



**Canfor Corporation**

**Annual Information Form**

**Information in this Annual Information Form  
as at February 20, 2020 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, the United States and Europe 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, 2019, which are incorporated by reference herein and can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Accordingly, readers should exercise caution in relying upon forward looking statements which reflect management's estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these statements to reflect subsequent events or changes in circumstances, except as required by applicable securities laws.

## **CURRENCY**

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

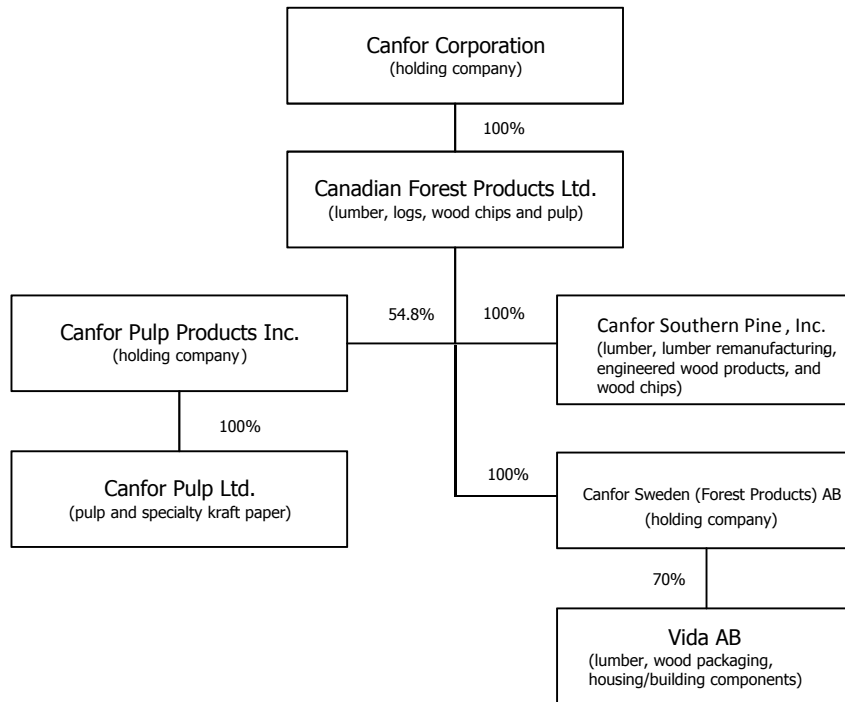
## **INCORPORATION**

Canfor Corporation (the "Company") was incorporated on May 17, 1966 under the *Company Act* (British Columbia) 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, 2019, 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*, Canfor Southern Pine, Inc. (formerly New South Companies Inc.)("CSP"), which is constituted under the laws of the State of South Carolina and Canfor Sweden (Forest Products) AB, which is constituted under Swedish laws.



## BUSINESS OF CANFOR

Canfor is a leading Canadian integrated forest products company based in Vancouver, British Columbia, involved primarily in the lumber business, with production facilities as of December 31, 2019 in Canada (British Columbia and Alberta), the United States ("US") (North and South Carolina, Alabama, Georgia, Mississippi, and Arkansas), as well as Sweden (Småland, Skåne, Västra Götaland, Dalarna, and Södermanland) with its majority acquisition of the Vida Group ("Vida"). Canfor also has 54.8% interest in the pulp and paper business owned by CPPI. The capacity figures set out in this Annual Information Form are presented as at December 31, 2019 (including 100% of the capacity from the Vida and Elliott Sawmilling Co. Inc. ("Elliott") operations).

As at December 31, 2019, Canfor employed approximately 6,766 people in its wholly owned and majority owned subsidiaries, of which approximately 1,292 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.

Canfor's softwood lumber production facilities located in Western Canada, the southern United States, and Sweden have a total annual production capacity at December 31, 2019 of approximately 6.6 billion board feet of lumber, adjusted for additional shifting at certain mills and near-term capital investment and including 100% of the capacity from Vida and Elliott. Canfor's products also include remanufactured and finger-jointed lumber, engineered wood products, wood chips, wood pellets, logs and custom specialty products stemming from the acquisition of Vida, including strength-rated trusses, beams, and tongue-and-groove timber.

Canfor also holds a 54.8% interest in the pulp and paper business of CPPI with annual production capacity at December 31, 2019 of approximately 1.1 million tonnes of kraft pulp, 140,000 tonnes of kraft paper and 230,000 tonnes of bleached chemi-thermo mechanical pulp ("BCTMP").

Canfor also holds approximately 14.6 million cubic metres of annual harvesting rights under its forest tenures and pulpwood agreements in Canada.

Canfor maintains wood products sales offices in Canada, the US, Japan, China, Sweden, England, Denmark, Holland, and Australia. While a significant proportion of Canfor's product is sold to markets in the United States, shipments into Europe have increased following the acquisition of Vida. CPPI has 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 leading supplier of sustainable wood products to the building industry around the world. Canfor is focused on increasing its building products business in global markets, including key offshore markets such as China, Japan, and Korea, and on making higher value structural lumber and specialized products for specific customer needs. In February 2019, the Company completed its purchase of 70% of Vida (see "Business of Canfor – Significant Events" below). The acquisition has expanded Canfor's global markets to include Europe, Australia, and Africa.

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;
- Optimizing its green energy business and positioning the Company as a leading supplier of green, environmentally friendly building products; and
- Contributing to the climate change solution by supporting thriving forests that absorb carbon and producing sustainable wood products that store carbon.

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

- Optimizing the value from its premium quality pulp and paper products in specialty end use applications;
- Attaining world-class supply chain performance;
- Preserving its low-cost operating position and maintaining a strong financial position;
- Growing its green energy business;
- Contributing to the climate change solution by producing sustainable pulp products that support the bioeconomy;
- Developing an enterprise-wide culture of safety, innovation and engagement; and
- Capitalizing on accretive growth and diversification opportunities.

In support of these strategies for Canfor and CPPI during the past three financial years, Canfor (including CPPI) has made capital investments of approximately \$634 million at its lumber operations (excluding the purchase price of Vida) and \$307 million at its pulp and paper operations, for a total of \$941 million.

### **Significant Events**

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

#### *Acquisition of Elliott Sawmilling Co., Inc.*

On May 31, 2019, the Company completed the first phase (an initial 49% interest) of the phased acquisition of Elliott Sawmilling Co., Inc. located in Estill, South Carolina for a purchase price of US\$110.5 million, plus a working capital adjustment. The phased acquisition will be completed over a period of two years, with the

remaining 51% being acquired May 31, 2020. Elliott has an annual production capacity of high value Southern Yellow Pine ("SYP") of 220 million board feet, with the sawmill consisting of both large and small log lines.

#### *Acquisition of Majority Interest in Vida Group of Sweden ("Vida")*

On February 28, 2019, the Company completed the acquisition of 70% of Sweden's largest privately owned sawmill company, Vida, for a purchase price of \$589.9 million (4,134 million Swedish Krona), including a working capital adjustment of \$0.3 million, plus transaction and closing costs. Vida's nine sawmills are strategically located in high quality and sustainable fibre regions of southern Sweden, producing up to 1.1 billion board feet of spruce and pine products annually. In addition, Vida operates nine value-added facilities that include premium packaging, modular housing, industrial products and energy.

#### *Temporary and Permanent Production Curtailments*

In response to muted demand and elevated log costs, the Company announced a number of temporary and permanent sawmill curtailments during late 2018 and throughout 2019, including the Company's permanent capacity reductions and indefinite curtailments at the Vavenby, Mackenzie, and Isle Pierre sawmills, which reduced the Company's Western Spruce/Pine/Fir ("Western SPF") annual capacity by 650 million board feet.

