



**Canfor Pulp Products Inc.**

**Annual Information Form**

**Information in this Annual Information Form  
is as at March 1, 2022 unless otherwise indicated**

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## FORWARD LOOKING INFORMATION

This Annual Information Form contains forward looking statements, which are statements that address circumstances, events or developments that the Company expects or anticipates may occur in the future. These forward looking statements reflect management's current expectation and belief regarding such developments, circumstances or events and are based on assumptions, including assumptions with regard to economic and general business conditions in Canada as well in the United States and other factors management believes are appropriate in the circumstances. Such forward looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what their impact will be on the Company. Actual outcomes and results will depend on a number of factors which could cause actual results, performance or developments to differ materially from those expressed or implied by such forward looking statements in this Annual Information Form, including the "Risks and Uncertainties" described in the Company's Management's Discussion and Analysis for the year ended December 31, 2021, which are incorporated by reference herein and can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Accordingly, readers should exercise caution in relying upon forward looking statements which reflect management's estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these statements to reflect subsequent events or changes in circumstances, except as required by applicable securities laws.

## CURRENCY

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to "\$" are to Canadian dollars.

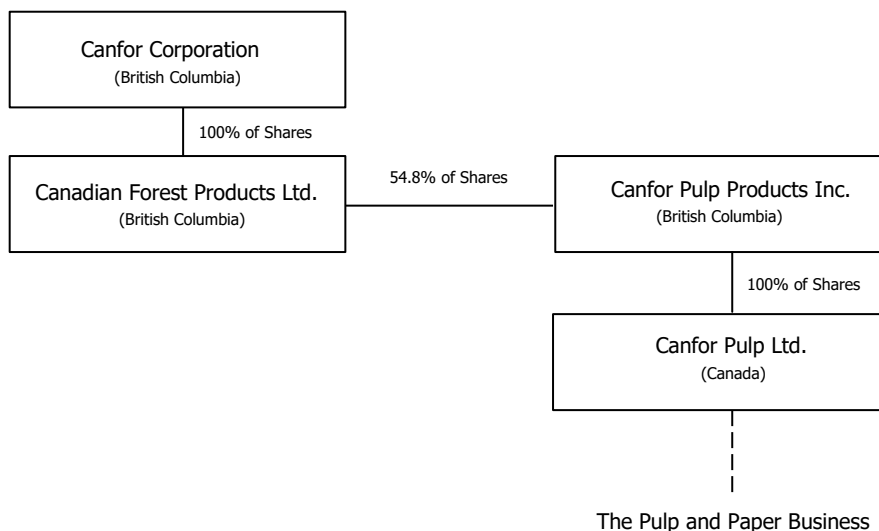
## INCORPORATION

Canfor Pulp Products Inc. (the "Company") was incorporated on March 12, 2010 under the *Business Corporations Act* (British Columbia). The Common Shares of the Company are listed and traded on the Toronto Stock Exchange ("TSX").

The registered and head office of the Company is located at 100 - 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia. In this Annual Information Form, Canfor Pulp Products Inc. is referred to as the "Company" and, unless otherwise indicated by the context, "CPPI" refers to the Company and its subsidiaries as described under "Corporate Structure" below.

## CORPORATE STRUCTURE

The following chart shows, on a simplified basis, as at December 31, 2021, the inter-corporate relationships among the Company and its material subsidiaries (including jurisdiction of incorporation of the various entities) and its majority shareholder, Canfor Corporation ("Canfor") and Canfor's wholly owned subsidiary, Canadian Forest Products Ltd. ("CFP").



## BUSINESS OF CPPI

CPPI is a leading global supplier of pulp and paper products with operations based in the central interior of British Columbia. The Company is one of Canada's largest producers of Northern Bleached Softwood Kraft ("NBSK") pulp for sale on the open market, based on the production capacity of its existing facilities. The Prince George paper machine is the largest producer of its types of bleached high performance kraft paper in North America.

CPPI owns and operates the Northwood pulp mill, the Intercontinental pulp mill, the Prince George pulp and paper mill, and the Taylor pulp mill (together, the "Mills") with annual capacity to produce for sale to the market approximately 1.1 million tonnes of northern softwood market kraft pulp (the significant majority of which is bleached to become NBSK pulp), 230,000 tonnes of Bleached Chemi-Thermo Mechanical Pulp ("BCTMP"), and 140,000 tonnes of bleached and unbleached kraft paper. In addition, CPPI generates power at all of its NBSK pulp mills and has long-term agreements with a BC energy company for electrical load displacement and the sale of power. The capacity and production figures set out in this Annual Information Form are presented as at December 31, 2021.

### General Development

CPPI's overall business strategy is to be a pulp and paper industry leader with strong financial performance, accomplished through:

- Attaining world-class safety performance;
- Implementing a sustainability strategy that is helping to protect our planet, support our people and communities, and produce pulp and paper products that are an important part of a low-carbon economy;
- Contributing to the climate change solution through a wide range of innovative high-value carbon-rich sustainable products, and materially reducing its reliance on fossil fuels;
- Optimizing the value from its high-quality premium reinforced pulp and paper products, particularly in specialty end use applications;
- Attaining world-class supply chain performance and providing excellence in customer service;
- Targeting a highly cost-efficient operating position;
- Maintaining a strong financial position;
- Growing an enterprise-wide culture of innovation, diversity and engagement by attracting, retaining and developing our employees; and
- Capitalizing on accretive growth and diversification opportunities, particularly in the bioeconomy sector.

In support of these strategies, the Company, during the past three financial years, has made investments of approximately \$255 million at its pulp and paper operations, as further described below.

### Significant Events

Significant events for CPPI over the past three fiscal years have been the following:

#### *Coronavirus outbreak*

On March 11, 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic.

In 2020, due to negatively impacted global demand for forest products and disrupted supply chain networks and fibre supplies, Canfor announced curtailments discussed below in "Temporary Production Curtailments". In addition to these measures, the Company received a Canada Emergency Wage Subsidy ("CEWS") from the Government of Canada under its program to support eligible employers who experienced a meaningful reduction in revenue. As a result of material revenue declines incurred by the Company in the second half of 2020, the Company recognized a CEWS of \$12.9 million in 2020.

Apart from the curtailments, as an essential service, the Company has continued to operate, albeit with some minor disruptions, increased safety protocols and additional cleaning and sanitizing activities. The Company continues to closely monitor the impacts of COVID-19, however, and should the duration, spread or intensity of the pandemic further develop, the supply chain, market pricing and customer demand could be further affected.

During the year ended December 31, 2021, there were no significant adverse impacts of COVID-19 on the Company. However, management continues to closely monitor its effects on the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

#### *Temporary Production Curtailments*

Extreme weather in BC including wildfires, flooding and intense cold, led to significant rail and road disruptions as well as pulp mill operational upsets in 2021. These conditions were coupled with global port congestion and container shortages and ongoing COVID-19 absenteeism. The Company responded decisively to these challenges by continuing to prioritize the safety of employees, and, in the fourth quarter of 2021, took production curtailments at its Northwood NBSK pulp mill ("Northwood") and its Taylor BCTMP mill ("Taylor").

In 2020, in response to the substantial impacts of COVID-19 on global pulp markets and the effect on lumber sawmill operating rates in the British Columbia ("BC") Interior, materially impacting residual fibre supply to the Company's Prince George based operations, the Company took phased curtailments at its Intercontinental, Northwood, and Prince George NBSK pulp mills in Prince George, British Columbia. Through the second and third quarters of 2020, the phased COVID-19 fibre-related curtailments reduced pulp production by approximately 73,000 tonnes of NBSK pulp. In 2019, pulp production was most notably impacted by phased market and fibre-related curtailments at all of the Company's pulp and paper facilities, which reduced pulp production by 140,000 tonnes.

