Paper mill nets achieved for the quarter were marginally ahead of the first quarter, but are still below targeted levels. In the second quarter of 2001 the mill also took its annual maintenance shut. This, combined with the market related pulp production curtailments of approximately 4,700 tonnes, contributed to the loss of \$12.2 million.

On a more positive note, operational quality issues are being resolved and a solution to a troublesome drying problem has been identified and the correction is under way. Also, paper prices are strengthening in both Europe and North America with further increases anticipated in the third quarter.

COASTAL OPERATIONS

Operating income for the Coastal Operations segment was \$3.8 million, compared to \$1.3 million in the first quarter of 2002 and \$0.1 million in the second quarter of 2001. The improvement over the first quarter is largely attributable to the higher level of activity in the second quarter given the delay in commencing logging operations until the end of February in the first quarter. Consequently, log production for the second quarter was 90 per cent higher than the first quarter and sales 96 per cent higher. Log prices have strengthened slightly as coastal log inventories have started to decline as a result of reduced logging levels and also because of improving demand from both North American and Japanese markets.

NON-SEGMENTED ITEMS

(millions of dollars)	2nd Quarter 2002	1st Quarter 2002	2nd Quarter 2001	6 months ended 2002	6 months ended 2001
Corporate costs	\$ (10.0)	\$ (6.6)	\$ (8.4)	\$ (16.6)	\$ (15.2)
Equity income of affiliated companies	\$ 4.7	\$ (0.1)	\$ 1.3	\$ 4.6	\$ 0.3
Net interest expense	\$ (14.5)	\$ (15.4)	\$ (16.9)	\$ (29.9)	\$ (32.5)
Unusual items/other income (expenses)	\$ 10.8	\$ (0.8)	\$ (0.1)	\$ 10.0	\$ 9.2

Corporate costs for the quarter increased by \$3.4 million over the previous quarter and on a year-to-date basis are \$1.4 million higher than the preceding year. The majority of the increase over the prior quarter relates to writing off development costs incurred on a project now cancelled and the settlement of a contractual dispute. The decrease in net interest expense of \$0.9 million over the previous quarter is a reflection of the impact of the stronger Canadian dollar on the interest payments on the U.S. dollar denominated debt.

Income from affiliates is \$4.7 million for the quarter, which is \$4.8 million and \$3.4 million ahead of the prior quarter and the same quarter last year, respectively. Canfor's affiliated wood product companies similarly benefited from the same CVD and ADD reversals in the quarter as were discussed in the Wood Products segment.

Other income for the second quarter 2002 includes the pre-tax gain of \$11.4 million on the sale of the Eburne property referred to earlier.

Although Canfor no longer consolidates Howe Sound Pulp and Paper Limited Partnership into its financial results, this operation reported a net loss of \$13.6 million in the quarter (\$26.9 million loss on a year-to-date basis). The current quarter loss includes a restructuring provision of \$2.8 million, which, if excluded, would have meant an improvement over first quarter operating results. This improvement is primarily due to higher pulp prices.

Outlook

Both new home construction and repair and renovation work in North America have been very strong in the first half of 2002 because of continued low interest rates. As a result, lumber prices are expected to improve from current levels as inventories are rebuilt for the fall building season and the duties on shipments to the U.S. are incorporated into the price levels. While the Japanese economy remains very difficult, other Asian economies are strong and are predicted to remain so for the foreseeable future. Housing starts in Japan are holding up well and are predicted to slowly increase in the next few years, as housing replacement has not kept pace with demand. As many Canadian producers have increased shipments to Japan to offset the effect of the U.S. duties, prices for SPF lumber going to Japan, which historically have carried premiums over North American levels, are now comparable and are expected to remain so for the balance of the year.