#### *Sale of Vavenby sawmill associated tenure and assets*

On June 3, 2019, the Company announced that it had entered into an agreement to sell its forest tenure associated with its Vavenby sawmill located in BC to Interfor Corporation ("Interfor") for proceeds of \$60 million. Also, on June 3, 2019, as referenced above, the Company announced its intention to permanently close the Vavenby sawmill following the sale, which is currently anticipated to close in 2020, subject to customary closing conditions, including consent of the Minister of Forests, Lands, and Natural Resource Operations and Rural Development (the "Minister" or the "Minister of Forests"). On November 13, 2019, the Company entered into separate agreements to sell certain Vavenby sawmill assets, as well as other sawmill assets from the Prince George region, for total proceeds of \$9.7 million. The Company expects these sales to close in conjunction with the sale to Interfor.

#### *Construction of Greenfield Sawmill*

On February 22, 2018, the Company's Board of Directors announced plans to construct a new greenfield sawmill in Washington, Georgia. As a result of challenging market conditions and inflationary construction cost pressures the Company has decided to defer its decision on the construction of a greenfield sawmill until sometime in 2020.

#### *Softwood Lumber Agreement*

See "Legal Proceedings and Regulatory Actions" for a description of developments relating to the Softwood Lumber Agreement in 2019.

#### *Ownership Interest in Pellet Plants in Northern British Columbia Interior*

In September 2014, the Company announced plans to construct a pellet plant at both its 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. 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, 2017 Canfor, owned an approximate 95% interest in the Pellet Plants while Pacific BioEnergy Corporation owned the remaining 5%. On January 1, 2018, Pacific BioEnergy Corporation exercised its option to increase its ownership interest in the Pellet Plants to 15%.

#### *Sale of Investment in Anthony EACOM Inc*

In March 2017, the Company completed the sale of its 50% investment in Anthony EACOM Inc. ("Anthony Eacom"), an I-joist plant located in Sault Ste. Marie, Ontario with annual capacity of 54 million lineal feet, for net proceeds of \$21.1 million.

### *Acquisition 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 fibre supply, with one sawmill focused primarily on one-inch lumber products and the other sawmill producing structural lumber, with combined annual production capacity of 250 million board feet following capital upgrades and additional shifting.

### *Normal Course Issuer Bids*

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 Common Shares or approximately 5% of its issued and outstanding Common Shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020. In 2019, the Company did not purchase any Common Shares. Under a separate normal course issuer bid in 2019, CPPI purchased 17,200 Common Shares of CPPI from non-controlling shareholders for \$0.2 million. As at December 31, 2019 and February 20, 2020, the Company's ownership interest in CPPI was 54.8%.

During 2018, the Company purchased 3,425,580 Common Shares for \$84.8 million. Under a separate normal course issuer bid in 2018, CPPI purchased 500 Common Shares of CPPI from non-controlling shareholders. As at December 31, 2018, the Company's ownership interest in CPPI was 54.8%.

During 2017, the Company purchased 4,159,594 Common Shares for \$90.7 million. Under a separate normal course issuer bid in 2017, CPPI purchased 1,448,109 Common Shares from non-controlling shareholders increasing the Company's ownership of CPPI from 53.6% at December 31, 2016 to 54.8% at December 31, 2017.

### *Union Agreements*

A new collective agreement with the United Steelworkers ("USW") was ratified in August 2019. The new agreement will expire on June 30, 2023. This agreement covers the majority of Canfor's sawmills in British Columbia.

The contract with the Public and Private Workers of Canada ("PPWC"), which represents workers at Canfor's Mackenzie operation, expired on June 30, 2019. As the sawmill was indefinitely curtailed before the contract expired, an agreement was reached with the PPWC to postpone negotiations until the status of the sawmill changes.

The Company has a contract with the UNIFOR for Canfor's Grande Prairie operation in Alberta, which will expire on September 30, 2022.

CPPI has collective agreements with the UNIFOR and the PPWC. Both agreements are set to expire on April 30, 2021.

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

For additional information regarding changes to Canfor's business expected in 2020 and known trends, commitments, events or uncertainties, see Canfor's "2019 Management's Discussion and Analysis", in particular, the "Outlook" and "Risks and Uncertainties" sections thereof, which are incorporated by reference herein and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Business Segments**

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 kraft pulp, kraft paper, and BCTMP businesses of CPPI, in which Canfor has a 54.8% interest. Canfor has not reported the Panels business (which historically has 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, 2019. Unless otherwise indicated in the diagram or descriptions below, Canfor has a 100% interest in the operations referred to in each segment.



- Eleven sawmills in British Columbia (including Mackenzie) and one in Alberta, with annual production capacity of 3.5 billion board feet.
- Three sawmills in South Carolina, three in Alabama, two in Georgia, one in North Carolina, one in Mississippi and one in Arkansas, US, with annual production capacity of 1.8 billion board feet.
- 49% interest in Elliott, with one sawmill in South Carolina with annual production capacity of 220 million board feet.
- 70% interest in Vida, including nine sawmills in Sweden with annual production capacity of 1.1 billion board feet and nine value-add facilities which include the manufacture and sale of wood packaging, and housing and building components.
- 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 in British Columbia (excluding Vavenby) and Alberta with an allowable annual cut of 14.6 million m<sup>3</sup>, of which 11.0 million m<sup>3</sup> directly supports lumber operations.
- 60% interest in Houston Pellet Inc. in Houston, British Columbia.
- 85% interest in two pellet plants located in Chetwynd and Fort St. John, British Columbia.
- Lumber sales and marketing.
- 54.8% 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 230,000 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:

	<b><u>Years ended</u></b> <b><u>December 31,</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
	(Millions of dollars)	
Lumber.....	\$3,570.6	\$3,367.4
Pulp and Paper.....	<u>1,087.7</u>	<u>1,374.0</u>
<b>Total sales .....</b>	<b><u>\$4,658.3</u></b>	<b><u>\$5,044.4</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:

	<b><u>Years ended</u></b> <b><u>December 31,</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
United States.....	49%	54%
Asia .....	24%	30%
Canada.....	10%	12%
Europe.....	14%	2%
Other .....	<u>3%</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 14.6 million cubic metres at December 31, 2019. 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, the majority 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 US Forest Service, and Timber Investment Management Organizations ("TIMO"). The wood fibre requirements at the European operations are met principally through open market purchases from private timberland owners.

The following table sets out Canfor's timber resources as at December 31, 2019:

	<b>Productive Area (Hectares)</b>	<b>Allowable Annual Cut (Cubic metres)</b>
<b>British Columbia</b>		
Tenures having regulated sustained yields <sup>(1) (7)</sup>		
Area-based — Tree Farm Licenses <sup>(2) (7)</sup> .....	893,054	1,774,802
Volume-based — Forest Licenses (replaceable) <sup>(3) (7)</sup> .....	N/A	7,907,515
— Forest Licenses (non-replaceable) <sup>(4)</sup> .....	N/A	250,000
— Pulpwood Agreements (non-replaceable) <sup>(5)</sup> .....	N/A	3,554,000
<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	389,345
<b>Total</b> .....	<b><u>1,537,749</u></b>	<b><u>14,590,662</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 30 (Sinclair), and TFL 48 (Chetwynd). TFL 18 (Clearwater) has been removed as it is included in the proposed sale to Interfor.
- (3) The Kamloops RFL A18688 had AAC reductions of 7,444 m3 in 2019 and has been removed as it is included in the proposed sale to Interfor.
- (4) Includes 250,000 m3 held jointly with the West Moberly First Nation.
- (5) Includes Pulpwood Agreements ("PA") 3, 7, 12, and 14. PA 3 and 7 have not been actively utilized by Canfor during their term; PA 14, with a volume of 610,000 m3, was suspended on June 25, 2018 and expired on December 31, 2019; PA 3 and PA 7, with a combined volume of 2,774,000 m3, are to expire in 2020 and 2022, respectively, with no opportunity to be renewed.
- (6) Includes a reduction of 283,195 m3 of available undercut AAC related to Timber Quota CTQP19001 and additional un-used credit volume of 5,833 m3 related to Timber Quota CTQB100001.
- (7) Excludes Canfor tenure that is part of the sale to Interfor of the tenure associated with the Company's Vavenby sawmill as disclosed in the Significant Events. This sale is expected to close in 2020.