#### *Recovery Boiler Replacements*

In December 2021, the Company extended its outage on one production line at Northwood to enable the replacement of the lower furnace on recovery boiler number 1 ("RB1"). This lower furnace capital rebuild is anticipated to be completed late-March 2022, for a total capital cost of approximately \$30.0 million and total reduction in NBSK pulp production of approximately 80,000 tonnes (10,000 tonnes in 2021 and a further 70,000 tonnes in the first quarter of 2022).

In October 2020, the Company extended its fall maintenance outage on one production line at the Company's Northwood pulp mill to enable the replacement of the lower furnace on its recovery boiler number five ("RB5"). This lower furnace capital-rebuild was completed in January 2021, as planned, with a total capital cost of approximately \$27.0 million and total reduction in NBSK pulp production of 70,000 tonnes (60,000 tonnes in the fourth quarter of 2020 and a further 10,000 tonnes in January 2021). The RB5 lower furnace replacement, in conjunction with upper furnace upgrades completed in 2020, are projected to materially extend the useful life of RB5.

#### *Normal Course Issuer Bids*

On March 6, 2020, the Company's normal course issuer bid expired and was not renewed. In 2021 and 2020, the Company did not purchase any Common Shares. As at December 31, 2021 and March 1, 2022, Canfor's ownership interest in CPPI was 54.8%.

### **Trends, Events, Risks and Uncertainties**

For additional information regarding changes to CPPI's business expected in 2022, and known trends, commitments, events or uncertainties, see CPPI's "2021 Management's Discussion and Analysis", in particular, the "Outlook" and "Risks and Uncertainties" sections thereof, which are incorporated by reference herein and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Business Segments**

CPPI's business is in two reportable segments, "Pulp" and "Paper". The Pulp segment includes the Company's four pulp mills: the Northwood pulp mill; the Intercontinental pulp mill; pulp produced at the Prince George pulp and paper mill; and the Taylor pulp mill. The Paper segment includes kraft paper produced at the Prince George pulp and paper mill.

The Northwood pulp mill is a two-line pulp mill with an annual production capacity of approximately 600,000 tonnes of NBSK pulp, making it the largest NBSK pulp facility in North America. Northwood's pulp is used to make a variety of

products including specialty products, premium tissue and printing and writing paper, and is primarily delivered to customers in North America and Asia.

The Intercontinental pulp mill is a single-line pulp mill with an annual production capacity of approximately 320,000 tonnes of NBSK pulp. Intercontinental's pulp is used to make substantially the same products as that of Northwood, and is delivered to North America, Asia and Europe.

The Prince George pulp and paper mill is an integrated two-line pulp and paper mill with an annual market pulp production capacity of approximately 150,000 tonnes of kraft pulp and approximately 140,000 tonnes of kraft paper. The Prince George pulp and paper mill supplies to pulp markets in North America, Asia and Europe, as well as to its internal paper making facilities. The paper mill supplies primarily North American, Asian and European markets, with a wide range of high performance bleached and unbleached kraft and specialty papers.

The Taylor pulp mill is a BCTMP mill located in Taylor, British Columbia with an annual production capacity of 230,000 tonnes of BCTMP. The Taylor pulp mill supplies markets in North America and Asia.

The following table sets out, by business segment, CPPI's total sales revenues for the last two years. Further details can be found in the Company's annual financial statements:

	<b><u>Years ended</u></b> <b><u>December 31,</u></b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
	(Millions of dollars)	
Pulp .....	\$984.7	\$827.9
Paper .....	160.2	162.6
Other .....	-	-
<b>Total sales</b> .....	<b><u>\$1,144.9</u></b>	<b><u>\$990.5</u></b>

The following table indicates the percentage composition of CPPI's consolidated sales revenues by market for the last two years. Further details can be found in the Company's annual financial statements:

	<b><u>Years ended</u></b> <b><u>December 31,</u></b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
Canada .....	6%	8%
United States .....	20%	25%
Europe .....	4%	4%
Asia .....	67%	60%
Other .....	3%	3%
<b>Total</b> .....	<b><u>100%</u></b>	<b><u>100%</u></b>

## FIBRE SUPPLY

### General

When running at full capacity, the Mills' ongoing annual fibre requirements are approximately 2.5 million oven-dried metric tonnes ("ODTs") of wood chips and 400,000 ODTs of hog fuel. The availability of wood chips for purchase and processing in the northern interior of British Columbia is influenced significantly by the timber supply in the Prince George, Mackenzie, and Peace River timber supply areas and by the operating rates of sawmills within the geographic area of fibre supply for the Mills.

## **Fibre Supply Agreements**

The Company has two fibre supply agreements (the "Fibre Supply Agreements") with Canfor, under which Canfor has agreed to supply the Company with annual quantities of residual wood chips and hog fuel produced from specified Canfor sawmills. Prices paid by the Company for residual wood chips are based on a pricing formula that results in the Company paying market prices for wood chips, subject to adjustments to the formula to reflect market conditions and other factors such as wood chip quality. The Fibre Supply Agreements exist in perpetuity and pricing mechanisms are renewed and amended every three years to reflect new circumstances. As part of the sale by Canfor of the BCTMP Taylor pulp mill to CPPI in 2015, the Company entered into a long-term fibre supply agreement under which Canfor supplies fibre to the Taylor pulp mill at prices that approximate fair market value. In 2018, the chip pricing for CPPI's NBSK pulp mills was renewed for another three-year period and the chip pricing for CPPI's BCTMP mill was extended in 2020 to harmonize the BCTMP and NBSK pulp renewal periods in 2021. On June 30, 2021, however, the chip pricing agreement for CPPI's NBSK pulp mills expired. The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in the second quarter of 2022.

Canfor also supplies the Company with pulp logs or other pulpwood harvested from its woodlands operations, at market prices.

Canfor also supplies the Company with agreed annual quantities of hog fuel produced from specified Canfor sawmills. The price paid by the Company to Canfor for hog fuel supplied under the Fibre Supply Agreements is based on market prices. The hog fuel pricing under the Fibre Supply Agreements is renewed from time to time and amended to reflect market conditions.

## **Other Fibre Supply Arrangements**

The Mills currently have chip supply agreements with different suppliers in British Columbia, other than Canfor, which account for approximately 1.0 million ODTs of wood chips on an annual basis. The majority of these agreements have terms of five years or longer. Each agreement permits the Mills to purchase wood chips available at a specified sawmill or source wood chips from a chipping operation, subject to the terms and conditions of each agreement.

Pricing for wood chips purchased from a sawmill under these agreements is based on similar formulas as used in the Fibre Supply Agreements and reflective of current and forecast market conditions.

Assuming the Company's suppliers of wood chips and hog fuel continue to operate at current capacity levels, the Fibre Supply Agreements, together with supplemental agreements by CPPI with third parties for the supply of wood chips and hog fuel, are expected to continue to satisfy all of the anticipated chip and hog fibre requirements to operate the Mills at their current capacity levels of operation. For additional information regarding CPPI's fibre supply, see the Company's "2021 Management's Discussion and Analysis", in particular, the section titled "Risks and Uncertainties – Raw Material Costs", which is incorporated by reference herein and available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **PULP**

Approximately 81% of the NBSK market pulp production of the Mills is focused on bleached NBSK pulp in order to meet the demands of the Company's customers. The Prince George pulp and paper mill also produces speciality varieties of unbleached pulp with smaller quantities of unbleached pulp also being produced by the Northwood and Intercontinental pulp mills.

