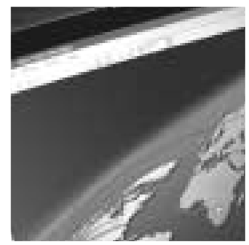
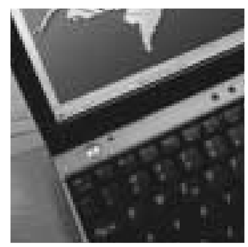
03 Third Quarter Interim Report





Canfor Corporation

For the nine months ended September 30, 2002

Canfor Corporation announced a third quarter net loss of $11.8 million or $0.16 per common share (basic and diluted) for the third quarter 2002. This compares to an income of $19.6 million, or $0.23 per share ($0.21 diluted) for the same three months in 2001. Net income for the nine months to September 30, 2002 is $69.5 million, or $0.75 per share, which is $21.0 million more than the net income of $48.5 million, or $0.53 per share, earned in the same period in 2001. The third quarter losses reflect lumber export duty charges of $35.8 million after tax (compared to $17.2 million for the prior quarter and $11.5 million for the corresponding period in 2001). Based on the quarter, the combination of duties, legal fees and other direct costs associated with the softwood lumber dispute is currently costing Canfor shareholders approximately $145 million before tax or $1.25 per share after tax (diluted) on an annualized basis.

Net Sales for the quarter were $549.3 million, a decline of $27.8 million from the previous quarter. The decrease is largely the result of lower lumber prices and lower pulp shipments, partially offset by the benefit of higher pulp prices, higher coastal log prices and the effects of a weaker Canadian dollar.

Protectionist U.S. trade policies directed at Canada, combined with preferential treatment accorded European producers, have threatened Canfor's market share over the past five years. We are turning that around and are fully committed to meeting the rapidly growing demand of our customers. To further protect our market position going forward we are introducing an aggressive cost reduction and margin improvement program with a target to achieve $150 million in annualized benefits by the fourth quarter 2003.

Given the continued uncertainty of both commodity markets and the Canada-U.S. trading relationship, we must and will do whatever is necessary to continue to serve our customers. We will continue to run our mills to meet the needs of our customers, a strategy that is in the best interest of our employees and communities. However, in order to ensure that we also deliver quality earnings to our shareholders, an internal cost reduction and margin improvement program will target to achieve $150 million in annualized benefits by the fourth quarter 2003. This program will include hundreds of individual initiatives and encompass all areas of our business. The overriding premise will be that anything we do that is not essential and directly tied to "safely making, or selling the product" should be severely curtailed or eliminated. Included in our accelerated cost reduction and margin improvement program will be a number of high return capital projects to reduce energy consumption, increase value from our raw materials, and improve productivity. Over the next 12 months, we will also be reducing our employee base by approximately 300 people, or five per cent of our workforce. Where possible we will do this through early retirement, attrition and realignment of resources. This target includes a reduction to Corporate and other Selling, General & Administrative costs of over 20 per cent. We will be reporting progress on our cost reduction program in each of the next four quarters.

These decisions are difficult and we recognize the impact they will have on some of our employees. However, we have no choice. We must do all that we can internally to ensure that we meet the competitive pressures of the marketplace, while impressing on governments the importance of executing the market based policy changes that will lead to a resolution of the Canada-U.S. softwood dispute.

The Board of Directors declared a dividend of $0.065 per common share, payable on December 31, 2002, to shareholders of record on December 13, 2002.

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 third quarter of 2002 relative to the previous quarter and the last published annual results as at December 31, 2001 and 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)	**3rd Quarter 2002**	2nd Quarter 2002	3rd Quarter 2001	**9 months ended 2002**	9 months ended 2001
Net sales	**$ 549.3**	$ 577.1	$ 535.3	**$1,633.1**	$1,528.1
EBITDA	**$ 30.6**	$ 113.9	$ 45.8	**$ 203.1**	$ 167.2
Operating income	**$ 2.4**	$ 86.3	$ 19.7	**$ 117.6**	$ 87.0
Net income (loss)	**$ (11.8)**	$ 70.2	$ 19.6	**$ 69.5**	$ 48.5
Earnings per share					
Basic	**$ (0.16)**	$ 0.85	$ 0.23	**$ 0.81**	$ 0.56
Diluted	**$ (0.16)**	$ 0.75	$ 0.21	**$ 0.75**	$ 0.53

The net loss of $11.8 million, or $0.16 per common share, represents a significant decline from the previous quarter. However, in order to explain the change from the previous quarter, it is necessary to take a number of items into account to arrive at a more comparable measure of the financial results. Most of the adjustments relate to one-time items affecting the second quarter, which include the reversal of countervailing and anti-dumping duties (CVD/ADD) expensed in earlier periods, the gain on the sale of the Eburne property and exchange losses incurred on repayment of U.S. dollar denominated debt in the period. In addition, the impact of the current CVD/ADD charge is shown because the charge for the second quarter was effective only for part of the period, from May 22, 2002.