Note: N/A denotes Not Applicable.

Canfor does not hold timber resources in the form of forest tenure rights for its US or European 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 is 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) was replaced in 2001 for a 25-year term. Each of TFL 14 (Spillamacheen), TFL 30 (Sinclair) and TFL 48 (Chetwynd) were renewed in 2017 for 25-year terms.

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 up to 20-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 and some more recently in 2017. 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 four 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. 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. Pulpwood Agreement No. 14, located in the Fort Nelson TSA in connection with the Company's PolarBoard OSB mill, for 610,000 cubic metres, was suspended June 25, 2018, due to the requirements in the Pulpwood Agreement to maintain the operation of a mill in Fort Nelson and expired on December 31, 2019. The Company's PolarBoard OSB mill in Fort Nelson has been indefinitely idled since 2008.

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 she 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 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 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 also acquired Timber Quota CTQB100001 in 2018.

Canfor's regulated sustained yield tenures in Alberta specify an AAC and an aggregate allowable cut over a five-year period. If a tenure holder fails to harvest the authorized five-year period volume they become subject to suspension, cancellation, or reduction of the tenure. Canfor would be subject to significant levies if its harvest 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 both British Columbia and Alberta.

## **Forest Health**

The epidemic infestation of the Mountain Pine Beetle has run its course in every TSA throughout the interior of British Columbia and most of 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, Alberta. Given the nature and extent of the infestation, the mid-term and long-term operational and financial impacts on Canfor may be significant. In response, the Company has taken various steps to mitigate its exposure to these impacts, by modifying manufacturing and harvesting operations as follows: repurposing manufacturing facilities (e.g. the Prince George, Houston, Chetwynd, Fort St John, Plateau and Polar sawmills) to optimize harvest of greener, non-pine leading stands; by reconfiguring (e.g. Isle Pierre sawmill) manufacturing plants to better align with existing timber supply; and by closing certain other manufacturing facilities indefinitely (Mackenzie sawmill) or permanently (Vavenby sawmill). In addition, the Company has taken steps to fully utilize as much of the residual, non-sawlog fibre it harvests by redirecting this to its whole log chipping plants located throughout North Central BC.

The outbreak of spruce beetle in the Mackenzie TSA, the northeastern portion of the Prince George TSA, and TFL 48 has also caused Canfor to shift its harvesting in that region into stands under imminent threat or of high susceptibility to spruce beetle infestation. Canfor is working collaboratively with other forest companies and local and Provincial Government agencies to develop planning and harvesting tactics and strategies to arrest the spread and limit the damage caused by this outbreak. At this time Canfor has sufficient capacity to handle the outbreak within its operating areas.

For additional information regarding the Mountain Pine Beetle and spruce beetle infestations and their impact on Canfor and its operations, see the Company's "2019 Management's Discussion and Analysis", in particular, the "Risks and Uncertainties – Forest Health" section thereof, which is incorporated by reference herein.

## **Indigenous Relations**

The issues relating to Indigenous 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 Indigenous 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 Indigenous groups. Due to their complexity, it is not anticipated that the issues regarding Indigenous rights and title or consultation will be resolved in the short term and their impact, if any, on the timber supply from Canadian Crown lands and Canfor's tenures and operations is unknown at this time. For additional information regarding the Indigenous issues and their impact on Canfor and its operations, see the Company's "2019 Management's Discussion and Analysis", in particular, the "Risks and Uncertainties – Indigenous Relations" 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.

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 did not renew its International Organization for Standardization ("ISO") 14001 certification in September 2018, on the basis that ISO certification was no longer required in light of Canfor's own internal environmental policies and third-party sustainable forest management certification. In June 2019, Canfor received certification for both sustainable forest management and fibre sourcing encompassing its FMA area at Grande Prairie, Alberta, its TFLs at Radium, Chetwynd and Prince George, British Columbia, its Forest Licenses at Fort St. John, Houston, Prince George, Fort Nelson, Vanderhoof, Elko, Creston, Radium and Mackenzie, British Columbia and its Pulpwood Agreements at Fort St. John and Fort Nelson, British Columbia, to the Sustainable Forestry Initiative ("SFI") standard. In December 2019, Canfor successfully passed a surveillance audit of its SFI sustainable forest management at its Canadian operations. At present, 99% of Canfor's AAC is certified to either the SFI or Forest Stewardship Council ("FSC") sustainable forest management standards.

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 June 2017, Canfor received a Chain of Custody Certificate (PEFC-certified) based on second quarter 2017 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 20, 2022.

Canfor has Timber Quota operations within an FMA held by Mercer International Inc. in North Western Alberta. Canfor's Wynndel operation in Creston, British Columbia is also certified to SFI, for Forest License A20214, as well as the procurement of logs for the Wynndel sawmill. Both the Alberta timber quota areas and the Wynndel certified areas have been amalgamated into the Canfor SFI multisite certificates. Additionally, softwood lumber, chips and sawdust produced by Canfor and associated outsourced manufacturing carried out for the Wynndel operation is certified to SFI Chain of Custody standard.

In October 2019 Canfor was recertified under the FSC British Columbia Standard for forests in areas of the East Kootenay Defined Forest Area, including TFL 14 and replaceable Forest Licences in the Invermere, Cranbrook, and Kootenay Lake TSAs.

### Wood Fibre Supply

The wood fibre supply for Canfor's lumber and pulp operations in Canada is primarily obtained from logging of Canfor's forest tenures and purchasing logs and chips. Logs are also purchased from other tenure holders and from farmers, Indigenous 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 perpetual residual wood chip, whole log chipping and hog fuel agreements with CPPI.

The following table sets out the volume of wood fibre produced and purchased in Canfor's operations (including 100% of majority-owned subsidiaries) for the last two financial years:

	<b>Years ended</b>	
	<b><u>December 31,</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
	(000 cubic metres)	
Wood Fibre Supply		
Log Production – Canfor Tenures.....	9,384	13,322
Log Purchases – Lumber Operations .....	13,307	10,391

The reduction in log production from Canfor's tenures in 2019 compared to 2018 largely reflected sawmill curtailments and closures in BC.

During 2019, CPPI purchased 70% of its chip demand from Canfor pursuant to the fibre supply agreements between both entities, which are not included in the above table. See "Pulp and Paper" below.

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

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 this 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 and Sweden 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, 2019, Canfor fully or partially owned eleven sawmills in the interior region of British Columbia, one in Alberta, four in South Carolina, two in Georgia, one in North Carolina, three in Alabama, one in Mississippi, one in Arkansas, and nine in Sweden. Canfor's sawmills, adjusted for additional shifting and near-term capital investment, has annual production capacity of approximately 6.6 billion board feet of lumber, including 100% of capacity from the Vida and Elliott sawmills.

The majority of lumber produced by Canfor from its existing 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, and high-value products 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, premium one-inch boards, as well as an array of custom specialty products stemming from the acquisition of Vida, its European Lumber operations, including strength-rated trusses, beams, and tongue-and-groove timber.

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. 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 adjustments to the formula to reflect market conditions and other factors such as wood chip quality. The chip pricing under the agreements with CPPI were renewed in 2018 for a three year period, while the chip pricing for the Taylor pulp mill is currently under review and is expected to be renewed in 2020 (see "Pulp and Paper" for more information). 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 glulam plants in Arkansas and Georgia, respectively, a finger-joint plant in South Carolina, a trucking division in South Carolina and Georgia, and nine value-add facilities in Sweden. 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, as well as a 85% interest in two pellet plants located Chetwynd and Fort St. John, respectively.

