



**Canfor Corporation**

**Annual Information Form**

**Information in this Annual Information Form  
as at February 8, 2017 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, 2016 and incorporated by reference herein. 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.

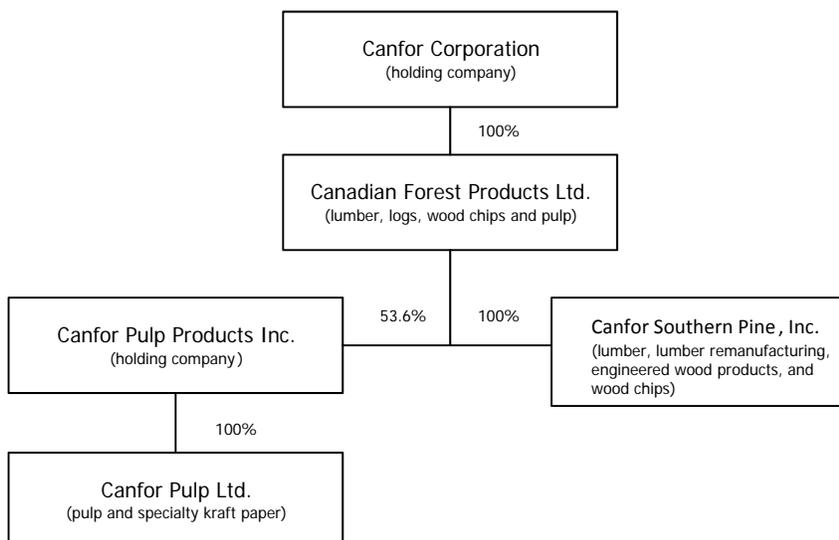
## INCORPORATION

The Company was incorporated on May 17, 1966 under the British Columbia *Company Act* as part of a reorganization of predecessors of the Canfor group of companies, the first of which commenced operations in 1938. The Company is now governed by the *Business Corporations Act* (British Columbia). In July 1983, Canfor became a public company and 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 Corporation is referred to as the "Company" and, unless otherwise indicated by the context, "Canfor" refers to the Company and its subsidiaries as described under "Corporate Structure" below.

## CORPORATE STRUCTURE

The following chart shows, as at December 31, 2016, the Company's material subsidiaries and its interest in Canfor Pulp Products Inc. ("CPPI"), and their primary products or activities and the percentage of voting securities or ownership held. All of the companies listed below were incorporated or amalgamated under the laws of British Columbia and are now governed by the British Columbia *Business Corporations Act*, except Canfor Pulp Ltd., which is constituted under the *Canada Business Corporations Act*, and Canfor Southern Pine, Inc. (formerly New South Companies Inc.) ("CSP"), which is constituted under the laws of the State of South Carolina.



See “Business of Canfor – Other Significant Events” for a description of recent transactions occurring after December 31, 2016.

## **BUSINESS OF CANFOR**

Canfor is a Canadian integrated forest products company based in Vancouver, British Columbia, involved primarily in the lumber business, with production facilities in Canada in British Columbia, Alberta, and Ontario, and in the southern United States in North and South Carolina, Alabama, Georgia, Mississippi and Arkansas as of December 31, 2016. Canfor also has a 53.6% interest in the pulp and paper business owned by CPPI. The capacity and production figures set out in this Annual Information Form are presented as at December 31, 2016.

As at December 31, 2016, Canfor employed approximately 6,257 people in its wholly owned and majority owned subsidiaries, of which approximately 1,266 are employees of CPPI. For a detailed breakdown of employees and related collective agreements, refer to the sections referenced “Lumber” and “Pulp and Paper”, herein.

Softwood lumber production facilities are located in British Columbia, Alberta, and Ontario in Canada, and the southern United States in North and South Carolina, Alabama, Georgia, Mississippi and Arkansas with annual production capacity at December 31, 2016 of approximately 5.9 billion board feet of lumber, including 100% of the capacity of the Beadles & Balfour sawmills referred to under “Business of Canfor – Other Significant Events” below, adjusted for additional shifting at certain mills. Canfor’s products also include remanufactured and finger-jointed lumber, engineered wood products, wood chips, wood pellets and logs.

Canfor also holds a 53.6% interest in the pulp and paper business of CPPI with annual production capacity at December 31, 2016 of approximately 1.1 million tonnes of kraft pulp and 140,000 tonnes of kraft paper. On January 30, 2015 the Company completed the sale of the Taylor pulp mill to CPPI, which has an annual capacity of 220,000 tonnes of Bleached Chemi-Thermo Mechanical Pulp (“BCTMP”). See “Business of Canfor – Other Significant Events”.

Canfor also holds approximately 16.7 million cubic metres of annual harvesting rights under its forest tenures and pulpwood agreements.

Canfor’s products are exported primarily to the United States and Asia as well as shipped domestically in Canada. Canfor maintains wood products sales offices in: Vancouver, Canada; Myrtle Beach, Mobile, and El Dorado, United States; Tokyo, Japan; and Shanghai, China. CPPI has pulp sales offices in Vancouver, Canada; Tokyo, Japan; and Seoul, South Korea, and is represented by sales representatives serving various other markets around the world.

### **General Development**

One of Canfor’s primary objectives is to be the preferred supplier of wood products to the building industry around the world, with particular focus on North America and Asia. Canfor is focused on increasing its building products business in global markets, including key offshore markets such as China and Japan, and on making higher value structural lumber and specialized products for specific customer needs. The Company is also committed to being a major supplier to the retail segment of the lumber market.

Canfor’s overall business strategy is to be a leader in the forest products industry achieving top-quartile margin performance by:

- Expanding geographical markets, increasing market share of value-added products and building strong long-term partnerships with valued customers;
- Optimizing the extraction of high-margin products and value from its available fibre sources;
- Attaining world class supply chain performance;
- Achieving and maintaining a low cost structure and maintaining a strong financial position;
- Developing an enterprise-wide culture of safety, innovation and engagement;
- Capitalizing on attractive growth opportunities; and
- Growing its green energy business and positioning the Company as a leading supplier of green, environmentally friendly building products.

CPPI is focused on being a pulp and paper industry leader with a particular focus on end-use diversification, innovative sales agreements, as well as expanding its strategic relationships.

In support of these strategies, during the past three financial years, Canfor (including CPPI) has made capital investments of approximately \$489.3 million at its lumber operations and \$190.3 million at its pulp and paper operations.

### **Other Significant Events**

Other significant events for Canfor over the past three fiscal years have been the following:

#### *Phased Purchase of Beadles & Balfour*

In August 2014, the Company entered into a phased purchase agreement with Beadles Lumber Company and Balfour Lumber Company Inc. ("Beadles & Balfour") of Georgia. The transaction involved the phased purchase of the operating assets of Beadles & Balfour over a 2 year period, at an aggregate purchase price, excluding working capital, of US\$68.0 million. The first phase of the acquisition closed on January 2, 2015 with an initial equity interest of 55%. On January 2, 2017, the Company completed the final phase of the acquisition, increasing the Company's ownership interest in Beadles & Balfour to 100%. The transaction included two sawmills located in Thomasville and Moultrie, Georgia in an area with high quality sustainable fibre supply. The Beadles & Balfour mills produce quality southern yellow pine lumber and the operations have a combined capacity of 210 million board feet after reflecting planned near term capital investments in the sawmills.

#### *Phased Purchase of Scotch Gulf*

On August 9, 2013, Canfor completed the first phase of the phased purchase of Scotch & Gulf Lumber, LLC ("Scotch Gulf") of Mobile, Alabama, representing an initial 25% interest in Scotch Gulf. On August 1, 2014, Canfor completed the second phase of the acquisition of Scotch Gulf, increasing its ownership to 33.3%. On January 30, 2015, Canfor completed the third phase of the acquisition, bringing Canfor's interest in Scotch Gulf to 50%. On July 29, 2016, Canfor completed the final phase of the acquisition, bringing Canfor's interest in Scotch Gulf to 100%. The aggregate purchase price for Scotch Gulf was \$131.5 million, including working capital.

The Scotch Gulf purchase included three sawmills located within an area of high-quality fibre supply with annual production capacity of 440 million board feet, after reflecting planned near-term capital investments.

#### *Wynndel Box and Lumber*

On April 15, 2016, the Company completed the acquisition of the assets of Wynndel Box and Lumber Ltd. ("Wynndel"), located in the Creston Valley of British Columbia for a purchase price of \$40.3 million, including working capital. Wynndel produces premium boards and customized specialty wood products, and has access to exceptionally high-quality fibre. The acquisition of assets included a sawmill with annual production capacity of 80 million board feet, and approximately 65,000 cubic meters of annual harvesting rights in the Kootenay Lake Timber Supply Area.

#### *Conifex Investment Agreement*

On August 4, 2015, the Company announced the completion of an investment agreement with Conifex Inc., a subsidiary of Conifex Timber Inc. ("Conifex") pursuant to which Conifex issued a five-year senior secured note payable to the Company in the amount of \$30.0 million, secured by a first lien on a forest license in British Columbia with 200,000 cubic metres of annual cut. On February 12, 2016, the Company exercised its option to convert the loan into an ownership interest in the forest licence.

#### *Acquisition of Anthony Forest Products*

On October 30, 2015, the Company completed the acquisition of Anthony Forest Products Company located in El Dorado, Arkansas for a purchase price of \$126.8 million, including working capital. Anthony owns four facilities including a sawmill and laminating plant in Arkansas, a laminating plant in Georgia and a 50% interest in Anthony EACOM Inc., a joint venture with EACOM Timber Corporation located in Sault Ste. Marie, Ontario which manufactures I-joists.