Further pulp price increases have been announced, effective July 1, 2002, to \$500 U.S. per tonne in Northwest Europe, \$510/520 U.S. per tonne in North America and \$480 U.S. per tonne in China. Norscan inventories can be expected to rise during July and August, as pulp operating rates will be higher with minimal downtime scheduled during these months, and little market-related curtailment likely. However, because of the low inventory level at the end of June, the rising inventory in July and August is not expected to destabilize the pulp market. The test will come in the fall when, if demand in Europe and North America does not strengthen, it is likely that the inventory build-up will continue in the fourth quarter, which will cause a price downturn.

Summary of Financial Position

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

(millions of dollars)	2nd Quarter 2002	2nd Quarter 2001	6 months ended 2002	6 months ended 2001
Ratio of current assets to current liabilities			1.8:1	1.7:1
Ratio of net debt to common shareholders' equity			39:61	45:55
Net cash flow	\$ 13.5	\$ (31.7)	\$ (12.9)	\$ (47.8)
comprised of:				
Cash flow from (used in) operating activities	\$ 85.7	\$ 56.9	\$ 76.4	\$ (2.3)
Cash flow from (used in) financing activities	\$ (57.9)	\$ (58.6)	\$ (62.7)	\$ 51.9
Cash flow from (used in) investments	\$ (14.3)	\$ (30.0)	\$ (26.6)	\$ (97.4)

Changes in Financial Position

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

Net cash provided by operations was \$28.8 million higher than the same quarter in 2001 and \$78.7 million more on a year-to-date basis than in 2001. The year-to-date improvement is mostly a result of less funds being tied up in working capital in 2002. In particular, accounts payable and accrued liabilities are higher at the end of the current period partly as a result of the timing of logging activities and stumpage payments. Interest paid in the quarter was \$12.1 million or \$34.0 million on a year-to-date basis (\$28.0 million in 2001). On a year-to-date basis, the Company has paid \$3.7 million in income taxes (\$0.9 million in 2001). CVD and ADD paid in the quarter was \$15.1 million.

Net cash used in financing activities was \$57.9 million in the quarter, almost the same as in the equivalent quarter last year. In the current quarter, Canfor made debt repayments of \$49.9 million and paid dividends of \$5.3 million, or \$0.065 per common share. On a year-to-date basis \$114.6 million less was generated by financing activities than in the equivalent period in 2001. This difference arises because during the first half of 2001, the Company raised \$220 U.S. million in debt, which was used to retire previously held debt, to finance the Howe Sound Pulp and Paper restructuring and for general working capital purposes. Canfor's net debt-to-equity ratio improved to 39:61 from 45:55 in the same period in 2001 as a result of reduced borrowings. This improved debt position is a function of more cash being generated from operations resulting partly from the benefits of the capital investments made in 2000 and 2001, an improved working capital situation, combined with an element of fiscal restraint resulting from the uncertain markets for pulp and lumber as well as the softwood issue in general.

Year-to-date, there has been a decrease in cash used in investing activities of \$70.8 million compared with the same six-month period in 2001 and, on a quarter-over-quarter basis, a decrease of \$15.7 million from the second quarter of 2001. The current quarter included investing \$9.3 million in the Company's capital program as compared to \$16.6 million in the second quarter of 2001 and \$8.3 million in the first quarter of 2002. The 2001 year-to-date period included payments of \$69.0 million relating to the reorganization of Howe Sound Pulp and Paper Limited. The Company's capital program remains focussed on maintaining its operations while conserving its cash in view of the uncertain market conditions currently prevailing.

Liquidity and Financial Requirements

At the end of the quarter, Canfor had net cash of \$17.3 million and \$169.6 million of unused bank operating lines of credit as compared to the December 31, 2001 balances of \$30.2 million of cash and \$197.9 million of unused bank operating lines of credit. The amount of credit available under these lines has been reduced by \$30.4 million as a result of the standby letters of credit required as collateral on the surety bonds posted for the preliminary countervailing and anti-dumping duties. These duties are no longer payable and Canfor is in the process of negotiating a release of the collateral required.

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 \$124.1 million or \$1.53 per share. The Company can incur an additional \$325.6 million of long-term debt under these borrowing arrangements.