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):

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(MMfbm) <sup>(1)</sup>	
British Columbia .....	2,466.2	3,250.2
Alberta .....	293.6	301.0
Europe .....	864.7	-
United States .....	<u>1,438.2</u>	<u>1,406.6</u>
<b>Total Production</b> .....	<b><u>5,062.7</u></b>	<b><u>4,957.8</u></b>
<b>Sales<sup>(2)</sup></b> .....	<b><u>5,121.5</u></b>	<b><u>4,951.3</u></b>

Notes:

(1) MMfbm denotes million foot board measure. Volumes exclude trim blocks.

(2) Excludes lumber not produced by Canfor but sold under contract for third parties (22 MMfbm in 2019 and 19 MMfbm in 2018).

### **Lumber Markets and Distribution**

Canfor's lumber segment markets lumber products primarily throughout North America, Europe and Asia, and also overseas. In addition to its own production, Canfor markets lumber produced from independent mills and offshore countries to complement its product line. Canfor's Europe operations have established customers and markets in Europe, Australia, the Middle East, and North Africa.

In 2019, Canfor's major markets were significantly expanded by the Vida acquisition. During the year, approximately 58% of Canfor's lumber sales volumes were sold to or within United States markets (2018 – 64%), 11% to European markets (2018 – 0%), and 8% to Canadian markets (2018 – 11%). The remaining 23% (2018 – 25%) was sold to offshore markets, predominantly to China and Japan. Other offshore markets consist of Korea, Taiwan, Southeast Asia, the Middle East, and Australia. In 2019, sales volumes of Western SPF lumber were down 19% from the previous year, reflecting the impacts of production curtailments in BC, while SYP sales volumes were flat compared to the previous year. The decrease in Western SPF lumber sales volumes was mitigated by the benefit of incremental European SPF sales volumes beginning

in March 2019 with the acquisition of Vida. Substantially all lumber shipped domestically (in the US, Canada and Sweden) was shipped by truck or rail. Substantially all product transported offshore was sent by container ship. Transportation methods were largely consistent domestically and offshore between Canfor's North America and Europe lumber operations.

For a detailed discussion of the markets for Canfor's lumber products see the Company's "2019 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, 2019, Canfor employed 2,356 persons in its lumber operations in British Columbia (including head office), 217 persons in Alberta, 1,820 persons in the United States, 5 persons in China and 3 persons in Japan. As at December 31, 2019, Vida employed 1,073 persons in Sweden. Of Canfor's employees excluding Sweden, approximately 40% are covered by collective agreements with the USW, the PPWC and the UNIFOR. At the Europe lumber operations approximately 70% of the mill employees participate in unions.

A new collective agreement with the USW (which represents the majority of the workers in the British Columbia operations, except as noted below) was ratified in August 2019. The new agreement will expire on June 30, 2023.

The contract with the PPWC, which represents workers at Canfor's Mackenzie operation, expired on June 30, 2019. As the mill was indefinitely curtailed before the contract expired, an agreement was reached with the PPWC to postpone negotiations until the status of the mill changes.

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

### **PULP AND PAPER**

As of December 31, 2019, Canfor owned 54.8% of the shares of 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 owns and operates four pulp mills and a kraft paper mill with an annual capacity to produce for sale to the market approximately 1.1 million tonnes of northern softwood market kraft pulp (the significant majority of which is bleached to become northern bleached softwood kraft ("NBSK") pulp), 230,000 tonnes of BCTMP, and 140,000 tonnes of bleached and unbleached kraft paper. In addition, CPPI generates power at all of its NBSK pulp mills and has long-term agreements with BC Hydro for electrical load displacement and the sale of power.

In connection with the spin-out of the pulp and paper business to a predecessor of CPPI in 2006, Canfor has two fibre supply agreements (the "Fibre Supply Agreements") with CPPI, under which Canfor has agreed to supply CPPI with annual quantities of residual wood chips and hog fuel produced from 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 adjustments to the formula to reflect market conditions and other factors such as wood chip quality. The Fibre Supply Agreements exist in perpetuity and pricing mechanisms are renewed and amended every three years to reflect new circumstances. Accordingly, in 2018, the chip pricing for CPPI's NBSK pulp mills was renewed for another three year period and the chip pricing for CPPI's BCTMP pulp mill, which is currently under review, is anticipated to be renewed in 2020. As part of the sale by the Company of the BCTMP Taylor pulp mill to CPPI in 2015, the Company entered into a long-term fibre supply agreement under which Canfor supplies fibre to the Taylor pulp mill at prices that approximate fair market value.

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

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

Under arrangements entered into with the Company in connection with its spin-out in 2006, 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 (see "Material Contracts" herein for more information).

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

	<b><u>Years ended</u></b> <b><u>December 31,</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
	(000 tonnes)	
Pulp production .....	1,035	1,117
Pulp sales.....	1,027	1,132

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

	<b><u>Years ended</u></b> <b><u>December 31,</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
	(000 tonnes)	
Kraft paper production .....	127	135
Kraft paper sales .....	119	130

### **CPPI Markets and Distribution**

CPPI has a sales and marketing department staffed by full time marketing professionals who are responsible for global sales of the pulp produced by its mills. Customers in the Americas are serviced through the Vancouver office. European and Asian customers (excluding Chinese, Japanese, and Korean customers) are mostly serviced through long-term sales agents. Sales agents generally realize a commission based either on a percentage of the net selling price of the pulp, or on a rate per tonne of pulp sold, with the fee varying depending on the selling price, services provided, and the tonnage sold.

In prior years, CPPI's sales network represented and co-marketed UPM-Kymmene ("UPM") pulp products in North America, Japan and Korea, while UPM's pulp sales network represented and co-marketed CPPI's products in Europe and China, as part of a strategic sales and marketing cooperation agreement, named Fibre United. In 2019, CPPI and UPM made a joint decision to end this strategic sales and marketing cooperation agreement to enable the development of each company's strategic directions. For CPPI, this means conducting its own direct marketing to its markets including China, Japan and Korea. The cooperation remained in place until the end of 2019. Premium 1 Papers, a sales and marketing partnership between CPPI and Canadian Kraft Paper Industries Limited ("CKP"), is responsible for marketing all bleached and unbleached kraft paper products produced by CPPI's Prince George kraft paper mill's operation and CKP's unbleached kraft paper mill in The Pas, Manitoba. Premium 1 Papers currently employs 17 full time marketing professionals.

In 2019, the approximate geographic distribution of CPPI's mills' pulp sales by volume was 67% to Asia, 30% to the Americas and 3% to the European market (2018 – 69%, 27%, and 4%, respectively).

The approximate geographic distribution of kraft paper sales by volume in 2019 was 80% to North America, 11% to Asia, and 9% to Europe/Middle East (2018 – 81%, 12%, 7%, 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 or truck, with each of the mills serviced by at least one dedicated rail spur. In the case of kraft paper, due to the smaller average order size, a much higher percentage is shipped by truck, with the balance shipped by rail. Products destined for overseas customers are generally transported by breakbulk cargo vessel for European customers and by either breakbulk or container cargo vessels for Asian customers.

For a detailed discussion of the markets for CPPI's pulp and paper products, see the Company's "2019 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 2019 annual information form, which can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com).

### **CPPI Human Resources**

As at December 31, 2019, CPPI employed 1,292 people throughout the organization. Approximately 72% 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 2017 for a term of four years expiring on April 30, 2021.