#### *Sale of Investment in Lakeland Mills Ltd. And Winton Global Lumber Ltd.*

On July 1, 2015, the Company sold its 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd. to Robert Stewart Holdings Ltd. for cash consideration of \$30.0 million. The first installment of \$15.0 million was received on July 1, 2015 and the second installment for \$15.0 million is scheduled to be received on July 1, 2017.

#### *Acquisition of Southern Lumber*

On April 1, 2015, the Company completed the acquisition of the operating assets of Southern Lumber Company for a purchase price of \$65.6 million, including working capital. The acquisition included a sawmill located in Hermanville, Mississippi which is a large log southern yellow pine dimension mill manufacturing predominately long, wide width lumber. The sawmill is in an area of exceptionally high quality fibre and is well suited for a higher value product line. After reflecting planned near term capital investments, the operation is expected to have a capacity of 90 million board feet.

#### *Sale of Taylor Pulp Mill*

On January 30, 2015, the Company completed the sale of its BCTMP Taylor pulp mill to CPPI for cash proceeds of \$12.6 million, including working capital. The transaction also included a long-term fibre supply agreement under which Canfor will supply fibre to the Taylor pulp mill at prices that approximate fair market value. In addition to the cash proceeds, Canfor may also receive additional contingent consideration over a 3 year period starting January 31, 2015, based on the Taylor pulp mill's annual adjusted operating income before amortization.

#### *Construction of Pellet Plants in Northern British Columbia Interior*

In September 2014, the Company announced plans to construct a pellet plant at both the Chetwynd and Fort St. John sawmill sites, in the Northern British Columbia interior (the "Pellet Plants"). In October 2014, Canfor and Pacific BioEnergy Corporation, a pellet plant operator in British Columbia, entered into a Limited Partnership Agreement (the "LP Agreement") to construct and operate the Pellet Plants. Upon execution of the Agreement, Canfor owns an approximate 95% interest in the Pellet Plants. Pacific BioEnergy Corporation has an option under the LP Agreement to increase its ownership interest in the Pellet Plants up to a total of 15% by January 1, 2018. The Chetwynd Pellet Plant commenced operations late in 2015 while the Fort St. John Pellet Plant commenced operations in early 2016. As of December 31, 2016, the Company's ownership interest in the Pellet Plants is approximately 95%.

#### *Sale of Daaquam Operation*

On March 28, 2014, the Company completed the sale of its Daaquam sawmill located in Saint-Just-de-Bretenières, Québec to Groupe Lebel Inc. Total gross proceeds related to the disposition of the Daaquam operation, including working capital and the sale of associated properties related to Daaquam to other third parties, were \$25.0 million.

#### *Normal Course Issuer Bids*

On March 7, 2016, the Company renewed its normal course issuer bid first launched in March of 2013. Under this current bid, the Company can purchase for cancellation up to 6,640,227 Common Shares or approximately 5% of the 132,804,573 Common Shares outstanding as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. During 2016, Canfor did not purchase any Common Shares under this bid. Under a separate normal course issuer bid in 2016, CPPI purchased Common Shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 51.9% at December 31, 2015 to 53.6% at December 31, 2016.

During 2015, Canfor purchased 2,572,420 Common Shares for \$59.2 million. Under a separate normal course issuer bid in 2015, CPPI purchased Common Shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 50.5% at December 31, 2014 to 51.9% at December 31, 2015.

During 2014, Canfor purchased 4,527,600 Common Shares for \$108.9 million. Under a separate normal course issuer bid in 2014, CPPI purchased Common Shares from non-controlling shareholders increasing Canfor's ownership of CPPI from 50.4% at December 31, 2013 to 50.5% at December 31, 2014.

### *Union Agreements*

The Company's contract with the union UNIFOR, which represents workers at Canfor's Grande Prairie operation, was renewed in 2014 and expires on September 30, 2017.

The Company's contract with the Pulp, Paper and Woodworkers of Canada union ("PPWC"), which represents workers at Canfor's Mackenzie operation, expired on June 30, 2014. However, the Company negotiated a "Me Too" agreement with PPWC Local 18 for extension of the current collective agreement for the Mackenzie operation on the same terms as the Company agreed upon with the United Steel Workers union ("USW"). Accordingly, the PPWC agreement has been extended for a further five year term, expiring on June 30, 2019.

### *Permanent Closures/Production Curtailments & Restarts*

On September 9, 2015 the Company announced the permanent closure of its sawmill in Canal Flats, British Columbia. The Canal Flats sawmill had a two-shift production capacity of 180 million board feet.

In March 2014, the Company permanently closed its Quesnel Sawmill in British Columbia. The annual capacity of this operation was 250 million board feet of spruce, pine, fir ("SPF") lumber.

The Company has no remaining lumber operations that are idled.

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

For additional information regarding changes to Canfor's business expected in 2017 and known trends, commitments, events or uncertainties, see Canfor's "2016 Management's Discussion and Analysis", in particular, the "Outlook" and "Risks and Uncertainties" sections thereof, which are incorporated by reference herein.

### **Business Segments**

Canfor's business is in two reportable segments: "Lumber" and "Pulp and Paper". The Lumber segment includes Canfor's sawmilling and remanufacturing operations and the Pulp and Paper segment includes the BCTMP, kraft pulp and kraft paper business of CPPI, in which Canfor has a 53.6% interest. Canfor has not reported the Panels business (which included its plywood and OSB operations) as a separate reporting segment since 2008, given that all of the Company's panel operations and interests are now either indefinitely idled, permanently closed, or sold and the business does not meet the required criteria for segment reporting under International Financial Reporting Standards ("IFRS").

The following chart and notes outline Canfor's business segments and their respective principal operations as at December 31, 2016. Unless otherwise indicated in the diagram and descriptions below, Canfor has a 100% interest in the operations referred to in each segment.



- 12 sawmills in British Columbia and one in Alberta, with annual production capacity of 4.3 billion board feet.
- 3 sawmills in South Carolina, 3 in Alabama, one in North Carolina, one in Mississippi and one in Arkansas with annual production capacity of 1.4 billion board feet.
- 55% interest in two sawmills in Georgia with annual production capacity of 210 million board feet. Canfor's ownership interest increased to 100% on January 2, 2017 – See "Business of Canfor – Other Significant Events – Phased Purchase of Beadles & Balfour".
- Other operations include one finger-jointing facility in North Carolina, two laminating plants in Arkansas and Georgia, respectively, and a whole-log chipping plant in British Columbia.
- Woodlands operations with an allowable annual cut of 16.7 million m<sup>3</sup>, of which 11.8 million m<sup>3</sup> directly supports lumber operations.
- 50% interest in Anthony EACOM Inc. joint venture in an I-joist plant in Sault Ste. Marie, Ontario.
- 60% interest in Houston Pellet Inc. in Houston, British Columbia.
- 95% interest in two pellet plants located in Chetwynd and Fort St. John, British Columbia.
- Lumber sales and marketing.
- 53.6% interest in three kraft pulp mills, one kraft paper mill and one BCTMP mill with annual production capacity of approximately 1.1 million tonnes of kraft pulp, 140,000 tonnes of kraft paper and 220,000 tonnes of BCTMP.
- Pulp and paper marketing.

The following table sets out, by business segment, Canfor's total sales revenues for the last two years (including 100% of the revenues of its majority-owned subsidiaries). Further details can be found in the Company's annual financial statements:

	<u>Years ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(Millions of dollars)	
Lumber .....	\$3,133.2	\$2,740.1
Pulp and Paper .....	1,101.7	1,185.2
Other (Panels) .....	-	-
<b>Total sales</b> .....	<b><u>\$4,234.9</u></b>	<b><u>\$3,925.3</u></b>

The following table indicates the percentage composition of Canfor's consolidated sales revenues by market for the last two years (including 100% of the revenues of its majority owned subsidiaries). Further details can be found in the Company's annual financial statements:

	<u>Years ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
United States .....	58%	53%
Asia .....	26%	31%
Canada .....	12%	12%
Europe .....	2%	2%
Other .....	<u>2%</u>	<u>2%</u>
<b>Total</b> .....	<b><u>100%</u></b>	<b><u>100%</u></b>

## WOOD SUPPLY

### Timber Resources

Canfor harvests timber under forest tenures held by it in British Columbia and west central Alberta, and has a total allowable annual cut ("AAC") of approximately 16.7 million cubic metres. The forest tenures consist of both area-based and volume-based replaceable tenures and volume-based non-replaceable tenures. In addition, through various third party business arrangements with other tenure holders including First Nations, Canfor also manages nearly 2 million cubic metres of volume throughout its operating areas in British Columbia, much of which is directed to its various manufacturing facilities. Canfor's Canadian wood fibre requirements are also met by open market purchases and exchanges of logs on either a spot or contract basis. The wood fibre requirements in the U.S. are met through open market purchases from private timberland owners.