Risks and Uncertainties

A comprehensive discussion of Risks and Uncertainties issues was included in the 2001 Annual Report. An update of that discussion is included below.

CANADA/U.S. SOFTWOOD LUMBER DISPUTE

On May 16, 2002, the U.S. International Trade Commission (USITC) published its final written determination on injury and stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, cash deposits are required for shipments at the rates determined by the U.S. Department of Commerce (USDOC) effective from a Final Order date of May 22, 2002.

The final amount and effective date of CVD and ADD that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, NAFTA or WTO panels.

The Company 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 final countervailing and dumping determinations made by the USITC and USDOC. Canadian Interests continue to aggressively defend the Canadian industry in this U.S. trade dispute. Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the final rates established in the investigations, the final liability for the assessment of CVD and ADD will not be determined until each annual administrative review process is complete.

On July 11, Canfor filed a Notice of Arbitration and Statement of Claim in connection with its action against the U.S. government under Chapter 11 of NAFTA. The filing of the Statement of Claim followed Canfor's filing of a Notice of Intent to Submit a Claim to Arbitration in November 2001. The next step in the Chapter 11 process is for the three member Tribunal to be appointed within 90 days. Canfor and the United States each have one appointment and are to agree on the third appointment. If the parties cannot agree, the third selection will be made by the World Bank.

STUMPAGE

The government of British Columbia continues to explore possible changes to the province's stumpage system so that it better reflects market price fluctuations. The government is approaching these changes through two separate reviews - one for the coast and one for the interior of the province. It is hoped that these reviews will result in a remedy for the regional inequities that exist in the current stumpage system.

ENVIRONMENTAL ISSUES

In December 2001, B.C.'s Minister of Water, Land and Air Protection appointed an independent scientific advisory panel to review the requirement in the Pulp and Paper Effluent regulation for mills to completely eliminate organochlorine discharge (measured as "AOX") in mill effluent, by December 31, 2002. In March 2002, the panel reported that it did not find any evidence that the current level of AOX discharge from British Columbia's bleached kraft pulp mills presented a demonstrable risk to the ambient aquatic environment that could be attributed to AOX and that there was no evidence available to indicate that further reductions of effluent AOX would result in any demonstrable environmental benefit. On July 5, 2002 the Ministry announced that the zero AOX requirement was to be eliminated and the existing 1.5 kg/Adt monthly limit replaced with a 0.6 kg/Adt monthly limit to be effective January 1, 2003. Canfor's mills currently meet this new limit.

CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS REINVESTED IN THE BUSINESS

(unaudited) (millions of dollars)	3 months ended June 30		6 months ended June 30	
	2002	2001	2002	2001
Net sales (Note 5)	\$ 577.1	\$ 511.2	\$ 1,083.8	\$ 992.8
Costs and expenses				
Manufacturing and product costs	490.6	436.3	925.5	840.0
Depreciation, depletion and amortization	27.6	26.6	57.3	54.1
Selling and administration	18.4	17.3	31.6	31.4
	536.6	480.2	1,014.4	925.5
Reversal of duties accrued in prior year (Note 5)	45.8	-	45.8	-
Operating income	86.3	31.0	115.2	67.3
Equity income of affiliated companies	4.7	1.3	4.6	0.3
Interest expense	(14.5)	(16.9)	(29.9)	(32.5)
Other income (expense) (Note 6)	10.8	(0.1)	10.0	0.7
Unusual items	-	-	-	8.5
Income before income taxes	87.3	15.3	99.9	44.3
Income tax expense (Note 7)	(17.1)	(5.2)	(18.6)	(15.4)
Net income	\$ 70.2	\$ 10.1	\$ 81.3	\$ 28.9
Net income per common share (in dollars) (Note 8)				
Basic	\$ 0.85	\$ 0.11	\$ 0.97	\$ 0.33
Diluted	\$ 0.75	\$ 0.11	\$ 0.87	\$ 0.32
Earnings reinvested in the business at beginning of year			\$ 151.9	\$ 151.4
Net income for the year to date			81.3	28.9
Common share dividends			(10.6)	(10.5)
Interest on equity component of convertible subordinated debentures, net of taxes			(2.7)	(2.3)
Earnings reinvested in the business at end of current period			\$ 219.9	\$ 167.5