## OTHER OPERATIONS

### Panels

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

### General

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

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 the integrated use of the forest; designing and operating its facilities to comply with legal requirements; setting environmental objectives and targets to improve environmental performance; and promoting environmental awareness throughout Canfor's operations.

### Programs and Standards

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, principles 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 regularly being reviewed to help ensure that Canfor is fulfilling its environmental commitments and responsibilities.

At present, approximately 99% of Canfor's AAC is certified to either of the following standards: Sustainable Forestry Initiative ("SFI") or Forest Stewardship Council ("FSC") Forest Management standards. Canfor's wood products operations have been implementing an ISO 14001-based EMS, but are not seeking ISO 14001 registration at this time. Pulp operations were successfully registered to the ISO 14001:2015 standard in 2018.

In 2017, the British Columbia government updated the spill preparedness, response and recovery portions of the British Columbia *Environmental Management Act*, which increased spill reporting requirements and obligations in British Columbia. Portions of the updated regulations were effective October 31, 2017. Additional administrative and operational requirements for spill reporting were effective October 31, 2018.

Environment Canada released the *Code of Practice for the Management of Air Emissions from Pulp and Paper Facilities* ("Code of Practice") in July 2018. Under the Canadian Environmental Protection Act 1999, the Code of Practice is a voluntary tool for reporting compliance with best practices for sulphur dioxide and total particulate matter emissions.

Canfor's European operations, through its majority ownership of Vida, are subject to laws and regulations of the Swedish Government and more broadly, the European Union, with its forest operations governed by the *Swedish Forestry Act*, *Land Acquisition Act* and more broadly the *Swedish Environmental Code*. Vida's operations may discover unknown environmental issues, contamination, or conditions relating to historical or present operations. This may require site or other remediation costs to maintain compliance or remedy issues or result in governmental or private claims for damage to person, property or the environment. These risks are minimized through Vida's European SPF lumber operations environmental policies and preventative work in the form of environmental management systems, the certification of raw materials through the *Swedish FSC* and *Program for Endorsement of Forest Certification* ("PFEC") and remediation projects.

## Carbon and GHG Regulation and Policy

Canfor's North American facilities are subject to various federal, provincial, state and local regulatory provisions regarding the reporting and treatment of carbon and other greenhouse gas ("GHG") emissions.

For 2020, all of CPPI's pulp mills are expected to report GHG emissions under the British Columbia government's GHG reporting requirements which have been in place since 2009, and which have a reporting threshold of 10,000 tonnes of carbon dioxide equivalents per year ("CO<sub>2</sub>e").

GHG emission reporting has also been required in Alberta for several years, although Canfor's wood products facilities have not triggered Alberta reporting thresholds.

Environment and Climate Change Canada ("ECCC") expanded the federal GHG reporting requirements in 2017, including by the lowering of the federal reporting threshold from 50,000 tonnes to 10,000 tonnes of CO<sub>2</sub>e, but retained the exclusion of CO<sub>2</sub> emissions from the combustion of biomass or CO<sub>2</sub> emissions from biomass decomposition.

Four British Columbia sawmills received natural gas boosters to generate incremental heat for kiln drying capacity in 2019. Depending on usage, these facilities may trigger the federal and British Columbia provincial reporting thresholds in the future.

On December 13, 2017, ECCC published the Federal Clean Fuel Standard Regulatory Framework, which is expected to cover all industrial fossil fuels in Canada and give rise to potential cost increases by fuel suppliers of approximately \$100/tonne of CO<sub>2</sub>e for the renewable component in addition to existing carbon pricing schemes. The Clean Fuel Standard is moving ahead, with final regulations targeting liquid fuels by 2020, and gaseous and solid fuels by 2021.

Canfor's biomass cogeneration facility in Alberta now reports under Carbon Competitiveness Incentive Regulation ("CCIR") as of January 1, 2018. This regulation excludes biogenic CO<sub>2</sub>e in the 100,000 tonne CO<sub>2</sub>e reporting threshold. Canfor is approved to generate offsets from this facility under the Technology, Innovation, and Emissions Reduction regulation.

Carbon policy at both the 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. As of April 1, 2019, British Columbia's carbon tax was \$40 per tonne, adding a cost of 8.89 cents per litre of gasoline, 10.23 cents per litre of diesel, and 7.60 cents per cubic metre of natural gas. The carbon tax will increase each year by \$5 per tonne until it reaches \$50 per tonne in 2021.

In October, 2016, the Canadian federal government announced a national "floor price" on carbon of \$10 per tonne beginning in 2018 and increasing \$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. British Columbia has implemented a federally acceptable carbon tax program; therefore the federal carbon pricing program will not be material to current Canfor operations in British Columbia.

Alberta repealed its broad-based provincial carbon levy at the end of May, 2019. In December, 2019, the Alberta government imposed a \$30 per tonne carbon levy for large emitters. The federal carbon levy for other consumers came into effect in Alberta on January 1, 2020. The new federal carbon levy starts at \$20 per tonne, increasing to \$30 per tonne in April, 2020, and to \$50 per tonne by 2022. Similar to British Columbia, the levy applies to gasoline, diesel, natural gas, and propane. The Alberta government is awaiting a decision in regards to its court challenge of the federal carbon levy.

While Canfor's British Columbia and Alberta sawmill and biomass cogeneration facility GHG emissions are all currently below provincial and federal GHG regulation thresholds, all of Canfor's British Columbia operations are subject to the British Columbia carbon tax and Canfor's Alberta operations are subject to the federal 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. British Columbia negotiated an amendment to extend offset sales for 2019 and 2020. Alberta will generate offsets under the CCIR or under Additionality, which is an extension of the former offset program.

In the United States, Canfor Southern Pine's ("CSP") sawmills created and have implemented Work Practice Standards with respect to upcoming *Environmental Protection Act Kiln Maximum Achievable Control Technology* ("MACT"). The US Environmental Protection Agency (the "EPA") welcomed industry suggestions on flexible work practices for kilns that

would allow each mill to come up with its own Kiln Emissions Reduction Plan to minimize over-drying and control a rolling average for lumber moisture content. For CSP's US kilns, this can be accomplished through either moisture and / or temperature control, as well as with charge management and consideration of kiln integrity.

The EPA also acknowledged that the timeline set for targeted revised limits for biomass under Boiler MACT was challenging and impractical for many US sawmill producers. Industry will be working with the National Council on Air and Stream Improvement to ensure best data is used in responding to the court remand. The EPA has indicated that it hopes to have a new proposal in the summer of 2020. CSP's US boilers are in compliance with the current EPA guidelines and regulations and CSP does not foresee the requirement for major future updating for boilers.

### **Compliance**

During 2019, Canfor's operations (including its US and Swedish 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 "2019 Management's Discussion and Analysis", in particular the section entitled "Risk and Uncertainties - Environmental Issues", which is incorporated by reference herein and available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **COMPETITIVE POSITION**

Each market 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, Canfor (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.