The following table shows pulp sales for pulp produced by the Mills, excluding remarketed product, for the last two years, classified by sales region:

### Market Pulp Sales by Geographic Region

	<u>Years ended</u> <u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	(tonnes)	
Americas .....	168,764	225,988
Europe .....	31,212	29,435
Asia .....	807,133	789,202
<b>Total sales.....</b>	<b><u>1,007,109</u></b>	<b><u>1,044,625</u></b>

The following table shows the pulp production of the Mills for the last two years, classified according to the variety of pulp produced:

### Market Pulp Production

<u>Product</u>	<u>Years ended</u> <u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	(tonnes)	
Bleached – Northwood Pulp Mill .....	420,784	406,256
Bleached – Intercontinental Pulp Mill .....	260,330	253,604
Unbleached – Northwood Pulp Mill .....	36,202	8,338
Unbleached – Intercontinental Pulp Mill .....	1,594	2,977
Unbleached – Prince George Pulp Mill .....	122,842	123,181
BCTMP – Taylor Pulp Mill .....	<u>176,557</u>	<u>223,308</u>
<b>Total production.....</b>	<b><u>1,018,309</u></b>	<b><u>1,017,664</u></b>

### PAPER

The Prince George kraft paper mill supplies primarily North American, Asian and European markets with a wide range of both bleached and unbleached kraft paper grades.

The following table shows sales of kraft paper produced by the Prince George mill for the last two years, classified by sales region:

### Kraft Paper Sales by Geographic Region

	<u>Years ended</u> <u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	(tonnes)	
Americas.....	107,262	107,506
Europe / Middle East.....	10,311	9,980
Asia.....	<u>9,639</u>	<u>14,006</u>
<b>Total sales .....</b>	<b><u>127,212</u></b>	<b><u>131,492</u></b>

The following table shows the kraft paper production of Prince George pulp and paper mill for each of the last two years, classified according to the variety of kraft paper produced:



## Kraft Paper Production

<b><u>Product</u></b>	<b><u>Years ended</u></b> <b><u>December 31,</u></b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
	(tonnes)	
Bleached.....	107,198	111,482
Unbleached.....	<u>18,586</u>	<u>11,925</u>
<b>Total production .....</b>	<b><u>125,784</u></b>	<b><u>123,407</u></b>

### CPPI Markets and Distribution

The Company has a sales and marketing department staffed by full time professionals who are responsible for global sales of the pulp produced by the Mills. Customers in the Americas are serviced through the Vancouver office. European and Asian customers (excluding Chinese, Japanese, and Korean customers) are serviced mostly through long-term sales agents. Sales agents generally realize a commission based either on a percentage of the net selling price of the pulp, or on a rate per tonne of pulp sold, with the fee varying depending on the selling price, services provided, and the tonnage sold. Canfor subsidiaries and satellite offices in China, Japan and Korea provide the Company with direct to market representation in these countries.

In prior years, the Company's sales network represented and co-marketed UPM-Kymmene ("UPM") pulp products in North America, Japan and Korea, while UPM's pulp sales network represented and co-marketed the Company's products in Europe and China, as part of a strategic sales and marketing cooperation agreement, named Fibre United. In 2019, the Company and UPM made a joint decision to end this strategic sales and marketing cooperation agreement to enable the development of each company's strategic directions. For the Company, this means conducting its own direct marketing to its markets including China, Japan and Korea. The cooperation remained in place until the end of 2019.

Premium 1 Papers, a sales and marketing partnership between CPPI and Canadian Kraft Paper Industries Limited ("CKP"), is responsible for marketing all bleached and unbleached kraft paper products produced by the Company's Prince George kraft paper mill's operation and CKP's unbleached kraft paper mill in The Pas, Manitoba. Premium 1 Papers currently employs 16 full time marketing professionals. In 2021, the Company and CKP made a joint decision to end this partnership, effective April 2022, to enable each company's strategic directions. For CPPI, this will mean conducting its own direct marketing to its bleached and unbleached kraft paper customers, serviced primarily through its Vancouver office.

The Company uses various modes of surface transportation to distribute its pulp and kraft paper products. In the case of pulp, product is shipped from the Mills by rail or truck, with each of the mills serviced by at least one dedicated rail spur. In the case of kraft paper, due to the smaller average order size, a much higher percentage is shipped by truck, with the balance shipped by rail. Products destined for overseas customers are generally transported by breakbulk cargo vessel for European customers and by either breakbulk or container cargo vessels for Asian customers.

For a detailed discussion of the markets for the Company's pulp and paper products, see the Company's "2021 Management's Discussion and Analysis", in particular, the "Pulp – Markets" and "Paper – Markets" and "Outlook – Pulp Markets" and "Outlook – Paper Markets" sections thereof, which are incorporated by reference herein and available on SEDAR at [www.sedar.com](http://www.sedar.com).

## HUMAN RESOURCES

As at December 31, 2021, the Company employed 1,277 people throughout the organization. Approximately 66% of these employees are hourly employees covered by collective agreements with the UNIFOR and the PPWC. Labour agreements with the UNIFOR and the PPWC (Public and Private Workers of Canada) covering the pulp and paper operations were successfully concluded and ratified in 2017 for a term of four years and expired on April 30, 2021. A new four-year agreement was ratified in February 2022 and will expire on April 30, 2025.

## ENVIRONMENT

CPPI's operations are subject to environmental regulation by federal, provincial and local authorities, including specific environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid waste, landfill operations, forestry practices, site remediation and the protection of endangered species and critical habitat.

CPPI is committed to the responsible stewardship of the environment throughout its operations. The Company meets this commitment by: ensuring that the suppliers of fibre to the Company practice forest management that recognizes ecological processes and diversity and integrated use of the forest; designing and operating its facilities to comply with legal requirements; setting environmental objectives and targets to improve environmental performance; and identifying significant environmental risks and promoting environmental awareness throughout the Company's operations.

### Programs and Standards

CPPI has a long-standing program of regular audits of its Environmental Management System ("EMS") at all operations and also audits compliance with regulatory requirements, principles of due diligence and good industry practices at all manufacturing facilities. The Company's management believes it has sound environmental management programs established in all operations. These programs are regularly being reviewed to help ensure that CPPI is fulfilling its environmental commitments and responsibilities.

During 2021, CPPI obtained 93% of its fibre supply from forests that were certified to the Sustainable Forestry Initiative ("SFI") certification for sustainable forest management. All of the pulp the Company produced in 2021 was eligible for sale under the Programme for the Endorsement of Forest Certification ("PEFC") Chain of Custody or Forest Stewardship Council ("FSC") Controlled Wood Chain of Custody certification standards.

The Company's Prince George pulp and paper and Intercontinental pulp mills have an EMS that is certified under International Organization for Standardization ("ISO") 14001:2015. They were among the first mills in North America to achieve ISO 14001 registrations in early 1998. The Northwood pulp mill achieved ISO 14001 registration in June 2001. These mills have all been successful in retaining registration following audits by the registrar to these standards.

The Mills are actively engaged in the local airshed management program in Prince George, including areas of ambient monitoring and research. Staff serving on air quality committees work to ensure that future airshed plans are guided by sound science.