CONSOLIDATED CASH FLOW STATEMENTS

(unaudited) (millions of dollars)	3 months ended June 30		6 months ended June 30	
	2002	2001	2002	2001
Cash generated from (used in)				
Operating activities				
Net income	\$ 70.2	\$ 10.1	\$ 81.3	\$ 28.9
Items not affecting cash:				
Depreciation, depletion and amortization	27.6	26.6	57.3	54.1
Reversal of accrued duties (Note 5)	(59.7)	-	(45.8)	-
Long-term portion of deferred reforestation	(3.6)	(6.4)	12.3	10.6
Gain on disposal of assets	(11.6)	(0.3)	(11.6)	(0.7)
Income taxes	15.6	4.6	17.2	15.1
Other items not involving cash	(2.5)	8.9	(2.2)	(12.5)
Non-cash working capital changes	49.7	13.4	(32.1)	(97.8)
	85.7	56.9	76.4	(2.3)
Financing activities				
Proceeds from long-term borrowing	-	-	-	321.5
Repayment of term bank loan	-	-	-	(175.4)
Repayment of long-term debt	(49.9)	(50.1)	(49.9)	(50.1)
Repayment of acquisition bank loan	-	-	-	(30.0)
Proceeds on settlement of cross currency swap	-	0.6	-	0.6
Dividends paid to common shareholders	(5.3)	(5.2)	(10.6)	(10.5)
Interest on convertible debentures, net of taxes	(2.7)	(1.9)	(2.7)	(1.9)
Other	-	(2.0)	0.5	(2.3)
	(57.9)	(58.6)	(62.7)	51.9
Investing activities				
Howe Sound Pulp and Paper Limited Partnership (Note 10)	(0.8)	(8.8)	(5.0)	(69.0)
Property, plant, equipment and timber	(9.3)	(16.6)	(17.6)	(25.8)
Proceeds on disposal of property, plant and equipment	21.2	0.6	21.4	2.6
Mortgage receivable on sale of property (Note 6)	(20.7)	-	(20.7)	-
Other	(4.7)	(5.2)	(4.7)	(5.2)
	(14.3)	(30.0)	(26.6)	(97.4)
Increase (decrease) in net cash (short-term indebtedness)	13.5	(31.7)	(12.9)	(47.8)
Net cash (short-term indebtedness) at beginning of period	3.8	(39.7)	30.2	(23.6)
Net cash (short-term indebtedness) at end of period	\$ 17.3	\$ (71.4)	\$ 17.3	\$ (71.4)
Net cash (short-term indebtedness) comprises				
Cash and temporary investments	\$ 17.3	\$ 10.3	\$ 17.3	\$ 10.3
Operating bank loans	-	(81.7)	-	(81.7)
	\$ 17.3	\$ (71.4)	\$ 17.3	\$ (71.4)
Non-cash working capital changes				
Accounts receivable	\$ (34.0)	\$ (15.2)	\$ (55.3)	\$ (17.6)
Income taxes	(6.2)	(14.7)	(4.0)	(2.6)
Inventories	139.9	119.7	(67.6)	(72.4)
Prepaid expenses	(17.4)	(16.0)	(11.7)	(13.9)
Accounts payable, accrued liabilities and current portion of deferred reforestation	(32.6)	(60.4)	106.5	8.7
	\$ 49.7	\$ 13.4	\$ (32.1)	\$ (97.8)

Interest paid for the six months ended June 30, 2002 was \$34.0 million (2001 - \$28.0 million) and income taxes paid were \$3.7 million (2001 - \$0.9 million).