(millions of dollars)	**3rd Quarter 2002**	2nd Quarter 2002
Net income (loss) as reported	**$ (11.8)**	$ 70.2
Add (deduct):		
Reversal of prior period's CVD/ADD	**–**	(48.0)
Gain on sale of Eburne property	**–**	(10.0)
Exchange loss on debt repaid	**–**	6.9
Current CVD/ADD	**35.8**	17.2
Adjusted net income for comparison purposes (excluding CVD/ADD)	**$ 24.0**	$ 36.3

On this basis, the results for the third quarter are $12.3 million lower than in the second quarter.

Sales for the third quarter were $27.8 million less than the second quarter of 2002. The decline is largely the result of the fall in lumber prices, with average mill nets being 11 per cent less in the third quarter, combined with the effects of the CVD/ADD on the respective quarters. Pulp shipments were 37,000 tonnes, or 16 per cent lower than the second quarter. Partly offsetting these factors were the benefits of 6 per cent higher pulp prices, an average of 7 per cent higher prices achieved for coastal logs, higher bleached paper prices and the favourable impact of a weaker Canadian dollar relative to the U.S. dollar in the third 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 incurred an operating loss of $14.9 million for the quarter. This compares to an income of $31.3 million in the previous quarter (before the reversal of $60.5 million of CVD/ADD expensed in previous quarters) and income of $32.7 million in the same quarter of 2001. The decline in the third quarter was primarily the result of significantly lower lumber prices, as well as the impact of the CVD/ADD. The third quarter loss reflects lumber export duty charges of $45.1 million. This compares with $21.6 million in the previous quarter, which was lower because the duties were in effect for only part of the second quarter. In the third quarter of 2001, duties of $19.8 million were expensed.

Demand for lumber remained relatively strong throughout the third quarter but high levels of supply, which included increased shipments from Europe, drove prices down. Benchmark 2" x 4" SPF Random Lengths lumber prices averaged $223 U.S. during the quarter compared to $263 U.S. in the second quarter and $289 U.S. in the third quarter of 2001. Overseas markets, particularly Asia, were strong during the third quarter as shortages developed in J-grade supply, and price levels increased by approximately 10 per cent over the second quarter.

Canfor's lumber production for the third quarter was 727.3 million board feet, 54.7 million board feet lower than the previous quarter and 199.7 million board feet, or 38 per cent, more than the third quarter 2001 level. This reduction was a result of mills taking downtime for maintenance and capital installations. Stumpage rates for the third quarter 2002 were 9 per cent higher than in the second quarter, but are expected to drop back to second quarter levels in the fourth quarter of 2002. We continue to focus on driving down costs in our wood products business with year-to-date manufacturing cost 7 per cent lower than the same period in 2001.

PULP PRODUCTS

The Pulp segment recorded an operating income of $19.7 million for the third quarter of 2002, compared to an income of $4.2 million in the previous quarter and a loss of $3.9 million in the third quarter of 2001. The improvement over the previous quarter is mainly the result of improved pulp mill nets, which benefited from both an increase in list prices and the effect of the weakening of the Canadian dollar against the U.S. dollar in the third quarter.

Northern Bleached Softwood Kraft (NBSK) pulp prices delivered to northern Europe averaged $487 U.S. per tonne during the quarter, which is 6 per cent, or $29 U.S. per tonne, higher than the previous quarter and $24 U.S. higher than the third quarter in 2001. On a year-to-date basis, the average price was $465 U.S. per tonne compared to $559 U.S. per tonne for the first nine months of 2001. Partly offsetting the benefit of higher prices was the fact that pulp shipments in the third quarter, at 197,472 tonnes, were 37,000 tonnes down from the previous quarter. This is reflective of the concerted effort in the second quarter to reduce inventory levels in anticipation of the seasonal decline in shipments that normally occurs in the summer.

From an operational perspective, the Intercontinental mill ran very well in the third quarter and production, at 858 tonnes per day, was ahead of targeted levels. The Northwood mill had some operational problems in the quarter, which resulted in production being 66 tonnes per day below target. In addition, the Northwood mill commenced its annual major maintenance shut at the end of the third quarter, which meant that the mill was down for 5.5 days in the quarter.