### Carbon and GHG Regulation and Policy

In November 2009, the British Columbia Ministry of Environment released the greenhouse gas ("GHG") reporting regulations under the *Greenhouse Gas Reduction Act*, requiring any facilities emitting more than 10,000 tonnes of carbon dioxide to report 2010 emissions in 2011. In 2012, all of the Mills registered and reported GHG emissions under the threshold for the British Columbia GHG reporting regulation. GHG emission reporting has been required federally and in Alberta for several years. The Company has made the decision to continue to have reported emissions verified by a third party on an annual basis.

During 2021, the Mills were able to continue their program of seeking to lower emissions of GHGs. The Company is committed to continue to reduce its dependence on fossil fuels and continues to invest in projects that yield a variety of environmental benefits. These improvements include increasing renewable electricity generation, reductions in odour and particulate emissions, reducing natural gas and water consumption.

Through 2021, the Company's pulp mills were in substantial compliance with all material environmental requirements, except for minor incidents, which have not had, nor are they expected to have, a material effect on the Company or its operations.

On a voluntary basis, Canfor calculates its consolidated corporate Scope 1 and 2 greenhouse gas emissions annually in accordance with Greenhouse Gas Protocol developed by the World Business Council for Sustainable Development/World Resource Institute ("GHG Protocol"). Further information can be obtained from the Company's latest Sustainability Report, which can be obtained on the Company's website at [www.canfor.com](http://www.canfor.com).

For additional information regarding CPPI's climate and environmental initiatives and our environmental, social, and governance ("ESG") disclosures, including our plans for disclosure on the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations, see the Company's "2021 Management's Discussion and Analysis". In particular, the sections entitled "Risk and Uncertainties - Environmental Issues" and "Environmental, Social, and Governance ("ESG") Reporting and Related Risks", which is incorporated by reference herein and available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **COMPETITIVE POSITION**

The pulp industry is highly competitive, with a substantial number of competitors having extensive manufacturing expertise and sales and distribution organizations, some of which are larger than CPPI's, but none of which are considered to be dominant. The principal competitive factors in the pulp market are price, quality, the cost, availability and reliability of supply, financial viability, and customer service.

The Company's main product line for its kraft paper business is high performance, bleached paper. The Company's main competitors in its sale of kraft paper products are several European producers.

For additional information regarding the Company's competitive position, see the Company's "2021 Management's Discussion and Analysis", in particular, the section entitled "Risks and Uncertainties – Competitive Markets", which is incorporated by reference herein and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **RESEARCH AND DEVELOPMENT**

The Company is committed to research and development in the areas of fibre analysis, process optimization, quality control and new product development. The Company maintains a dedicated in-house innovations centre with modern, specialised pilot and lab scale equipment run by highly skilled engineers and scientists. Canfor Pulp Innovation ("CPI") offers a diversified program serving our valued customers and mill operations in four strategic areas: cost reduction, enhanced pulp strength and quality, specialty paper, and new products. CPI is committed to the bioeconomy, creating value and delivering solutions through active partnerships with end users and leading research providers.

## DIRECTORS AND OFFICERS

### Directors

The name and municipality, province, state and country of residence of the directors of the Company ("Directors"), their principal occupations and the periods during which they have been Directors of the Company are as follows:

<u>Name and Municipality, Province and Country of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
John Baird Toronto, ON Canada	<p>Current Chairman of the board of Directors of the Company (the "Board") and former Canadian Minister of Foreign Affairs. Currently Senior Advisor to various enterprises and a former Senior Cabinet Minister in the Government of Canada.</p> <p>Background: Mr. Baird is also a Director and Chairman of the Board of Canfor Corporation. Mr. Baird spent three terms as a Member of Parliament in the House of Commons, most recently as Minister of Foreign Affairs (2011-2015). Previously, Mr. Baird held a variety of government posts including President of the Treasury Board (2006-2007), Minister of the Environment (2007-2008 and 2010-2011), Minister of Transport and Infrastructure (2008-2010), and Leader of the Government in the House of Commons (2010-2011). Prior to entering federal politics, Mr. Baird spent ten years in the Ontario Legislature. From 1995-2005 he served as Minister of Community and Social Services, Minister of Energy, and Government House Leader.</p> <p>Currently, Mr. Baird serves as a Senior Business Advisor with Bennett Jones LLP, a premier Canadian law firm. In addition, Mr. Baird sits on the advisory board of Barrick Gold Corp., the corporate boards of Canadian Pacific Railway Company, Canadian Pacific Railway Limited, Canfor, the FWD Group, PineBridge Investments, and Osisko Gold Royalties Ltd., and is a Senior Advisor at Eurasia Group, a global political risk consultancy.</p> <p>Mr. Baird also volunteers his time with Community Living Ontario, an organization that supports individuals with developmental disabilities, the Prince's Charities, the charitable office of His Royal Highness The Prince of Wales, and is a board member of the Friends of Israel Initiative.</p>	2016

**Name and Municipality,  
Province and Country of  
Residence**

**Principal Occupation and Background**

**Director  
Since**

Stan Bracken-Horrocks, FCPA,  
FCA <sup>(1)(3)</sup>  
Kelowna, BC  
Canada

Former partner at PricewaterhouseCoopers LLP.

2010

Background: Mr. Bracken-Horrocks has been a Director of the Company since 2010 and served as a Trustee of the Canfor Pulp Income Fund from 2006 until 2011. Mr. Bracken-Horrocks served as a director of the board of the General Partner of Canfor Pulp Limited Partnership from 2006 to 2012. Mr. Bracken-Horrocks is a retired partner of PricewaterhouseCoopers LLP and held various leadership positions during his career with PricewaterhouseCoopers LLP, including Global Leader of its Forest and Paper Industry practice. As a member of the Canadian Institute of Chartered Accountants, Mr. Bracken-Horrocks served as a member of the Board of Governors and a member of the Accounting Standards Committee and, as a member of the Institute of Chartered Accountants of British Columbia, he served as a member of council, Vice-President and President. Mr. Bracken-Horrocks is a former director and Chairman of the Audit Committee of the Business Development Bank of Canada.

Dieter Jentsch <sup>(1)(5)</sup>  
King City, ON  
Canada

Senior executive and career banker with experience in Canadian, US and International markets.

2020

Background: Mr. Jentsch is also a Director of Canfor Corporation. Mr. Jentsch had a successful 35 year career at Scotiabank holding numerous senior roles. In addition to being part of Scotiabank's Operating Committee, he was Group Head of Global Banking and Markets (2016-2018) and Group Head of International Banking (2012-2016). Other prior roles included Executive Vice President Latin America and Executive Vice President Canadian Commercial Banking. Currently, Mr. Jentsch sits on the corporate board of Mineros S.A.

Mr. Jentsch holds a Bachelor of Science degree in Agriculture and a Master of Business Administration degree. He holds a diploma from the Advanced Management Programme from the European Institute of Business (INSEAD) as well as a diploma from the University of Toronto Rotman-ICD Directors Education Program.

**Name and Municipality,  
Province and Country of  
Residence**

**Principal Occupation and Background**

**Director  
Since**

Donald Kayne  
Delta, BC  
Canada

Current Director, President and Chief Executive Officer ("CEO"),  
Canfor Corporation and CEO of the Company.

2017

Background: Mr. Kayne was appointed President and CEO of Canfor Corporation on May 5, 2011. He was additionally appointed CEO of the Company on September 30, 2012.

Mr. Kayne has spent his entire career at Canfor, starting out as a regional sales representative in 1979. Prior to being appointed CEO, Mr. Kayne spent 10 years as Canfor's Vice President of Sales and Marketing and is one of the lead architects of Asian market development for British Columbia lumber.

