

# GOVERNANCE MANUAL



**CANFOR CORPORATION**

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## CANFOR CORPORATION

### **Governance Principles**

The following Governance Principles, including the Terms of Reference, Committee Appointment and Meeting Procedures and Code of Conduct set out herein, provide the framework for the governance of Canfor Corporation (the “**Company**”). The board of directors of the Company (the “**Board**”) has approved these Governance Principles and recognizes that there is an on-going and energetic debate about corporate governance and will therefore review these principles and other aspects of governance annually or more often if deemed necessary.

#### **1. Role of Board and Management**

The Company's business is conducted by its officers and employees under the direction of the Chief Executive Officer and the oversight of its Board, to enhance the long-term value of the Company for its shareholders. The Board is elected by the shareholders to oversee management and to assure that the long-term interests of the shareholders are being served. Both the Board and management of the Company recognize that the long-term interests of shareholders are advanced by responsibly addressing the concerns of other stakeholders and interested parties including employees, customers, suppliers, communities and other affected local groups including First Nations communities, government officials and the public at large.

#### **2. Functions of the Board**

The Board has at least five scheduled meetings a year, apart from the meetings of its committees. Four meetings are devoted to reviewing and discussing reports by management on the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. One meeting is devoted to strategic planning. Directors are expected to attend all scheduled Board and committee meetings, unless excused by the Chairman of the Board or the Chair of the relevant committee, and to review meeting materials in advance. In recognition of its responsibility for the stewardship of the Company, the Board has adopted the written Terms of Reference attached to this Manual. As set out in the Terms of Reference, in addition to its general oversight of management, the Board performs a number of specific functions, including:

- (a) selecting, appointing, and removing the Chief Executive Officer and other senior management;
- (b) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer and the other senior management and that senior management creates a culture of integrity throughout the Company, its subsidiaries and affiliates, and in its relationships with customers, suppliers and other stakeholders;

- (c) monitoring, reviewing and approving the training and development programs for, and the compensation of, senior management (including the Chief Executive Officer);
- (d) succession planning for the Chief Executive Officer and other senior management;
- (e) adopting a strategic planning process which shall include at least one meeting of the Board annually devoted to strategic planning, and approving a strategic plan, which takes into account, among other things, the opportunities and risks of the Company's business;
- (f) reviewing, approving and monitoring fundamental financial and business strategies, major corporate actions and capital expenditures;
- (g) the identification and assessment of the principal risks facing the Company's business and the review of options for their mitigation and the implementation of appropriate systems to manage these risks;
- (h) ensuring processes are in place for maintaining the integrity of the Company's, internal control and management information systems, and financial statements;
- (i) developing the Company's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the Company and which shall be set out in this Governance Manual, as amended from time to time;
- (j) developing, reviewing, adopting and enforcing the policies and practices of the Company with respect to the environment, health and safety;
- (k) developing, reviewing, adopting and, as necessary, amending the Company's communication policy (the “**Corporate Disclosure Policy**”);
- (l) adopting a code of business conduct and ethics governing the behaviour of the Company's directors, officers and employees (the “**Code of Conduct**”), monitoring compliance with the Code of Conduct, and granting any waivers under it;
- (m) establishing minimum shareholding requirements for directors and officers;
- (n) appointing/electing the Chairman of the Board of Directors and appointing/electing the Chair and members of each Committee of the Board; and
- (o) establishing committees of the Board.

### **3. Qualifications**

Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the shareholders. They must also have an

inquisitive and objective perspective, practical wisdom and mature judgment. The intention is to have a Board representing diverse experience at policy-making levels in business, government, education and technology, and in other areas that are relevant to the Company's activities and objectives.

Directors must be willing to devote sufficient time and resources to carry out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. Directors are expected to maintain at least a minimum shareholding interest in the Company meeting requirements established from time to time by the Board in order to appropriately align the interests of the directors with those of the Company's shareholders. Directors are expected to avoid other commitments which could materially interfere with their ability to carry out their duties and responsibilities and should offer their resignation in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities, which could adversely affect their ability to do so.

There are no arbitrary limits on the term of a directors' service and directors should not expect to be renominated annually. The Board self-evaluation process described below will be an important determinant for Board tenure.