The comparative third quarter 2001 results were affected by lower production. In an effort to balance inventories with demand, production was reduced by approximately 25,000 tonnes during the third quarter 2001, and by 72,000 tonnes on a year-to-date basis.

PULP AND SPECIALTY KRAFT PAPER

Operating income for the quarter was $2.5 million as compared to a loss of $3.5 million in the second quarter of 2002 and income of $2.1 million reported in the same quarter of 2001. The improvement of $6.0 million over the previous quarter was driven by improved paper machine performance and increases in both pulp and paper prices. In addition, the major maintenance shutdown had been taken in the second quarter and so, comparatively, the third quarter benefited from increased running time and the resultant lower unit costs.

Bleached papers experienced strong demand in the quarter in both the domestic and offshore markets. Price increases of $100/tonne for offshore sales and $40/tonne for North American sales were achieved for all bleached grades late in the third quarter.

Early in the fourth quarter several capital and maintenance projects will be completed on the paper machine that will address the paper quality issues that have occurred in recent quarters. These projects will enable increased machine speeds and operating rates.

COASTAL OPERATIONS

Operating income for the Coastal Operations segment was $3.2 million, compared to $3.8 million in the second quarter of 2002 and a loss of $2.4 million in the third quarter of 2001. Income declined in the third quarter as a result of logging operations being down for a period in the third quarter because of fire hazard. Coastal log prices strengthened in the third quarter, as reduced coastal logging activity limited supply. Canfor has logged at full capacity where possible, enabling it to capitalize on low inventory levels and the corresponding improved demand and price.

NON-SEGMENTED ITEMS

(millions of dollars)	**3rd Quarter 2002**	2nd Quarter 2002	3rd Quarter 2001	**9 months ended 2002**	9 months ended 2001
Corporate costs	**$ (8.1)**	$ (10.0)	$ (8.8)	**$ (24.7)**	$ (24.0)
Equity income of affiliated companies	**$ –**	$ 4.7	$ 1.4	**$ 4.6**	$ 1.7
Net interest expense	**$ (14.6)**	$ (14.5)	$ (17.0)	**$ (44.5)**	$ (49.5)
Other income/ Unusual items	**$ (0.5)**	$ 10.8	$ (0.6)	**$ 9.5**	$ 8.6

Corporate costs for the quarter were $1.9 million lower than the previous quarter and marginally higher on a year-to-date basis than the preceding year. The lower net interest expense for the quarter and year-to-date compared to the prior year is a result of lower overall borrowing levels, partly offset by the effect of the weaker Canadian dollar on the U.S. dollar denominated interest payments.

Income from affiliates declined by $4.7 million and $1.4 million, respectively, over the previous quarter in 2002 and same quarter in 2001. Canfor's affiliated wood product companies were affected by the same factors as those discussed under the Wood Products segment commentary, including the reversal of CVD/ADD in the second quarter.

Although Canfor no longer consolidates Howe Sound Pulp and Paper Limited Partnership into its financial results, this operation reported a net loss of $6.4 million in the quarter ($33.2 million loss on a year-to-date basis). This is a significant improvement over the loss of $13.6 million reported in the previous quarter and results from improved pulp prices as already discussed under the Pulp segment and lower maintenance and overhead costs on the pulp side.

Outlook

The 2002 pulp market rally peaked in the third quarter and began to weaken in September. Pulp demand from Europe and North America, though remaining relatively weak, has been gradually improving. However, this growth was insufficient to offset the slowdown in purchasing in China, which began in July, and the ongoing erosion of demand from the Japanese market. While some recovery in U.S. magazine advertising has begun (September magazine ad pages were up 3 per cent from the 2001 level), European magazine paper demand was down 2 per cent in September (year over year). This overall weakness in magazine papers, the heavier users of softwood pulp, is not expected to change significantly until strengthening economic growth takes hold in the first half of 2003. As a result, Norscan pulp inventories are forecast to rise in November and December, when operating rates rise following the September/October round of maintenance downtime. Buyers from China are expected to return to the market to some degree as the quarter progresses, but this is not expected to be sufficient to prevent pulp price erosion.

Both U.S. and Canadian new housing starts were strong during the third quarter, as was repair and renovation spending. However, in an effort to reduce per unit production costs to compensate for the tariffs imposed, most Canadian lumber producers operated their sawmills at maximum levels during the quarter.