The following table sets out Canfor's timber resources as at December 31, 2016:

	<b>Productive Area (Hectares)</b>	<b>Allowable Annual Cut (Cubic metres)</b>
<b>British Columbia</b>		
Tenures having regulated sustained yields <sup>(1)</sup>		
Area-based — Tree Farm Licenses <sup>(2)</sup> .....	967,592	2,052,239
Volume-based — Forest Licenses (replaceable) <sup>(3)</sup> .....	N/A	8,177,366
— Forest Licenses (non-replaceable) <sup>(4)</sup> .....	N/A	250,000
— Pulpwood Agreements (non-replaceable) <sup>(5)</sup> .....	N/A	4,841,000
<b>Alberta</b>		
Tenures having regulated sustained yields <sup>(1)</sup>		
Forest Management Agreement .....	644,695	715,000
Timber Quotas <sup>(6)</sup> .....	N/A	652,897
<b>Total</b> .....	<b><u>1,612,287</u></b>	<b><u>16,688,502</u></b>

Notes:

- (1) For an explanation of "regulated sustained yields", see the section entitled "Forest Management" below.
- (2) Comprised of Tree Farm License ("TFL") 14 (Spillamacheen), TFL 18 (Clearwater), TFL 30 (Sinclair), and TFL 48 (Chetwynd). Includes a Mountain Pine Beetle uplift on TFL 48 of 408,877 m3.
- (3) 265,461 m3 was added in 2016 through the acquisition of replaceable forest licenses in the Kootenay Lake TFL and Prince George TSA, which includes the 200,000 m3 obtained through first lien on a forest license in British Columbia upon the exercise of Canfor's option with Conifex.
- (4) Includes 250,000 m3 held jointly with the West Moberly First Nation. Decrease from prior year relates to the expiry of one non-replaceable forest license in the Cranbrook TSA for a total of 22,500 m3.
- (5) Includes Pulpwood Agreements ("PA") 1, 3, 7, 12, and 14. PA 1, 3, and 7 have not been actively utilized by Canfor during their term and are to expire in 2018, 2020, and 2022, respectively, with no opportunity to be renewed, for a total of 4,061,000 m3.
- (6) Includes the addition of 219,248 m3 of available undercut AAC related to CTQP19001, available until 2019.

Note: N/A denotes Not Applicable.

Canfor does not hold timber resources in the form of forest tenure rights for its US based operations, but instead relies on open market purchase and supply contracts for these facilities, all of which are located in areas of high quality sustainable fibre supply.

### British Columbia

The Province of British Columbia owns approximately 95% of all timberlands in the province. Pursuant to the provisions of the *Forest Act* (British Columbia) ("Forest Act"), the Minister of Forests, Lands and Natural Resource Operations are empowered to grant various forms of tenure and to regulate forestry operations.

A TFL requires a licensee undertake the management of an area of Crown forest land, often in combination with other forest land held by the licensee, to yield an annual cut on a regulated sustained yield basis. TFLs are granted for 25-year terms and, subject to satisfactory levels of performance, may be replaced every five to ten years with new TFLs with 25-year terms. Canfor's TFL 18 (Clearwater) and TFL 30 (Sinclair) were replaced in 2001 for a 25-year term. Each of TFL 14 (Spillamacheen) and TFL 48 (Chetwynd) were replaced in 2009 for a 25-year term.

A Forest License is a volume-based tenure, which authorizes a right to harvest a specified volume of timber each year within a particular timber supply area ("TSA") and generally provides for 15-year terms. These licenses must be replaced every five to ten years for further 15-year terms, subject to satisfactory levels of performance. Canfor holds 17 replaceable Forest Licenses, under which it is continuing to harvest (in addition to two such licenses which have no remaining AAC), all of which were replaced between 1998 and 2006. Canfor also holds two non-replaceable Forest Licenses under joint venture agreements with West Moberly First Nation, which expire in 2023.

In addition, Canfor has five Pulpwood Agreements with the Province of British Columbia, which grant a holder the right to obtain licenses to harvest up to a specified volume of timber within a particular geographic area, subject to certain conditions. Canfor has the right, if necessary and subject to the terms of the Pulpwood Agreements, to supply the requirements of CPPI's three pulp mills at Prince George under Pulpwood Agreement No. 1, which expires in 2018, Pulpwood Agreement No. 3, which expires in 2020, and Pulpwood Agreement No. 7, which expires in 2022. None of these Pulpwood Agreements are replaceable under the *Forest Act* and Canfor has not needed to access timber under these or their predecessor agreements since 1976. Canfor also has the right under Pulpwood Agreement No. 12 to 170,000 cubic metres of deciduous timber per year in the Fort St. John TSA in connection with its supply commitment to the Taylor pulp mill in Fort St. John, and under Pulpwood Agreement No. 14 up to 610,000 cubic metres of deciduous

timber per year in the Fort Nelson TSA in connection with the Company's PolarBoard OSB mill in Fort Nelson, which has been indefinitely idled.

For each Forest License and TFL, an AAC is determined. The actual cut in any one year may vary from year to year provided that the actual cut over a five-year period does not exceed 110% of the aggregate AAC for that period. As required by the *Forest Act*, the provincial Chief Forester determines the AAC for each TFL and the total AAC in each TSA (which affects the AAC of Forest Licenses in that TSA) in the Province. The Chief Forester is required to repeat such determination every five years, but has the option of postponing a redetermination for a period of up to ten years after the last determination if he concludes that the AAC will not change significantly from the previous determination. The AAC reflects harvesting practices in the previous five years, timber conditions, regional and local economic and social interests and environmental considerations for these licenses and areas.

## **Alberta**

In west central Alberta, Canfor holds a Forest Management Agreement ("FMA") #9900037 under which it undertakes to manage a designated area of Crown forestland. This FMA was renewed in 1999 for a 20-year period but the Company has requested, and has been granted opportunity for, early renewal. FMA negotiations between the Company and the Province commenced in late 2013. The new agreement was approved by government on March 16, 2015, for a term of 20 years.

The Province of Alberta also grants Timber Quotas having terms of 20 years and containing provisions for renewal. These quotas are intended to provide a continuous supply of timber in perpetuity. As a result of the amalgamation of Timber Quotas by the Province of Alberta in 2010, Timber Quota CTQP190001 was established and further assigned to Canfor. In addition, Canfor holds Timber Quota CTQP520003. Both quotas became effective May 1, 2012 and are set to expire for renewal on April 30, 2024.

Canfor's regulated sustained yield tenures in Alberta specify an AAC and an aggregate allowable cut over a five-year period. The actual cut during each five-year period must be at least 60% of the aggregate specified for that period for the tenure to remain in good standing. Canfor would be subject to significant levies if its production were to exceed 110% of the aggregate allowable cut for that period.

Canfor is in substantial compliance with the harvesting terms of all of its tenure agreements in British Columbia and Alberta.

## **Forest Health**

The infestation of the Mountain Pine Beetle has run its course in virtually every TSA throughout the interior of British Columbia and western Alberta, including many of Canfor's operating areas. The impact of this outbreak has started to affect the mid-term and long-term timber supply in the interior of British Columbia and to a lesser degree in Alberta. Given the nature and extent of the infestation, the mid-term and long-term operational and financial impact on Canfor could be significant. The Company has however taken steps to minimize exposure to these impacts. For additional information regarding the beetle infestation and its impact on Canfor and its operations, see the Company's "2016 Management's Discussion and Analysis", in particular, the "Risks and Uncertainties – Mountain Pine Beetle" section thereof, which is incorporated by reference herein.

## **Aboriginal Issues**

The issues relating to Aboriginal rights and title and consultation continue to be heard, developed, and resolved by Canadian courts at all levels. Canfor continues to cooperate, communicate, and exchange information and views with Aboriginal groups in order to foster good relationships and minimize risks to its tenures, operations, and operational plans, and will continue to participate with the Province in its consultations with Aboriginal groups. Due to their complexity, it is not anticipated that the issues regarding Aboriginal rights and title or consultation will be resolved in the short term and their impact, if any, on the timber supply from Crown lands and Canfor's tenures and operations is unknown at this time. For additional information regarding the Aboriginal issues and their impact on Canfor and its operations, see the Company's "2016 Management's Discussion and Analysis", in particular, the "Risks and Uncertainties – Aboriginal Issues" section thereof, which is incorporated by reference herein.

## Forest Management

Canfor is responsible for all aspects of forest management on the lands within its TFLs in British Columbia. In Alberta, Canfor is responsible for all aspects of forest management on the lands covered by its FMAs except forest fire protection, which is a responsibility of the Province of Alberta under terms of an agreement with the Company. The lands held under TFLs, FMAs, Forest Licenses and Timber Quotas are managed on a “sustained yield” basis, whereby the volume of timber harvested is regulated according to the productive capacity of the land and the inventory of mature timber available for harvest. In British Columbia and Alberta, Canfor is responsible for reforestation of areas logged on all of its sustained yield tenures. The overall management of forestlands held under Forest Licenses and Timber Quotas is the responsibility of the respective forest Ministries of British Columbia and Alberta.

Canfor carries out its forest management responsibilities through a full complement of registered professional foresters, biologists, engineers, and technologists; as well as additional professional staff hired on a part-time and contract basis. This forestry staff is engaged in supervising all aspects of forest development including planning, road development, harvesting methods, and forest protection, and in research and development programs to increase the yield of its forestlands and improve the quality of its timber resources. Canfor currently operates, directly or under contract, seed orchards for the genetic improvement of forest seed at Vernon, British Columbia, and at Grande Prairie, Alberta.

Canfor is a signatory to the Canadian Boreal Forest Agreement (CBFA) signed in May 2010. This agreement ushered in a new era of cooperation in the Boreal Forest. Nine environmental non-governmental organizations and twenty one forest sector companies signed this agreement. The signatories wish to demonstrate leadership in developing and implementing a globally significant model for conservation and resource management in Canada’s Boreal Forests in a manner that sets the stage for joint action in relation to both Boreal Forest conservation and forest sector competitiveness.

Customers of forest products companies increasingly require assurances that products purchased are derived from well-managed forests. Canfor has responded by implementing a comprehensive third-party sustainable forest management (“SFM”) certification strategy to verify the effectiveness of its forest management practices.