CONSOLIDATED BALANCE SHEETS

(millions of dollars)	as at June 30 2002 (unaudited)	as at December 31 2001 (audited)
ASSETS		
Current assets		
Cash	\$ 17.3	\$ 8.3
Temporary investments	-	24.0
Accounts receivable		
Trade	236.2	176.9
Other	28.9	28.5
Income taxes recoverable	1.9	-
Future income taxes	18.7	13.2
Inventories	479.1	411.5
Prepaid expenses	27.9	16.2
Total current assets	810.0	678.6
Long-term investments and other	97.1	71.3
Property, plant, equipment and timber	1,429.3	1,469.0
Deferred charges	116.8	159.9
	\$ 2,453.2	\$ 2,378.8
LIABILITIES		
Current liabilities		
Operating bank loans (Note 2)	\$ -	\$ 2.1
Accounts payable and accrued liabilities	353.2	246.4
Current portion of long-term debt	49.9	52.7
Current portion of deferred reforestation	36.2	33.9
Income taxes payable	-	1.2
Total current liabilities	439.3	336.3
Long-term debt		
Long-term debt (Note 2)	623.3	706.5
Convertible subordinated debentures - liability component	3.7	8.2
Total long-term debt	627.0	714.7
Other accruals and provisions (Note 3)	87.5	116.3
Future income taxes, net	177.4	147.0
Deferred credit	89.1	104.0
SHAREHOLDERS' EQUITY		
Share capital - 81,156,010 shares outstanding	658.3	657.7
Convertible subordinated debentures - equity component	151.3	146.8
Earnings reinvested in the business	219.9	151.9
Foreign exchange translation adjustment	3.4	4.1
Total shareholders' equity	1,032.9	960.5
	\$ 2,453.2	\$ 2,378.8

APPROVED BY THE BOARD



Director, R.L. Cliff



Director, D.L. Emerson

STATEMENTS OF SEGMENTED INFORMATION

(unaudited) (millions of dollars)	Wood Products (Note c)	Pulp Products	Pulp and Specialty Kraft Paper	Coastal Operations (Note c)	Corporate and Other	Consolidated
3 months ended June 30, 2002						
Net sales to external customers	\$ 377.7	123.6	40.8	35.0	-	\$ 577.1
Net sales to other segments (Note b)	\$ 22.2	-	-	5.3	-	\$ 27.5
Operating income (loss)	\$ 91.8	4.2	(3.5)	3.8	(10.0)	\$ 86.3
Depreciation, depletion and amortization	\$ 11.4	8.8	3.4	2.4	1.6	\$ 27.6
Capital expenditures	\$ 2.7	2.1	3.3	1.2	-	\$ 9.3
3 months ended June 30, 2001						
Net sales to external customers	\$ 312.8	128.8	39.7	29.9	-	\$ 511.2
Net sales to other segments (Note b)	\$ 27.3	-	-	2.2	-	\$ 29.5
Operating income (loss)	\$ 56.8	(5.3)	(12.2)	0.1	(8.4)	\$ 31.0
Depreciation, depletion and amortization	\$ 10.9	8.5	3.2	2.7	1.3	\$ 26.6
Capital expenditures	\$ 1.8	4.2	8.4	1.2	1.0	\$ 16.6

SUMMARY OF CONSOLIDATED SHIPMENTS

3 months ended June 30 (unaudited)	2002	2001
Logs - 000 m ³	362.1	302.4
Lumber - MMfbm		
Canfor produced	744.4	547.7
Other producers	67.6	64.8
Total Lumber	812.0	612.5
Plywood - 000 Msf 3/8"	41.3	44.5
Pulp - 000 mt		
Canfor produced		
Pulp segment	234.5	212.4
Pulp and Specialty Kraft Paper segment	39.9	35.9
Marketed on behalf of HSLP (Note d)	99.3	101.9
Total Pulp	373.7	350.2
Kraft paper - 000 mt	25.9	26.4

- a. 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.
- b. Sales to other segments are accounted for at prices which approximate market.
- c. Wood Products' sales for the quarter include sales of Canfor produced lumber of \$320.3 million (2001: \$256.1 million) and \$605.4 million for the year to date (2001: \$450.1 million). Wood Products' sales for the quarter also include sales of hardboard and refined fibre and fibremat of \$4.8 million and \$6.3 million respectively (2001: \$4.7 and \$6.2 million) and \$10.3 million and \$10.2 million respectively for the year to date (2001: \$9.1 and \$11.5 million). The hardboard and refined fibre and fibremat product lines were previously included with the Coastal Operations Segment. Comparative figures have been restated.