Summary of Financial Position

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

(millions of dollars)	**3rd Quarter 2002**	3rd Quarter 2001	**9 months ended 2002**	9 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
Increase (decrease) in net cash (short-term indebtedness) – comprised of:	**$ 27.3**	$ 39.9	**$ 14.4**	$ (7.9)
Cash flow from (used in) operating activities	**$ 49.8**	$ 54.4	**$ 126.2**	$ 52.1
Cash flow from (used in) financing activities	**$ (5.3)**	$ (3.9)	**$ (68.0)**	$ 48.0
Cash flow from (used in) investing activities	**$ (17.2)**	$ (10.6)	**$ (43.8)**	$ (108.0)

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 $4.6 million lower than the same quarter in 2001 but $74.1 million more on a year-to-date basis than in 2001. The year-to-date improvement is primarily the result of reduced working capital this year compared to last year. Most of this change was the result of lower inventories and higher payables in September 2002 compared to 2001. Log inventories in particular were higher last year mainly because logging was performed earlier in the season. Interest paid in the quarter was $21.4 million or $55.4 million on a year-to-date basis ($49.3 million in 2001). On a year-to-date basis, the Company has paid $3.9 million in income taxes ($2.1 million in 2001).

Net cash used in financing activities was $5.3 million in the quarter, which is comparable to the same quarter in 2001 and largely comprises the dividend paid of $5.2 million or $0.065 per common share. On a year-to-date basis, $116.0 million less cash was generated from financing activities than in the equivalent period in 2001. This difference arises because the Company raised $220 U.S. million in debt in the first quarter of 2001, which was used to retire previously held debt, to finance the Howe Sound Pulp and Paper restructuring and for general working capital purposes. In comparison, for the 2002 year-to-date Canfor repaid $49.9 million of long-term debt. Canfor's net debt-to-equity ratio improved to 39:61 from 45:55 in the same period in 2001 mostly as a result of debt repaid.

Net cash used in investing activities was $6.6 million higher in the current quarter compared to the same quarter in 2001 while decreasing $64.2 million on a year-to-date basis compared to 2001. The increase in the current quarter is due to the Company investing $18.7 million in the capital program as compared to $10.9 million in the third quarter of 2001 and $9.3 million in the second quarter of 2002. Proceeds of $5.0 million were received in the current quarter relating to the sale of the Eburne property recognized in the previous quarter. The 2001 year-to-date period included payments of $60.2 million relating to the reorganization of Howe Sound Pulp and Paper Limited.

Liquidity and Financial Requirements

At the end of the quarter, Canfor had net cash of $44.6 million and $177.9 million of unused bank operating lines of credit as compared to the December 31, 2001 position of $30.2 million of net cash and $197.9 million of unused bank operating lines of credit.

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 $111.2 million or $1.37 per share. The Company can incur an additional $263.7 million of long-term debt under these borrowing arrangements.

Risks and Uncertainties

A comprehensive discussion of Risks and Uncertainties 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 (ITC) 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 (DOC) 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 ITC and DOC. 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. A three member Tribunal is to be appointed within 90 days with Canfor and the United States each having one appointment and a mutually agreed third appointment. If the parties cannot agree, the World Bank will make the third selection. On October 8, Canfor named former New Brunswick Premier Frank McKenna as its representative on the NAFTA trade panel. To date, the United States has not named their appointee to the NAFTA trade panel. We have advised the U.S. government that, if they fail to appoint their nominee by November 15, 2002, we will apply to have their nominee appointed by the World Bank.

ENVIRONMENT

Canfor recently announced that it had received certification of 3.18 million hectares of forest operations in the Prince George and Quesnel timber supply areas and for 180,000 hectares in Tree Farm Licence 30, near Prince George, to the Sustainable Forestry Initiative® (SFI) standard. This certification follows a successful third-party audit by KPMG Performance Registrar Inc. Canfor now has 63 per cent of its tenure certified to sustainable forest management standards, which includes 73 per cent of its annual harvest volume. It is the first SFI certification for Canfor and gives Canfor the largest area of forest certified to Sustainable Forest Management standards of any company in Canada. The SFI program was created by the American Forest & Paper Association.

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.

