

# WE ARE CANFOR



# SUSTAINABILITY IS AT THE HEART OF EVERYTHING CANFOR DOES.



Going well beyond our commitment to the environment and sustainable forest management, it embraces the interests of our workforce and the communities where we operate.

We are proud to say this is our 11<sup>th</sup> sustainability report. Over the years, Canfor has focused on creating increasingly detailed sustainability reports and providing more transparency on how we manage the social and environmental aspects of our business. This year, we've taken things to a new level.

This is our first report to the Global Reporting Initiative (GRI) sustainability reporting framework. The GRI's comprehensive Sustainability Reporting Framework is widely used around the world to

enable greater organizational transparency. It sets out Principles and Indicators organizations like Canfor can use to report economic, environmental and social performance.

This report covers data spanning January 1 to December 31, 2011 for our solid wood manufacturing businesses, including Canadian Forest Products Ltd., and our wholly owned subsidiaries Daaquam Industries in Quebec, Canada, and Canfor Southern Pine in South and North Carolina, USA.

This report does not include Canfor Pulp Products Inc., of which Canadian Forest Products Ltd. owns 50.2%. Canfor Pulp produces its own detailed sustainability report annually, available at [www.canforpulp.com/sustainability](http://www.canforpulp.com/sustainability).

Canfor's commitment to sustainability is proven by our quality results in everything we do. Our top-quality products are sustainably produced and efficiently delivered around the globe, and we're recognized amongst the most reputable solid wood products manufacturers in the world.

# WE ARE LEADERS



96.7%

OF FOREST TENURES CERTIFIED



EXCEED

HORACE



ACHIEVE

35.2  
MILLION

TREES PLANTED IN 2011



# WE ARE COMMITTED

We work with diverse interests to ensure we're delivering on a shared vision for sustainability. Our comprehensive management approach means we're maintaining environmental, social and economic values for the long term.



PUBLIC ADVISORY GROUPS MEASURE TARGETS,  
RECOMMEND IMPROVEMENTS AND RESOLVE ISSUES



Third-party certification and public consultation deliver meaningful opportunities for involvement in our forestlands operations. Publicly-available management plans and audits, comprehensive reporting and diverse partnerships deliver on our commitment to transparency.

# WE ARE TRANSPARENT



# \$155 MILLION

IN SAWMILL IMPROVEMENTS IN 2011 TO IMPROVE EFFICIENCY

PROMISE

# WE ARE DELIVERING

We're investing in our facilities to make them more energy efficient, utilizing wood residues and reducing our carbon footprint. We're focused on continuous improvement and delivering on our commitment to produce the sustainable products our customers rely on.

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## MESSAGE FROM CEO DON KAYNE

When it comes to sustainability, Canfor and its employees have a lot to be proud of. We are among the safest forest companies in Canada, we are active members of the communities where we operate, and we produce environmentally preferable wood products sustainably.

As global demand for green, environmentally sustainable building products continues to grow, the opportunities for Canfor and its dedicated employees have never been brighter. But as this report shows, there is a lot of hard work involved.

In 2011, we completed \$155 million in sawmill improvements including projects to improve operational efficiency at our Fort St. John, Mackenzie, Conway, Darlington, Graham, Vavenby, Polar, Prince George and Grande Prairie mills. Wood residue-fuelled heat energy systems were installed at the mills in Prince George, Chetwynd and Plateau to reduce natural gas consumption and generate carbon offset credits. In Grande Prairie, the investment included a biomass cogeneration facility that heats and powers the mill and sells renewable electricity to the Alberta grid. These and other investments in 2011 build on significant earlier investments at the mills in Fort St. John, Mackenzie and Chetwynd.

The upgrades are part of a \$300-million, three-year strategic investment plan that will allow us to use the latest technology to increase productivity and extract higher-grade products. This is especially important in the British Columbia interior where sawmill improvements are helping us improve the grade recovery and maintain consistency as we harvest pine affected by the mountain pine beetle.

Through all of our divisions, we maintained our commitment to sustainable forestry in 2011. More than 96 percent of our forest operations are independently certified to the Canadian Standards Association CAN.CSA-Z809-02/08 Standard. Our mills have either third-party chain-of-custody or procurement certifications so we can assure customers we are sourcing raw materials from certified forests or other responsible sources.

We will add to our annual capacity in early 2012 with the acquisition of Tembec Inc.'s

southern British Columbia interior wood product assets. Once the transaction obtains customary regulatory approvals, we will assume management of these lands.

In 2011, we planted 35.2 million trees, implemented conservation plans for species at risk—which included active involvement in the Canadian Boreal Forest Agreement—and worked with local communities and other stakeholders to integrate their concerns into our operational plans.

The global desire to reduce carbon emissions presents fantastic opportunities to develop new markets for our green wood products. In China, our customer base has expanded far beyond the government agencies responsible for most wood products procurement to include private developers.

Canfor as a company was the catalyst in building new customer networks in China, and while we remain committed to growing demand for our products in new and emerging markets, we will maintain our focus on serving valued customers in the United States, Japan and around the world. In Japan, our focus is on ways we can help the country recover from the terrible earthquake and tsunami last March.

The tragedy in Japan affected us deeply because our business relationships have evolved into friendships over the last three decades of our history in Japan. I visited the Sendai region in July, and was astounded by the scale of damage—and touched by the strength and resilience of our Japanese friends. Canfor is doing what it can to help Japan rebuild, and we were pleased to join other Canadian companies and governments as part of a \$4.5-million contribution for reconstruction efforts and \$1 million for immediate relief efforts.

We are especially proud of the many ways Canfor and its employees contribute to the communities in which we operate—through our support for scholarships and bursaries, and our contributions to charities such as the United Way and other community groups, events and initiatives. Canfor and Canfor Pulp contributed \$500,000 toward construction of the Charles Jago Northern Sports Centre in Prince George, BC,

and we are a major contributor to the Kordyban Lodge, a Canadian Cancer Society facility that will provide accommodation and support to northern British Columbians seeking cancer treatment in Prince George. Canfor is proud to support these and many other diverse local groups and initiatives to build strong, resilient communities.

This report is filled with achievements made possible by our employees—including our leadership in safety, our sustainable forest management and our reliable product quality.

As worldwide demand grows for renewable, responsibly harvested building materials, so does our need for energetic and talented people. Canfor recognizes that to be successful in the future we need to attract exceptional people—and to get a message to educational institutions about the important role they play in building the expertise and knowledge we will need.

As you will see from this report, Canfor is a supplier of green building solutions, a community leader and a responsible employer. I would encourage you to subscribe to my World of Wood blog to learn about the latest developments for Canfor and for our industry.



**Donald B. Kayne**  
President and  
Chief Executive Officer



## COMPANY PROFILE

Canfor is a leading Canadian integrated forest products company based in Vancouver, British Columbia ("BC"), involved primarily in the lumber business, with production facilities in BC, Alberta, Quebec and the United States. Canfor also has a 50.2% interest in the pulp and paper business of Canfor Pulp Products Inc. ("Canfor Pulp"), a 50% interest in the oriented strand board ("OSB") business of Peace Valley OSB and owns a bleached chemi-thermo mechanical pulp ("BCTMP") mill ("Taylor pulp mill"), all located in BC. It has 3,487 employees in Canada and 667 employees in the United States (Canfor Southern Pine and Canfor USA).

Canfor's lumber operations have a current annual production capacity of approximately 4.8 billion board feet of lumber. The majority of lumber produced by Canfor from its facilities is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-four feet. A significant proportion of Canfor's lumber production is comprised of specialty products that command premium prices, including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated ("MSR") lumber used in engineered applications such as roof trusses and floor joists.

Canfor's lumber operations also include a lumber remanufacturing facility, a finger-joint plant, two lumber treating plants, a whole-log chipping plant and a United States-based trucking division. The lumber business segment also includes a 60% interest in Houston Pellet Inc., which has an annual capacity of approximately 220,000 tonnes of wood pellets.

Canfor holds approximately 10 million cubic metres of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of British Columbia and northern Alberta, and harvests logs from those tenures to supply its interior lumber operations. Any shortfalls

in mill requirements are made up with wood purchased from those areas. Operations in Quebec and North and South Carolina mostly purchase logs.

Canfor markets lumber products throughout North America and overseas, through its sales offices in Vancouver, Canada, Myrtle Beach, U.S., Tokyo, Japan and Shanghai, China. In addition to its own production, Canfor also markets lumber produced externally to complement its product line. While a significant proportion of Canfor's product is sold to markets in the United States, the proportion of shipments to offshore markets, particularly China, has risen significantly in recent years. The Company ships substantially all lumber destined for North America by truck and rail, while the vast majority of product sold offshore is transported by container ship.

The Company's only currently operating panels facility is the Peace Valley OSB plant in Fort St. John, BC, which is jointly owned with Louisiana-Pacific Canada Ltd. The Peace Valley OSB mill has an annual capacity of approximately 820 million square feet (3/8" basis). OSB production is primarily performance rated sheathing and flooring, which is used in wall, roof and flooring construction of new homes and in repair and remodeling projects. Canfor also owns an OSB plant ("PolarBoard"), which is currently indefinitely idled, and a plywood plant ("Tackama") which was permanently closed in December 2011.

Canfor's core values are safety, quality and profitability. As a company, we work with diverse stakeholders to develop and deliver a vision for sustainable forest management so we can produce the truly responsible products customers have come to rely on. In 2011, Canfor was ranked #20 in Corporate Knights' list of the best 50 corporate citizens in Canada, which tracks environmental, social and governance indicators.

## 2011 KEY FACTS AND FIGURES

### SOCIAL

Lost-time incidents per 100 person years of employment <sup>1</sup>	0.74
Medical incident rate per 100 person years of employment <sup>2</sup>	2.21
Workforce	4,154
Charitable donations to community groups in BC and Alberta (\$ thousands)	394.6

### ECONOMIC

Total sales	2,421.4
EBITDA	177.7
Net income	10.8
Net income (loss) attributable to equity shareholders of Company	(56.6)
Investment in sawmill improvements (\$ millions)	155
Annual production capacity (billion board feet)	4.8

### ENVIRONMENT

Annual harvesting rights (million cubic metres)	10
Percentage of forest operations third-party certified	96.7
Number of trees planted (millions)	35.2
Survival rate of planted trees (percent)	95

[1] Calculated by the number of lost-time incidents multiplied by 200,000 and divided by the total number of hours worked.

[2] Medical incident rate of represents the total of restricted work + medical treatment + lost time incidents multiplied by 200,000 then divided by the total number of hours worked.