For additional information regarding the Company's competitive position, see the Company's "2019 Management's Discussion and Analysis", in particular, the section entitled "Risks and Uncertainties – Competitive Markets", which is incorporated by reference herein and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **RESEARCH AND DEVELOPMENT**

The Company 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 ("Directors"), their principal occupations and the periods during which they have been Directors of the Company are as follows:

<u>Name and Municipality, Province and Country of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
<p>John Baird <sup>(3)(4)(5)</sup> Toronto, ON Canada</p>	<p>Former Canadian Foreign Minister, currently Senior Advisor to various enterprises and a former Senior Cabinet Minister in the Government of Canada.</p> <p>Background: Mr. Baird spent three terms as a Member of Parliament in the House of Commons, most recently as Minister of Foreign Affairs (2011-2015). Previously, Mr. Baird held a variety of government posts including President of the Treasury Board (2006-2007), Minister of the Environment (2007-2008 and 2010-2011), Minister of Transport and Infrastructure (2008-2010), and Leader of the Government in the House of Commons (2010-2011). Prior to entering federal politics, Mr. Baird spent ten years in the Ontario Legislature. From 1995-2005 he served as Minister of Community and Social Services, Minister of Energy, and Government House Leader.</p> <p>Currently, Mr. Baird serves as a Senior Business Advisor with Bennett Jones LLP, a Canadian law firm. In addition, Mr. Baird sits on the advisory board of Barrick Gold Corp., the corporate boards of Canadian Pacific, CPPI, the FWD Group and PineBridge Investments, and is 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.</p> <p>Mr. Baird also volunteers his time with Community Living Ontario, an organization that supports individuals with developmental disabilities, and the Prince's Charities, and the charitable office of His Royal Highness The Prince of Wales.</p>	<p>2016</p>
<p>Ryan Barrington-Foote <sup>(1)(2)(3)</sup> Vancouver, BC Canada</p>	<p>Executive Vice-President at The Jim Pattison Group, a diversified holding company.</p> <p>Background: Mr. Barrington-Foote is currently the Executive Vice-President at The Jim Pattison Group where he has worked since 2001 with oversight responsibility for accounting and tax related functions. Mr. Barrington-Foote was associated with KPMG LLP from 1996-2001 (audit and tax) where he earned his CPA (CA) designation in 2001. Mr. Barrington-Foote obtained an Honours degree in Business Administration from Simon Fraser University. Mr. Barrington-Foote is a former member of the Board of Directors of Just Energy Group Inc. from 2015-2017, was a Director and treasurer of the Rick Hansen Institute from 2010-2016 and received an award as one of Vancouver's Top 40 Under 40 in 2009.</p>	<p>2017</p>

<b><u>Name and Municipality, Province and Country of Residence</u></b>	<b><u>Principal Occupation and Background</u></b>	<b><u>Director Since</u></b>
Glen Clark <sup>(3)(4)(5)</sup> Vancouver, BC Canada	<p>President and Chief Operating Officer of The Jim Pattison Group, a diversified holding company.</p> <p>Background: Mr. Clark is the President and Chief Operational Officer of The Jim Pattison Group and a member of the Board of Directors of Westshore Terminals Investment Corporation. 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
Barbara Hislop <sup>(3)(4)(5)</sup> Burley, Hampshire United Kingdom	<p>Current President of the European Regional Council and former President of Variety – The Children's Charity International</p> <p>Background: Ms. Hislop is an award-winning senior executive and an active community leader. Ms. Hislop was Vice President of Operations at Canfor from 1977 until 2004. After 28 years at Canfor, Ms. Hislop became President and CEO of Genus Resources Management Technologies Inc. from 2002 until 2005. Ms. Hislop has completed a two-year term as International President of Variety – The Children's Charity and is currently the President of their International Advisory Council. Ms. Hislop is a graduate of the Institute of Corporate Directors Governance Program in Canada and has sat on several Boards including Bank of Canada, Hudson's Bay and CPPI.</p>	2019

<b><u>Name and Municipality, Province and Country of Residence</u></b>	<b><u>Principal Occupation and Background</u></b>	<b><u>Director Since</u></b>
Donald Kayne Tsawwassen, BC Canada	<p>Current, President and Chief Executive Officer ("CEO"), Canfor Corporation and CEO, CPPI</p> <p>Background: Mr. Kayne was appointed President and CEO of Canfor Corporation on May 5, 2011. He was additionally appointed CEO of CPPI on September 30, 2012.</p> <p>Mr. Kayne has spent his entire career at Canfor, starting out as a regional sales representative in 1979. Prior to being appointed CEO, Mr. Kayne spent 10 years as Canfor's Vice President of Sales and Marketing and is one of the lead architects of Asian market development for British Columbia lumber.</p> <p>In addition to both the Company and CPPI, Mr. Kayne is also a director and Past Chairman of the Forest Products Association of Canada and Chairman of the Council of Forest Industries, a director of Alberta Forest Products Association and the BC Lumber Trade Council. In 2014, Mr. Kayne was appointed to the bi-national Softwood Lumber Board and is Past Vice Chairman and currently serves as Chairman of the Programs Committee. He is also a director of Cameco Corporation and Chairman of Human Resources and Compensation Committee and Past Chairman of the charitable organization Educating Girls of Rural China Foundation, which works to transform the lives of women and communities in rural areas of western China by providing access to education.</p>	2017
Conrad Pinette Vancouver, BC Canada	<p>Current Chairman of the board of Directors of the Company (the "Board") and former owner and President, Pinette &amp; Therrien Mills Ltd.</p> <p>Background: Mr. Pinette is also Chairman of the board of directors of CPPI. Mr. Pinette's work in the Canadian forest industry began 55 years ago as an owner and President of a family lumber business, Pinette &amp; 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&amp;W Revenue Royalties Income Fund, Finning International Inc. and the British Columbia Business Council. Mr. Pinette is currently a member and Chairman of the Vancouver General Hospital and University of British Columbia Prostate Advisory Board.</p>	2008

<b><u>Name and Municipality, Province and Country of Residence</u></b>	<b><u>Principal Occupation and Background</u></b>	<b><u>Director Since</u></b>
Dallas Ross <sup>(1)(2)(4)</sup> Vancouver, BC Canada	<p>Founder and general partner of Kinetic Capital Partners</p> <p>Background: Mr. Ross is also Chair of the Board and Chair of the HR Committee of Rogers Sugar Ltd., Chair of the Board and of the Strategic Initiatives Committee of Lantic Sugar Inc., a member of the Board and CFO of Westshore Terminals Investment Corporation, and a member of the Board of Westshore Terminals Ltd. Mr. Ross is also a Director of Just Energy Ltd. and is Chair of the Strategic Initiatives Committee and Chair of the Compensation Committee. Previously, Mr. Ross was on the Board, on the Audit Committee, on the Compensation Committee, and was Chair of the Strategic Alternatives Committee of Catalyst Paper Corporation from 2010 to 2013. Prior to Kinetic Capital Partners, Mr. Ross was Managing Director, Investment Banking at Scotia Capital and, prior to that, Managing Director, Mergers and Acquisitions with ScotiaMcLeod.</p>	2018
J. Mack Singleton, BA <sup>(4)(5)</sup> Myrtle Beach, SC USA	<p>Former CEO of CSP, formerly New South Companies Inc., headquartered in Myrtle Beach, South Carolina, a wholly owned subsidiary of the Company.</p> <p>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 from 1985 until his retirement 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 Bachelor of Arts 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.</p>	2007
Ross Smith, FCPA, FCA <sup>(1)(2)</sup> West Vancouver, BC Canada	<p>Member of the Board of Directors of Rotherham Holdings Ltd. and Chairman of the Board for K-Bro Linen Inc.</p> <p>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, the Advisory Board of March Canada Ltd., N&amp;T Properties Ltd., and Kal Tire Holdings Ltd. 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.</p>	2009

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

Dianne Watts <sup>(4)</sup> Surrey, BC Canada	Member of the Board of Directors of Westshore Terminals Investment Corporation	2018
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Background: Ms. Watts is a former Member of Parliament in the House of Commons representing Surrey, BC, and White Rock, BC, from 2015 to 2017. Prior to entering federal politics, Ms. Watts served as Mayor of Surrey, BC, from 2005 to 2014 and as a Surrey, BC, City Councillor from 1996 to 2005.

During her time as a Member of Parliament, Ms. Watts was a member of the National Security and Public Safety Committee, National Infrastructure and Transportation Committee, Economic Development Caucus and Speaker of the House of Commons and All Party Parliamentary Tour – South Korea and Mongolia.