Canfor retains an International Organization for Standardization (“ISO”) 14001 certification of its environmental management system for its forest operations, first obtained in 1999 and re-certified as required for subsequent three-year terms. In addition, Canfor retains certification under the Canadian Standards Association (“CSA”) standard for sustainable forest management (CAN/CSA Z809) for its FMA area at Grande Prairie, Alberta, for its TFLs at Radium, Chetwynd, Prince George and Vavenby, British Columbia, for its Forest Licenses at Fort St. John, Houston, Prince George, Fort Nelson, Vanderhoof, Vavenby, Elko, Creston, Radium and Mackenzie, British Columbia and for its Pulpwood Agreements at Fort St. John and Fort Nelson, British Columbia. At present, 99% of Canfor’s AAC is certified to the following standards: CSA sustainable forest management (CAN/CSA Z809), Forest Stewardship Council (“FSC”), Sustainable Forestry Initiative (“SFI”) and ISO 14001. Canfor received its continued registration under the (CAN/CSA Z809) standard corporately in 2015, and ISO 14001 in 2014, allowing Canfor to offer these trading certifications to its customers.

Canfor has seen an increased interest from customers worldwide in understanding the origin of the products they purchase. Canfor continues to make significant progress in implementing a certified Program for Endorsement of Forest Certification (“PEFC”) Chain of Custody system to provide this information. PEFC is a global, independent non-government organization for the assessment and mutual recognition of forest certification schemes. “Chain of Custody” is the process of tracking forest products from their place of origin (forest) through all stages of transfer and production to the final consumer as an end product. The PEFC Chain of Custody system that Canfor has put in place is able to track all of the Company’s raw wood material and its certification status both from the Company’s own managed forest tenures as well as those from outside suppliers.

In March 2015, Canfor received a new Chain of Custody Certificate (PEFC-certified) based on third quarter 2014 audits by the accounting firm KPMG Performance Registrar Inc., which covers the production of raw wood material including: logs, residual chips, and whole log chips to the point of sale and the production of lumber to the point of sale from the following facilities: Chetwynd sawmill, Fort St. John sawmill, Grande Prairie sawmill, Houston sawmill, Polar sawmill, Prince George chip plant, Prince George sawmill, Plateau sawmill, Isle Pierre sawmill, Vavenby sawmill, Radium sawmill, and Mackenzie sawmill. The Chain of Custody Certificate will expire on June 21, 2017.

Canfor has Quota operations within an FMA held by Daishowa Marubeni International (“DMI”) in North Western Alberta. The FMA and embedded Quota were jointly certified to the CSA Z809 Certification standard. In 2012, DMI made the

decision to switch to SFI certification for their FMA. This certification came into effect on October 1, 2012 and includes the Canfor Quota. The jointly held CSA Z809 Certificate subsequently expired on May 30, 2013.

As a result of the acquisition of the Elko and Canal Flats sawmills in Southern British Columbia in 2012, Canfor also retains a FSC certification under the FSC BC Standard, for the forests in the East Kootenay Defined Forest Area, including TFL 14 and three replaceable Forest Licences in the Invermere, Cranbrook, and Kootenay Lake TSAs. The Radium operating area is not included at this time. Canfor received an FSC Multi-site Chain-of-Custody certificate for Canal Flats, Elko and Radium sawmills in 2012.

### Wood Fibre Supply

The wood fibre supply for Canfor's lumber and pulp operations in Canada is obtained from logging of Canfor's forest tenures and purchasing logs and chips. Logs are purchased from other tenure holders and from farmers, Aboriginal groups and other private landholders. Chips and waste materials are purchased from sawmills and other wood products producers.

As part of the spin-out of its kraft pulp and paper business in 2006 to a predecessor of CPPI, including its three pulp mills in the Prince George area, Canfor entered into residual wood chip, whole log chipping and hog fuel agreements with CPPI, which were amended in 2013 (see "Pulp and Paper").

The following table sets out the volume of wood fibre produced and purchased in Canfor's operations and the volume of wood fibre sold to other wood fibre consumers for the last two financial years:

	<u>Years ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(000 cubic metres)	
Wood Fibre Supply		
Log Production – Canfor Tenures .....	11,093	12,759
Log Purchases .....	10,125	9,163
Net Sales/Trades/Transfers .....	(1,495)	(873)

During 2016, CPPI purchased 1,662,629 oven-dried tonnes (2015 – 1,816,256 oven-dried tonnes) of chips from Canfor pursuant to the fibre supply agreements between both entities, which are not included in the above table. See "Pulp and Paper".

Canfor has one whole-log chipping facility in the Prince George area, with available annual capacity of 480,000 oven-dried tonnes of chips, to supplement its supply of sawmill residual chips.

Historically, CPPI has competed successfully for residual chips which cannot be supplied by Canfor's sawmills and timber tenures. It does not anticipate that this situation will change in 2017.

With the acquisition of the Tembec Industries Ltd. ("Tembec"), Elko, and Canal Flats sawmills, whole-log chipping infrastructure and associated timber tenures in the East Kootenay region of British Columbia in March of 2012, Canfor entered into a chip supply and hog fuel supply agreement with Tembec for its Skookumchuck pulp mill. Under the agreement, supply commitments for chips and hog fuel are established annually. The Skookumchuck pulp mill was sold by Tembec to Paper Excellence in 2013, and this agreement was assigned to Paper Excellence accordingly.

Canfor does not hold timber resources in the form of forest tenure rights for its US based operations, but instead relies on open market purchase and supply contracts for these facilities, all of which are located in areas of high quality sustainable fibre supply.

## LUMBER

### Lumber Production Facilities

As at December 31, 2016, Canfor owned twelve sawmills in the interior region of British Columbia, one in Alberta, three in South Carolina, one in North Carolina, three in Alabama, one in Mississippi and one in Arkansas. At December 31, 2016, Canfor also had a 55% interest in two sawmills in Georgia, which was increased to 100% on January 2, 2017, with the completion the final phase of the Beadles & Balfour acquisition. Canfor's sawmills, including 100% of the capacity of the Georgia sawmills adjusted for additional shifting, had annual production capacity of approximately 5.9 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-six feet. A

significant and increasing 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. As a result of its recent acquisitions, Canfor has expanded its product offering to include high-value engineered wood products, higher-grade MSR lumber, as well as premium one-inch boards.

As a by-product of Canfor's lumber production facilities, wood chips are produced from the portion of each log not converted into lumber. These wood chips are sold to pulp mills for use as their raw material, including CPPI pursuant to fibre supply agreements entered into between Canfor and CPPI in connection with Canfor's spin-out of its pulp and paper business in 2006. The chip pricing under the agreements with CPPI expired on September 1, 2016. The Company and CPPI agreed to extend the chip pricing formula for one year, with the opportunity to extend for one additional year if both parties agree (see "Pulp and Paper"). In addition, Canfor extracts pulpwood from its northern forestry operations and converts this wood to chips for CPPI's pulp and paper operations.

Canfor's other operations include a whole-log chipping plant in British Columbia, two laminating plants in Arkansas and Georgia, respectively, and in the Carolinas, a finger joint plant and a trucking division. The Lumber segment also includes Canfor's wood products sales and marketing division, located in Vancouver, Canfor's 60% interest in Houston Pellet Inc., a joint venture with Pinnacle Pellet Inc. and the Moricetown Indian Band, which has an annual capacity of 225,000 tonnes of wood pellets, Canfor's 50% interest in Anthony EACOM Inc., an I-joist producer located in Sault Ste. Marie, Ontario with annual capacity of approximately 54 million lineal feet as well as a 95% interest in two pellet plants located Chetwynd and Fort St. John, respectively. Construction of the Chetwynd pellet plant was completed in 2015 and the Fort St. John pellet plant was completed in early 2016.

The following table sets out Canfor's lumber production and sales for the last two years (including 100% of the lumber production from its majority-owned subsidiaries):

	<u>Years ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(MMfbm) <sup>(1)</sup>	
British Columbia <sup>(2)</sup> .....	3,481.5	3,517.5
Alberta .....	305.3	312.1
United States .....	<u>1,335.6</u>	<u>1,161.9</u>
<b>Total Production</b> .....	<b><u>5,122.4</u></b>	<b><u>4,991.5</u></b>
<b>Sales<sup>(3)</sup></b> .....	<b><u>5,309.4</u></b>	<b><u>5,212.7</u></b>

Notes:

- (1) MMfbm denotes million foot board measure. Volumes exclude trim blocks.
- (2) 2015 includes impacts from the permanent closure of the Company's Canal Flats sawmill.
- (3) Excludes lumber not produced by Canfor but sold under contract for third parties (24 MMfbm in 2016 and 24 MMfbm in 2015).

Canfor harvests logs from tenures located in the interior region of British Columbia and northern Alberta to supply its Canadian lumber operations, with any shortfall in mill requirements being made up with wood purchased from these areas (see "Wood Supply – Timber Resources" above). Operations in the US South rely mainly on purchased logs.

The following table sets out the log production, log purchases, wood chip production and wood pellet production for the last two years (including 100% of the production and purchases from its majority-owned subsidiaries):

	<u>Years ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(000)	(000)
Log Production (m <sup>3</sup> ) .....	11,093	12,794
Log Purchases (m <sup>3</sup> ) .....	10,125	9,253
Wood Chip Production (oven-dried tonnes) .....	3,363	3,227
Wood Pellet Production (tonnes) .....	335	214

## **Lumber Markets and Distribution**

Canfor markets lumber products throughout North America and overseas. In addition to its own production, Canfor markets lumber produced from independent mills and offshore countries to complement its product line.