#### **4. Independence of Directors**

The Board will at all times be comprised of a significant majority of “**Independent Directors**” (as defined below). At least three-quarters (3/4) of the directors must be Independent Directors, while recognizing that directors who do not qualify as Independent Directors may also make valuable contributions to the Board and to the Company by reason of their experience, wisdom and knowledge of the Company.

The Chair of the Board must be an Independent Director. If the Chair of the Board is not an Independent Director, the Chair of the Governance Committee (as defined below) will act as “**Lead Director**”. The Chair of any Committee must be an Independent Director.

To be considered an Independent Director, in addition to any other requirements of applicable securities legislation or applicable stock exchange rules, the director:

- (a) must not be a current member of management of the Company or any of its subsidiaries or affiliates;
- (b) must be free from any interest and any business, family or other relationship which could, in the view of the Board, reasonably be expected to interfere with the exercise of a director's independent judgment or ability to act with a view to the best interests of the Company, provided that a director's shareholdings in the Company alone will not necessarily interfere with the exercise of a director's independent judgment;
- (c) must not currently be, and has not in the last three years been, a partner, officer, or employee of, or a material service provider to, the Company or any of its subsidiaries or affiliates; and

- (d) must not be a partner, director, officer, employee or significant shareholder of an entity that has a material business relationship with the Company or any of its subsidiaries or affiliates.

Where the Company has a shareholder with the direct or indirect power to direct or to cause the direction of management of the Company (whether through the ownership of the Company's voting securities or otherwise), such shareholder will be treated as an “**affiliated entity**”. A director of the Company who is both a director and an employee, or an executive officer, of an affiliated entity will not be considered to be an Independent Director.

The determination as to whether a shareholder of the Company is an “affiliated entity” will be made by those directors who have satisfied the test for being an Independent Director and are not the shareholder or executive officers, directors and employees of the shareholder about which the determination is to be made.

On an annual basis, each director will disclose and the Board will review, all relationships between each director and the Company, as well as all other commercial, charitable, industrial, banking, consulting, legal, accounting and familial relationships of each director, to assess whether each director meets the test for being an Independent Director. In circumstances where a director has a business, family or other relationship with the Company or any of its subsidiaries or affiliates, or a relationship with an entity which is a service provider to the Company or any of its subsidiaries or affiliates, the determination of whether that relationship is one which is material or which could reasonably be expected to interfere with the directors' independent judgment and ability to act in the best interests of the Company and therefore whether the director would be an Independent Director, shall be made by the directors who have satisfied the test for being an Independent Director. The determination of whether a director is an Independent Director will be disclosed annually in the Company's information circular, prior to the director standing for re- election to the Board.

The Company will not make any personal loans or extensions of credit to directors or employees, other than loans to employees for relocation purposes. No director or member of his or her immediate family may provide personal services for compensation to the Company, except with the prior approval of the Governance Committee.

## **5. Size of Board and Selection Process**

The directors are elected each year by the shareholders at the annual general meeting of shareholders. Shareholders may propose nominees for consideration by the Governance Committee by submitting the names and supporting information to the Chairman of the Board. The Board proposes a slate of nominees to the shareholders for election to the Board and the number of directors on the Board, in each case based on the reports and recommendations of the Governance Committee (as defined below). Between annual shareholder meetings, the Board may appoint additional directors, as the law permits, to serve until the next annual meeting.

## **6. Majority Voting Policy**

In the event that any nominee for election as a director of the Company receives a majority of “withheld” votes at a meeting of shareholders providing for the “uncontested” election of directors, that director will tender his or her resignation to the Company. The Board will accept the director’s resignation unless the Governance Committee determines and recommends to the Board that there are extraordinary circumstances or factors (including due to the composition of the Board or the voting results) that should warrant a refusal to accept such resignation.

The Governance Committee will generally be expected to recommend to the Board that it accept the resignation of a director who has received a majority of withheld votes, except where such extraordinary circumstances or factors are present. The Board will make a decision regarding its acceptance or refusal to accept the director’s resignation within 90 days of the meeting and issue a press release either announcing the resignation or the reasons it has not been accepted.