(unaudited) (millions of dollars)	3 months ended September 30 **2002**	2001	9 months ended September 30 **2002**	2001
Net sales (Note 5)	**$ 549.3**	$ 535.3	**$ 1,633.1**	$ 1,528.1
Costs and expenses				
Manufacturing and product costs	**503.1**	474.9	**1,428.6**	1,314.9
Depreciation, depletion and amortization	**28.2**	26.1	**85.5**	80.2
Selling and administration	**15.6**	14.6	**47.2**	46.0
	546.9	515.6	**1,561.3**	1,441.1
Reversal of duties accrued in prior year (Note 5)	**–**	–	**45.8**	–
Operating income	**2.4**	19.7	**117.6**	87.0
Equity income of affiliated companies	**–**	1.4	**4.6**	1.7
Interest expense	**(14.6)**	(17.0)	**(44.5)**	(49.5)
Other income (expense) (Note 6)	**(0.5)**	(0.6)	**9.5**	0.1
Unusual items	**–**	–	**–**	8.5
Income (loss) before income taxes	**(12.7)**	3.5	**87.2**	47.8
Income tax recovery (expense) (Note 7)	**0.9**	16.1	**(17.7)**	0.7
Net income (loss)	**$ (11.8)**	$ 19.6	**$ 69.5**	$ 48.5
Net income (loss) per common share (in dollars) (Note 8)				
Basic	**$ (0.16)**	$ 0.23	**$ 0.81**	$ 0.56
Diluted	**$ (0.16)**	$ 0.21	**$ 0.75**	$ 0.53
Earnings reinvested in the business at beginning of year			**$ 151.9**	$ 151.4
Net income for the year to date			**69.5**	48.5
Common share dividends			**(15.8)**	(15.8)
Interest on equity component of convertible subordinated debentures, net of taxes			**(4.1)**	(3.5)
Earnings reinvested in the business at end of current period			**$ 201.5**	$ 180.6

(unaudited) (millions of dollars)	3 months ended September 30 **2002**	2001	9 months ended September 30 **2002**	2001
Cash generated from (used in)				
Operating activities				
Net income (loss)	**$ (11.8)**	$ 19.6	**$ 69.5**	**$** 48.5
Items not affecting cash:				
Depreciation, depletion and amortization	**28.2**	26.1	**85.5**	80.2
Reversal of accrued duties (Note 5)	**–**	–	**(45.8)**	–
Long-term portion of deferred reforestation	**(5.9)**	(3.9)	**6.4**	6.7
Gain on disposal of assets	**(0.2)**	(0.6)	**(11.8)**	(1.3)
Income taxes	**(1.1)**	(16.6)	**16.1**	(1.5)
Other items not involving cash	**(1.3)**	14.9	**(3.5)**	2.4
Non-cash working capital changes	**41.9**	14.9	**9.8**	(82.9)
	49.8	54.4	**126.2**	52.1
Financing activities				
Proceeds from long-term borrowing	**–**	–	**–**	321.5
Repayment of term bank loan	**–**	–	**–**	(175.4)
Repayment of long-term debt	**–**	–	**(49.9)**	(50.1)
Repayment of acquisition bank loan	**–**	–	**–**	(30.0)
Proceeds on settlement of cross currency swap	**–**	1.6	**–**	2.2
Dividends paid to common shareholders	**(5.2)**	(5.3)	**(15.8)**	(15.8)
Interest on convertible debentures, net of taxes	**–**	–	**(2.7)**	(1.9)
Other	**(0.1)**	(0.2)	**0.4**	(2.5)
	(5.3)	(3.9)	**(68.0)**	48.0
Investing activities				
Howe Sound Pulp and Paper Limited Partnership (Note 10)	**–**	–	**(5.0)**	(60.2)
Property, plant, equipment and timber	**(18.7)**	(10.9)	**(36.3)**	(36.7)
Proceeds on disposal of property, plant and equipment	**0.2**	0.7	**21.6**	3.3
Mortgage receivable on sale of property (Note 6)	**5.0**	–	**(15.7)**	–
Other	**(3.7)**	(0.4)	**(8.4)**	(14.4)
	(17.2)	(10.6)	**(43.8)**	(108.0)
Increase (decrease) in net cash (short-term indebtedness)	**27.3**	39.9	**14.4**	(7.9)
Net cash (short-term indebtedness) at beginning of period	**17.3**	(71.4)	**30.2**	(23.6)
Net cash (short-term indebtedness) at end of period	**$ 44.6**	$ (31.5)	**$ 44.6**	$ (31.5)
Net cash (short-term indebtedness) comprises				
Cash and temporary investments	**$ 44.6**	$ 13.9	**$ 44.6**	$ 13.9
Operating bank loans	**–**	(45.4)	**–**	(45.4)
	$ 44.6	$ (31.5)	**$ 44.6**	$ (31.5)
Non-cash working capital changes				
Accounts receivable	**$ 17.3**	$ 15.6	**$ (38.0)**	$ (2.0)
Income taxes	**4.6**	0.5	**0.6**	(2.1)
Inventories	**51.2**	10.4	**(16.4)**	(62.0)
Prepaid expenses	**5.8**	3.8	**(5.9)**	(10.1)
Accounts payable, accrued liabilities and current portion of deferred reforestation	**(37.0)**	(15.4)	**69.5**	(6.7)
	$ 41.9	$ 14.9	**$ 9.8**	$ (82.9)