## MANAGEMENT CHANGES

Don Kayne became President and CEO of Canfor in May 2011 following the retirement of James F. Shepard. Kayne, a native of North Vancouver, has been with the company for 32 years and, prior to being appointed CEO, was Vice-President of Wood Products Marketing and Sales.

Other members of the new executive team:

- **David Calabrigo**  
Senior VP, Corporate and Legal Affairs and Corporate Secretary
- **Alistair Cook**  
Senior VP, Wood Products Operations – Canada
- **Mark Feldinger**  
Senior VP, Forestry/Environment and Energy
- **Wayne Guthrie**  
Senior VP, Sales and Marketing
- **Alan Nicholl**  
Senior VP, Finance and Chief Financial Officer
- **Douglas Warstler**  
President, US Operations

**CANFOR'S EXECUTIVE TEAM BRINGS MORE THAN 150 YEARS OF COMBINED EXPERIENCE WITH THE COMPANY.**

### WORK GLOBALLY, HIRE LOCALLY

While Canfor's business is global in nature, we seek out local talent first. This is evident when you look at our executive team. Canfor began in British Columbia, and our operations remain concentrated here—four of seven of our executive team members were born in British Columbia, and eight of nine members of our Board of Directors call Vancouver, BC home.





**SUSTAINABLE FOREST  
MANAGEMENT REPORT**

# WOOD BY ITS VERY NATURE IS A GREEN PRODUCT—BUT ITS TRUE VALUE CAN BE GUARANTEED ONLY IF IT COMES FROM SUSTAINABLY MANAGED FORESTS. CANFOR'S FOREST OPERATIONS ARE AMONG THE MOST SUSTAINABLE IN THE WORLD.

In May 2011, Canfor management reaffirmed the Environment Policy that has set the baseline for environmental stewardship for all of our woodlands and manufacturing operations. Among other things, this policy commits us to complying with or exceeding the tough legal requirements in the Canadian jurisdictions where we manage forestlands.

Canfor's forestry operations are based on a Forest Management System to identify, address and manage environmental impacts and sustainable forest management commitments within our woodland operations. Our goal is to maintain and enhance the long-term health of forest ecosystems, for the benefit of all living things both locally and globally, while meeting the environmental, economic and social needs of present and future generations.

Each of our forest divisions has a Sustainable Forest Management Plan, which follows legal requirements and policies including the federal

Species at Risk legislation and provincial regulations. Each plan is based on other existing strategic planning processes such as British Columbia's regional land and resource management plans, which provide a publicly approved vision for the use and management of provincial lands and resources.

Through all of our forest management activities, we protect forest values such as biodiversity, wildlife habitat and soil resiliency. Planning for a harvest and subsequent reforestation cycle can take three or more years, and involves detailed plans on the specific environment of the area and its role in protecting values at the local and landscape levels, as well as the types of trees that are particularly well suited to its characteristics.

## ENVIRONMENTAL POLICY

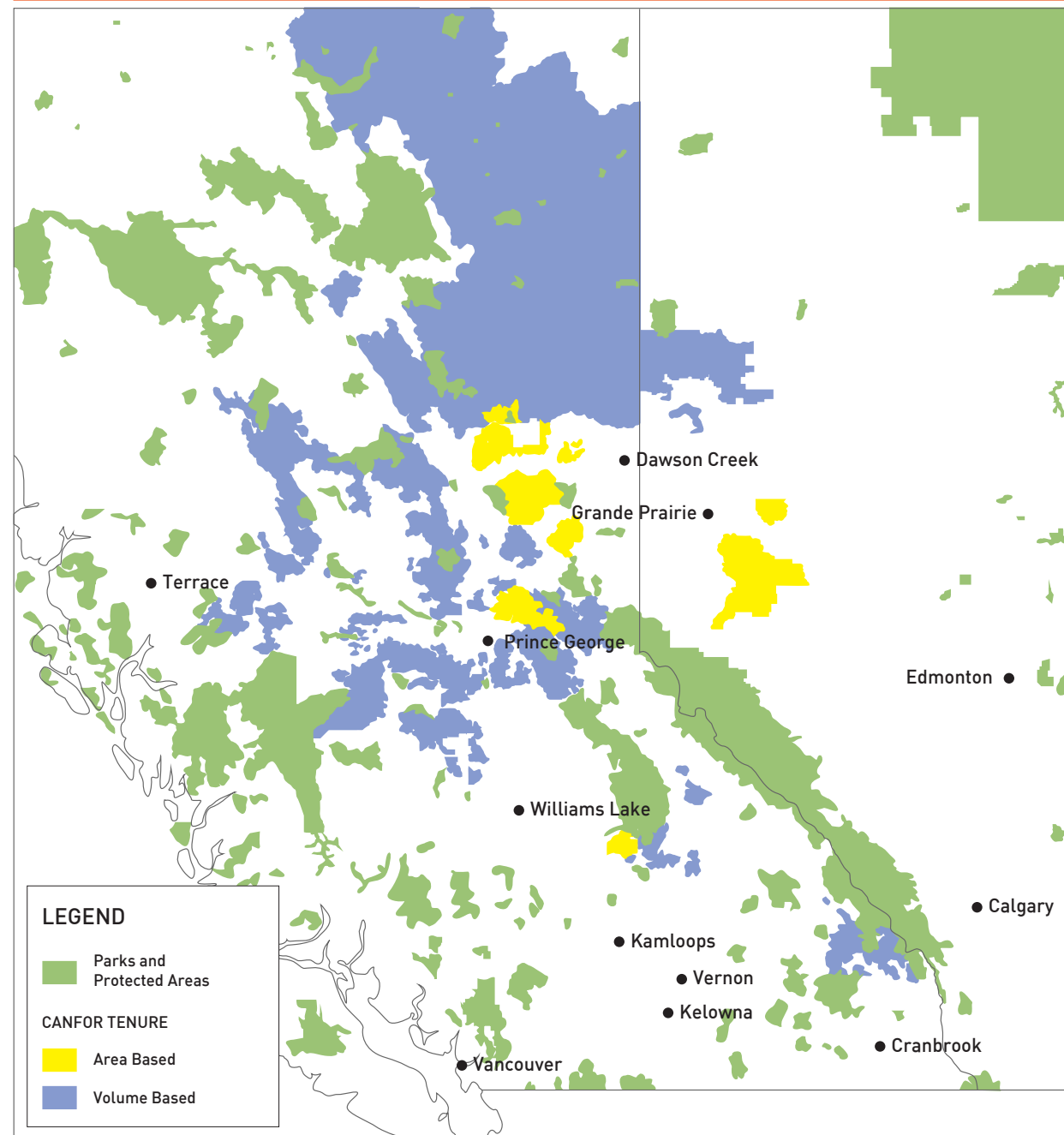
Canfor is committed to the responsible stewardship of the environment at every step of our operations. As a forestry company, our success is dependent upon the well-being of the forests we manage. In order to ensure the sustainability of our woodlands, we will:

- Comply with or exceed legal requirements.
- Comply with other environmental requirements to which the company is committed.
- Achieve and maintain sustainable forest management.
- Set and review objectives and targets to prevent pollution and to continually improve our sustainable forest management and environmental performance.
- Provide opportunities for interested parties to have input into our sustainable forest management planning activities.
- Promote environmental awareness throughout our operations.
- Conduct regular audits of our forest and environmental management systems.
- Communicate our sustainable forest management and environmental performance to our Board of Directors, shareholders, employees, customers, and other interested parties.



# OUR SUCCESS IS DEPENDENT UPON THE WELL-BEING OF THE FORESTS WE MANAGE.

## CANFOR'S FOREST TENURES



The map identifies forestlands managed by Canfor. The lands are owned by the people of British Columbia and Alberta and managed by government on their behalf. In areas where Canfor has rights to harvest timber, we are responsible for associated forest management activities and are a key and active participant in all levels of public planning, providing data and expertise to ensure landscape and local level plans strike the balance expected by our stakeholders.

Tenure arrangements are either volume or area based, and are identified in the above

map. On volume-based tenures, Canfor shares harvesting rights and management responsibilities with other forest companies.

Protected areas that overlap with these volume-based tenures contribute to environmental objectives, and are excluded from the timber harvesting land base. Operational plans use GIS and spatial databases to ensure no forestry activities take place within protected areas, parks, ecological reserves and old growth management areas.

## CONSERVING HABITAT AND BIODIVERSITY

Few places on earth match the diversity and richness of Canada's forests, and Canfor's forest divisions take care to conserve the full range of ecological diversity, support the management of wildlife species, protect soils, and much more. We maintain representative ecosystems at the stand level, such as wildlife tree patches and riparian reserves, and the landscape level, such as provincial parks and other large reserves set aside through strategic level processes.

In 2010, Canfor's Forest Management Group began work on a corporate biodiversity strategy that is both cost effective and scientifically credible. It will encompass the goals of managing for ecosystem diversity, species diversity, genetic diversity and a conservation strategy, with sub-strategies related to management and monitoring for ecosystem representation, landscape elements, habitat elements and species accounting. Efforts to develop and implement this strategy were linked in 2010/11 to the transition to the CSA Z809/08 standard.

Canfor works with governments, First Nations, local and regional authorities, environmental groups and other stakeholders to improve our practices, and recent reports show full compliance related to values such as soil conservation, coarse woody debris, water resources, wildlife habitat and species at risk. Recent examples include:

- Grande Prairie protected all known trumpeter swan nest sites with a 200-metre no-harvest buffer, and incorporated updated trumpeter swan location information into 2011 harvest plans.
- Lands managed under the Fort St. James Sustainable Forest Management Plan exceeded the target for the percentage of wildlife trees and/or wildlife tree patches associated with areas harvested. Vavenby made provisions

for wildlife tree patches or individual wildlife trees in 93% of harvest areas larger than 10 hectares. Wildlife tree patches within or adjacent to a harvest area contribute to ecosystem diversity by conserving a variety of forest age classes, stand structure and unique features at the stand level.

- Prince George had a certified wildlife biologist design corridors in its forest area that mimic natural patterns of connectivity and provide basic ecological linkages throughout the forest landscape. Canfor has been actively planning for wildlife movement corridors since 1999.
- Chetwynd worked with the British Columbia Ministry of Environment to develop winter range for caribou and mountain goats—there were no harvesting activities within ungulate winter ranges, wildlife habitat areas and the Dunlevy Creek special management zone.