In 2016, approximately 67% of Canfor's lumber sales volumes were to or within United States markets (2015 – 62%) and 10% to Canadian markets (2015 – 11%). The total remaining 23% (2015 – 27%) was sold to offshore markets, predominantly to China and Japan. Other offshore markets consisted of Korea, Taiwan, Southeast Asia and the Middle East. In 2016, sales volumes of SPF were down 2% from the previous year and Southern Yellow Pine ("SYP") sales volumes were up 15% reflecting recent acquisitions in the US. Substantially all lumber destined for or within North America was shipped by truck or rail. Substantially all product transported offshore was sent by container ship.

For a detailed discussion of the markets for Canfor's lumber products see the Company's "2016 Management's Discussion and Analysis," in particular, the "Lumber – Markets" and "Outlook – Lumber Markets" sections, which is incorporated by reference herein.

## **Human Resources**

As at December 31, 2016, Canfor employed 2,981 persons in its lumber operations in British Columbia (including head office), 217 persons in Alberta, 1,783 persons in the United States, 7 persons in China and 3 persons in Japan. Of these, approximately 45% are covered by collective agreements with the USW, the PPWC and the UNIFOR.

The collective agreement with the USW (which represents the majority of the workers in the British Columbia operations, except as noted below) was renewed in 2013 for a five year term, expiring on July 1, 2018. The contract with the UNIFOR, which represents workers at Canfor's Grande Prairie operation in Alberta, was renewed in 2014 and expires on September 30, 2017. The contract with the PPWC, which represents workers at Canfor's Mackenzie operation, was renewed in 2009 and expired June 30, 2014. However, the Company negotiated a "Me Too" agreement with PPWC Local 18 for extension of the current collective agreement beyond the expiry of June 30, 2014 for the Mackenzie operation, on the same terms as the USW agreement. Accordingly, the PPWC agreement has been extended for a further five year term, expiring on June 30, 2019.

None of Canfor's operations in the United States are unionized.

## **PULP AND PAPER**

As of December 31, 2012, Canfor owned 50.2% of the shares of CPPI. As the result of normal course issuer bids by CPPI between 2013 and 2016, the Canfor's ownership percentage of CPPI has increased from 50.2% in 2012 to 53.6% at December 31, 2016.

On January 30, 2015 CPPI purchased the Taylor pulp mill from Canfor. See "Business of Canfor – Other Significant Events" for discussion of the sale of the Taylor pulp mill to CPPI.

## **CPPI Production Facilities**

CPPI is a leading global supplier of pulp and paper products with operations based in Prince George and Taylor, British Columbia. CPPI's strategy is to preserve its low-cost operating position; maintain the premium quality of its products; grow its green energy business; develop an enterprise-wide culture of safety, innovation and engagement where CPPI is recognized as the preferred employer in its operating regions; and capitalize on attractive growth opportunities.

CPPI owns and operates four mills with an annual capacity to produce for sale to the market approximately 1.1 million tonnes of northern softwood market kraft pulp, 85% of which is bleached to become Northern Bleached Softwood Kraft ("NBSK") pulp, 220,000 tonnes of BCTMP, and approximately 140,000 tonnes of bleached and unbleached kraft paper.

In connection with the spin-out of the pulp and paper business to a predecessor of CPPI in 2006, Canfor entered into a fibre supply agreement (the "Fibre Supply Agreement") with CPPI under which Canfor has agreed to supply CPPI with annual quantities of residual wood chips and hog fuel produced at specified sawmills. Prices paid by CPPI for residual wood chips are based on a pricing formula that results in CPPI paying market prices for wood chips, subject to adjustment to the formula to reflect market conditions and other factors such as wood chip quality. Prices paid for hog fuel are based on market prices. CPPI is also entitled, upon giving three months' notice to Canfor, to request Canfor to supply it with pulp logs or other pulpwood harvested from its woodlands operations, at market prices. The Fibre Supply Agreement is evergreen, and pricing mechanisms are renewed from time to time and amended to reflect new circumstances.

The Company also entered into a new fibre supply agreement with CPPI (the “New Fibre Agreement”) in conjunction with the purchase of the Taylor pulp mill. The terms and conditions of this New Fibre Agreement are similar to the current Fibre Supply Agreement already in place.

The chip pricing under these agreements with CPPI expired on September 1, 2016. The Company and CPPI agreed to extend the chip pricing formula under these agreements for one year, with the opportunity to extend for one additional year if both parties agree. These 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 fibre requirements to operate CPPI’s mills at their current capacity levels of operation.

Under arrangements entered into with the Company in connection with the spin-out, CPPI also purchases, at cost, a number of administrative, accounting, legal, and management services from Canfor under a services agreement, which can be terminated, in whole or in part, on twelve months’ notice by either party.

The full text of the amended Fibre Supply Agreement relating to CPPI can be found on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).

The following table sets out pulp production and sales volumes for the CPPI pulp mills for the last two years:

	<u>Years ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(000 tonnes)	
Pulp production .....	1,218	1,215
Pulp sales.....	1,202	1,228

Note: 2015 data includes Taylor pulp mill production and sales from February 1, 2015 onwards.

The following table sets out the kraft paper production and sales volumes for CPPI for the last two years:

	<u>Years ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(000 tonnes)	
Kraft paper production.....	136	137
Kraft paper sales .....	143	133

### **CPPI Markets and Distribution**

CPPI has a sales and marketing department staffed by full time marketing professionals who are responsible for global sales of all of the pulp produced by its mills. Customers in the Americas are serviced through the Vancouver office. European and Asian customers (excluding Japanese and Korean customers) are mostly serviced through long-term sales agents. These 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.

In November 2013, CPPI entered into a strategic sales and marketing cooperation agreement with UPM-Kymmene Corporation (“UPM”). Beginning January 1, 2014, CPPI’s sales network represented and co-marketed UPM pulp products in North America and Japan whereas UPM’s pulp sales network represented and co-marketed CPPI’s products in Europe and China.

Two wholly-owned subsidiaries of CPPI, Canfor Pulp Japan Corporation and Canfor Korea Ltd., market CPPI’s pulp in Japan and South Korea, respectively.

In 2016, the approximate geographic distribution of CPPI’s mills’ pulp sales by volume was 67% to Asia, 26% to the Americas and 5% to the European market (2015 – 66%, 29%, and 5%, respectively). The 2015 data includes Taylor pulp mill production and sales from February 1, 2015 onwards.

Premium 1 Papers, a sales and marketing partnership between CPPI and Canadian Kraft Paper Industries Limited (“CKPI”), is responsible for marketing all bleached and unbleached kraft paper products produced by the Prince George Pulp and Paper operation in Prince George, British Columbia and CKPI’s unbleached kraft paper mill in The Pas, Manitoba. CKPI is the successor company to Tolko Marketing and Sales Ltd. as of November 10, 2016. Premium 1 Papers has 15 full time marketing professionals.

The approximate geographic distribution of kraft paper sales by volume in 2016 was 82% to North America, 14% to Asia, and 11% to Europe/Middle East (2015 – 74%, 13%, 13%, respectively).

CPPI 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 and truck, and each of the mills is 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 being 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 CPPI's pulp and paper products, see the Company's "2016 Management's Discussion and Analysis", in particular, the "Pulp and Paper – Markets" and "Outlook – Pulp and Paper Markets" sections thereof, which are incorporated by reference herein. Further information can be obtained from CPPI's 2016 annual information form, which can be obtained on SEDAR.

### **CPPI Human Resources**

As at December 31, 2016, CPPI employed 1,266 people in its wholly owned subsidiaries and 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 covering the pulp and paper operations were successfully concluded and ratified in 2012 for terms of five years expiring on April 30, 2017. CPPI has received Notice to Bargain from the UNIFOR and the PPWC. Bargaining will commence on May 1, 2017.

## **OTHER OPERATIONS**

### **Panels**

In 2013, Canfor sold its 50% share in the Peace Valley OSB mill, located in Fort St. John, British Columbia. Prior to the sale, the mill was jointly owned with Louisiana Pacific Canada Ltd.

The Tackama plywood plant, with an annual product capacity of 270 million square feet (3/8" basis), was permanently closed effective January 20, 2012, after being indefinitely idled since October 2008.

The PolarBoard OSB plant in Fort Nelson, with an annual production capacity of 640 million square feet (3/8" basis), was indefinitely idled in mid-2008 and remains idled.

Canfor has not reported its Panels business as a separate reporting segment since 2008, given that it no longer meets the reporting criteria for separate reporting under IFRS.

## **ENVIRONMENT**

Canfor is committed to the responsible stewardship of the environment throughout its operations. Canfor meets this commitment by: practicing forest management that recognizes ecological processes and diversity and supports integrated use of the forest; designing and operating its facilities to comply with or surpass legal requirements; setting environmental objectives and targets to improve environmental performance; and promoting environmental awareness throughout Canfor's operations.

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

At present, approximately 99% of Canfor's AAC is certified to the following standards: CSA sustainable forest management (CAN/CSA Z809), FSC, SFI and ISO 14001.

Canfor's wood products operations have been implementing an ISO 14001-based EMS, but are not seeking ISO 14001 registration at this time.