Any director who tenders a resignation as a result of receiving a majority of withheld votes may not be part of any subsequent decision making process regarding such resignation, whether as a member of the Board or of the Governance Committee.

Subject to any corporate law restrictions, where a director’s resignation is accepted, the Board may: (i) leave a vacancy in the Board unfilled until the next annual general meeting; (ii) fill the vacancy by appointing a new director whom the Board considers to merit the confidence of the shareholders; or (iii) call a special meeting of shareholders to consider new Board nominee to fill the vacant position.

For the purposes of this policy, an “uncontested” election means the number of director nominees for election is the same as the director positions on the Board.

## **7. Position Descriptions**

The Board will develop and approve position descriptions for the Chair of the Board and the chair of each of its committees.

Together with the Compensation Committee (as defined below) and the Chief Executive Officer, the Board will develop and approve a clear position description for the Chief Executive Officer, which delineates management’s responsibilities, as well as the goals and objectives the Chief Executive Officer is responsible for meeting.

## **8. Board Committees**

The Board has established the following committees to assist it in discharging its responsibilities: (i) an audit committee of the Company (the “**Audit Committee**”); and (ii) the following joint committees established with the board of directors of Canfor Pulp Products Inc. (“**Canfor Pulp**”) to assist both boards in dealing with issues that are common to both companies and their subsidiaries: (a) a joint corporate governance committee (the “**Governance Committee**”); (iii) a joint management resources and compensation committee (the “**Compensation Committee**”); (iv) a joint environmental, health and safety committee (the “**EH&S Committee**”); and (v) a joint capital expenditure committee (the “**Capex Committee**”). Details of these committees are to be disclosed in the Company’s information circular sent to shareholders prior to its annual

general meeting. The Chairs of those committees report the highlights of their meetings to the full Board following each meeting.

In order to create efficiencies in the governance of the Company and reduce costs, without compromising the principles set out in the Governance Principles, the foregoing committees of the Company (other than Audit Committee) may include directors of Canfor Pulp (the “**Pulp Directors**”), to enable the committees to better deal with issues which relate to both of the companies. All members of the Audit Committee must be directors of the Company.

For the purposes of these Governance Principles, the Pulp Directors will be considered as “Independent Directors” if they otherwise meet the requirements of independence as set out herein.

## **9. Independence of Committee Members**

In addition to the requirement that three-quarters (3/4) of the directors must be Independent Directors, all members of the Audit Committee, the Governance Committee and the Compensation Committee must be Independent Directors and at least three quarters (3/4) of the members of all other committees must be Independent Directors. In addition, no member of the Audit Committee may receive, directly or indirectly, any consulting, advisory or other fee or remuneration from the Company or any of its subsidiaries or affiliates, other than their compensation as a director.

## **10. Meetings of Independent Directors**

At the end of every regularly-scheduled Board or Committee meeting, the Chairman of the Board or the Chair of the Committee, as the case may be, will excuse senior management present (including any directors who are also members of management). The remainder of the meeting will be devoted to issues which any director may wish to raise in the absence of senior management and non- Independent Directors. The Board and/ or any Committee may also meet without senior management present and/ or the non-Independent Directors at such other times as may be determined by the Chairman of the Board or the Chair of the Committee, as the case may be.

## **11. Self-Evaluation**

As described more fully in the terms of reference of the Governance Committee, that Committee will conduct a regular self-evaluation of the effectiveness of the Board as a whole, the committees of the Board, the contribution of individual directors and the effectiveness of the Chairman of the Board and the Chair of each Committee, including the Board and Committee Terms of Reference and the expected skills and competencies of each individual director. At the end of each year, each director will be requested to provide his or her assessment of the effectiveness of the Board and the Committees on which he or she serves as well as an assessment of the contribution of each of the other directors. The individual assessments will be organized and summarized by an independent corporate governance expert, on behalf of and at the direction of the Chair of the Governance Committee, for discussion with the Chairman and the Board early in the following year.



The compliance of the Company's system of corporate governance with applicable corporate and securities legislation and applicable stock exchange rules and the operation of the Company's system of corporate governance will be disclosed annually in the Company's information circular.