Canfor forest divisions continue to achieve targets related to water resources—such as controlling sediment at crossings of fish streams and providing buffers next to the banks of streams, lakes and wetlands to conserve riparian and aquatic environments. They work with First Nations to meet legal obligations to identify and protect archaeological resources.

Online training on identification of species at risk and sites of biological significance is mandatory for Canfor staff and contractors. Many divisions train employees who may encounter rare plants to identify them to avoid endangering the plants or their habitat.

More detailed information on Canfor's forest management activities can be found in our sustainable forest management plans, available on our website at [www.canfor.com/responsibility/environmental/certification](http://www.canfor.com/responsibility/environmental/certification).

## MEETING OR EXCEEDING RIGOROUS REGULATIONS

All Canfor operations are in Canada and the United States where skilled resource professionals and a comprehensive suite of forest management laws and regulations combine to ensure forests are managed responsibly—and our goal is to meet or exceed all regulatory requirements. An independent academic study comparing environmental forest practice regulations in jurisdictions around the world found Canada has some of the toughest regulations backed by well-developed enforcement regimes.

North America is also a leader in third-party forest certification. Just 10% of the world's forests

are certified and about half of these certified lands are in Canada and the United States—Canada has more certified lands than any other jurisdiction on Earth.<sup>3</sup>

Our Western Canadian operations source wood fibre primarily through long-term replaceable tenure agreements on publicly owned land, and our Quebec operations buy raw materials from a combination of private and public lands. Canfor Southern Pine in the United States buys its fibre from neighbouring private forest landowners.

[3] [http://certificationcanada.org/english/status\\_intentions/status.php](http://certificationcanada.org/english/status_intentions/status.php); [http://www.sfiprogram.org/files/pdf/PEFC%20Acceptance\\_Sept11LR.pdf](http://www.sfiprogram.org/files/pdf/PEFC%20Acceptance_Sept11LR.pdf)



### TRANSFER OF MANAGEMENT OF LANDS IN QUEBEC

Forest management in Quebec has traditionally followed a similar pattern as described for our operations in British Columbia and Alberta—companies are provided with rights to harvest timber on publicly-owned land and in return pay stumpage to the government and fulfill various forest management responsibilities. In April of 2013, the Quebec government is changing its forest laws to transfer the management of all public lands back to the government.

The Government is intending to maintain the various forest management certifications already in place, so companies like Canfor can continue to provide our customers with independently certified products. Canfor's employees at our Quebec operations are working wherever possible to ensure a smooth and sustainable transition of management responsibilities.

## COMPLIANCE - FORESTRY

Canfor is committed to maintaining a transparent system for environmental reporting, including compliance reporting. Canadian Forest Products Ltd.'s forestry operations harvested approximately 10.5 million cubic metres in 2011 and undertook reforestation and competing vegetation management and stand tending activities on more than 30,000 hectares. Of our vast operations, we registered only four (4) non-compliance issues in 2011.

### 1 HARVESTING PRIOR TO A PERMIT BEING ISSUED

#### ISSUE

Canfor received a request from the Boy Scouts of Canada to assist with some obligations the Boy Scouts had on a parcel of leased land adjacent to an active Canfor block. Before undertaking this harvesting, Canfor was required to obtain a "licence to cut." While the permit application was made, harvesting commenced on May 27, 2011 without prior approval as per the licence to cut documentation.

#### ROOT CAUSE

The root cause of the incident was that Canfor did not follow all applicable procedures (in this case the Harvesting Supervisor Standard Work Procedure and the Harvest Pre-Work Standard Work Procedure). A possible contributing factor was a lack of clarity surrounding the permitting process with "licence to cut" permits, a permit type not often utilized in Canfor's operations.

#### CORRECTIVE ACTIONS

- a The Harvesting Superintendent reviewed all applicable procedures with staff and reinforced the importance of following them.
- b Permitting staff reviewed the need for developing a "licence to cut" application Standard Work Procedure, but determined that one was not required as the process was already covered in the existing Standard Work Procedure.

### 2 OVERSPRAYING HERBICIDE INTO A "NO TREATMENT ZONE"

#### ISSUE

The "no treatment zone"—the area where herbicides are not to be applied—was missed by the layout crew and they did not indicate on the map that they did not demarcate creeks within the harvest area. As a result, herbicide free zones may have been compromised.

#### ROOT CAUSE

The investigation into this incident is ongoing, as winter weather conditions preclude investigation into what, if any, vegetation received herbicide application within the no-treatment zone. The site was inspected in September 2011, and the Canfor Supervisor recommended follow up in spring.

#### CORRECTIVE ACTIONS

Canfor management held a continuous improvement planning event to reduce the application of herbicides outside treatment areas by 75% and ensure zero application in classified water bodies (streams, wetlands and lakes) in the 2011 vegetation management - herbicide program. Some protocols implemented are the establishment of five-metre soft buffer zones on low-risk boundaries and the establishment of pre-treatment recognizance flights to ensure that all "no treatment zones" have been appropriately flagged in the field. Also, a field data collection form was developed to collect data which will be used to determine a root cause for all incidents.

### 3 SPILLING HERBICIDE AT A MIXING SITE

#### ISSUE

Proper mixing procedures were not followed and as a result, chemical was released onto a grassy area adjacent to the mix site. Deleterious effects are minimal as:

- The area was more than 200 metres from a watercourse, and
- The nature of the chemical being used is that it becomes inert upon coming in contact with mineral soil.

As a result, there is very little chance that any chemical came into contact with a water source.

#### ROOT CAUSE

The root cause was the failure of the herbicide contractor to follow established procedures.

#### CORRECTIVE ACTION

The herbicide contractor reported the incident to the appropriate government agency and undertook an investigation as to why staff did not follow established mixing procedures.

All incidents are reported to government agencies proactively by Canfor. We enter all potential non-compliances into our tracking system and take action, whether or not regulatory bodies pursue a non-compliance. We approach each actual and potential non-compliance issue as an opportunity for improvement and identify root causes and corrective actions.

At time of publishing, no monetary fines had been levied for any of the four non-compliances that occurred in 2011, though by law, government has three years to investigate and assess any administrative or monetary penalties. Canfor proactively participates in any non-compliance review, provides any relevant evidence and

### 4 EXCESSIVE SOIL DISTURBANCE

#### ISSUE

Canfor's operating areas experienced unseasonably wet summer weather. While conducting harvesting activities, a contractor did not cease operations as soon as they should have given soil moisture conditions and as a result excessive soil disturbance was caused to portions of the dispersed area and the roadside work areas.

#### ROOT CAUSE

Failure of the harvesting contractor to follow established procedures.

#### CORRECTIVE ACTIONS

- a Canfor developed and implemented a forest management group-wide Soil Compaction Standard Work Procedure and Manual.
- b Contractors who were not already using this standard work procedure were trained in its use. Follow-up training is scheduled for this spring.
- c A soil remediation plan for the affected area was developed and implemented.

information relating to non-compliances, and abides by any final determination with respect to penalties.

Canfor's external 2011 corporate surveillance audit, undertaken for our Environmental Management System and Sustainable Forest Management certification commitments, indicated one minor non-conformance across the multi-site Environmental Management System and Sustainable Forest Management certification. Action plans developed by Canfor to address the issues have been reviewed and approved by the external auditor.

The 2011 surveillance audit summary report is available on our website at [www.canfor.com/responsibility/environmental/certification](http://www.canfor.com/responsibility/environmental/certification).

## INDEPENDENT CERTIFICATION

Canfor goes beyond regulatory requirements with third-party certification, and as a company we continue to be a leader in sustainable forest management certification. Our Forest Management System is independently certified to the latest version of the International Organization for Standardization (ISO) Environmental Management System (EMS) standard CAN/CSA-ISO 14001:2004/2008. This guides the implementation, maintenance and continual improvement of the company's environmental management systems.

In addition, 96.7% of our allowable annual cut under forest tenures is independently certified to the Canadian Standards Association (CSA) Standard for Sustainable Forest Management (CAN.CSA-Z809-02/08).

The CSA standard is Canada's official national standard for sustainable forest management, and its standard development process meets the strict rules that govern the Canadian Standards Association, Canada's national standards setting body. It requires high levels of public input and detailed, science-based plans to monitor and, if necessary, improve on sustainability markers such as biological diversity and the conservation of soil and water resources.

CSA certification requires that we improve our sustainability outcomes every year. The

Sustainable Forest Management Plans for each operating division and CSA summary audit reports are posted on the Canfor website.

Canfor Southern Pine, which does not manage forestlands directly, has certified its procurement to the Sustainable Forestry Initiative (SFI) 2010-2014 Standard to promote responsible forest management on our suppliers' lands.

Canfor has a Chain of Custody Policy, and is committed to tracking lumber that comes from our mills from the forest of origin through every step of the manufacturing process. By maintaining a clear chain of custody, we communicate the source of our forest products to our customers so they know the products they are purchasing come from third-party certified or other responsible sources. In 2011, we had 13 facilities certified to the Programme for the Endorsement of Forest Certification (PEFC): Chain of Custody of Forest Based Products - Requirements Standard.

PEFC is the world's largest forest certification organization, and recognizes national or regional certification standards that meet its rigorous requirements based on international criteria and indicators of sustainable forest management. In North America, standards endorsed by PEFC include CSA and SFI.



## REGENERATING FORESTS

Canfor replants and tends our forest tenures, planting more than double the number of trees we harvest. We replant with ecologically-suitable species, ensuring all harvested areas are restored to healthy, native forest. In 2011, we replanted 31,000 hectares of harvested area in British Columbia and Alberta—that's 35.2 million trees, with a survival rate of 95%.

We aim to grow about a third of the seedlings we plant ourselves at our JD Little Forestry Centre in Prince George, BC. This forest seedling nursery produced 7.7 million white spruce seedlings in 2011, which were planted across all Canfor divisions. About 90% of these spruce seedlings were grown using improved seed, while the remaining 10% were grown from seed collected from the wild.

Eight of our divisions have dedicated five-year integrated vegetation management plans to identify and manage competitive vegetation that limits a seedling's ability to thrive. The plans ensure compliance with all pertinent laws and regulations, and respect agreements with

the public, landowners and other stakeholders, and First Nations' treaty and/or traditional rights. They aim to minimize workers' exposure to dangerous equipment or potential hazards to their health, and minimize the risk to the environment, fish and wildlife and human health.

Canfor makes every effort to avoid competitive vegetation through actions such as using improved seed from government tree-breeding programs so seedlings grow faster, selecting sites and preparing sites to maximize seedling performance and minimize the need for brushing treatments. Silviculture activities that involve the potential use of herbicides are planned to consider economic, environmental and social concerns. The goal is to establish healthy, well-stocked stands of ecologically suited tree species that recognize the growth potential of each site in a biologically and ecologically appropriate manner, with treatments based on sound science.