For 2016, one of Canfor's sawmills will report greenhouse gas ("GHG") emissions under the British Columbia government's GHG reporting requirements which have been in place since 2009. The British Columbia government's reporting requirements have a reporting threshold of 10,000 tonnes of carbon dioxide equivalents per year ("CO<sub>2</sub>e"), or, in the case of the reporting sawmill, a requirement to report GHG emissions for 3 years following GHG reductions that put

the reporting sawmill under the reporting threshold. GHG emission reporting has been required federally and in Alberta for several years although Canfor's wood products facilities have not triggered federal or Alberta reporting thresholds. Environment and Climate Change Canada ("ECCC") is considering an expansion to the federal GHG reporting requirements including lowering the federal reporting threshold from 50,000 tonnes to 10,000 tonnes and reporting additional data. These new requirements will be gradually phased-in by sector following consultation planned for 2017. Canfor's biomass cogeneration facility in Alberta reports under the Alberta Specified Gas Emitter Regulation GHG reporting requirements as biogenic CO<sub>2</sub>e emissions are included in the 100,000 tonne reporting threshold. The facility's non-biogenic GHG emissions are well under 10,000 tonnes CO<sub>2</sub>e. Under the US Environmental Protection Agency ("EPA") Federal GHG Reporting Rule facilities emitting more than 25,000 tonnes per year of CO<sub>2</sub>e are required to report on their GHG emissions. Canfor's US facilities' direct GHG emissions are sufficiently low that they do not trigger this EPA reporting requirement.

Carbon policy at federal and provincial levels has been under active review and development following the December 2015 United Nations' COP21 climate change conference in Paris. The Canadian federal government is committed to a 30% reduction in 2005 levels by 2030 and supports the 1.5 degree celcius global temperature increase threshold. British Columbia introduced a carbon tax in 2008 and it now stands at \$30 per tonne, adding an extra 6.67 cents to each litre of gasoline and 7.67 cents to each litre of diesel. In August, 2016, British Columbia announced it would maintain this pricing level until other jurisdictions caught up. In October, 2016, the Canadian federal government announced a national "floor price" on carbon of \$10 per tonne beginning in 2018 and rising \$10 per tonne annually to \$50 per tonne in 2022, and a requirement that all provinces and territories have some form of carbon pricing by 2018.

Alberta has developed a new strategy on climate change based on November 2015 recommendations put forward by the government's Alberta Climate Change Advisory Panel. The Alberta Climate Leadership Plan includes phase out of coal based power generation by 2030 and a broad based carbon levy. In November 2016, Alberta announced that it will implement a \$20 per tonne carbon levy in 2017, rising to \$30 per tonne in 2018. Similar to British Columbia, the levy applies to gasoline, diesel, natural gas, and propane.

While Canfor's BC and Alberta sawmill and biomass cogeneration facility GHG emissions are all well below any foreseeable provincial and federal GHG regulation thresholds, all of Canfor's BC operations are subject to the BC carbon tax and going forward, all of Canfor's Alberta operations will be subject to the carbon levy.

Canfor is a participant in the carbon offset market in Alberta and British Columbia, selling offset credits from Canfor Green Energy in Grande Prairie and from several biomass heat energy system projects completed in British Columbia.

In the United States, carbon policy at the federal and state levels is uncertain, particularly with the recent US election results; however, direct GHG emissions from Canfor's US operations are low due to the use of biomass fuels for heat energy. Canfor's US sawmills are however exposed to potential pass through of possible future electrical utility GHG emission reduction requirements related to electricity purchases.

Canfor's US sawmill boilers that operate at greater than 12 million British thermal units annually or have annual Federal Standard emissions greater than 25 tonnes are required to follow Maximum Achievable Control Technology ("MACT") requirements and to control and continuously monitor their emissions as of July 2016.

The MACT emissions limits have caused considerable financial commitments to Canfor and during its phased and direct purchases of US sawmills. Several of Canfor's US sawmills have either upgraded existing Continuous Dry Kilns ("CDK") or are replacing older biomass boiler units with new CDKs. These units use biomass as their fuel source and are not subject to the MACT requirements.

During 2016, Canfor's operations (including its US sawmills) were in substantial compliance with environmental requirements, except for incidents, which have not had, nor are they expected to have, a material effect on Canfor or its operations. For additional information regarding Canfor's environmental initiatives, see the Company's "2016 Management's Discussion and Analysis", in particular the section entitled "Environmental Issues", which is incorporated by reference herein.

## **COMPETITIVE POSITION**

Each of the markets in which the Company sells lumber, pulp, and paper products is highly competitive with many major companies in each market. The Company's competitive position is influenced by the availability, quality and cost of its raw materials, energy and labour, and its plant efficiencies and productivity in relation to its competitors. Like the rest of the Canadian forest products industry, the Company (including CPPI) competes in an international market and is

therefore subject to the impact of currency fluctuations and global business conditions. Many of the Company's lumber-products also compete with substitutes for wooden building materials of various kinds.

### **RESEARCH AND DEVELOPMENT**

The Company conducts and is committed to research and development in the areas of fibre analysis, manufacturing processes, quality control and product and building systems development. The Company is an active member and participant in key industry research and development organizations. The Company maintains its connection to developments in industry research and technical information through its relationships with various associations, universities, research institutes, suppliers and customers.

### **DIRECTORS AND OFFICERS**

#### **Directors**

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

<u><b>Name and Municipality, Province and Country of Residence</b></u>	<u><b>Principal Occupation and Background</b></u>	<u><b>Director Since</b></u>
Peter Bentley, O.C., O.B.C., LL.D. <sup>(2)(3)(4)(5)</sup> Vancouver, BC Canada	Chairman Emeritus of the Board of Directors of the Company.  Background: Mr. Bentley is Chairman Emeritus of the Board of the Company. Mr. Bentley was formerly the Chairman of the Board of the Company from 1983 to 2009. Mr. Bentley is a Director of CPPI. After working in various positions throughout the Company, Mr. Bentley became Executive Vice-President in 1970, President in 1975, and Chairman and Chief Executive Officer ("CEO") in 1985, a position he held until April 24, 1995. Mr. Bentley was reappointed to the position of President and CEO of the Company on July 25, 1997 and relinquished the position of President and CEO on January 1, 1998. Mr. Bentley is Chairman and a Director of Sierra Mountain Minerals Inc., a member of the Board of the Canadian Institute for Advanced Research, a member of the Advisory Board of BuildDirect.com, and a Trustee and Chair Emeritus of the Vancouver General Hospital and University of British Columbia Hospital Foundation. He also served for many years as a Director of Bank of Montreal and Shell Canada Ltd. Mr. Bentley retired as Chancellor of the University of Northern British Columbia in May 2007. Mr. Bentley holds Honorary Doctorate of Laws degrees from the University of British Columbia and University of Northern British Columbia.	1966

<u>Name and Municipality, Province and Country of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
Glen Clark <sup>(4)(5)</sup> Vancouver, BC Canada	<p>President and Director of The Jim Pattison Group, a diversified group of companies.</p> <p>Background: Mr. Clark is the President and a Director of The Jim Pattison Group and a member of the Board of Directors of Westshore Terminals Investment Corporation. In the capacity of President of the Jim Pattison Group, Mr. Clark has corporate responsibility for Pattison Sign Group, Canadian Fishing Company, Overwaitea Food Group, Ocean Brands, Jim Pattison Lease, Ripley Entertainment, Guinness World Records, TNG North America, Comag, Everything Wine and The Jim Pattison Broadcast Group. Prior to 2001, Mr. Clark served as Premier of British Columbia from February 1996 to August 1999. He was Minister of Finance and Corporate Relations from November 1991 to September 1993 and Minister of Employment and Investment from September 1993 until February 1996. Mr. Clark was first elected to the Legislative Assembly of British Columbia in 1986 to represent the constituency of Vancouver-East. In the 1991 and 1996 general elections, he was re-elected to represent the constituency of Vancouver-Kingsway. Mr. Clark holds a Bachelor of Arts degree from Simon Fraser University and a Master's Degree in Community and Regional Planning from the University of British Columbia.</p>	2009
Michael Korenberg <sup>(1)(3)(5)</sup> West Vancouver, BC Canada	<p>Chairman of the Board of Directors of the Company and Chairman of The Wreath Group.</p> <p>Background: Mr. Korenberg is a Director and the Chairman of the Company's principal subsidiaries, Canadian Forest Products Ltd. and CPPI. Mr. Korenberg is a Director of Westshore Terminals Investment Corporation and Kruger Products LP and its associated company, KP Tissue Inc., which he chairs. He is a member of the Dean's Advisory Committee for the Centre for Business Law, a member of the Law Societies of Upper Canada (Ontario) and British Columbia and serves as Vice Chair of the Board of Governors of the University of British Columbia and as an advisory board member for the Heart &amp; Stroke Foundation of British Columbia and the Yukon.</p>	2003
James Pattison, O.C., O.B.C. <sup>(2)(3)</sup> West Vancouver, BC Canada	<p>Managing Director, CEO and Chairman, The Jim Pattison Group, a diversified group of companies.</p> <p>Background: Mr. Pattison is a Director of The Jim Pattison Group Inc. (and its affiliates), Brookfield Asset Management Inc. and a Trustee of the Board of the Ronald Reagan Presidential Foundation.</p>	2003