In addition to both Canfor and the Company, Mr. Kayne is a Director and past Chairman of the Forest Products Association of Canada and Chairman of the Council of Forest Industries, a past Director of the Alberta Forest Products Association, a Director of the BC Lumber Trade Council, and a Director of Vida AB. In 2014, Mr. Kayne was appointed to the bi-national Softwood Lumber Board and is past Vice Chairman and currently serves as Chairman of the Programs Committee. He is also a Director of Cameco Corporation and Chairman of its Human Resources and Compensation Committee, and past Chairman of the charitable organization, Educating Girls of Rural China Foundation, which works to transform the lives of women and communities in rural areas of western China by providing access to education.

Conrad Pinette <sup>(1)(5)</sup>  
Vancouver, BC  
Canada

Former owner and President, Pinette & Therrien Mills Ltd., a corporation in the forest products business.

2012

Background: Mr. Pinette is also a Director of Canfor Corporation and, from August 4, 2017 until April 29, 2021, was Chair of the Board and Chair of Canfor Corporation's board of directors. Mr. Pinette's work in the Canadian forest industry began 56 years ago as an owner and President of a family lumber business, Pinette & Therrien Mills Ltd. Mr. Pinette has also served as Executive Vice President, Tolko Industries Ltd. (2005), Executive Vice President, Riverside Forest Products Limited (2004) and served as President and Chief Operating Officer of Lignum Limited from January 1990 to April 2004. Mr. Pinette is the former Chairman of Finning International Inc. and a former director of Gold Canyon Resources Inc., TimberWest Forest Corp, Northgate Minerals Corporation, A&W Revenue Royalties Income Fund, Finning International Inc. and the British Columbia Business Council. Mr. Pinette is currently a member and Chairman of the Vancouver General Hospital and University of British Columbia Prostate Advisory Board.

<b><u>Name and Municipality, Province and Country of Residence</u></b>	<b><u>Principal Occupation and Background</u></b>	<b><u>Director Since</u></b>
William Stinson <sup>(2)(5)</sup> Vancouver, BC Canada	<p>Current Chairman, CEO and director of Westshore Terminals Investment Corporation, a corporation in the coal terminal business.</p> <p>Background: Mr. Stinson is also a Director of Canfor Corporation. Mr. Stinson spent the majority of his business career with Canadian Pacific Ltd., retiring as Chairman and CEO in 1996 after 11 years in that position. He has served on a wide variety of boards and has held the positions of Chairman of Sun Life Financial, Chairman of the Executive Committee of United Dominion Industries and Lead Director of CHC Helicopter Corporation.</p>	2012
Sandra Stuart <sup>(4)</sup> Vancouver, BC Canada	<p>Former CEO of HSBC Canada, a Canadian chartered bank and a Director of HSBC Trinkaus &amp; Burkhardt, Telus International Inc., Belcorp Industries Inc. and DRI Healthcare Trust.</p> <p>Background: Ms. Stuart is also a Director of Canfor Corporation. Ms. Stuart is the former Executive Director, Group General Manager and President and CEO of HSBC Bank of Canada. She has also served on the boards of HSBC Bank of Canada and as a Chair of the board for HSBC Global Asset Management (Canada Limited).</p> <p>Ms. Stuart has been recognized by the Association of Women in Finance for Excellence in the Private Sector and the Women's Executive Network as one of the Top 100 Most Powerful Women, in 2014. In 2015, she was acknowledged as one of British Columbia's Most Influential Women by BC Business and awarded the inaugural Deloitte Inclusion Vanguard Award in 2016. In 2019, she became a Catalyst Canada Honours Champion.</p> <p>Ms. Stuart has a Bachelor of Arts with a double minor in Economics and business from Simon Fraser University and has completed a number of Executive Management courses at the Harvard Business School, IMD, and UBC.</p>	2021

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Joint Management Resources and Compensation Committee.
- (3) Member of the Joint Governance and Sustainability Committee (formerly the Joint Corporate Governance Committee).
- (4) Member of the Joint Environmental, Health and Safety Committee.
- (5) Member of the Joint Capital Expenditure Committee.
- (6) All committees of the Company, other than the Audit Committee, have as members one or more directors of Canfor and are joint committees with Canfor. For more information on the power, responsibilities and composition of the joint committees, see the Company's Information Circular dated March 23, 2021 and Canfor's Information Circular dated March 23, 2021, each of which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The term of office of each Director expires on the date of the next Annual General Meeting of the Company to be held on May 3, 2022.

### **Officers**

The names and municipality, province and country of residence of the executive officers of the Company and the offices held by them as at March 1, 2022 are as follows:

<b><u>Name<sup>(1)</sup></u></b>	<b><u>Municipality of Residence</u></b>	<b><u>Office</u></b>
John Baird	Toronto, ON, Canada	Chairman
Donald Kayne	Delta, BC, Canada	Chief Executive Officer
Patrick Elliott	Vancouver, BC, Canada	Chief Financial Officer and Senior Vice President, Sustainability
Alan Nicholl	West Vancouver, BC, Canada	Executive Vice President, Bio-Based Solutions and Pulp Operations
David Calabrigo, Q.C.	Vancouver, BC, Canada	Corporate Secretary
Brian Yuen	Vancouver, BC, Canada	Vice President, Pulp and Paper Sales and Marketing
Kevin Anderson	Prince George, BC, Canada	Vice President, Operations and Innovation

Notes:

<sup>(1)</sup> The principal occupation of all of the officers listed above is with the Company or Canfor, other than Mr. Yuen and Mr. Anderson, whose principal occupation is with the Company as described above. For further information on the occupations of the other Directors with Canfor, see the Company's Information Circular dated March 23, 2021, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

All of the above Directors and officers have had the same or similar principal occupations with the organizations indicated for the last five years except that: prior to October 2021, Mr. Nicholl was Chief Financial Officer and Executive Vice President, Finance and Canfor Pulp Operations for Canfor and CPPI; prior to October 2021, Mr. Elliott was Senior Vice President, Corporate Finance and Sustainability for Canfor; prior to April 2021 Mr. Baird was Director from April 2016 to April 2021, prior to April 2020, Mr. Anderson was General Manager with Visy Industries, a corporation in the packaging and resource recovery industry in Australia; Mr. Anderson was Director of Operations at J.D. Irving from March 2018 to December 2018; prior to March 2018, Mr. Anderson was Celgar Managing Director at Mercer International; prior to January 28, 2019, Mr. Yuen was Director, Asia Pulp Sales for Canfor Pulp and Paper Sales Ltd; Mr. Calabrigo was a Director from April 2012 to April 2016 and a director of the General Partner of Canfor Pulp Limited Partnership.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To the knowledge of the Company, no Director or Executive Officer of the Company, or any person or company that beneficially owns or controls or directs, directly or indirectly, more than 10% of the CPPI Shares, or any of their associates or affiliates, has or had any material interest, directly or indirectly, in any transaction of the Company within the three most recently completed financial years of the Company or during the current financial year that has materially affected or is reasonably expected to materially affect the Company, other than as described under "Material Contracts" and as set forth herein.

### **CONFLICTS OF INTEREST**

To the knowledge of the Company, no Director or Executive Officer of the Company or subsidiary of the Company has an existing or potential conflict of interest with the Company or subsidiary of the Company.

### **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized capital of the Company consists of an unlimited number of Common Shares (the "CPPI Shares"). At December 31, 2021 and as of the date of this Annual Information Form, there were 65,233,559 CPPI Shares issued and outstanding and Canfor's ownership interest in CPPI was 54.8%.