Ms. Watts was awarded with an Honorary Doctors of Law Degree from the Justice Institute of British Columbia (contribution to Community and public safety) in 2013, and in 2014 KPU University awarded her with an Honorary Doctors of Law Degree (Leadership – Progressive Governance – Community Engagement and Public Safety). Ms. Watts was awarded the “Iconic Leader of the Decade” award in 2018 from the All Ladies League and Woman’s Economic Forum, the Queen Elizabeth II Diamond Jubilee Medal in 2012, and in 2010 was selected as “4<sup>th</sup> Best Mayor in the World” by the City Mayor’s Foundation United Kingdom and as “Woman of the Year” Business Excellence by Consumer Choice Awards. In 2009 Ms. Watts was named a Paul Harris Fellow by the Rotary Foundation of Rotary International.

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.
- (6) All committees of the Company, other than Audit, have as members one or more directors of CPPI and are joint committees with CPPI. For more information on the power, responsibilities and composition of the joint committees, see the Company’s Information Circular dated March 29, 2019, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).



The term of office of each Director expires on the date of the next Annual General Meeting of the Company to be held on April 23, 2020.

### **Officers**

The names and municipality, province and country of residence of the executive officers of the Company and the offices held by them as at February 20, 2020 are as follows:

<b><u>Name<sup>(1)</sup></u></b>	<b><u>Municipality of Residence</u></b>	<b><u>Office</u></b>
Conrad Pinette	Vancouver, BC, Canada	Chairman
Donald Kayne	Tsawwassen, BC, Canada	President and CEO
Alan Nicholl	West Vancouver, BC, Canada	Chief Financial Officer and Executive Vice President, Finance and Canfor Pulp Operations
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, Global Supply Chain
Kevin Pankratz	North Vancouver, BC, Canada	Senior Vice President, Sales and Marketing
Stephen Mackie	Kelowna, BC, Canada	Executive Vice President, North American Operations
Frederick Stimpson III	Mobile, AL, United States	President, Canfor Southern Pine
Patrick Elliott	Vancouver, BC, Canada	Vice President, Corporate Finance and Strategy
Bob Hayes	Delta, BC, Canada	Vice President, Global Supply Chain
Katy Player	North Vancouver, BC, Canada	Vice President, People and Communications
Kevin Horsnell	Prince George, BC, Canada	Vice President, Operations Canada
Ross Lennox	Prince George, BC, Canada	Vice President, Woodlands Canada
Måns Johansson	Växjö, Kronobergs län, Sweden	Chief Executive Officer, Vida Group

Notes:

- (1) The principal occupation of all of the officers listed above is with the Company or CPPI, other than Mr. Stimpson and Mr. Johansson, whose principal occupations are with CSP and Vida, respectively, as described above. For further information on the occupations of the other Directors with CPPI, see the Company's Information Circular dated March 29, 2019, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

All of the above Directors and officers have had the same or similar principal occupations with the organizations indicated for the last five years except that: prior to February 4, 2020, Mr. Mackie was Senior Vice President, Operations Canada; prior to April 1, 2018, Mr. Elliott was Vice President and Treasurer; prior to April 1, 2018, Mr. Hayes was Vice President, Transportation and Corporate Sourcing; prior to March 19, 2018, Ms. Player was Senior Director, Human Resources at Bentall Kennedy, prior to January 26, 2017, Ms. Player was Director, People and Culture at Canfor, and prior to January 19, 2015, Ms. Player held various human resource and operations leadership roles at BC Hydro; prior to September 27, 2019, Mr. Horsnell was Vice President, Woodlands Canada, prior to January 2, 2018, Mr. Horsnell was General Manager, Forest Management Group Canada and prior to July 1, 2015, Mr. Horsnell was General Manager, Operations; prior to January 28, 2019, Mr. Pankratz was Senior Vice President, Sales and Marketing, Canfor Wood Products Marketing and prior to January 1, 2018, Mr. Pankratz was Vice President, Canfor Wood Products Sales and Marketing; prior to April 2017, Mr. Pinette was a Director of the Company; prior to September 27, 2019, Mr. Lennox was Plant Manager, Plateau Sawmill and prior to July 13, 2017, Mr. Lennox was Plant Manager, Prince George Sawmill; prior to April 1, 2019 Mr. Johansson was Managing Director of Vida Wood.

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

To the knowledge of the Company, no Director or Executive Officer of the Company, or any person or company that beneficially owns or controls or directs, directly or indirectly, more than 10% of the Common Shares, or any of their associates or affiliates, has or had any material interest, directly or indirectly, in any transaction of the Company within

the three most recently completed financial years of the Company or during the current financial year that has materially affected or is reasonably expected to materially affect the Company, other than as described under "Material Contracts" and as set forth herein.

### CONFLICTS OF INTEREST

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

### DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of 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, 2019 and as of the date of this Annual Information Form, there were 125,219,400 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 rating in respect of the Company:

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, the factors considered by DBRS in preparing the rating, or the appropriateness of such factors.

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 2009 to 2019.

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, 2019, the Company would be permitted under these agreements to pay up to \$662.6 million or \$5.29 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 20, 2020, the Directors and Executive Officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over: (i) 1,513,468 Common Shares representing approximately 1.2% of the outstanding Common Shares; and (ii) 298,738 Common Shares of CPPI representing approximately 0.5% of the outstanding Common Shares of CPPI.

At February 20, 2020, James A. Pattison beneficially owned 63,728,722 Common Shares, which are held by companies wholly owned by Mr. Pattison, and represent approximately 50.9% of the outstanding Common Shares of the Company. This amount is not included in the calculation of the Directors and Executive Officers holdings above.

## MARKETS FOR SECURITIES

The Common 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 2019.

<b><u>Month (2019)</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Average Daily Trading Volume</u></b>
	\$	\$	(Shares)
January	18.92	15.56	353,468
February	18.59	14.00	357,279
March	15.75	12.91	494,076
April	14.67	12.68	370,014
May	14.15	8.80	528,959
June	11.55	8.55	571,935
July	11.29	9.33	437,086
August	15.48	8.76	851,110
September	15.56	15.04	235,805
October	15.94	15.35	415,564
November	15.99	15.81	464,519
December	15.93	11.87	669,080

## 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 is party to a Note Purchase and Private Shelf Agreement dated October 2, 2015, as amended by amendments thereto dated as of December 14, 2018 and September 30, 2019, each made among the Company, Prudential Investment Management, Inc. and the note purchasers party thereto (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 and CSP are borrowers under an amended and restated credit agreement dated for reference September 28, 2015, as amended by a first amendment dated for reference June 30, 2017, a second amendment dated for reference December 14, 2018 and a third amendment dated for reference September 30, 2019, each made with Royal Bank of Canada, as Canadian administrative agent, CoBank, ACB, as U.S. administrative agent, Bank of Montreal, as co-syndication agent, Canadian Imperial Bank of Commerce, as co-syndication agent, and the financial institutions from time to time party thereto as lenders. This amended and restated credit agreement, as so amended, provides for a CDN\$550,000,000 unsecured revolving term credit facility (the "Operating Loan") and a CDN\$225,000,000 unsecured non-revolving term loan (the "Cdn Term Loan") in favour of the Company and a US\$200,000,000 unsecured non-revolving term loan (the "US Term Loan") in favour of CSP. Each of the Operating Loan, the Cdn Term Loan and the US Term Loan provide for

floating rates of interest. The Operating Loan also provides for the issuance of letters of credit. The Operating Loan and the Cdn Term Loan each mature on January 2, 2024. The US Term Loan matures on January 2, 2027.