## MOUNTAIN PINE BEETLE

Mountain pine beetles are native insects that attack mature lodgepole pine trees by laying eggs under the bark. When the eggs hatch, the larvae feed beneath the bark and may kill the tree. The beetle thrives under warm weather conditions, and a current outbreak in British Columbia's interior pine forests has become the largest on record as a result of recent mild winters, drought-like summers and an abundant supply of mature pine.

Canfor, like many other Canadian forest products companies, has seen the negative effects of the mountain pine beetle on our forest tenures. However, we are making a concerted effort to harvest and use pine trees damaged or killed by these beetles. We have been harvesting forests

affected by the epidemic for a decade, and are renewing them through replanting—turning a forest from a carbon source with decomposing dead trees into a carbon sink with growing young trees.

At our woodlands operations in Grande Prairie, Alberta, Canfor is attempting to slow the progress of the infestation by harvesting pine stands that are most susceptible to the beetles or that have been infested, and our activities have contributed to reducing the rate of spread. In 2011, monitoring showed that winter weather has continued to reduce the spread of the beetles in all regions except the northern part of Alberta.

### WHAT IS "IMPROVED SEED"?

Improved seed is created through the controlled breeding of trees that exhibit superior attributes in the wild. There is no genetic manipulation involved, but instead the careful cross-pollination of trees that exhibit desired characteristics, like fast

growth or natural disease resistance. You can find out more about tree breeding on the British Columbia Ministry of Forests, Range and Natural Resource Operations Tree Improvement Branch website.

## RESPONDING TO CLIMATE CHANGE

The mountain pine beetle infestation may be evidence of changing climate patterns. Normally, cold temperatures along with forest fires and natural predators kept populations in check. The British Columbia Government reports that average annual temperatures have warmed by between 0.5-1.7 degrees Celsius in different regions of the province during the 20th century.<sup>4</sup> This variation in temperature norms, combined with an abundance of mature lodgepole pine, have led to the unprecedented epidemic.

Concern about the world's environment is encouraging building professionals to choose wood products for new structures and renovations. Wood is the only renewable building material. It is natural, grows using solar energy and stores carbon throughout its life cycle.

### BENEFITS OF WOOD

Adaptable and versatile, wood is easily applied in structural and finishing applications, and delivers demonstrated improvements in operating energy efficiency and environmental performance. Wood products need less energy than other building materials to extract, process and transport, and wood buildings can require less energy than steel or concrete buildings to construct and operate over time.

Over the last decade, the world's population has expanded by a billion people, and an additional billion people are expected to be added to the planet by 2020.<sup>5</sup> Given this pace of population growth and the fact that all of these people will have housing and sustenance needs, there is a powerful role for wood products in providing for the needs of the planet with reduced environmental

cost. The only renewable building material, governments and organizations around the world are embracing wood use as a means of improving the environmental performance of buildings.<sup>6</sup>

These environmental benefits are strengthened when the wood comes from a company like Canfor that has advanced wood manufacturing technology and sustainable forest practices, backed by third-party forest certification.

### CARBON BUDGETING

Forests are a vital part of the earth's carbon cycle. They can moderate climate change by absorbing carbon emitted by activities such as the burning of fossil fuels and the changing of land uses. How well they will continue to achieve this will affect the future rate of carbon increase in the atmosphere.

Canada's forest carbon reporting system is designed to estimate past changes in forest carbon stocks and to project changes in carbon stocks. It integrates information such as forest inventories, statistics on fires and insects, and systems quantifying forest growth and yield into a modeling framework.

The Canadian Standard's Association's Z809:08 certification standard includes a criterion to "maintain forest conditions and management activities that continue to the health of global ecological cycles". A number of Canfor divisions, including Chetwynd and Quesnel, are working on carbon budget models and processes. In Prince George, we are using information from FIA-funded "The Development of Forest Carbon Indicators and Monitoring Strategies" to develop a corporate carbon strategy.

## SUPPORTING FOREST RESEARCH

Each year, Canfor allocates significant resources to support forest research, forestry education, and projects that enhance the general public's forestry knowledge. The Company also maintains representation on several associations, committees and groups that initiate or support research.

Canfor has been a partner in the Ecological Management Emulating Natural Disturbance (EMEND) project located near Peace River, Alberta, since it began in 1998. EMEND is a long-term project forecast to run for one stand rotation, about 80 to 100 years, with two primary objectives:

- To determine which harvesting and regeneration practices best maintain biotic communities, spatial patterns of forest structure and functional ecosystem integrity when compared with mixed-wood landscapes that have originated through wildfire and other natural disturbances.
- To employ economic and social analyses to evaluate these practices in terms of economic viability, sustainability and social acceptability.



**CANFOR ALLOCATES  
SIGNIFICANT  
RESOURCES EACH  
YEAR TO SUPPORT  
FOREST RESEARCH  
AND FORESTRY  
EDUCATION.**

[4] BC Government Climate Education Program: <http://www.livesmartbc.ca/learn/effects.html>

[5] [http://esa.un.org/unpd/wpp/Documentation/pdf/WPP2010\\_Highlights.pdf](http://esa.un.org/unpd/wpp/Documentation/pdf/WPP2010_Highlights.pdf)

[6] For example, see Office of the State Council of China's Nov 2011 White Paper "China's Policies and Actions for Addressing Climate Change" and the Government of Japan's "Law Concerning Promotion of Use of Wood Materials for Public Buildings."





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# ENGAGING STAKEHOLDERS

EACH CANFOR DIVISION MAINTAINS A LIST OF INTERESTED STAKEHOLDERS INCLUDING PRIVATE LANDOWNERS, OUTFITTERS, LODGE OPERATORS, TRAPPERS, HUNTING GUIDES, RECREATIONALISTS, MINING TENURE HOLDERS AND WATER LICENSEES—AND WE COMMUNICATE WITH ANY INDIVIDUAL OR GROUP INTERESTED IN FOREST PLANNING.

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## PUBLIC ADVISORY GROUPS

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Canfor divisions, in partnership with other licensees, rely on a public advisory process so the interests and concerns of both stakeholders and resource managers can be reflected and addressed in a timely and cost-effective manner.

Public advisory groups identify and select indicators, measures and targets for sustainable forest management plans, review each plan, design monitoring programs and recommend improvements, and resolve relevant issues. Members reflect a wide range of interests, including environment/conservation, agriculture, academia/science, local government, labour, recreation, small business, forestry contractors, trappers and woodlot owners.

The work of our Public Advisory Groups contributes directly to on-the-ground sustainable

forest management. In Prince George, for example, the Public Advisory Group voiced that they would like to see coarse woody debris retained beyond the legal minimums—as a result, Canfor developed a coarse woody debris Best Management Practices workplan, which resulted in the harvesting contractors receiving training on the Best Management Practices at the Annual General Pre-work Training.

Members are recruited through public activities such as open houses and advertisements as well as through mailed invitations to individuals. The public is welcome to participate in discussions at group meetings. Local First Nations, who have a unique legal status and may possess special knowledge based on their traditions practices and experience, are particularly encouraged to participate.

## FOREST STEWARDSHIP PLANS

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About 95% of British Columbia's forests are publicly owned. The province has results-based forest regulations to ensure public lands provide a careful balance of economic and environmental benefits across the landscape simultaneously.

The *Forest and Range Practices Act* requires that our forest divisions prepare forest stewardship plans that show how our operations will meet objectives set by government for soils, timber, wildlife, water, fish, biodiversity and cultural heritage resources. Before government

approves the plan, we must invite and consider public and First Nation comments.

In Alberta, we are required to provide an opportunity for public consultation during the development of a forest management plan, and our sustainable forest management planning must consider a broad range of forest values and social, economic and environmental factors such as watershed, environment and wildlife habitat.

## CANADIAN BOREAL FOREST AGREEMENT

In May 2010, Canfor joined other companies operating in the boreal forest, nine leading environmental organizations and the Forest Products Association of Canada (FPAC) in signing the historic Canadian Boreal Forest Agreement.

The Agreement covers more than 72 million hectares of public forests across Canada licensed to FPAC member companies, including Canfor. Through it, all of the parties are committed to working together in the marketplace and on the ground to support governments in the realization of a stronger, more competitive forest sector and a boreal forest that is sustainably managed and better protected.

The agreement called for the suspension of new logging on nearly 29 million hectares across Canada to conserve woodland caribou. This included 70,000 hectares of Canfor's management areas in Alberta, which makes up a portion of the range of the Little Smoky Caribou herd—where we had already deferred harvesting voluntarily for 15 years. Through our Healthy Pine Strategy, we are already committed to no harvesting in the primary intactness area to 2022.

The first independent assessment of the Agreement by KPMG shows considerable progress was made from May 2010 to May 2011. In response to recommendations in the assessment report, the agreement's steering committee has set short-term priorities to seek new funding

opportunities, complete caribou action plans and protected area proposals, and finalize priority area plans in Quebec, Ontario and Alberta. Canfor is involved with the British Columbia/Alberta working group, which was very active in 2011.

### THE GOALS OF THE CANADIAN BOREAL FOREST AGREEMENT:

- 1 World-leading boreal "on-the-ground" sustainable forest management practices based on the principles of ecosystem based management, active adaptive management, and third party verification of sustainable practices.
- 2 The completion of a network of protected areas that, taken as a whole, represents the diversity of ecosystems within the boreal region and serves to provide ecological benchmarks.
- 3 The recovery of species at risk within the boreal forest including species such as Woodland Caribou.
- 4 Reducing greenhouse gas emissions along the full life cycle from forest to end of product life.
- 5 Improved prosperity of the Canadian forest sector and the communities that depend on it.
- 6 Recognition by the marketplace (e.g., customers, investors, consumers) of the CBFA and its implementation, in ways that demonstrably benefit FPAC Members and their products from the boreal forest.