<u>Name and Municipality, Province and Country of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
Conrad Pinette <sup>(2)(4)(5)</sup> Vancouver, BC Canada	Former owner and President, Pinette & Therrien Mills Ltd.  Background: Mr. Pinette is also a Director of CPPI. Mr. Pinette's work in the Canadian forest industry began 40 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 of the Vancouver General Hospital and University of British Columbia Prostate Advisory Board.	2008
J. Mack Singleton, BA <sup>(4)(5)</sup> Myrtle Beach, SC USA	Former CEO of CSP, formerly New South Companies Inc., headquartered in Myrtle Beach, South Carolina, a wholly owned subsidiary of the Company.  Background: Mr. Singleton has 38 years of experience in the wood products industry, all with CSP or its predecessor companies and was the CEO of CSP since 1985. Mr. Singleton retired as the CEO of CSP in September 2009. He has served on the boards of numerous industry associations and committees and is past Chairman of the US Coalition for Fair Lumber Imports and the Southern Forest Products Association. Mr. Singleton received a BA degree from Presbyterian College, a J.D. degree from the University of South Carolina School of Law, and completed the PMD Program at Harvard Business School.	2007
Ross Smith, FCPA, FCA <sup>(1)(2)</sup> West Vancouver, BC Canada	Member of the Board of Directors of Kal Tire Ltd. and Rotherham Holdings Ltd., a member of the Advisory Board of Marsh Canada Limited and Chairman of the Board for K-Bro Linen Inc. and Kal Tire Holdings Ltd.  Background: Mr. Smith had a successful 35 year career at KPMG LLP where he held various roles, including Managing Partner for British Columbia region and served for 13 years on the National Management Committee prior to his retirement in 1998. While in public practice, Mr. Smith served major public and private companies, many of which were in the forest industry, from an audit and securities perspective. Mr. Smith has served on many charitable and community boards in past years and is a past member of the Board of Governors of the University of British Columbia. Mr. Smith is a former member of the Board of Directors of HSBC Bank Canada. Mr. Smith qualified as a Chartered Accountant in 1962 and was elected a Fellow of the Institute of Chartered Accountants of British Columbia ("ICABC") in 1990 and in 2010 was awarded a lifetime achievement award by the ICABC.	2009

<u>Name and Municipality, Province and Country of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
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William Stinson <sup>(1)(2)(4)(5)</sup> Vancouver, BC Canada	Chairman and CEO of Westshore Terminals Investment Corporation.	2011
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Background: Mr. Stinson is a Director of CPPI. 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.

John Baird <sup>(4)(5)</sup> Vancouver, BC Canada	Former Canadian Foreign Minister, Senior Advisor to various enterprises and a former Senior Cabinet Minister in the Government of Canada.	2016
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Background: Mr. Baird spent three terms as a Member of Parliament and four years as Foreign Minister. He also served as President of the Treasury Board, Minister of the Environment, Minister of Transport and Infrastructure, and Leader of the Government in the House of Commons. Prior to entering federal politics, Mr. Baird spent ten years in the Ontario Legislature where he served as Minister of Community and Social Services, Minister of Energy, and Government House Leader.

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, Canfor Pulp Products Inc., the FWD Group and PineBridge Investments. He also serves as a Global Strategic Advisor to Hatch Ltd, a Canadian global multidisciplinary management, engineering and development consultancy, and is a Senior Advisor at Eurasia Group, a global political risk consultancy.

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. He holds an Honours Bachelor of Arts in Political Studies from Queen's University at Kingston.

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Joint Management Resources and Compensation Committee.
- (3) Member of the Joint Corporate Governance Committee.
- (4) Member of the Joint Environmental, Health and Safety Committee.
- (5) Member of the Joint Capital Expenditure Committee.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company to be held on April 26, 2017.

## Officers

The names and municipality, province and country of residence of the Chair Emeritus and the executive officers of the Company and the offices held by them are as follows:

<u>Name</u>	<u>Municipality of Residence</u>	<u>Office</u>
Peter Bentley	Vancouver, BC, Canada	Chairman Emeritus
Michael Korenberg	West Vancouver, BC, Canada	Chairman
Donald Kayne	Tsawwassen, BC, Canada	President and Chief Executive Officer
Alan Nicholl	West Vancouver, BC, Canada	Senior Vice President, Finance and Chief Financial Officer
David Calabrigo, Q.C.	Vancouver, BC, Canada	Senior Vice President, Corporate Development, Legal Affairs and Corporate Secretary
Mark Feldinger	Surrey, BC, Canada	Senior Vice President, Energy, Environment, Transportation and Sourcing
Wayne Guthrie	White Rock, BC, Canada	Senior Vice President, Sales and Marketing
Stephen Mackie	Prince George, BC, Canada	Senior Vice President, Operations Canada
Frederick Stimpson III	Mobile, AL, United States	President, Canfor Southern Pine
Patrick Elliott	Vancouver, BC, Canada	Vice President and Treasurer
Bob Hayes	Delta, BC, Canada	Vice President, Transportation Procurement and Distribution
Rick Wilson	Surrey, BC, Canada	Vice President, Corporate Development and Strategic Capital

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 May 2011, Mr. Kayne was Vice President, Wood Products Marketing and Sales, Mr. Nicholl was Corporate Controller, Mr. Calabrigo was Vice President, Corporate Development, General Counsel and Corporate Secretary, Mr. Feldinger was Vice President, Manufacturing, Mr. Guthrie was Vice President Sales and Marketing at Tembec, and Mr. Elliott was Treasurer; prior to July 1, 2012, Mr. Hayes was General Manager, Global Supply Chain; prior to December 31, 2015, Mr. Korenberg was the Deputy Chairman and Managing Director of The Jim Pattison Group; prior to December 31, 2013, Mr. Korenberg was Co-Chairman of the Company and CPPI; prior to September 1, 2014, Mr. Calabrigo was Vice President, Corporate Development, Legal Affairs, Human Resources and Corporate Secretary; prior to November 1, 2014, Mr. Mackie was Director, Capital and Strategic Projects and Mr. Wilson was General Manager, Operations Finance; prior to 2015 Mr. Stimpson was CEO of Scotch Gulf.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Company, no Director or Executive Officer of the Company, or any of their associates, 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 that has materially affected or will materially affect the Company.

## CONFLICTS OF INTEREST

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

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of 1,010,000,000 shares divided into 1,000,000,000 Common Shares without par value and 10,000,000 Preferred Shares with a par value of \$25 each. At December 31, 2016 there were 132,804,573 Common Shares issued and outstanding and no Preferred Shares issued and outstanding. As of the date of this Annual Information Form, there are 132,804,573 Common Shares issued and outstanding and no Preferred Shares issued and outstanding.

Holders of the Common Shares are entitled to vote at all meetings of shareholders of the Company, except meetings at which only the holders of Preferred Shares would be entitled to vote. The Common Shareholders are entitled to receive dividends, as and when declared on the Common Shares.

Holders of Preferred Shares are not generally entitled as such to receive notice of, or to attend or vote at, general meetings of shareholders of the Company. Preferred shareholders are entitled to preference over the Common Shares with respect to the payment of dividends and upon any distribution of assets in the event of liquidation, dissolution and winding-up of the Company.

## RATINGS

The credit rating agency listed below has assigned the following unsolicited Issuer rating:

DBRS Ltd. ("DBRS")	BBB (low)	(the fourth ranking category out of eight granted by DBRS for long-term debt)
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A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. The foregoing DBRS rating was not requested by Canfor and is based, as specified by DBRS in its rating report, on publicly available information about the Company. Canfor did not participate with or provide information to DBRS in connection with this rating. Accordingly, Canfor cannot comment on the accuracy of the rating or of the appropriateness of the factors considered by DBRS in preparing the rating.

The following information about DBRS credit ratings is taken from publicly available information provided by DBRS on its website. DBRS credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated and is meant to give an indication of the risk that a borrower will not fulfill its obligations in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrower. According to the DBRS rating system, an obligation rated BBB is defined to be adequate credit quality, the capacity for the payment of financial obligations is considered acceptable, but may be vulnerable to future events.

The ratings from AA to CCC may be modified by the addition of a high or low modifier to show relative standing within the major rating categories. The lack of one of these designations indicates a rating, which is essentially in the "middle" of the category.

## DIVIDENDS

The declaration and payment of dividends is at the discretion of the Company's Board of Directors. There were no dividends paid on its Common Shares from 2008 to 2016.

The amount of dividends the Company is permitted to pay under its term loan agreements is determined by reference to consolidated net earnings less certain restricted payments. As at September 30, 2016, the Company would be permitted under these agreements to pay up to \$481.0 million or \$3.62 per share in dividends on its Common Shares. The agreements do not restrict payment of dividends on Preferred Shares or dividends paid in Common Shares of the Company.

## SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

At February 8, 2017, the Directors and Executive Officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 61,121,429 Common Shares representing approximately 46.0% of the outstanding Common Shares.

At February 8, 2017, James A. Pattison beneficially owned 60,560,822 Common Shares, which are held by companies wholly owned by Mr. Pattison, and represent approximately 45.6% of the outstanding Common Shares of the Company. This amount is included in the calculation of the Directors and Executive Officers holdings above.

## MARKETS FOR SECURITIES

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

### TRADING PRICE AND VOLUME

The following table presents the high and low prices for the Company's Common Shares and the average daily trading volume of those shares, on a monthly basis, on the TSX for 2016.