Holders of CPPI Shares are entitled to one vote per share at meetings of shareholders of the Company, to receive dividends if, as and when declared by the Board of the Company and to receive pro rata the remaining property and assets of the Company upon its dissolution or winding-up, subject to the rights of shares having priority over the CPPI Shares. As at the date of this Annual Information Form, there are no classes of shares of the Company having priority over the CPPI Shares.

## **DIVIDENDS**

This section describes the dividend policies and amounts declared pursuant thereto, if any, of CPPI.

Provisions contained in Canfor Pulp Ltd.'s long-term borrowing agreements limit the amount of dividends it may pay on the CPPI Shares. The amount of dividends the Company is permitted to pay under Canfor Pulp Ltd.'s long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

The declaration and payment of dividends is subject to the discretion of the Company's Board and may change from time to time. The Board reviews the issuance of dividends on a quarterly basis.

The table below sets out the dividends declared by the Company from January 1, 2019 until December 31, 2021:

<b><u>Quarter</u></b>	<b><u>Declaration Date</u></b>	<b><u>Record Date</u></b>	<b><u>Amount per Share</u></b> \$	<b><u>Date Paid</u></b>
4 <sup>th</sup> Quarter, 2018	February 21, 2019	March 6, 2019	0.0625	March 13, 2019
1 <sup>st</sup> Quarter, 2019	May 1, 2019	May 14, 2019	0.0625	May 21, 2019
2 <sup>nd</sup> Quarter, 2019	July 25, 2019	August 7, 2019	0.0625	August 14, 2019
3 <sup>rd</sup> Quarter, 2019	October 23, 2019	November 5, 2019	0.0625	November 12, 2019
4 <sup>th</sup> Quarter, 2019	February 20, 2020	March 4, 2020	0.0625	March 11, 2020

## **SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS**

At March 1, 2022, the Directors and Executive Officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 123,799 CPPI Shares representing 0.19% of the outstanding Common Shares.

## **MARKETS FOR SECURITIES**

The CPPI Shares are listed and traded on the TSX under the symbol CFX.

## **TRADING PRICE AND VOLUME**

The following table presents the high and low prices for the CPPI Shares and the average daily trading volume of those shares, on a monthly basis, on the TSX for 2021:

<b><u>Month (2021)</u></b>	<b><u>High</u></b> \$	<b><u>Low</u></b> \$	<b><u>Average Daily Trading Volume</u></b> (Shares)
January	9.61	7.50	65,025
February	10.34	8.50	109,611
March	11.06	8.61	89,583
April	9.90	8.57	118,229
May	9.57	8.37	79,430
June	9.20	7.50	52,836
July	8.58	6.65	67,576
August	6.82	5.93	61,948
September	7.00	6.21	36,357

<b><u>Month (2021)</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Average Daily Trading Volume</u></b>
October	7.62	6.29	103,650
November	6.79	6.09	54,923
December	6.71	5.90	99,820

## **SECURITY**

The Company's operating lines of credit and term indebtedness are unsecured.

## **MATERIAL CONTRACTS**

The following is a list of the Company's material contracts:

1. Canfor Pulp Ltd. has entered into a third amended and restated credit agreement dated December 15, 2021, with HSBC Bank Canada, as administrative agent, Canadian Imperial Bank of Commerce, as syndication agent, and the financial institutions from time to time party thereto as lenders, which Credit Agreement amends and restates the second amended and restated credit agreement dated for reference September 30, 2019. The Company is a guarantor of Canfor Pulp Ltd.'s obligations under this third amended and restated credit agreement.

This third amended and restated credit agreement provides for a \$110 million unsecured and committed revolving term credit facility (the "Operating Loan") and a \$50 million unsecured committed non-revolving term credit facility (the "Term Loan"). Each of the Operating Loan and Term Loan provide for floating rates of interest. The Operating Loan matures on December 15, 2025 and the Term Loan matures on December 15, 2024.

2. On July 1, 2006, Canfor and Canfor Pulp Limited Partnership (now the Company) entered into a Partnership Services Agreement (the "Partnership Services Agreement") pursuant to which Canfor provides the Company with certain specified services. The services provided by Canfor include corporate secretarial, financial, internal audit, maintenance, inventory, and purchasing systems, hourly payroll and time entry systems, production tracking systems and software and technology support. Canfor does not receive a fee for the provision of these services but receives a reimbursement for its direct and indirect costs and expenses. The Partnership Services Agreement is terminable, in whole or in part, at the election of the Company or Canfor, upon 12 months' written notice.
3. The Company has Fibre Supply Agreements with Canfor as described under "Fibre Supply – Fibre Supply Agreements".

## **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES, SANCTIONS**

To the knowledge of the Company, no Director or Executive Officer of the Company is at the date hereof or was within the last 10 years of the date of this Annual Information Form, a director, CEO or chief financial officer of a company that, (i) while acting in that capacity, was subject to a cease trade or similar order or an order that denied the company access to any exemption under securities legislation (an "Order") that was in effect for a period of more than 30 consecutive days; (ii) was subject to an Order that was in effect for a period of more than 30 consecutive days that was issued after the Director or Executive Officer ceased to be a director, CEO or chief financial officer of such company and which resulted from an event that occurred while that person was acting in such capacity, other than as set forth below in respect of Mr. Jentsch in his role as former Senior Executive of Scotiabank.

On August 19, 2020, The Bank of Nova Scotia ("Scotiabank") announced that it entered into a Deferred Prosecution Agreement ("DPA") with the U.S. Department of Justice (the "DOJ"). Additionally, the Commodity Futures Trading Commission (the "CFTC") issued three separate orders against Scotiabank (collectively, the "CFTC Orders"). The DPA and the CFTC Orders (together, the "Resolutions") resolve the DOJ's and CFTC's previously disclosed investigations into Scotiabank's activities and trading practices in the metals markets and related conduct as well as pre-trade mid-

market marks and related swap dealer compliance issues. Mr. Jentsch was a Senior Executive of Scotiabank during the time period during which such activities, trading practices and related conduct occurred. Mr. Jentsch was not personally sanctioned as part of these proceedings nor was he the subject of these investigations.

To the knowledge of the Company, no Director or Executive Officer of the Company or a shareholder holding a sufficient number of securities of the Company to materially affect the control of the Company is at the date hereof, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of a company that, while acting in that capacity, or within a year of ceasing to act in such capacity, became bankrupt, made a proposal under legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver or trustee appointed to hold its assets.

To the knowledge of the Company, no Director or Executive Officer of the Company or a shareholder holding a sufficient number of securities of the Company to materially affect the control of the Company has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceeding, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

There are no material legal or regulatory proceedings to which the Company or any of its subsidiaries is or was a party, or to which any of the property of any of them is or was the subject of, during the Company's financial year ended December 31, 2021, and there are no such material legal or regulatory proceedings which the Company knows to be contemplated. In addition, there are no penalties or sanctions imposed against the Company or any of its subsidiaries by a court relating to Canadian securities legislation or by a securities regulatory authority during the Company's financial year ended December 31, 2021 or any other penalties or sanctions imposed by a court or regulatory body against any of them which would likely be considered important to a reasonable investor in making an investment decision, and none of them have entered into any settlement agreements with a court relating to Canadian securities legislation or by a securities regulatory authority during the Company's financial year ended December 31, 2021.

### **EXPERTS**

KPMG LLP, Chartered Accountants, of Vancouver, British Columbia are the auditors of the Company. KPMG LLP, Chartered Accountants, have reported that they are independent of the Company in accordance with the ethical requirements that are relevant to the audit of financial statements in Canada.