**THROUGH THE CANADIAN BOREAL FOREST AGREEMENT, FOREST COMPANIES AND ENVIRONMENTALISTS ARE WORKING TOGETHER TO BUILD SOLUTIONS FOR THE ECONOMY AND THE ENVIRONMENT.**

### CANADIAN BOREAL FOREST AGREEMENT PARTNERS

- Alberta-Pacific Forest Industries Inc.
- AV Group
- Canfor Corporation
- Canfor Pulp Products Inc.
- Cariboo Pulp & Paper Company
- Cascades Inc.
- Conifex Timber Inc.
- Daishowa-Marubeni International Ltd.
- F.F. Soucy Inc.
- Howe Sound Pulp and Paper Limited Partnership
- Kruger Inc.
- Louisiana-Pacific Canada Ltd.
- Mercer International
- Mill & Timber Products Ltd.
- Millar Western Forest Products Ltd.
- NewPage Corporation
- Papier Masson Ltée
- Resolute Forest Products
- Tembec Inc.
- Tolko Industries Ltd.
- West FraserTimber Co. Ltd.
- Weyerhaeuser Company Limited *all represented by the Forest Products Association of Canada*
- Canadian Boreal Initiative
- Canadian Parks and Wilderness Society
- Canopy
- David Suzuki Foundation
- ForestEthics
- Greenpeace
- The Nature Conservancy
- Pew Environment Group International Boreal Conservation Campaign
- Ivey Foundation Boreal Initiative



# WE MAINTAIN RECREATION OPPORTUNITIES IN THE FORESTS WE MANAGE.

## RECREATION/VISUAL QUALITY

Forested landscapes provide local communities, area residents and tourists the opportunity for outdoor recreation activities in all seasons, including hiking, camping, hunting, trail riding, wildlife viewing, fishing, canoeing, cross country skiing and snowmobiling. They often require a remote wilderness experience, undisturbed setting, scenic areas, and access to fish, wildlife, and water.

Canfor manages forests to maintain these qualities. We protect scenery—in British Columbia, visual quality objectives are a resource management objective in law. Our operations meet

all visual quality requirements based on physical characteristics and social concerns. Harvest plans within established scenic areas require some form of visual assessment such as a site line analysis, a visual simulation package or a visual impact assessment.

We also maintain many public campsites and trails, both on our management lands and in nearby areas, as well as providing financial support for recreation sites under agreements with local municipalities.

## WORKING WITH FIRST NATIONS

Canfor strives to cultivate productive, respectful relationships with First Nations governments and aboriginal communities surrounding our operating areas. Through our certification commitments and requirements under regulation, Canfor staff aim through proactive engagement to gain acceptance of our forest management plans by affected First Nations based on a clear understanding of the plans.

The plans also include strategies to respect rights and interests of First Nations in non-timber forest products, including subsistence uses such as berry picking, mushroom picking, hunting, fishing, and medicinal plant collection. In many areas, First Nations people and other community members may rely on our operating areas to supply a portion of their dietary and medicinal requirements.

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**WE ARE COMMITTED TO SUSTAINABLE  
FORESTRY AT ALL LEVELS IN ALL  
OUR OPERATIONS.**



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# MANUFACTURING REPORT

**CANFOR STRIVES TO CONTINUOUSLY IMPROVE THE ENVIRONMENTAL SUSTAINABILITY OF OUR MANUFACTURING PROCESSES. WE PAY CLOSE ATTENTION TO ENERGY EFFICIENCY, AIR AND WATER QUALITY, WASTE MANAGEMENT, AND GREENHOUSE GAS EMISSIONS TO ENSURE THAT OUR FACILITIES OPERATE ACCORDING TO ALL REGULATORY STANDARDS.**

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In 2011, Canfor signed an agreement to acquire Tembec Inc.'s southern British Columbia interior wood products assets, including the Elko and Canal Flats sawmills. Upon receipt of customary regulatory approvals, this will add approximately 420 million board feet to Canfor's annual capacity. It includes a long-term agreement to provide a residual fibre supply for Tembec's Skookumchuck Pulp Mill.

The Vavenby sawmill in interior British Columbia underwent a \$24-million capital investment before reopening in 2011. At full production, it will add 240 million board feet of lumber to company annual production, with 96 jobs at the mill and another 30 jobs in logging and trucking. The Fort St. John sawmill

completed the last phase of its \$55-million capital upgrade, which included a new biomass-fired energy system, new planer mill and extensive mill modifications.

Canfor announced it would proceed with capital improvement projects totaling \$46.7 million at its sawmill facility in Grande Prairie, Alberta, and sawmill in Prince George, British Columbia. The sawmill improvement projects are part of a \$300-million, three-year strategic capital investment plan to use the latest technology to increase productivity and extract higher-grade products.

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**CANFOR IS INVESTING \$300 MILLION TO IMPROVE OUR FACILITIES.**

## LUMBER OPERATIONS

Canfor owns sawmills in British Columbia (Chetwynd, Fort St. John, Houston, Prince George, Mackenzie, Vanderhoof, Bear Lake, Quesnel, Vavenby, Radium Hotsprings), Alberta (Grande Prairie); Quebec (Ste. Foy); North Carolina (Graham), and South Carolina (Camden, Conway, Marion, Darlington, Myrtle Beach). Total annual production in 2011 was 3.57 billion board feet of lumber (3.14 billion board feet of Spruce-Pine-Fir, 0.43 billion board feet of Southern Yellow Pine).

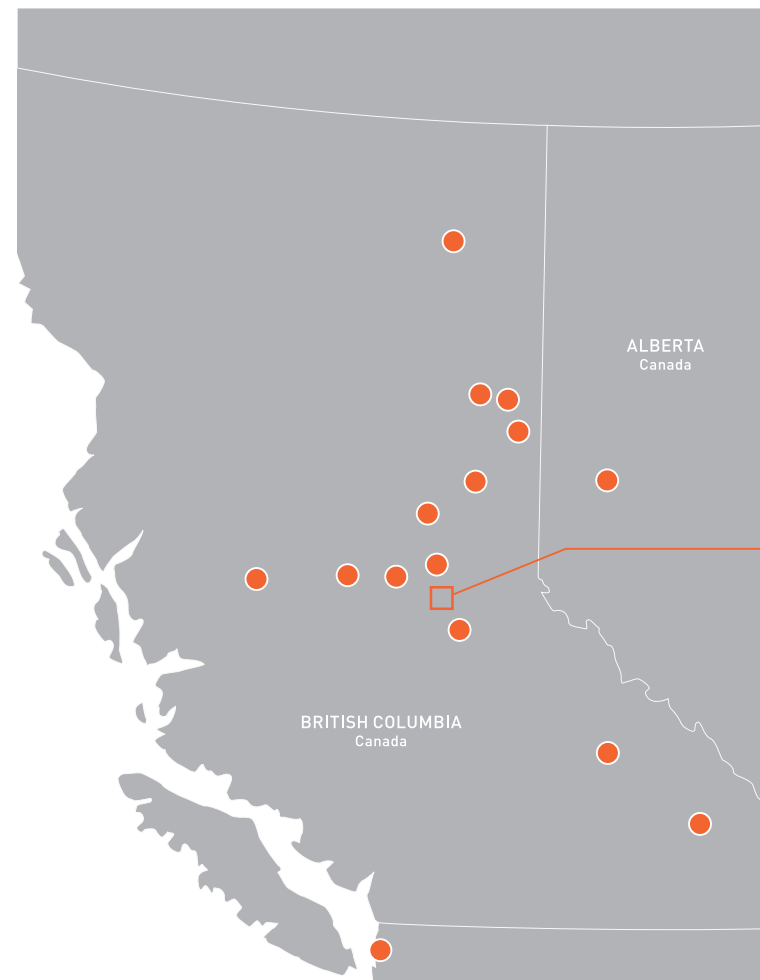
Most production was construction and specialty grade dimension lumber ranging in size from

1x3 inches to 2x12 inches, and in lengths from six to 24 feet. Specialty products included Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated ("MSR") lumber used in engineered applications such as roof trusses and floor joists.

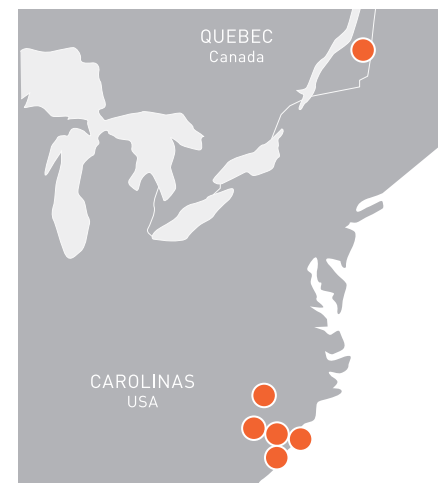
Canfor Southern Pine, with headquarters in Myrtle Beach, South Carolina, manufactures dimension lumber, a variety of specialty southern yellow pine lumber products, and treated lumber.

## MAP OF CANFOR OPERATIONS

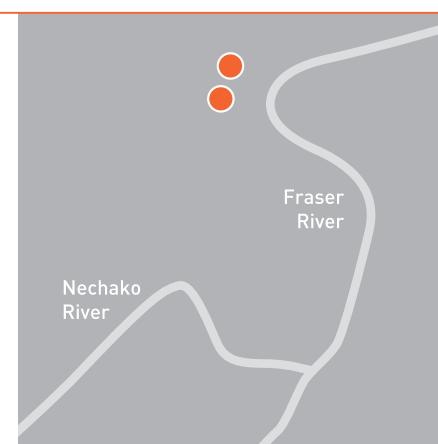
### WESTERN CANADA



### EAST COAST



### PRINCE GEORGE



## CARBON FOOTPRINT

Canfor has been reducing its carbon footprint since 2007, primarily by converting lumber drying systems heated by natural gas to wood residue fuelled systems. One of our strengths is virtually all of the fibre we harvest is converted into products. Wood residues generated at our sawmill operations that were once burned in inefficient beehive burners are now used as feedstock for renewable energy, for pulp production or, on a limited basis, for landscaping mulch. In 2011, we closed the last of our active beehive burners with the installation of a new wood residue energy system at our Plateau Sawmill near Vanderhoof.

Since 2007, Canfor has invested substantial capital on heat energy projects that utilize a portion

of the wood residuals from lumber manufacturing to dry lumber and heat the facilities. Systems have been installed at Houston (2007), Fort St. John (2009) and Mackenzie (2010). In addition to Plateau, systems were completed at Prince George and Chetwynd in 2011.

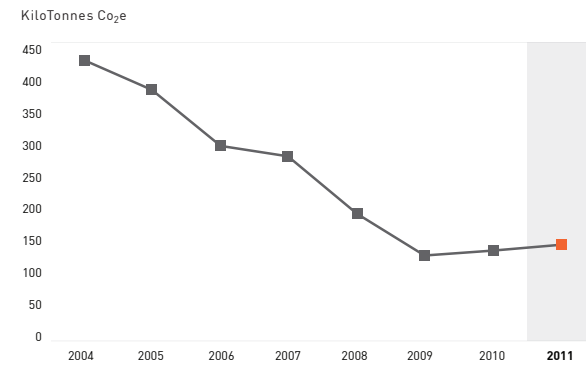
The recently purchased Canfor Green Energy biomass cogeneration facility in Grande Prairie also provides renewable heat and electricity for our sawmill and sells renewable electricity to the Alberta Power Pool.