STATEMENTS OF SEGMENTED INFORMATION

(unaudited) (millions of dollars)	Wood Products (Note c)	Pulp Products	Pulp and Specialty Kraft Paper	Coastal Operations (Note c)	Corporate and Other	Consolidated
6 months ended June 30, 2002						
Net sales to external customers	\$ 718.6	230.8	80.2	54.2	-	\$ 1,083.8
Net sales to other segments (Note b)	\$ 41.6	-	-	6.5	-	\$ 48.1
Operating income (loss)	\$ 129.0	4.8	(7.1)	5.1	(16.6)	\$ 115.2
Depreciation, depletion and amortization	\$ 25.1	18.0	7.1	3.8	3.3	\$ 57.3
Capital expenditures	\$ 7.2	3.2	4.3	1.6	1.3	\$ 17.6
Identifiable assets	\$ 1,065.4	737.4	183.8	75.4	391.2	\$ 2,453.2
6 months ended June 30, 2001						
Net sales to external customers	\$ 567.4	279.3	85.1	61.0	-	\$ 992.8
Net sales to other segments (Note b)	\$ 53.6	-	-	5.7	-	\$ 59.3
Operating income (loss)	\$ 55.9	32.0	(10.4)	5.0	(15.2)	\$ 67.3
Depreciation, depletion and amortization	\$ 22.4	17.8	6.6	4.9	2.4	\$ 54.1
Capital expenditures	\$ 3.6	5.9	12.0	3.0	1.3	\$ 25.8
Identifiable assets	\$ 1,077.4	788.9	197.2	81.0	371.7	\$ 2,516.2

SUMMARY OF CONSOLIDATED SHIPMENTS

6 months ended June 30 (unaudited)	2002	2001
Logs - 000 m ³	546.8	604.0
Lumber - MMfbm		
Canfor produced	1,408.7	1,060.6
Other producers	121.2	137.4
Total Lumber	1,529.9	1,198.0
Plywood - 000 Msf 3/8"	82.9	81.9
Pulp - 000 mt		
Canfor produced		
Pulp segment	434.9	397.3
Pulp and Specialty Kraft Paper segment	76.4	67.2
Marketed on behalf of HSLP (Note d)	181.5	173.8
Total Pulp	692.8	638.3
Kraft paper - 000 mt	51.7	51.0

d. Canfor is responsible for marketing, on a commission basis, the pulp production of Howe Sound Pulp and Paper Limited Partnership.

e. Certain other 2001 figures have been restated to conform to the current year's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the financial statements and notes included in Canfor's Annual Report for the year ended December 31, 2001.

These interim financial statements follow the same accounting policies and methods of computation as used in the 2001 consolidated financial statements.

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

2. Bank Indebtedness and Long-Term Debt

At June 30, 2002, Canfor had \$169.6 million of unused bank operating lines of credit. The amount of credit available under these lines of credit has been reduced by \$30.4 million as a result of the standby letters of credit that were previously required as collateral on the surety bonds which were posted for the preliminary countervailing and anti-dumping duties. The duties are no longer payable (Note 5), however the bonds have not yet been released by the surety company.

The agreements relative to Canfor's privately placed senior notes contain provisions limiting the amount of indebtedness that Canfor and its designated subsidiaries can incur and the amount of dividends payable on its common shares. Under these agreements, Canfor and its designated subsidiaries can presently incur \$325.6 million additional long-term debt and pay up to \$124.1 million or \$1.53 per share in dividends on its common shares.