The Company will propose KPMG LLP for reappointment as the auditors of the Corporation on the expiry of its term of office at the Annual Meeting of Shareholders of the Corporation on May 3, 2022. No auditor's report prepared by the auditor in respect of the Corporation's financial statements relating to the relevant period contained any modified opinion and there have been no reportable events involving the Corporation and the auditor.

### **TRANSFER AGENT AND REGISTRAR**

TSX Trust Company is the Company's transfer agent and registrar with registers of transfer in Vancouver and Toronto.

### **AUDIT COMMITTEE INFORMATION**

#### **Audit Committee Terms of Reference – See APPENDIX A**

#### **Composition of Audit Committee**

The Audit Committee is composed entirely of independent Directors, all of whom are financially literate as defined in National Instrument 52-110 – *Audit Committees*. Mr. Bracken-Horrocks, the Chairman of the Committee, is a Fellow Chartered Professional Accountant (FCPA, FCA) and was a partner in a national accounting firm for over 20 years. Mr. Pinette was President of Pinette & Therrien Mills Ltd., served as Chairman of the Board for the Company and Canfor from April 2017 to April 2021, and continues to serve on a wide variety of boards. Mr. Jentsch was a former Senior Executive at Scotiabank, where he had a successful 35-year career holding numerous senior roles.

The Audit Committee has adopted a policy for the engagement of non-audit services whereby the external auditor of

the Company is not entitled to provide any non-audit services to the Company exceeding \$50,000 in value without the Audit Committee Chairman's prior approval and any such services exceeding \$100,000 are to be pre-approved by the Audit Committee. All such engagements are reported to the Audit Committee.

### External Auditor Service Fees (By Category)

The aggregate fees billed by KPMG LLP, the auditor of the Company, for the last two years, was an aggregate of \$0.8 million. Fees listed below were for audit, tax, financial and other verification audit services.

<b><u>External Auditor Service Fees (000s)</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
Audit Fees <sup>(1)</sup>	\$361	\$347
Audit-Related Fees <sup>(2)</sup>	-	-
Other Assurance Fees <sup>(3)</sup>	<u>46</u>	<u>36</u>
<b>Total Assurance Fees</b>	<b>\$407</b>	<b>\$383</b>
Tax Fees <sup>(4)</sup>	<u>-</u>	<u>-</u>
<b>Total Fees</b>	<b><u>\$407</u></b>	<b><u>\$383</u></b>

Notes:

- (1) For the audit of the Company's annual financial statements and services normally provided by the principal auditor in connection with the Company's statutory and regulatory filings.
- (2) For assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported in (1), including accounting consultations and various agreed upon procedures.
- (3) Other assurance fees includes services related to chain of custody and greenhouse gas offset projects.
- (4) For tax compliance, tax consulting services, and tax planning.

### ADDITIONAL INFORMATION

Additional financial information regarding the Company is provided in the Company's "2021 Management's Discussion and Analysis" and "Consolidated Financial Statements" for the year ended December 31, 2021. Additional information, including Directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Information Circular for the Annual General Meeting of the Company held on April 29, 2021 and in the Information Circular for the Annual General Meeting of the Company to be held on May 3, 2022.

The Company will provide upon request to the Corporate Secretary of the Company, 100 - 1700 West 75<sup>th</sup> Avenue, Vancouver, British Columbia, V6P 6G2, copies of the above documents. These documents and additional information about the Company is also available on SEDAR at [www.sedar.com](http://www.sedar.com). In addition, all documents identified in this Annual Information Form as being incorporated by reference herein are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **APPENDIX A - AUDIT COMMITTEE TERMS OF REFERENCE**

### **1. Purpose**

The Audit Committee is appointed by the board of directors (the "Board") of Canfor Pulp Products Inc. (the "Company") to assist the Board in fulfilling its oversight responsibilities. The Audit Committee will:

- (a) Review the financial reports and other financial information provided by the Company to its shareholders;
- (b) Monitor the integrity of the financial reporting process and the system of internal controls that Management and the Board have established;
- (c) Monitor the management of the principal risks that could impact the financial performance of the Company;
- (d) Review and receive the Audit Plan, process, results and performance of the Company's independent External Auditors and the internal audit department while providing an open avenue of communication between the External Auditors, the Internal Auditors, Management and the Board; and
- (e) Monitor the management of risk by the Company generally.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and it has direct access to the External Auditors as well as anyone in the organization. The Audit Committee has the authority to retain, at the Company's expense, special legal, accounting and other consultants or experts it deems necessary in the performance of its duties.

### **2. Audit Committee Composition and Meetings**

All members of the Audit Committee must be Independent Directors.

All Audit Committee members must be financially literate with the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements. At least one Audit Committee member should have accounting or related financial expertise, including:

- (a) an understanding of financial statements and accounting principles used by the Company to prepare its financial statements;
- (b) the ability to assess the general application of such accounting principles in connection with accounting for estimates, accruals and reserves;
- (c) experience preparing, auditing, analyzing or evaluating financial statements, or experience supervising the preparation, audit, analysis or evaluation of financial statements, that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements;
- (d) an understanding of internal controls and procedures for financial reporting; and
- (e) an understanding of audit committee functions.

A Chair shall be appointed by the Board annually from among the members of the Audit Committee.

The Audit Committee shall schedule regular meetings and shall meet at least four times annually, or more frequently as deemed necessary by the Chair. The Chair shall prepare and/or approve an agenda in advance of each meeting. The Audit Committee shall meet privately at least annually with Management, the manager of the Internal Audit department (the "Internal Auditor") and the External Auditors to discuss any matters that the Audit Committee or each of these groups believe should be discussed.

The Chief Executive Officer, the Chief Financial Officer, the Internal Auditor and the External Auditors shall be given notice of, and have the right to appear before and to be heard at, every meeting of the Audit Committee, and shall appear before the Audit Committee when requested to do so by the Committee.

### **3. Primary Duties and Responsibilities**

To fulfill its primary duties and responsibilities, the Audit Committee shall adhere to the following terms:

#### **(a) Review and Reporting Procedures**

- (i) The Audit Committee is authorized to review and/or investigate any financial, internal control, or risk management related issue or activity of the Company. The Audit Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.
- (ii) The Audit Committee is authorized to request the presence, at any meeting, of a representative from the External Auditors, Senior Management, Internal Audit, Legal Counsel or anyone else who could contribute to the subject of a meeting.
- (iii) The Audit Committee will review and reassess these Terms of Reference at least annually to determine whether revisions are necessary. The Audit Committee shall be periodically self-assessed in its performance and effectiveness in fulfilling its role by the Governance Committee.
- (iv) Supporting schedules and information reviewed by the Committee will be available for examination by any director of the Audit Committee upon request to the Secretary of the Audit Committee.

#### **(b) Internal Controls and Risk Management Processes**

- (i) To assure itself that the Company has appropriate controls in place to achieve the following objectives:
  - Effectiveness and efficiency of operations (including safeguarding of assets);
  - Reliability of internal and external reporting;
  - Compliance with applicable laws and regulations and internal policies.
- (ii) To ensure the Company has appropriate processes in place to manage the principal risks of its businesses, the Audit Committee shall:
  - Consider and review internal processes for managing the principal risks of the Company's businesses, including a review of insurance coverage and hedging activities.
  - Obtain assurance from both Management and the Internal Auditor regarding the adequacy of risk management processes.
  - Review with Management, the Internal Auditor and the External Auditor:
    - o The adequacy of the Company's internal controls including computerized information systems, controls and security.
    - o Any related significant internal control findings and recommendations of the External Auditor, and/or Internal Auditor together with Management's responses thereto.
    - o The Company's compliance or adherence to debt covenants, terms or conditions.
    - o Significant related party transactions and potential conflicts of interest.