Since 2006, Canfor and Pinnacle Pellet Inc., in partnership with the Moricetown First Nation, have operated a large wood pellet production facility adjacent to Canfor's sawmill in Houston, BC.

CANFOR'S  
UTILIZATION OF  
WOOD FIBRE IS  
ALMOST 100%.

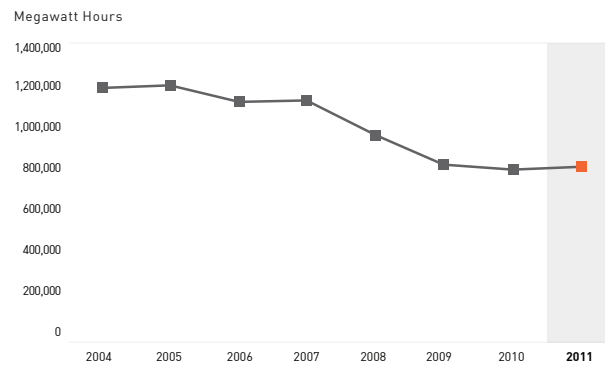


## CANFOR GREENHOUSE GAS EMISSIONS



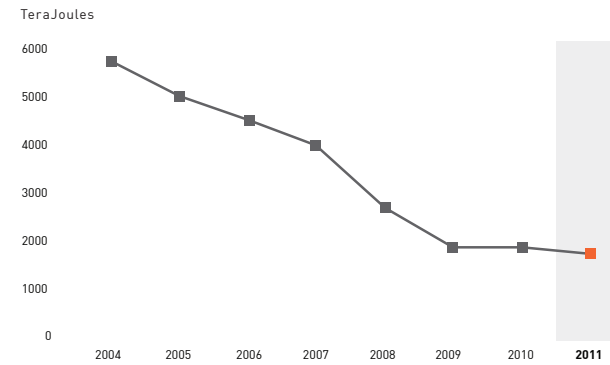
Canfor absolute greenhouse gas emissions trended down from 2004 to 2009 due to a combination of mill closures and installation of wood residue fuelled heat energy systems to replace natural gas fossil fuel. The recent slight increases in emissions are due to the restart of some operations closed during poor market conditions of 2008 and 2009. Greenhouse gas emissions per unit of lumber production continues to decline.

## CANFOR ELECTRICITY PURCHASES



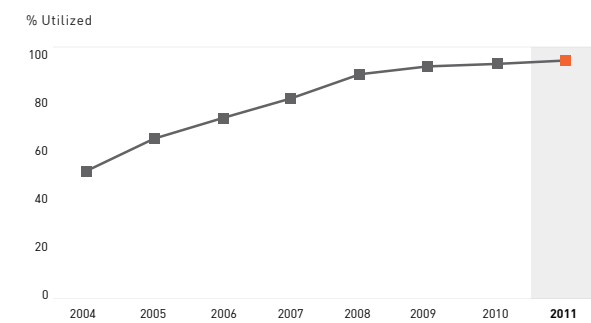
Canfor is aggressively pursuing energy-efficiency projects, and this has levelled off electricity purchases despite the restart of several sawmills in 2010 and 2011.

## CANFOR NATURAL GAS USE



Several wood residue fuelled heat energy systems were completed in 2011, and this will lead to further natural gas use reductions in 2012.

## CANFOR WOOD RESIDUE UTILIZATION



With the shutdown of Canfor's last operating beehive burner in mid-2011, the company is approaching 100% utilization of the wood residuals generated at our manufacturing facilities.

## COMPLIANCE-MANUFACTURING REPORT

Canfor was in substantial compliance with regulatory requirements at its manufacturing facilities in 2011 with the following exceptions—none of which led to monetary fines:

- **Air:** Canfor exceeded permitted particulate and formaldehyde emission limits at one operation once for each parameter. The issue has been resolved through changes in energy system operation and maintenance of pollution control equipment. At the same operation, during a shutdown for maintenance, energy system furnace emissions bypassed pollution control works. Operator training specific to air permit requirements has been conducted to prevent recurrence. At another operation, an air emission control device was installed for dust control without first seeking regulatory approval. A permit amendment application is being prepared.
- **Effluent:** At one operation, unprecedented rainfall events and flooding led to the overflow of a stormwater retention pond onto a neighbouring field—leading to a non-compliance advisory letter from the Ministry of Environment. Operating procedures and additional controls have been implemented to prevent recurrence.

- **Spills:** Canfor had four reportable spills at its operations as follows: one small hydraulic oil release to the ground due to a broken hydraulic hose; a small thermal oil release to the ground while pressure testing a thermal oil line; a small unstrapped propane tank rolled off a forklift, releasing its gaseous contents to the air; and a fire at one operation lead to release of a small quantity of oil in fire suppression water discharged to the snow from the sawmill building. Where possible, spills were contained and cleaned up, in all cases appropriate regulatory agencies were notified promptly and follow-up investigations completed.
- **Landfill:** Canfor exceeded permitted deposits of soil and woody debris removed as part of regular logyard maintenance at one operation. A permit amendment application to site a new landfill with increased deposition allowance is under review by the Ministry of Environment. A Ministry of Environment inspection of an inactive landfill at another facility indicated several non-compliance issues which were addressed shortly after receiving the inspection report.

## PERFORMANCE AGAINST OBJECTIVES AND TARGETS FOR 2011

### AUDITS

- **Objective:** We will conduct corporate environmental audits of one pulp mill, our joint venture Oriented Strand Board (OSB) plant and four sawmills.
- **Performance:** We completed environmental audits of one pulp mill, our joint venture OSB plant and six sawmills.

### CARBON FOOTPRINT

- **Objective:** In 2011, we will conduct a carbon footprint evaluation of our activities from the forest to end of product life.
- **Performance:** The carbon assessment is underway using a recognized forest industry carbon accounting tool and will be completed in 2012.

### BEEHIVE BURNER PHASE OUT

- **Objective:** We will eliminate our last operating beehive burner.
- **Performance:** The Plateau Tier 2 beehive burner in Vanderhoof was permanently shut down in July 2011 with the installation of a bark grinder and biomass heat energy system.





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**CANFOR  
EMPLOYEES**

# CANFOR CONTINUES TO BE THE SAFETY LEADER IN THE CANADIAN FOREST INDUSTRY.

## WORKFORCE

	Staff	% covered by collective bargaining agreements
Canadian Forest Products Ltd.	3,292 (2,776 male, 516 female)	52%
Daaquam	195 (185 male, 10 female)	N/A
Canfor Southern Pine	583 (525 male, 58 female)	N/A
Canfor USA	84 (77 male, 7 female)	N/A

### GENDER REPRESENTATION

Across all company operations covered by this report, Canfor employs 591 females and 3,563 males.

The forest products industry has a longstanding image as being heavy industrial employment, and has struggled to attract representative participation from women. This has been a sector-wide challenge: in 2002, 35% of students in the Faculty of Forestry at the University of British Columbia were female; in 2011, that number rose slightly to 42%. While this trend is encouraging, female enrollment remains low in some disciplines—for example, in wood products processing, a program of particular relevance to Canfor, only 13% of enrolled students are female.

Canfor is keen to do more to attract and retain women across all employment categories, including in our manufacturing operations and in management roles. Although the company is free from barriers to the participation of women, female participation lags behind that of men in virtually all employment categories.

Facing an aging workforce and growing competition for labour in the north, we recognize that we must do better at attracting and retaining women, indigenous people and others traditionally under-represented in our sector. General perceptions of the forest products sector do not reflect today's modern reality. Careers in the forest sector offer exciting challenges for people with diverse skill sets.

Canfor is committed to getting that message out and creating organic movement toward more representative employment over time. This will only come as a result of updating broadly-held public perceptions of manufacturing industry careers.

To this end, Canfor is:

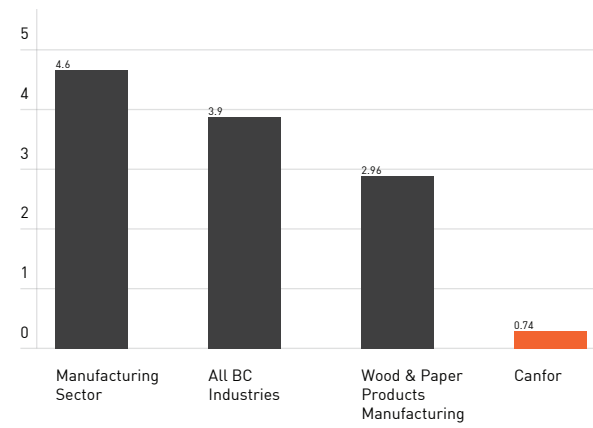
- actively positioning the company as a modern, high-tech, interesting workplace and educating students and the public on the diversity and benefits of a career at Canfor;
- seeking out co-op student and other placements for females and other target demographics underrepresented in our workforce;
- encouraging women to enter the trades;
- finding ways of accommodating part-time work, job-sharing, and other flexible work arrangements more appealing to people balancing careers and family obligations, most often women;
- working with educational institutions to help promote forest products careers as appealing to both genders; and
- instituting a mentorship program to facilitate upward mobility of talented individuals in the company.

## HEALTH & SAFETY

Canfor's top priority is the safety of its employees. This is something that is built into our corporate culture, and as a result Canfor employees have made the company a leader in safety.

Canadian Forest Products Ltd.'s 2011 injury rate of 0.74 (0.72 company-wide in 2010) remains among the lowest in the Canadian forest industry, and is less than one-third of the average of the forest products industry. In British Columbia, we are not only one of the safest lumber producers, we are one of the safest companies across all industries.

# OF LOST-TIME INCIDENTS PER 100 PERSON YEARS OF EMPLOYMENT



WorkSafe BC Manufacturing Industry Statistics 2004 - 2008:  
<http://www2.worksafebc.com/Portals/Manufacturing/Statistics.asp?ReportID=33820>

Canfor set an ambitious target for our operations to achieve a medial incident rate (MIR) of 2.0 or below. We fell short of this target in 2011, with an MIR across all companies of 2.20. However, our performance improved slightly from 2010, where our MIR was 2.21.<sup>7</sup>

We developed and delivered workshops in 2010 to highlight the importance of risk assessment and hazard awareness, and this in part is behind our safety performance improvement in 2011. Canfor continues to develop best practices by studying other industrial safety programs,

and conducts regular safety meetings so that safety committee members and operations leadership at each division can discuss incidents, challenges and potential solutions.