Interest paid for the nine months ended September 30, 2002 was $55.4 million (2001 – $49.3 million) and income taxes paid were $3.9 million (2001 – $2.1 million).

CONSOLIDATED BALANCE SHEETS

(millions of dollars)	**as at September 30 2002** (unaudited)	as at December 31 2001 (audited)
ASSETS		
Current assets		
Cash	**$ 17.1**	$ 8.3
Temporary investments	**27.5**	24.0
Accounts receivable		
Trade	**214.6**	176.9
Other	**28.8**	28.5
Future income taxes	**16.4**	13.2
Inventories	**428.0**	411.5
Prepaid expenses	**22.0**	16.2
Total current assets	**754.4**	678.6
Long-term investments and other	**99.6**	71.3
Property, plant, equipment and timber	**1,420.7**	1,469.0
Deferred charges	**142.6**	159.9
	$ 2,417.3	$ 2,378.8
LIABILITIES		
Current liabilities		
Operating bank loans (Note 2)	**$ –**	$ 2.1
Accounts payable and accrued liabilities	**321.7**	246.4
Current portion of long-term debt	**51.8**	52.7
Current portion of deferred reforestation	**32.9**	33.9
Income taxes payable	**1.9**	1.2
Total current liabilities	**408.3**	336.3
Long-term debt		
Long-term debt (Note 2)	**647.2**	706.5
Convertible subordinated debentures – liability component	**1.4**	8.2
Total long-term debt	**648.6**	714.7
Other accruals and provisions (Note 3)	**82.9**	116.3
Future income taxes, net	**168.6**	147.0
Deferred credit	**91.5**	104.0
SHAREHOLDERS' EQUITY		
Share capital – 81,156,010 shares outstanding	**658.3**	657.7
Convertible subordinated debentures – equity component	**153.6**	146.8
Earnings reinvested in the business	**201.5**	151.9
Foreign exchange translation adjustment	**4.0**	4.1
Total shareholders' equity	**1,017.4**	960.5
Contingent liability (Note 11)	**$ 2,417.3**	$ 2,378.8

APPROVED BY THE BOARD

Director, R.L. Cliff

Director, D.L. Emerson

(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 September 30, 2002						
Net sales to external customers	**$ 339.1**	**123.2**	**48.8**	**38.2**	**–**	**$ 549.3**
Net sales to other segments (Note b)	**$ 23.9**	**–**	**–**	**5.1**	**–**	**$ 29.0**
Operating income (loss)	**$ (14.9)**	**19.7**	**2.5**	**3.2**	**(8.1)**	**$ 2.4**
Depreciation, depletion and amortization	**$ 12.0**	**8.7**	**3.8**	**2.1**	**1.6**	**$ 28.2**
Capital expenditures	**$ 7.3**	**3.2**	**3.4**	**2.9**	**1.9**	**$ 18.7**
3 months ended September 30, 2001						
Net sales to external customers	$ 344.1	109.5	46.6	35.1	–	$ 535.3
Net sales to other segments (Note b)	$ 15.3	–	–	2.9	–	$ 18.2
Operating income (loss)	$ 32.7	(3.9)	2.1	(2.4)	(8.8)	$ 19.7
Depreciation, depletion and amortization	$ 10.0	8.2	3.8	2.9	1.2	$ 26.1
Capital expenditures	$ 4.6	2.6	0.5	2.6	0.6	$ 10.9

SUMMARY OF CONSOLIDATED SHIPMENTS

3 months ended September 30 (unaudited)	2002	2001
Logs – 000 m^3	**369.2**	369.3
Lumber – MMfbm		
Canfor produced	**718.1**	603.7
Other producers	**89.8**	68.7
Total Lumber	**807.9**	672.4
Plywood – 000 Msf 3/8"	**42.0**	39.6
Pulp – 000 mt		
Canfor produced		
Pulp segment	**197.4**	199.0
Pulp and Specialty Kraft Paper segment	**41.1**	39.3
Marketed on behalf of HSLP (Note d)	**85.8**	83.8
Total Pulp	**324.3**	322.1
Kraft paper – 000 mt	**28.5**	28.3