## **12. Setting Board Agenda**

The Board shall be responsible for its agenda. The Chief Executive Officer having canvassed the directors for potential agenda items will propose the agenda to the Chairman of the Board who shall review and approve the agenda. The Chairman of the Board, after consulting with the Chief Executive Officer, shall determine the nature and extent of information that shall be provided to the directors before each scheduled Board meeting. During regularly scheduled meetings of the Board, directors are urged to make suggestions for agenda items, or additional pre-meeting materials for subsequent regularly scheduled meetings of the Board. The Board meeting materials shall be distributed to the Board in a timely manner to allow the board a reasonable opportunity to review and consider the information before the meeting.

## **13. Ethics and Conflicts of Interest**

The Board expects all directors, as well as the Company's officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising the Code of Conduct. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the Chief Executive Officer and the Chairman of the Board. If a significant conflict exists and cannot be resolved, the director should resign. All directors will excuse themselves from any discussion or decision affecting their personal, business or professional interests. The Board, through the Governance Committee, shall resolve any conflict of interest question involving the Chief Executive Officer, the Chief Financial Officer or any Executive or Vice-President, and the Company's Vice President, General Counsel shall resolve any conflict of interest issue involving any other officer or employee of the Company.

## **14. Reporting of Concerns**

In addition to the reporting procedures contemplated by the Code of Conduct, anyone who has a concern about the Company's conduct, or about the Company's accounting, internal accounting controls or auditing matters, may communicate that concern directly to the Chair of the Audit Committee, who will raise the concern for review by the Audit Committee or, if appropriate, forward the concern to any other committee Chair for review by the appropriate committee. The status of all outstanding concerns will be reported to the Board on a quarterly basis or at the next scheduled Board meeting, if earlier. The relevant committee may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to it. The Code of Conduct prohibits any director, officer or employee from retaliating or taking any adverse action against anyone for raising or helping to resolve a concern contemplated by the Code.

## **15. Compensation of Directors**

The Compensation Committee shall have the responsibility for recommending to the Board compensation and benefits for directors. In discharging this duty, the committee shall be guided by three goals: compensation should fairly pay directors for work required in a company of the Company's size and scope; compensation should align directors' interests with the long-term

interests of shareholders; and the structure of the compensation should be simple, transparent and easy for shareholders to understand. As a general rule, those directors who are officers or employees of the Company or any of its subsidiaries or affiliates will not receive any additional compensation for acting as a director.

**16. Annual Compensation Review of Senior Management**

All equity-based compensation plans shall be approved by the Board based on the recommendations of the Compensation Committee. The Board shall also be responsible for approving, based on the recommendations of the Compensation Committee, the salary, bonus and other incentive and equity compensation of the Chief Executive Officer. The Compensation Committee shall approve, based on the recommendations of the Chief Executive Officer and taking into account the equity- based compensation approved by the Board, the salary, bonus and other incentive and equity compensation for all senior management.

**17. Access to Senior Management**

Outside directors may contact senior management of the Company at any time without the presence of the Chief Executive Officer or an Executive or Group Vice- President.

**18. Access to Independent Advisors**

The Board and its committees shall have the right at any time to retain independent outside financial, legal or other advisors, at the Company's expense.

**19. Director Orientation and Education**

The Governance Committee shall be responsible for designing an orientation program for new directors and reviewing the efficacy of the orientation program annually. The orientation program shall provide for the Chairman of the Board to be responsible for conducting, overseeing and implementing the orientation of new directors and shall provide that each new director receives a personal briefing by senior management on the Company's business, its strategic plans, its financial statements, and its key policies and practices (including the role of the Board, its committees and its directors) and receives background briefings about, and on-site visits to, various operations of the Company. The Governance Committee shall be responsible for designing, and the Chairman of the Board shall be responsible for providing, an ongoing director education program, under which all directors shall periodically receive materials or briefing sessions on subjects that would assist them in discharging their duties as directors and ensure their knowledge and understanding of the Company's business remains current.

## **AUDIT COMMITTEE TERMS OF REFERENCE**

### **1. Purpose**

The Audit Committee is appointed by the board of directors (the “**Board**”) of Canfor Corporation (the “**Company**”) to assist the Board in fulfilling its oversight responsibilities. The Audit Committee will:

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

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

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

All members of the Audit Committee must be Independent Directors.