3. The Company is also the borrower under a bilateral credit agreement with Bank of Montreal dated March 5, 2019, as amended by a first amendment thereto dated for reference October 30, 2019, pursuant to which Bank of Montreal has made available to the Company a CDN\$100,000,000 unsecured committed revolving credit facility, which provides for floating rates of interest and matures on October 30, 2020.
4. 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 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 (an "Order") that was in effect for a period of more than 30 consecutive days; (ii) was subject to an Order that was in effect for a period of more than 30 consecutive days that was issued after the Director or Executive Officer ceased to be a director, CEO or chief financial officer of such company and which resulted from an event that occurred while that person was acting in such capacity.

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 Mr. Stinson and Mr. Ross. Mr. Stinson was previously 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) ("CCAA"). Mr. Stinson ceased to be a director of Grant on June 30, 2010. Mr. Ross was asked to join the Board of Directors of Catalyst Paper Corporation ("Catalyst") in May 2010, to assist in the possible restructuring of the company. Catalyst subsequently filed for protection under the CCAA in January 2012, reorganized its financial affairs significantly over a number of months, and successfully emerged from CCAA protection in September, 2012, and Mr. Ross ceased to be a director of Catalyst at which time a new board of directors of Catalyst representing the post recapitalization stakeholders was appointed.

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 material 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, 2019 and there are no such material legal or regulatory proceedings which the Company knows to be contemplated. In addition, there are no penalties or sanctions imposed against the Company by a court relating to Canadian securities legislation or by a securities regulatory authority during the Company's financial year ended December 31, 2019 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, 2019.

On October 12, 2015, the Softwood Lumber Agreement between the governments of Canada and the US 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, including Canfor. 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. Canfor was 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.

On April 24, 2017, the US Department of Commerce announced a preliminary countervailing duty of 20.26% to be imposed on the Company’s lumber exports to the United States from April 24, 2017 to August 26, 2017. On June 24, 2017, the US Department of Commerce announced a preliminary anti-dumping duty of 7.72% effective on US-bound shipments beginning June 30, 2017. On November 2, 2017, the US Department of Commerce announced a final countervailing duty rate of 13.24% effective December 28, 2017, and a final anti-dumping duty rate of 8.89% effective November 8, 2017. The anti-dumping duty rate was further amended to 7.28%, effective January 3, 2018, following a Ministerial Error Challenge, which was accepted by the US Department of Commerce.

Despite cash deposits being made at rates determined by the US Department of Commerce in 2017 (20.52%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the US Department of Commerce. For the countervailing duty rate, the first period of review was based on sales and cost data through 2017 and 2018, while the anti-dumping duty rate was based off data from July 2017 to December 2018.

In early 2020, the US Department of Commerce announced the preliminary results for the first period of review. Accordingly, the Company’s preliminary countervailing duty cash deposit rate was determined to be 2.93% for 2017 and 2.61% for 2018 (versus a cash deposit rate of 13.24%), while the preliminary anti-dumping duty cash deposit rate was 2.02% for the entire first period of review (versus a cash deposit rate of 7.28%).

Upon finalization of these rates (currently anticipated in the third quarter of 2020), the Company’s current combined cash deposit rate of 20.52% will be reset to the final rates as determined in the first period of review (currently estimated to be 4.63% based on the preliminary determination). This new cash deposit rate will apply on the Company’s Canadian lumber shipments destined to the United States until completion of the administrative review for the second period of review (anticipated in 2021).

Canfor and other Canadian forest product companies, the Federal Government of Canada and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the US Department of Commerce. Canada has proceeded with legal challenges under NAFTA and through the WTO, where Canadian litigation has proven successful in the past.

## **EXPERTS**

KPMG LLP, Chartered Accountants, of Vancouver, British Columbia are the auditors of the Company. KPMG LLP, Chartered Accountants, have reported that they are independent of the Company in accordance with the 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 23, 2020. 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.

Greenhill & Co. Canada Ltd. (“Greenhill”) was retained by the Company on August 26, 2019 to provide an independent special committee of non-management Directors with a formal valuation of the Common Shares (the “Valuation”) in accordance with Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*, which Valuation is set forth in the Company’s Information Circular dated November 18, 2019.

## **TRANSFER AGENT AND REGISTRAR**

AST Trust Company (Canada) 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 Directors who are financially literate and a majority of whom are independent, in each case as contemplated by National Instrument 52-110 – *Audit Committees*. 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. Stinson was Chairman and CEO of Canadian Pacific Ltd. before retiring and has served on a wide variety of boards. Mr. Barrington-Foote is a Chartered Professional Accountant (CPA, CA) and is Managing Director, Accounting, of The Jim Pattison Group. Mr. Ross is a partner and founder of Kinetic Capital Partners, was previously Managing Director, Investment Banking at Scotia Capital and, prior to that, Managing Director, Mergers and Acquisitions with ScotiaMcLeod, has previously served on numerous Audit Committees and currently serves on a number of other boards.

Of the Audit Committee members, Messrs. Smith, Stinson, and Ross are independent Directors, and Mr. Barrington-Foote is treated as a non-independent because he is an employee, director, or officer of one or more companies wholly owned by James Pattison, the largest shareholder of the Company.

In its assessment of the composition of the Audit Committee, the Board determined that Mr. Barrington-Foote is an appropriate member for this committee on the basis that: except for his positions with Mr. Pattison's companies, he is not considered to otherwise have any material relationships which could reasonably be expected to interfere with the exercise of his independent judgement as a Director; and, given his financial literacy and his active day-to-day involvement in relevant financial matters and issues, his role on the Audit Committee is required in the best interests of the Company. The Company is therefore relying on the exemption in subsection 3.3(2) (Controlled Companies) in including Mr. Barrington-Foote on the Company's Audit Committee.

The Audit Committee has adopted a policy for the engagement of non-audit services whereby the external auditor of the Company is not entitled to provide any non-audit services to the Company exceeding \$50,000 in value without the Audit Committee Chairman's prior approval and any such services exceeding \$100,000 are to be pre-approved by the Audit Committee. All such engagements are reported to the Audit Committee.

#### External Auditor Service Fees (By Category)

The aggregate fees billed by KPMG LLP, the auditor of the Company, for the last two years, was an aggregate \$3.9 million. Fees listed below were for audit, tax, financial and other verification audit services.

<b>External Auditor Service Fees (000s)</b>	<b><u>2019</u></b>	<b><u>2018</u></b>
Audit Fees <sup>(1)</sup>	\$1,244	\$969
Audit-Related Fees <sup>(2)</sup>	95	107
Other Assurance Fees <sup>(3)</sup>	<u>237</u>	<u>303</u>
<b>Total Assurance Fees</b>	<b><u>\$1,576</u></b>	<b><u>\$1,379</u></b>
Tax Fees <sup>(4)</sup>	<u>432</u>	<u>532</u>
<b>Total Fees <sup>(5)</sup></b>	<b><u>\$2,008</u></b>	<b><u>\$1,911</u></b>

#### Notes:

- (1) For the audit of the Company's annual financial statements and services normally provided by the principal auditor in connection with the Company's statutory and regulatory filings.
- (2) For assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported in (1), including accounting consultations and various agreed upon procedures.
- (3) Other assurance fees primarily related to forest certification services.
- (4) For tax compliance and tax consulting services.
- (5) Included in the fees above is \$0.4 million which was billed to the Company's subsidiary, CPPI (in 2018, \$0.4 million was billed to CPPI).

### **ADDITIONAL INFORMATION**

Additional financial information regarding the Company is provided in the Company's "2019 Management's Discussion and Analysis" and "Consolidated Financial Statements" for the year ended December 31, 2019. 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 May 1, 2019 and in the Information Circular for the Annual General Meeting of the Company to be held on April 23, 2020.

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 or otherwise determined by the Board to be eligible to serve as members of the Audit Committee in accordance with applicable securities laws.

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 Executive Vice President, Finance and Canfor Pulp Products Inc., Senior Vice President, Corporate Development, Legal Affairs and Corporate Secretary, and Vice President, Finance and Strategy, 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.