### (c) Financial Reporting

In order to satisfy itself that the Company's annual financial statements are fairly presented in accordance with generally accepted accounting principles ("GAAP") and in a form sufficient for the Audit Committee's recommendation for approval by the Board, and that the financial information contained in the Company's financial statements, Annual Report to Shareholders, Annual Information Form and other financial disclosure documents such as Management's Discussion and Analysis, is complete and accurate in all material respects, the Audit Committee shall:

#### (i) General

- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

#### (ii) Interim Financial Statements

- Review the Company's interim financial statements with Management prior to their release or distribution. This review will include a detailed reporting of quarterly and year-to-date results, variance against budget and prior year and a discussion with the External Auditor. Upon satisfactory completion of the review, the Audit Committee shall recommend to the Board approval of the financial statement release.
- Review any significant proposed changes to the Company's accounting principles or policies, or financial reporting practices.
- Review the financial statement impact of any significant, unusual event or transaction.
- Review news releases containing financial information disclosure and Management's Discussion and Analysis.

#### (iii) Annual Financial Statements and Other Financial Information

- Obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by Management.
- Review any material changes in accounting policies, GAAP, or financial reporting requirements that may affect the current year's financial statements.
- Obtain and review summaries of significant or unusual transactions, and other potentially complex matters whose treatment in the annual financial statements merits advance consideration.
- Review a summary provided by the Company's legal counsel of the status of any material pending or threatened litigation, claims and assessments.
- Review and discuss the annual financial statements and the External Auditor's report thereon in detail with Management and the External Auditors.
- Through discussion with Management, the Internal Auditor and the External Auditors, obtain assurance that the risk of material misstatement of the financial statements is acceptably low.
- Review the financial information included in the Management's Discussion and Analysis, and consider whether the information is adequate and consistent with the Audit Committee members' knowledge of the Company.
- Review the tax status of the Company and understand the status of any related tax reserves, potential reassessments or other matters which could affect the annual financial statements.

- Review and assess the quality and appropriateness of the Company's accounting and reporting principles and policies.
- Provide to the Board a recommendation as to whether the annual financial statements should be approved.
- Review the news release announcing the annual financial results of the Company.
- Review the annual financial disclosure contained in the Annual Information Form.

(iv) Prospectus and Information Circulars

- Review the financial information included in any prospectus or information circular prior to their release and, as appropriate, recommend to the Board whether such prospectus or information circular should be approved by the Board.

**(d) External Audit**

The External Auditors are accountable to the Audit Committee and the Board as representatives of the shareholders.

In order to assure itself that the external audit function has been effectively carried out and that any matters that the External Auditors consider appropriate to bring to the attention of the Board have been addressed, the Audit Committee shall:

- (i) Recommend to the Board the selection (retention or replacement) of the External Auditors, considering independence and effectiveness, and approve the fees and other compensation to be paid to the External Auditors. On an annual basis, the Audit Committee should review and discuss with the External Auditors all significant relationships its accountants have with the Company to confirm their independence. If there is a recommendation to change auditors, review all the issues to change and the steps planned for an orderly transition.
- (ii) Review the External Auditor's Audit Plan and engagement letter with Management and the External Auditors, including audit scope and approach.
- (iii) Meet with the External Auditor and management in separate private sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.
- (iv) Pre-approve any non-audit services to be provided by the External Auditor. The Audit Committee may delegate this responsibility to the Chair, provided that any pre-approval granted pursuant to such delegation must be detailed as to the service to be provided and must be reported to the full Audit Committee at its next scheduled meeting.
- (v) Review and assess the performance of the External Auditor, including consideration of demonstrated external audit judgment and application and adherence to accounting policy and standards.
- (vi) Review the External Auditor's policy on partner rotation.
- (vii) Review the Company's hiring policy with respect to partners, employees and former partners and employees of the Company's present or former External Auditor.

**(e) Internal Audit**

In order to assure itself that the internal audit function has been effectively carried out and that any matter that the Internal Auditor considers appropriate to bring to the attention of the Board has been addressed, the Audit Committee shall:

- (i) Be advised of and concur with the appointment, replacement, reassignment or dismissal of the Internal Auditor and consider resource requirements.



- (ii) Review and approve Internal Audit Services Terms of Reference, including scope, organization structure and mandate.
- (iii) Confirm and assure the independence of the Internal Auditor.
- (iv) Review jointly with the Internal Auditor and the External Auditor the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- (v) Review with Management and the Internal Auditor the annual Audit Plan and monitor any changes required in the scope of the plan.
- (vi) Meet with the Internal Auditor and Management in separate private sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.
- (vii) Review significant internal audit activity together with Management's response and follow-up actions on internal audit recommendations, including any problems or issues encountered in the course of an audit.
- (viii) Review and assess the performance of the Internal Auditor; and
- (ix) Ensure that the Internal Auditor reports directly to the Chair of the Audit Committee with a dotted line reporting responsibility to either the CEO or CFO of the Company.

#### **4. Other Duties**

##### **(a) Legal and Regulatory Compliance**

To provide assurance of Company compliance with all legal and regulatory requirements, the Audit Committee shall:

- (i) In areas in which it has oversight responsibility, monitor the Company's compliance and obtain Management's assurance of compliance with applicable laws, regulations and internal policies in all jurisdictions where the Company does business. The Audit Committee will consider the financial statement implications of applicable laws and regulations, including the laws and regulations overseen by other Committees of the Board.
- (ii) Receive and review copies of legal letters provided to the External Auditors by in-house and outside counsel regarding claims and possible claims against the Company.
- (iii) Make inquiries of Management, the External Auditors and the Internal Auditor, to ensure that all material legal matters have been brought to the attention of the Audit Committee.
- (iv) On at least an annual basis, review with the Company's counsel any legal matters that could have a significant impact on the organization's financial statements or risk profile, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

(v) Ensure that all annual and interim financial statement filings are personally certified by the Chief Executive Officer and the Chief Financial Officer if and as required by applicable law.

(vi) Review the Company's procedures and establish procedures for the Audit Committee for the:

- receipt, retention and resolution of complaints regarding accounting, internal accounting controls, financial disclosure or auditing matters; and
- confidential, anonymous submission by employees regarding questionable accounting, auditing, or financial reporting and disclosure matters.

**(b) Pension Funds**

Be responsible for oversight of the supervision of the pension plans in which the Company's employees participate by:

(i) reviewing the Company's financial accruals in the Company's financial statements for pension plans in which the Company's employees participate;

(ii) receiving and reviewing reports from the Canfor Management Pension Committee;

(iii) reviewing any material plan amendments, on the advice and recommendation of the Management Pension Committee;

(iv) reviewing the performance of the pension plans' money managers and the investment policies and practices in respect of the funds contributed to the Company's pension plans;

(vi) reviewing any issue or circumstance that may materially impact the Company's obligations, liabilities, or responsibilities with respect to such pension plans;

**(c) Officer Expenses**

Review policies and procedures with respect to the Chairman of the Board and Chief Executive Officer's expense accounts and perquisites, including the use of corporate assets (for clarity, including review of material personal expenses).

**(d) Other Duties**

The Audit Committee will perform such other functions as assigned by law or regulation or as required by the Board.