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

- (a) an understanding of financial statements and accounting principles used by the Company to prepare its financial statements;
- (b) the ability to assess the general application of such accounting principles in connection with accounting for estimates, accruals and reserves;
- (c) experience preparing, auditing, analyzing or evaluating financial statements, or experience supervising the preparation, audit, analysis or evaluation of financial statements, that present a breadth and level of complexity of accounting issues

that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements;

- (d) an understanding of internal controls and procedures for financial reporting; and
- (e) an understanding of audit committee functions.

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

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

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

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

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

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

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

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

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

(c) **Financial Reporting**

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

- (i) General
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their

impact on the financial statements.

(ii) Interim Financial Statements

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

(iii) Annual Financial Statements and Other Financial Information

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

knowledge of the Company.

- Review the tax status of the Company and understand the status of any related tax reserves, potential reassessments or other matters which could affect the annual financial statements.
- Review and assess the quality and appropriateness of the Company's accounting and reporting principles and policies.
- Provide to the Board a recommendation as to whether the annual financial statements should be approved.
- Review the news release announcing the annual financial results of the Company.
- Review the annual financial disclosure contained in the Annual Information Form.

(iv) Prospectus and Information Circulars

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

(d) **External Audit**

The external auditors are accountable to the Audit Committee and the Board as representatives of the shareholders.

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

- (i) Recommend to the Board the selection (retention or replacement) of the external auditors, considering independence and effectiveness, and approve the fees and other compensation to be paid to the external auditors. On an annual basis, the Audit Committee should review and discuss with the external auditors all significant relationships its accountants have with the Company to confirm their independence. If there is a recommendation to change auditors, review all the issues to change and the steps planned for an orderly transition.
- (ii) Review the external auditor's Audit Plan and engagement letter with management and the external auditors, including audit scope and approach.
- (iii) Meet with the external auditor and management in separate private sessions to discuss any matters that the Audit Committee or these groups

believe should be discussed privately with the Audit Committee.

- (iv) Pre-approve any non-audit services to be provided by the external auditor. The Audit Committee may delegate this responsibility to the Chair, provided that any pre-approval granted pursuant to such delegation must be detailed as to the service to be provided and must be reported to the full Audit Committee at its next scheduled meeting.
- (v) Review and assess the performance of the external auditor, including consideration of demonstrated external audit judgment and application and adherence to accounting policy and standards.
- (vi) Review the external auditor's policy on partner rotation.
- (vii) Review the Company's hiring policy with respect to partners, employees and former partners and employees of the Company's present or former external auditor.

(e) **Internal Audit**

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

- (i) Be advised of and concur with the appointment, replacement, reassignment or dismissal of the Internal Auditor and consider resource requirements.
- (ii) Review and approve Internal Audit Services Terms of Reference, including scope, organization structure and mandate.
- (iii) Confirm and assure the independence of the Internal Auditor.
- (iv) Review jointly with the Internal Auditor and the external auditor the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- (v) Review with management and the Internal Auditor the annual Audit Plan and monitor any changes required in the scope of the plan.
- (vi) Meet with the Internal Auditor and management in separate private sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.
- (vii) Review significant internal audit reports together with management's response and follow-up actions, including any problems or issues encountered in the course of an audit.
- (viii) Review and assess the performance of the Internal Auditor; and



- (ix) Ensure that the Internal Auditor reports directly to the Chair of the Audit Committee with a dotted line reporting responsibility to either the CEO or CFO of the Company.

(f) **Finance**

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

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

**4. Other Duties**

(a) **Legal and Regulatory Compliance**

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

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

- (vi) Review the Company's procedures and establish procedures for the Audit Committee for the:
- receipt, retention and resolution of complaints regarding accounting, internal accounting controls, financial disclosure or auditing matters; and
  - confidential, anonymous submission by employees regarding questionable accounting, auditing, or financial reporting and disclosure matters.

(b) **Pension Funds**

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

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

- (ix) establishing and reviewing on an annual basis the terms of reference of the Management Pension Committee.

(c) **Officer Expenses**

Review policies and procedures with respect to the Chairman of the Board and President and Chief Executive Officer's expense accounts and perquisites, including the use of corporate assets.