A number of operations outperformed our company-wide MIR target of 2.0, including the Marion remanufacturing plant in South Carolina and Peace Valley OSB in British Columbia (a joint venture between Canfor and Louisiana-Pacific Canada Ltd.), which had rates of zero.

In 2011, winners of our President's Safety Awards with the lowest MIR rates for the year were:

- **Sawmill:** Graham in North Carolina at 0.86 (Graham also had the lowest MIR for 2009-2011)
- **Remanufacturing:** Marion at zero
- **Woodlands and Trucking:** Woodlands at 1.03

Other mills that exceeded the company MIR target were Quesnel, BC (1.36), Plateau, BC (1.38), Daaquam, Quebec (1.52), Polar, BC (1.77) and Fort St. John, BC (1.99). New South Express, Canfor's trucking company in the Carolinas, also achieved an MIR of 1.22 in 2011, well below the target.

Accident Prevention Committees are active at union and non-union sites, with an equal number of members designated by employees and the employer. Best practices were entrenched and formalized in the 2010 contract agreement between the United Steelworkers and Canadian Forest Products Ltd.'s 13 forest divisions. Where possible, safety meetings are to be held during working hours and employees are not deducted for the time required for these meetings or for accident investigations.

Canfor and the United Steelworkers have developed and maintain a strong sense of safety awareness among employees and supervisors, and work together to ensure employees can recognize workplace hazards and stay safe on the job.

## HUMAN RESOURCES

### INVESTING IN OUR PEOPLE

Canfor understands that its strength comes from its skilled and dedicated employees, and we work hard to support them. This is reflected by the fact that our senior management team brings almost 150 years of combined experience working at Canfor.

Our CEO Don Kayne began his career with Canfor in 1979, and has held a variety of sales and marketing roles in our Wood Products Group. Before being appointed CEO last year, he was Canfor's Vice President, Wood Products Marketing and Sales, for 10 years and also served six years as General Manager, Wood Products Sales and Marketing. He completed the Forestry and Business Administration program at the British Columbia Institute of Technology.

Canfor salaried employees' performance is rated under the Canfor Salaried Incentive Plan. CSIP rewards employees based on their personal performance and the performance of the company. Canfor Human Resources also has a detailed succession plan for each key position that is updated annually. Every key management employee also has a personal development and training plan to prepare them to advance their careers within the company.

### REMUNERATION

Canfor offers competitive wage and salary packages that allow our people to build a stable lifestyle for their families in our communities. Wages for entry-level positions at Canadian Forest Products Ltd. operations in BC and Alberta start between \$23 and \$25 per hour, more than two and a half times the local minimum wages in our operating jurisdictions (\$9.40 per hour in Alberta, \$8.75 per hour in British Columbia).

### EMPLOYEE AND FAMILY ASSISTANCE PROGRAM

Canadian Forest Products Ltd. operates an Employee and Family Assistance Program that provides counseling and other support to staff in need. Our program ensures complete confidentiality for employees who utilize the program, and management is only provided with statistics on how many staff accessed the program and general information on the types of assistance sought.

In 2011, utilization of services provided in EFAP was slightly higher, with 96 clients this year compared to 86 for same period last year. Services sought were most often for help with family issues, including couples counseling, parenting advice and help with separation and divorce. Approximately nine per cent of assistance requests were related to drug or alcohol abuse.

In total, 55 of 66 employees who completed service plans in 2011 said the issues had a direct impact on their ability to work at a fully-functioning capacity. The services supplied through EFAP enabled ten employees to return to work who previously had felt unable to perform their duties adequately.

Canfor management is encouraged that our staff are accessing the EFAP program more often. Life presents many challenges, and seeking assistance through counseling and support services is an important way to take care of yourself and your family. Canfor will continue to provide this free and confidential service to employees, and to encourage our staff to use these services.

[7] Medical Incident Rate is the number of recordable incidents per 100 person years, including incidents where employees seek first aid or medical aid but do not miss a day of work due to the injury, and lost time incidents.



**PARTICIPATING IN OUR  
COMMUNITIES AND  
CIVIL SOCIETY**

## COMMUNITIES

CANFOR IS AN ACTIVE MEMBER OF COMMUNITIES WHERE WE OPERATE. THEY ARE AMONG THE MOST LIVABLE IN NORTH AMERICA, AND OUR COMPETITIVE COMPENSATION AND BENEFITS PACKAGES ALLOW EMPLOYEES TO HAVE AN EXCELLENT STANDARD OF LIVING.

Through our Corporate Sponsorship and Donation Program, we invest in these communities by funding charitable organizations that deliver innovative community programs focusing on:

- Youth & Education
- Community Enhancement
- Amateur Sports
- Health & Wellness

In 2011, Canadian Forest Products Ltd. donated \$394,645.42 to community groups in British Columbia and Alberta.

## SUPPORT LOCAL ECONOMIES

We contribute to local economies in the form of wages and benefits, property taxes, contract services, purchases of goods and services, and community donations. For examples:

- In 2010, Canfor contributed \$60 million to the local economy in the Grande Prairie area in wages and benefits, property taxes, contract services, purchases of goods and services, and community donations.
- In the Fort St. James operating area, qualified local businesses in north central British Columbia has an opportunity to

bid on 96% of tendered projects such as cruising, block layout, road layout and silviculture activities such as tree planting, surveys and stand tending.

- In most divisions, much of our spending on forest management went to local businesses—reaching as high as 99.4% in Vanderhoof and 97% in Prince George. And in order to ensure continual sustainable socio-economic conditions for local communities, we pay all taxes and stumpage billings on time.

## YOUTH AND EDUCATION

Canfor supports scholarships and bursaries for post-secondary students in education streams related to our core business. In 2011, we contributed to the following post-secondary institutions:

- University of Northern British Columbia
- University of British Columbia

- Northern Lights College
- Northern Alberta Institute of Technology

We also donated to several secondary schools in our communities.

## COMMUNITY ENHANCEMENT

In 2011, Canfor marked our 43<sup>rd</sup> consecutive year of partnership with the United Way, raising funds for community initiatives across British Columbia and Alberta. Canfor Southern Pine has partnered with the United Way for more than 30 years, funding initiatives in the Carolinas.

Canfor is a key sponsor of the new Charles Jago Northern Sports Centre on the campus of the University of Northern British Columbia in Prince George, BC. Together, Canfor and Canfor Pulp contributed \$500,000 toward construction of facility, which will provide training opportunities for high-performance athletes and rental space for minor sports groups.

Canfor is also a major contributor to the Kordyban Lodge in Prince George. This \$10 million facility being constructed by the Canadian Cancer Society will provide a

“home away from home” for cancer patients across BC’s north seeking treatment in Prince George.

Canfor supports many other diverse community groups, events and initiatives, focusing on communities where we operate. Some of the organizations we support include:

- BC Children’s Hospital Foundation
- Variety - The Children’s Charity
- Fraser Institute
- Junior Achievement of BC
- The Prince George Community Foundation
- Prince George United Way
- Prince George River Days Committee
- Various community food banks



# CANFOR SUPPORTS DIVERSE COMMUNITY GROUPS, EVENTS AND INITIATIVES IN THE COMMUNITIES WHERE WE OPERATE.

## TRADE ASSOCIATION AND OTHER MEMBERSHIPS

Canfor belongs to trade associations such as the Forest Products Association of Canada (FPAC), the Council of Forest Industries (COFI) in British Columbia and the Alberta Forest Products Association (AFPA). We are also members of the British Columbia Business Council and our CEO is a member of the Canadian Council of Chief Executives.

FPAC represents Canada's wood, pulp and paper producers nationally and internationally in government, trade, and environmental affairs. COFI is the voice of British Columbia's interior forest industry, and offers members service in the areas of forest policy, quality control, international

market and trade development, public affairs and community relations. FORESTCARE is the AFPA's program of continuous improvement, industry promotion, public education, issues management, public and government relations, transportation, and other resources.

The British Columbia Business Council was established in 1966 and represents in a policy and advocacy role 250 major enterprises doing business in BC. The Canadian Council of Chief Executives is a non-partisan not-for-profit organization composed of the CEOs of Canada's largest enterprises that undertakes a program of policy research, consultation and advocacy.

## POLITICAL CONTRIBUTIONS

In 2011, Canadian Forest Products Ltd. made \$123,338.84 in political contributions, concentrated in British Columbia. The majority of these funds are represented in two one-time contributions of

\$50,000 to each of BC's major political parties—the BC Liberals and the BC New Democratic Party—to support their activities in the province.

## JAPANESE EARTHQUAKE SUPPORT

Canfor has been providing quality building products to Japanese customers for more than three decades. In November, we joined other forest companies, Canada Wood Japan and the British Columbia and Canadian governments in providing \$4.5 million to help Japan rebuild its communities, homes and way of life after the devastating March 2011 earthquake and tsunami.

Immediately after the earthquake, Canfor and four other British Columbia forest products companies each donated \$100,000 to the Canadian Red Cross to provide relief in Japan. The Province of British Columbia matched the donations, bringing the total to \$1 million.



# LOOKING AHEAD TO 2012

AS CANFOR MOVES TOWARD ITS 75<sup>TH</sup> ANNIVERSARY IN 2013, WE WILL BUILD ON OUR MANY SUCCESSES AS A SAFE, SUSTAINABLE SUPPLIER OF QUALITY SOFTWOOD LUMBER AND OTHER NATURAL WOOD-BASED BUILDING SOLUTIONS.

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We will continue to conduct our business in a manner that is transparent and accountable, and look for ways to improve our business in every way.

## FORESTRY AND MANUFACTURING OBJECTIVES AND TARGETS FOR 2012

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### FORESTRY TARGETS

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- Reduce the number of harvest and road boundary location errors by 22%.
- Reduce the operational related impacts on fish habitat by 50%—to one incident from two in 2011.
- Reduce the number of occurrences of sedimentation and/or disruption of water flow by 40%—to three incidents from five in 2011.

### AUDITS

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- We will complete six internal environmental audits of solid wood facilities, maintaining a 3 year cycle of audits for all our manufacturing facilities.

### CARBON FOOTPRINT

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- We will complete the carbon footprint evaluation of our activities.