At June 30, 2002, the fair value of Canfor's long-term debt was \$687.5 million and the fair value of the convertible subordinated debentures was \$151.7 million.

3. Other accruals and provisions is comprised of:

(millions of dollars)	June 30, 2002	December 31, 2001
Countervailing and anti-dumping duty provision (Note 5)	\$ -	\$ 47.4
Deferred reforestation	54.6	42.3
Post employment benefits	27.7	23.0
Other liabilities	5.2	3.6
Total other accruals and provisions	\$ 87.5	\$ 116.3

4. Foreign Exchange

Effective January 1, 2002, the Canadian Institute of Chartered Accountants amended its accounting policy for foreign currency translation to eliminate the deferral and amortization method of accounting for unrealized translation gains and losses on long-term monetary assets and liabilities. As permitted by the revised policy, Canfor continues to hedge its U.S. dollar long-term debt with its future U.S. dollar revenue streams, and, therefore, no change in accounting for the unrealized translation loss on its long-term debt was required.

A foreign exchange loss of \$6.9 million on the repayment of U.S. dollar long-term debt is included as an offset to sales in the current quarter, in accordance with Canfor's hedging policy. An additional foreign exchange loss of \$7.9 million on the revaluation of foreign currency denominated working capital balances is included in net income for the current quarter (year-to-date: \$8.6 million).

5. Countervailing and Anti-dumping Duties

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.

On May 16, 2002, the ITC made a final determination that softwood lumber shipments by Canadian producers posed a threat of injury to the U.S. softwood lumber industry. As a result of this determination, countervailing duty at 18.79 per cent (all producers) and anti-dumping duty at 5.96 per cent (specific to Canfor) became applicable prospectively from the date of publishing of the final order. The ITC final order was published on May 22, 2002, with the result that shipments after that date required the posting of cash deposits.

“Net sales” for the current quarter are after deducting \$21.6 million of combined countervailing and anti-dumping duties on softwood lumber shipments to the U.S. after May 22, 2002. While the cash payments for the anti-dumping duty are being made at the assessed rate, the anti-dumping expense has been accrued at 2 per cent, which is a conservative estimate of the rate applicable to Canfor’s present product shipment profile, as determined by applying the DOC’s methodology. The rate will be officially reassessed by the DOC during their annual review process. The difference between the assessed rate and the 2 per cent accrual amounted to \$3.3 million in the quarter and is being carried as an account receivable in “long-term investments and other”.

As a result of the ITC’s ruling that Canadian lumber shipments only posed a threat of injury, Canfor has reversed all preliminary countervailing and anti-dumping duties accrued prior to May 22, 2002. Consequently, “net sales” in the current quarter includes a \$14.7 million reversal of anti-dumping duty accrued in the first quarter of 2002, while the “reversal of duties accrued in prior year” represents \$39.3 million of preliminary countervailing and \$6.5 million of preliminary anti-dumping duties recorded in 2001.

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 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 and are appealing the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the rates established in the investigations and the posting of cash deposits, the final liability for the assessment of countervailing and dumping duties will not be determined until each annual administrative review process is complete. The first administrative review is currently expected to begin sometime after May 31, 2003 and will be completed by approximately November 2004. The completion could extend beyond 2004 with the finalization of any appeals.

6. Other Income (Expense)

(millions of dollars)	3 months ended June 30, 2002	3 months ended June 30, 2001	6 months ended June 30, 2002	6 months ended June 30, 2001
Gain on sale of assets (a)	\$ 11.4	\$ 0.1	\$ 11.4	\$ 1.5
Miscellaneous	(0.6)	(0.2)	(1.4)	(0.8)
	10.8	(0.1)	10.0	0.7

(a) During the second quarter, a gain of \$11.4 million was realized from the sale of property, which was the former site of the Eburne sawmill that was closed down in 1998. Proceeds from the sale are secured by a mortgage and will be received over a period of 24 months.