Periodically review major expenses incurred by the office of the Chairman of the Board and President and Chief Executive Officer.

(d) **Other Duties**

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

## **JOINT CORPORATE GOVERNANCE COMMITTEE TERMS OF REFERENCE**

**(the “Governance Committee”)**

### **1. Purpose**

The purpose of the Governance Committee is to monitor the effectiveness and the governance of the boards of directors (each a “**Board**” and, together, the “**Boards**”) of Canfor Corporation and Canfor Pulp Products Inc. (each a “**Company**” and, together, the “**Companies**”), including the size, structure and membership of each of the Boards and their committees. In the event the Chairman of a Board is not an Independent Director, then the Chair of the Governance Committee will also act as “Lead Director” to ensure that appropriate structures and procedures are in place to allow the Board to function independently of management.

The Governance Committee has the authority to access such officers and employees of the Companies, and conduct any investigation, as may be appropriate and has the authority to retain, at a Company's expense, special legal and other consultants or experts it deems necessary in the performance of its duties.

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

All of the members of the Governance Committee must be Independent Directors and will be appointed and removed by the Boards (or on the expiry of their terms as directors, if earlier). The Chairman of each Board shall be an ex-officio member of the Governance Committee.

A Chair shall be appointed by the Boards annually from among the members of the Governance Committee who are Independent Directors.

The Governance Committee shall schedule regular meetings and shall meet at least twice in each year.

The Chief Executive Officer of each Company will be given notice of all meetings and will normally be entitled to attend, other than in cases where the Governance Committee wishes to meet in-camera. Other executives of the Companies will attend at the request of the Governance Committee.

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

The Governance Committee shall have the following duties and responsibilities and, to the extent necessary to carry out such duties and responsibilities, is delegated the powers of the Boards to:

#### **(a) Monitor Corporate Governance Issues**

Corporate governance issues to be monitored include the formation of committees of the Boards and the nomination of directors. In fulfilling this responsibility, the Governance Committee will:

- (i) advise the Chairman of each of the Boards and the Boards on matters of corporate governance;

- (ii) conduct, on an annual basis, an assessment of the size and effectiveness of each of the Boards, the committees of the Boards, and the individual directors, and report on such assessments to the Chairman of the Boards and to the Boards. This review will include consideration of which competencies and skills the Boards should possess, including consideration of the competencies, skills and personalities of the directors individually and as a group;
- (iii) recommend to the Boards for approval the composition and membership of the committees of the Boards and their terms of reference;
- (iv) consider and approve, where appropriate, requests by individual directors to engage the services of outside experts and advisors at the expense of the Companies, so long as its Chief Executive Officer is advised of such engagement, unless advising its Chief Executive Officer would be inappropriate in the circumstances;
- (v) at the request of either of the Boards, consider any other matters which will assist the Board to meet its responsibilities regarding corporate governance matters, including adherence to any governance guidelines established by securities regulatory authorities, the TSX or other regulatory bodies; and
- (vi) keep abreast of emerging issues in corporate governance practise and regulations and make recommendations to the Boards with respect to corporate governance matters.

**(b) Recommend to the Boards the size of the Boards**

From time to time, the Governance Committee will report to the Boards on the size of the Board and profile of Board members in terms of experience, expertise, age, gender, geographical representation and such other areas as the Governance Committee deems relevant to the current and future needs of the Company, as well as the ability of each nominee to devote sufficient time and resources to his or her duties as a member of a Board.

**(c) Recommend to the Boards the nominees for election to the Boards**

As required, the Governance Committee will:

- (i) seek out or recommend to the Boards qualified nominees for appointment, election or re-election to the Boards;
- (ii) with the assistance of management, design a process and materials for the orientation and education of new Board members to be conducted by the Chairman of the Boards, and provide continuing education materials to continuing Board members where appropriate; and
- (iii) review from time to time any policies with respect to service of directors.

(d) **Assess responsibilities of management**

The Governance Committee will undertake a periodic assessment of the relationship between the Boards and their senior management including, in particular, the relationship between the Chairman and the Chief Executive Officer. The Committee Chair will consult with both individuals in carrying out this review and will advise the Boards of his findings.