<u>Month (2016)</u>	<u>High</u>	<u>Low</u>	<u>Average Daily Trading Volume</u>
	\$	\$	(Shares)
January	20.38	12.62	467,877
February	15.76	12.40	325,859
March	18.41	14.11	330,158
April	18.37	13.44	345,817
May	16.14	13.44	395,001
June	15.71	11.96	277,046
July	15.97	12.93	253,829
August	16.25	14.33	184,532
September	16.40	13.83	228,988
October	15.49	13.35	244,353
November	15.48	13.61	258,540
December	16.17	14.33	202,773

Source: Bloomberg

### 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. The Company entered into a Note Purchase and Private Shelf Agreement dated October 2, 2015 among the Company, Prudential Investment Management, Inc. and the note purchasers (the "Note Purchase Agreement"), for the private placement of 4.40% Series A senior unsecured notes (the "Notes") of the Company. The initial series of Notes are for an aggregate principal amount of US\$100,000,000 with a 10 year term due October 2, 2025 and are guaranteed by certain of the subsidiaries of the Company. The Note Purchase Agreement provides for a US\$50,000,000 uncommitted shelf facility to allow for future issuances of Notes.
2. The Company entered into an amended and restated credit agreement dated for reference September 29, 2015 among the Company as the borrower, Royal Bank of Canada, Bank of Montreal, HSBC Bank Canada and the other financial institutions and lenders specified therein pursuant to which, among other things, a subsidiary of the Company, New South Companies, Inc. (now CSP) was added as a co-borrower. This amended and restated credit agreement provides for a renewal of an existing CDN\$350,000,000 unsecured revolving term credit facility (the "Operating Loan"), an increase of the existing unsecured non-revolving term loan from CDN\$100,000,000 to CDN\$125,000,000 (the "Cdn Term Loan"), cancellation of an existing CDN\$75,000,000 non-revolving term loan, and the addition of a new US\$100,000,000 unsecured non-revolving term loan (the "US Term Loan") made available to CSP. The termination date for the Operating Loan was extended from February 28, 2019 to September 28, 2020. The Operating Loan provides for floating rates of interest and for the issuance of letters of credit and may be increased by up to CDN\$15,000,000. The Cdn Term Loan has a maturity date of September 28, 2020 and provides for floating rates of interest based on the lenders' Canadian prime rate or bankers' acceptances. The US Term Loan has a maturity date of September 28, 2023 and floating rates of interest rates based on the lenders' US base rate or LIBOR.
3. The Company and a predecessor to CPPI each entered into a number of material contracts in connection with the spin-out of the NBSK pulp and paper business by the Company on July 1, 2006, which is now carried on by CPPI. For a description of the spin out and these contracts see "Pulp and Paper" and the section entitled "The Spin-out – Transfer of the Pulp Business and Related Agreements" of the Company's Information Circular dated April 28, 2006, which is incorporated by reference herein and also the Canfor Pulp Income Fund Information Circular dated March 16, 2010, both of which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **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 for a period of 30 consecutive days; (ii) was subject to an event that resulted, after ceasing to act in such capacity, in a cease trade or similar order or an order that denied the Company access to any exemption under securities legislation for a period of 30 consecutive days. 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, other than Messrs. Bentley, Calabrigo and Elliott, each of whom were Directors or Officers of HSPP General Partner Ltd. ("HSPP"), general partner of HSLP during the period of January 29 to February 1, 2008 when Howe Sound Pulp and Paper Limited Partnership ("HSLP") completed a restructuring under the Companies' Creditors Arrangement Act (Canada), and on January 27, 2011, when HSLP (renamed 6382 Pulp and Paper Limited Partnership) voluntarily filed for bankruptcy under the Bankruptcy and Insolvency Act (Canada) (the "BIA") after the sale of substantially all of its assets to a third party effective October 1, 2010. HSLP filed a proposal under BIA which was subsequently approved by its creditors and finally by the British Columbia Supreme Court on July 18, 2011. Mr. Stinson was a director of Grant Forest Products Inc. ("Grant"). On June 25, 2009, Grant obtained creditor protection from the Ontario Superior Court under the *Companies' Creditors Arrangement Act* (Canada). Mr. Stinson ceased to be a director on June 30, 2010. 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 ten 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 legal or regulatory proceedings to which the Company 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, 2016, where such claims exceed 10% of the current assets of the Company. In addition, there are no penalties or sanctions imposed against the Company by a court relating to Canadian securities legislation or by a securities regulatory authority during the Company's financial year ended December 31, 2016 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, 2016.

On October 12, 2015, the Softwood Lumber Agreement expired which resulted in a twelve month period in which no trade actions could be imposed for the importation of softwood lumber from Canada to the US (commonly referred to as a "stand-still period"). On October 12, 2016, the stand-still period expired, and on November 25, 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce and the US International Trade Commission alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. On January 6, 2017, the US International Trade Commission ruled that there is a reasonable indication that US lumber producers are materially injured by reason of imports of softwood lumber products from Canada that are allegedly subsidized and sold in the United States at less than fair value. As a result, the US Department of Commerce will continue to conduct its antidumping and countervailing duty investigations on imports of these products from Canada, and is expected to announce its countervailing duty in the second quarter of 2017 and its preliminary antidumping duty determination approximately 60 days thereafter. The preliminary determinations could result in material countervailing and antidumping duties being imposed on Canadian exports of softwood lumber to the US. Canfor has been selected by the US Department of Commerce as a "mandatory respondent" to the countervailing and antidumping investigations and is subject to company specific countervailing and antidumping duties. If the US Department of Commerce determines that "critical circumstances" apply, duties could be applied retroactively up to 90 days prior to the preliminary determination. Canfor continues to cooperate with the Provincial and Federal Governments of Canada who have indicated they will vigorously defend the interests of Canadian workers and producers.

## EXPERTS

As of December 31, 2016, 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 auditor's rules of professional conduct in British Columbia, 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 April 26, 2017. 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

CST Trust Company Inc. 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 Multilateral Instrument 52-110F1. Mr. Smith, 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. Korenberg was, until December 31, 2015, the Deputy Chairman and Managing Director of the Jim Pattison Group and was the Chairman of the Audit Committee of Slocan Forest Products Ltd. from 2001-2003.

Mr. Stinson was Chairman and CEO of Canadian Pacific Ltd. before retiring and has served on a wide variety of boards.

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 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 \$1.9 million. Fees listed below were for audit, tax, financial and other verification audit services.

<b>External Auditor Service Fees (000s)</b>	<b>2016</b>	<b>2015</b>
Audit Fees <sup>(1)</sup>	\$508	\$472
Audit-Related Fees <sup>(2)</sup>	108	98
Tax Fees <sup>(3)</sup>	209	176
All Other Fees <sup>(4)</sup>	<u>167</u>	<u>165</u>
<b>Total Fees <sup>(5)</sup></b>	<b>\$992</b>	<b>\$911</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) For tax compliance and tax consulting services.
- (4) Fees other than the fees reported in (1) to (3) primarily related to forest certification services.
- (5) In addition to the above fees, fees of \$0.3 million were billed to the Company's subsidiary, CPPI (in 2015, \$0.3 million was billed to CPPI).

## ADDITIONAL INFORMATION

Additional financial information regarding the Company is provided in the Company's "2016 Management's Discussion and Analysis" and "Consolidated Financial Statements" for the year ended December 31, 2016. 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, where applicable, and securities authorized for issuance under equity compensation plans, is contained in the Information Circular for the Annual General Meeting of the

Company held on April 27, 2016 and in the Information Circular for the Annual General Meeting of the Company to be held on April 26, 2017.

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 Corporation (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 periodically self-assess its performance and effectiveness in fulfilling its role.
- (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:
    - The adequacy of the Company's internal controls including computerized information systems, controls and security.
    - Any related significant internal control findings and recommendations of the external auditor, and/ or Internal Auditor together with management's responses thereto.
    - The Company's compliance or adherence to debt covenants, terms or conditions.
    - 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 reports together with management's response and follow-up actions, 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.

(f) **Finance**

The Audit Committee is authorized to review and approve for recommendation to the Board:

- (i) the Company's annual financing plan and any amendments thereto from time to time;
- (ii) any proposed financings;
- (iii) the method by which the Company measures financial results or performance.

**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) establishing the Management Pension Committee, which has the responsibility for assisting the Audit Committee in overseeing and managing the Company's pension plans, and will be comprised of the Company's Chief Financial Officer and Treasurer, and will report to the Audit Committee;
- (ii) receiving, at least annually, a report from the Management Pension Committee detailing the performance of the plans' money managers and the investment policies and practices in respect of the funds contributed to the Company's pension plans and compliance with applicable legislation and regulatory guidelines;
- (iii) reviewing the funding of the Company's pension plans, including actuarial reports in respect of the Company's pension obligations so as to determine the level of unfunded liabilities, if any;
- (iv) reviewing applicable investment policies and procedures and any changes as appropriate, on the advice and recommendation of the Management Pension Committee;
- (v) reviewing and approving the audited annual financial statements and budgets for each pension plan;
- (vi) reviewing on an annual basis the unfunded liability for retiree non-pension benefits and future liability therefor;
- (vii) receiving a report from the Management Pension Committee immediately upon the identification or disclosure of any issue or circumstance that may materially impact the Company's obligations, liabilities, or responsibilities with respect to such pension plans;
- (viii) approving the appointment of or changes to pension service providers, such as actuaries, auditors and legal advisors, as appropriate; and
- (ix) establishing and reviewing on an annual basis the terms of reference of the Management Pension Committee.

(c) **Officer Expenses**

Review policies and procedures with respect to the Chairman of the Board and President and Chief Executive Officer's expense accounts and perquisites, including the use of corporate assets. Periodically review major expenses incurred by the office of the Chairman of the Board and President and Chief Executive Officer.

(d) **Other Duties**

- (i) The Audit Committee will perform such other functions as assigned by law or regulation or as required by the Board.
- (ii) The Audit Committee of the Company will receive reports from the Canfor Pulp Audit Committee at such times that the Chairman of the Audit Committee considers appropriate, detailing such matters, issues and circumstances of a financial nature that may impact the Company or be of interest to its Audit Committee.