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 $264.7 million (2001: $273.1 million) and $870.1 million for the year to date (2001: $723.2 million). Wood Products' sales for the quarter also include sales of hardboard and refined fibre and fibremat of $5.0 million and $7.0 million respectively (2001: $5.0 and $6.4 million) and $15.3 million and $17.2 million respectively for the year to date (2001: $14.1 and $17.8 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
9 months ended September 30, 2002						
Net sales to external customers	**$ 1,057.7**	**354.0**	**129.0**	**92.4**	**–**	**$ 1,633.1**
Net sales to other segments (Note b)	**$ 65.5**	**–**	**–**	**11.6**	**–**	**$ 77.1**
Operating income (loss)	**$ 114.1**	**24.5**	**(4.6)**	**8.3**	**(24.7)**	**$ 117.6**
Depreciation, depletion and amortization	**$ 37.1**	**26.7**	**10.9**	**5.9**	**4.9**	**$ 85.5**
Capital expenditures	**$ 14.5**	**6.4**	**7.7**	**4.5**	**3.2**	**$ 36.3**
Identifiable assets	**$ 1,004.6**	**720.2**	**180.1**	**72.9**	**439.5**	**$ 2,417.3**
9 months ended September 30, 2001						
Net sales to external customers	$ 911.5	388.8	131.7	96.1	–	$ 1,528.1
Net sales to other segments (Note b)	$ 68.9	–	–	8.6	–	$ 77.5
Operating income (loss)	$ 88.6	28.1	(8.3)	2.6	(24.0)	$ 87.0
Depreciation, depletion and amortization	$ 32.4	26.0	10.4	7.8	3.6	$ 80.2
Capital expenditures	$ 8.2	8.5	12.5	5.6	1.9	$ 36.7
Identifiable assets	$ 1,097.2	728.9	189.6	84.0	400.5	$ 2,500.2

SUMMARY OF CONSOLIDATED SHIPMENTS

9 months ended September 30 (unaudited)	2002	2001
Logs – 000 m^3	**916.0**	973.3
Lumber – MMfbm		
Canfor produced	**2,126.8**	1,664.3
Other producers	**211.0**	206.1
Total Lumber	**2,337.8**	1,870.4
Plywood – 000 Msf 3/8"	**124.9**	121.5
Pulp – 000 mt		
Canfor produced		
Pulp segment	**632.3**	596.3
Pulp and Specialty Kraft Paper segment	**117.5**	106.5
Marketed on behalf of HSLP (Note d)	**267.3**	257.6
Total Pulp	**1,017.1**	960.4
Kraft paper – 000 mt	**80.2**	79.3

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.

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 September 30, 2002, Canfor had $177.9 million of unused bank operating lines of credit. The amount of credit available under these lines of credit has been reduced by $22.1 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 some of 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 $263.7 million additional long-term debt and pay up to $111.2 million or $1.37 per share in dividends on its common shares.

At September 30, 2002, the fair value of Canfor's long-term debt was $726.2 million and the fair value of the convertible subordinated debentures was $146.0 million.

3. Other accruals and provisions is comprised of:

(millions of dollars)	September 30, 2002	December 31, 2001
Countervailing and anti-dumping duty provision (Note 5)	**$ -**	$ 47.4
Deferred reforestation	**48.7**	42.3
Post employment benefits	**29.8**	23.0
Other liabilities	**4.4**	3.6
Total other accruals and provisions	**$ 82.9**	$ 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 was included as an offset to sales in the second quarter, in accordance with Canfor's hedging policy. A foreign exchange gain of $8.0 million on the revaluation of foreign currency denominated working capital balances is included in net income for the current quarter (year-to-date: $0.6 million loss).