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

(millions of dollars)	3 months ended June 30, 2002	3 months ended June 30, 2001	6 months ended June 30, 2002	6 months ended June 30, 2001
Current	\$ (14.3)	\$ (11.7)	\$ (35.9)	\$ (21.5)
Future	(16.7)	3.7	(0.9)	0.4
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	2.4	-	4.7	-
Affiliates	(1.5)	(0.5)	(1.4)	(0.1)
	\$ (30.1)	\$ (8.5)	\$ (33.5)	\$ (21.2)
Less amortization of deferred credit on utilization of acquired tax losses (Note 10)	13.0	3.3	14.9	5.8
	\$ (17.1)	\$ (5.2)	\$ (18.6)	\$ (15.4)

8. Earnings per share is calculated as follows:

(millions of dollars except for number of shares and per share amounts)	3 months ended June 30, 2002	3 months ended June 30, 2001 (Restated*)	6 months ended June 30, 2002	6 months ended June 30, 2001 (Restated*)
Basic Earnings				
Net income	\$ 70.2	\$ 10.1	\$ 81.3	\$ 28.9
Less interest on equity component of convertible debentures, net of taxes	(1.3)	(1.2)	(2.7)	(2.3)
Income available to common shareholders	68.9	8.9	78.6	26.6
Diluted Earnings				
Add back interest on equity and liability components of convertible debentures	1.4	– (a)	2.9	2.7
Income available to common shareholders	\$ 70.3	\$ 8.9	\$ 81.5	\$ 29.3
Weighted average number of common shares	81,155,186	81,088,847	81,133,489	81,088,847
Incremental shares from stock options	298,432	337,212	270,317	174,504
Shares issuable upon conversion of convertible debentures	11,742,424	– (a)	11,742,424	11,742,424
Diluted number of common shares	93,196,042	81,426,059	93,146,230	93,005,775
Basic earnings per share	\$ 0.85	\$ 0.11	\$ 0.97	\$ 0.33
Diluted earnings per share	\$ 0.75	\$ 0.11	\$ 0.87	\$ 0.32

* Restatement refers to the calculation and presentation of dilutive factors. Previously reported diluted earnings per share have not changed.

(a) Anti-dilutive - \$1.4 million interest and 11,742,424 shares

Options to purchase 3,277,750 common shares at various prices, from \$7.30 to \$18.75 per share, were outstanding during the period ending June 30, 2002, 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.

9. Stock-Based Compensation

On February 5, 2002, Canfor granted 714,500 stock options to employees at an exercise price of \$9.80, which was the market price on that date. These options expire on February 5, 2012. One third of the options are exercisable after each of the first, second and third years. On April 29, 2002, an additional 11,000 stock options with the same terms were granted at an exercise price of \$10.10.

Canadian generally accepted accounting principles encourage, but do not require, application of a fair value based method of accounting for the type of stock options described above. Under this method, the fair value of a stock option is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock, its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option.

As permitted by Canadian generally accepted accounting principles, Canfor has elected not to use the fair value based method of accounting for stock options because of its limited use of stock-based compensation. Accordingly, no compensation expense was recorded at the time that the above options were granted. Had compensation cost been determined based on the fair value at the grant date consistent with the fair value based method of accounting, the resulting after-tax compensation cost for options granted after January 1, 2002 would have amounted to approximately \$1.4 million. This amount would have been recognized over three years, which is the period of service during which the options will be earned by the employees, and would not have had a material impact on Canfor's net income and earnings per share in the current quarter or the year to date.

10. Howe Sound Pulp and Paper Limited Partnership

The payments to Howe Sound Pulp and Paper Limited Partnership represent compensation under the agreement of March 10, 2001, by which Canfor acquired approximately \$643 million of tax losses of the former Howe Sound Pulp and Paper Limited. Under the terms of that agreement, a portion of the compensation was paid at closing and a portion is to be paid as the tax losses are utilized by Canfor.

11. Certain 2001 figures have been reclassified to conform to the current year's presentation.



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