### TRANSFORMATIVE TECHNOLOGIES

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- We will seek out new, innovative technologies to create additional value from our woodlands and manufacturing by-products.

### SAFETY GOALS

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Company-wide Medical Incident Rate of 2.0 or lower.

### COMMUNITY GOALS

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- Meet with the Mayor and Council of each Canfor community at minimum once in 2012.
- Host participation of exceptional aboriginal youth in the National Aboriginal Achievement Awards.
- Formalize Canfor's educational institutions donations policy to ensure fairness between the institutions to which we contribute and update scholarship values to reflect current costs of education.

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WE CONTINUE TO LOOK FOR WAYS TO IMPROVE OUR BUSINESS IN EVERY WAY.



WE ARE PROUD OF OUR HISTORY  
BUT WE HAVE OUR SIGHTS SET  
ON THE FUTURE. AS GLOBAL  
DEMAND FOR ENVIRONMENTALLY  
SUSTAINABLE WOOD PRODUCTS  
CONTINUES TO GROW, THE  
OPPORTUNITIES FOR CANFOR  
AND ITS DEDICATED EMPLOYEES  
HAVE NEVER BEEN BRIGHTER.

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Questions about this report can be directed to:

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Vancouver, BC V6P 6G2 Canada  
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APPENDIX 1  
**GRI CONTENT INDEX**

	Reported	Location
<b>STRATEGY AND ANALYSIS</b>		
1.1	•	SR: CEO's message (p 11-12)
1.2	•	SR: Throughout
<b>ORGANIZATIONAL PROFILE</b>		
2.1	•	SR: Company Profile (p 13)
2.2	•	SR: Company Profile (p 13) AR: Company Overview (p 8-9)
2.3	•	AR: Company Overview (p 8-9) SR: Company Profile (p 13)
2.4	•	SR: Company Profile (p 13) AR: Company Overview (p 8-9)
2.5	•	SR: Company Profile (p 13) AR: Company Overview, Overview of 2011 (p 8-15)
2.6	•	AR: Company Overview (p 8-9)
2.7	•	AR: Company Overview; Overview of 2011 (p 8-15)
2.8	•	SR: Company Profile (p 13) SR: Company Profile Overview (p 8-9)
2.9	•	SR: About this Report (p 2) SR: Operations changes (p 42)
2.10	•	SR: Company Profile (p 13)
<b>REPORT PROFILE</b>		
3.1	•	SR: About this Report (p 2)
3.2	•	March 2011 (for 2010 calendar year)
3.3	•	Annual
3.4	•	SR: (p 63)
<b>REPORT SCOPE AND BOUNDARY</b>		
3.5	•	SR: About this Report (p 2)

	Reported	Location
3.6	•	SR: About this Report (p 2)
3.7	•	SR: About this Report (p 2)
3.8	•	SR: About this Report (p 2)
3.9	•	SR: Throughout
3.10	N/A	N/A
3.11	•	SR: About this Report (p 2)
<b>GRI CONTENT INDEX</b>		
3.12	•	This document
<b>ASSURANCE</b>		
3.13	•	Assurance of this report was not sought but will be considered for subsequent sustainability reports prepared to GRI.
<b>GOVERNANCE</b>		
4.1	•	Annual Information Circular

	Reported	Location
4.2	•	Annual Information Circular
4.3	•	Annual Information Circular
4.4	•	Annual Information Circular
4.5	•	Annual Information Circular
4.6	•	Annual Information Circular
4.7	•	Annual Information Circular
4.8	•	SR: Throughout www.canfor.com
4.9	•	Annual Information Circular
4.10	•	Annual Information Circular
<b>COMMITMENT TO EXTERNAL INITIATIVES</b>		
4.11	•	SR: Sustainable Forest Management Report (p 18–32)

	Reported	Location
4.12	•	SR: Sustainable Forest Management Report (p 18–31); Engaging Stakeholders (p 32–39); www.canfor.com
4.13	•	SR: Trade Association Memberships (p 58)
<b>STAKEHOLDER ENGAGEMENT</b>		
4.14	•	SR: Appendix 2
4.15	•	First Nations territory boundaries; Public Advisory Groups; Any member of the public commenting on management plans; Governments of all levels; www.canfor.com/responsibility/environmental/certification
4.16	•	SR: Sustainable Forest Management Report (p 18–32); www.canfor.com/environmental/certification
4.17	•	SR: Sustainable Forest Management Report (p 18–32); Public engagement in forest management activities is tracked and reported in Sustainable Forest Management Plans and associated Annual Reports, all available on www.canfor.com/responsibility/environmental/certification
<b>ECONOMIC PERFORMANCE</b>		
		AR: Throughout
EC1	•	AR: Throughout SR: 2011 Key Facts and Figures (p 14)
EC2	•	SR: Responding to Climate Change (p 28–29)
EC3	•	AR: Employee Future Benefits (p 32–33)

	Reported	Location
EC5	•	SR: Canfor Employees (p 52)
EC7	•	SR: Work Globally, Lead Locally (p 16)
<b>ENVIRONMENTAL PERFORMANCE</b>		
	•	SR: Throughout SFMP: <a href="http://www.canfor.com/responsibility/environmental/certification">http://www.canfor.com/responsibility/environmental/certification</a>
EN5	•	SR: Manufacturing Report (p 44–45)
EN11	•	SR: Sustainable Forest Management Report (p 21)
EN12	•	SR: Sustainable Forest Management Report (p 18–32) SFMP: <a href="http://www.canfor.com/responsibility/environmental/certification">http://www.canfor.com/responsibility/environmental/certification</a>
EN13	•	SR: Regenerating Forests (p 27) SFMP: <a href="http://www.canfor.com/responsibility/environmental/certification">http://www.canfor.com/responsibility/environmental/certification</a>
EN14	•	SR: Sustainable Forest Management Report (p 18–32) SFMP: <a href="http://www.canfor.com/responsibility/environmental/certification">http://www.canfor.com/responsibility/environmental/certification</a>
EN18	•	SR: Manufacturing report (p 40–47)
EN23	•	SR: Manufacturing Report (p 40–47); Forestry Report
EN28	•	SR: Compliance Report – Forestry (p 24); Compliance Report – Manufacturing (p 46)

	Reported	Location
<b>SOCIAL PERFORMANCE</b>		
		SR: Canfor Employees; Communities (p 48 – 59) SFMP: <a href="http://www.canfor.com/responsibility/environmental/certification">http://www.canfor.com/responsibility/environmental/certification</a>
LA1	•	SR: Canfor Employees (p 50)
LA4	•	SR: Canfor Employees (p 50)
LA7	• <sup>8</sup>	SR: Canfor Employees (p 51)
LA8	•	SR: Canfor Employees (p 52)
LA9	•	SR: Canfor Employees (p 51)
LA12	• <sup>9</sup>	SR: Canfor Employees (p 52)
S05	•	SR: Participating in Our Communities and Civil Society (p 54–58)
PR3	•	SR: : Independent certification (chain of custody) (p 26)
S06	•	SR: Participating in Our Communities (p 58)

[8] Injury, lost time incidents and medical incident rate reported but not by gender  
[9] Program described but statistics not available as part of records system

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**APPENDIX 2**  
**LIST OF**  
**FIRST NATIONS,**  
**GOVERNMENTS AND**  
**OTHER STAKEHOLDERS**

# CANFOR WORKS WITH THE FOLLOWING FIRST NATIONS, COMMUNITIES AND OTHER STAKEHOLDER GROUPS.

## FIRST NATIONS

- Akisq'nuk First Nation
- Blueberry River First Nation
- Carrier Chilcotin Tribal Council Society
- Carrier Sekani Tribal Council
- Cheslatta Carrier Nation
- Doig River First Nation
- Esdilagh First Nation
- Fort Nelson First Nations
- Gitxsan Chief's Office
- Hagwilget Village Council
- Halfway River First Nations
- Ktunaxa Nation Council Society
- Kwadacha First Nation
- Lake Babine Nation
- LheidliT'enneh
- Lhoosk'uz Dene First Nation
- Lhtako Dene Nation
- Lower Kootenay Band
- McLeod Lake Indian Band
- Moricetown Band
- NadlehWhuten Indian Band
- Nazko First Nation
- Nak'azdli First Nation
- Nee TahiBuhn Band
- Office of the Wet'suwet'en
- Prophet River First Nation
- Saik'uz First Nation
- Salteau First Nations
- Shuswap Indian Band
- Skin Tyee Band
- Stellat'en First Nation
- St.Mary's Band
- Takla Lake First Nation
- Tl'azt'en Nation
- Tobacco Plains Indian Band
- Treaty 8 Tribal Association
- Ts'ilKazKoh First Nation
- Tsilhqot'in National Government
- TsayKeh Dene Ban
- Ulkatcho First Nation
- West Moberly First Nations
- Wet'suwet'en First Nation
- Yekooche First Nation

## FOREST INDUSTRY GROUPS

- Business Council of BC
- Coast Forest Products Association
- Council of Forest Industries
- Foothills Landscape Management Forum
- Forest Engineering Research Institute of Canada (Vavenby division)
- Forest Products Association of Canada

## ENVIRONMENTAL GROUPS

### CANADIAN BOREAL FOREST AGREEMENT PARTNERS

- Canadian Boreal Initiative
- Canadian Parks and Wilderness Society
- Canopy
- David Suzuki Foundation
- ForestEthics
- Greenpeace
- The Nature Conservancy
- Pew Environment Group International Boreal Conservation Campaign
- Ivey Foundation

### FOREST CERTIFICATION PROGRAMS

- Canadian Standards Association (CSA) Sustainable Forest Management (SFM)
- Forest Stewardship Council (FSC)
- International Organization for Standardization (ISO) Environmental Management System (EMS)
- Programme for the Endorsement of Forest Certification (PEFC)
- Sustainable Forestry Initiative (SFI)

### PROVINCIAL AND FEDERAL GOVERNMENTS

- Government of Alberta
- Government of British Columbia
- Government of Canada
- Government of Quebec
- State of North Carolina
- State of South Carolina
- State of Washington
- Consulate General of China, India, Japan, Korea, United States

### MUNICIPAL GOVERNMENTS

- Bellingham
- Camden
- Chetwynd
- Clearwater
- Conway
- Darlington
- Fort Nelson
- Fort St James
- Fort St John
- Graham
- Grande Prairie
- Hines Creek
- Houston
- Invermere
- Mackenzie
- Marion
- Myrtle Beach
- Prince George
- Quebec City
- Quesnel
- Radium Hot Springs
- Taylor
- Vancouver
- Vanderhoof
- Vavenby







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