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 $45.1 million of combined countervailing and anti-dumping duties on softwood lumber shipments to the U.S. (year-to-date: $66.7 million). While the cash payments for the anti-dumping duty are being made at the assessed rate, the anti-dumping expense has been accrued at an average rate of 5.3 per cent for the quarter (year-to-date: 4.08 per cent), which is a best estimate of the rate applicable to Canfor's present product shipment profile, as determined by applying the DOC's methodology. Canfor expects that the rate will be officially reassessed by the DOC during their administrative review process. The difference between the assessed rate and the accrual amounted to $0.9 million in the quarter (year-to-date: $4.2 million) 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, in the second quarter Canfor reversed all preliminary countervailing and anti-dumping duties accrued prior to May 22, 2002. Consequently, "net sales" in the second quarter included 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 the DOC's administrative review process is complete. An 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 September 30, 2002**	3 months ended September 30, 2001	**9 months ended September 30, 2002**	9 months ended September 30, 2001
Gain on sale of assets (a)	**$ –**	$ –	**$ 11.4**	$ 1.5
Miscellaneous	**(0.5)**	(0.6)	**(1.9)**	(1.4)
	(0.5)	(0.6)	**9.5**	0.1

(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 recovery (expense) are as follows:

(millions of dollars)	**3 months ended September 30, 2002**	3 months ended September 30, 2001	**9 months ended September 30, 2002**	9 months ended September 30, 2001
Current	**$ 5.5**	$ (5.4)	**$ (30.4)**	$ (26.9)
Future	**(2.4)**	22.2	**(3.3)**	22.6
Tax benefit of current Howe Sound Pulp and Paper Limited Partnership losses	**0.2**	–	**4.9**	–
Affiliates	**(0.1)**	(0.6)	**(1.5)**	(0.7)
	$ 3.2	$ 16.2	**$ (30.3)**	$ (5.0)
Less amortization of deferred credit on utilization of acquired tax losses (Note 10)	**(2.3)**	(0.1)	**12.6**	5.7
	$ 0.9	$ 16.1	**$ (17.7)**	$ 0.7

8. Earnings per share is calculated as follows:

(millions of dollars except for number of shares and per share amounts)	**3 months ended September 30, 2002**	3 months ended September 30, 2001 (Restated*)	**9 months ended September 30, 2002**	9 months ended September 30, 2001 (Restated*)
Basic Earnings				
Net income (loss)	**$ (11.8)**	$ 19.6	**$ 69.5**	$ 48.5
Less interest on equity component of convertible debentures, net of taxes	**(1.4)**	(1.2)	**(4.1)**	(3.5)
Income (loss) available to common shareholders	**(13.2)**	18.4	**65.4**	45.0
Diluted Earnings				
Add back interest on equity and liability components of convertible debentures	**– (a)**	1.4	**4.4**	4.1
Income (loss) available to common shareholders	**$ (13.2)**	$ 19.8	**$ 69.8**	$ 49.1
Weighted average number of common shares	**81,156,010**	81,088,847	**81,141,078**	81,088,847
Incremental shares from stock options	**– (b)**	225,338	**233,607**	191,449
Shares issuable upon conversion of convertible debentures	**– (a)**	11,742,424	**11,742,424**	11,742,424
Diluted number of common shares	**81,156,010**	93,056,609	**93,117,109**	93,022,720
Basic earnings (loss) per share	**$ (0.16)**	$ 0.23	**$ 0.81**	$ 0.56
Diluted earnings (loss) per share	**$ (0.16)**	$ 0.21	**$ 0.75**	$ 0.53

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

(a) Anti-dilutive – $1.5 million interest and 11,742,424 shares

(b) Anti-dilutive – 160,187 shares

Options to purchase 3,288,750 common shares at various prices, from $7.30 to $18.75 per share, were outstanding during the period ending September 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. Additional stock options with the same terms were granted on April 29, 2002 (11,000 options at an exercise price of $10.10) and July 24, 2002 (5,000 options at an exercise price of $9.95).

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. The after-tax impact on the current quarter would have been $0.2 million (year-to-date: $0.6 million).

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. Contingent Liability

Canfor has received a Notice of Assessment from the Income Taxation Branch of the British Columbia Ministry of Provincial Revenue with respect to property transfer taxes associated with the amalgamation of Canadian Forest Products Ltd. (“CFP”) and Howe Sound Pulp and Paper Limited in 2001. The notice denied CFP’s claim for an exemption from property transfer tax resulting from the amalgamation of CFP and Howe Sound Pulp and Paper Limited. The potential liability arising from this assessment, including accrued interest to September 30, 2002, is $10.6 million.

In the opinion of management and counsel, the amalgamation qualifies for exemption from property transfer taxes and, therefore, CFP will vigorously contest the assessment. A Notice of Objection has been filed and no provision has been made for the amount in the accounts. As required by the Ministry, CFP will post a Letter of Credit for the assessed amount plus accrued interest.

12. Certain 2001 figures have been reclassified to conform to the current year’s presentation.

www.canfor.com

Canfor Corporation Bentall 5, 1500 – 550 Burrard Street, Vancouver, BC V6C 2C1