(e) **Resolve Conflicts**

The Governance Committee will review and resolve any conflict of interest question involving any director or any Chief Executive Officer, Chief Financial Officer or any Executive or Group Vice-President.

(f) **Code of Conduct Compliance**

To provide assurance of compliance with the Companies' Codes of Conduct, the Governance Committee shall:

- (i) ensure that an appropriate Code of Conduct is formalized in writing and that all directors, officers and employees are aware of it; and
- (ii) review each Company's monitoring of compliance with its Code of Conduct.

## **JOINT MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE TERMS OF REFERENCE**

### **(the “Compensation Committee”)**

#### **1. Purpose**

The overall purpose of the Compensation Committee is to make recommendations to the boards of directors (each a “**Board**” and, together, the “**Boards**”) of Canfor Corporation and Canfor Pulp Products Inc. (each a “**Company**” and, together, the “**Companies**”) with respect to compensation policies, including base and performance compensation policies and pension and other benefit policies. The Compensation Committee is also responsible for supervising the implementation of the compensation policies approved by the Boards, including the annual compensation levels of all non-union employees within the approved compensation policies.

The Compensation Committee has the authority to access such officers and employees of the Companies, and conduct any investigation, as may be appropriate and has the authority to retain, at a Company's expense, special legal and other consultants or experts it deems necessary in the performance of its duties.

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

All members of the Compensation Committee must be Independent Directors and will be appointed and removed by the Boards (or the expiry of their terms as directors, if earlier).

A Chair shall be appointed by the Boards annually from among the members of the Compensation Committee.

The Compensation Committee shall schedule regular meetings and shall meet at least twice in each year.

The Chief Executive Officer of a Company shall be available at Compensation Committee meetings, if deemed appropriate by the Chair of the Compensation Committee, to advise the Compensation Committee.

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

The Compensation Committee shall have the following duties and responsibilities and, to the extent necessary to carry out such duties and responsibilities, is delegated the powers of the Boards:

- (a) To recommend to the Boards compensation policies, guidelines, and pay and performance systems for application to the Companies and their subsidiaries.
- (b) To ensure that the Companies have in place compensation programs and policies to attract and retain high calibre executives who will successfully lead the organization in their respective areas of responsibility.
- (c) To ensure that the Companies have in place programs to develop management of the highest calibre and a process to provide for the orderly succession of management.

- (d) To develop a position description for, and corporate goals and objectives relevant to, their Chief Executive Officers and ensure that policy guidelines and systems are in place to provide for a comprehensive review and evaluation of the performance of their Chief Executive Officers.
- (e) To recommend to the Boards the annual salary, bonus and pension and other benefits, direct and indirect, of all senior executive officers of the Companies, including their Chief Executive Officers, based on its review and evaluation.
- (f) To approve the compensation for all other senior management of the Companies as requested by management, its subsidiaries and affiliates and the annual compensation policies and budgets for all non-union employees, after considering the recommendations of their Chief Executive Officers, all within the compensation policies, guidelines, and pay and performance systems approved by the Boards.
- (g) To ensure that each of the Companies implements and administers compensation policies approved by the Boards concerning:
  - (i) executive compensation, executive employment contracts, stock option plans, or other incentive or equity plans; and
  - (ii) proposed personnel changes involving officers reporting to their Chief Executive Officers or other senior officers of the Companies.
- (h) To review from time to time, as and when required, the adequacy and type of each Company's pension benefit arrangements.
- (i) To review from time to time with each Company's Chief Executive Officer, the Company's broad policies on compensation for all employees and overall labour relations strategy for organized employees of the Company.
- (j) To receive periodic updates on labour relations initiatives and issues in the Companies.
- (k) To review periodically the adequacy and form of the compensation of the directors and to ensure that the compensation realistically reflects the responsibilities and risks involved in being an effective director and to report and make recommendations to the Boards accordingly.
- (l) To provide annually a report of the Compensation Committee for inclusion in each of the Company's information circular and to review executive compensation disclosure before the Company publicly discloses this information.



## **JOINT ENVIRONMENTAL, HEALTH AND SAFETY COMMITTEE TERMS OF REFERENCE**

**(the “EH&S Committee”)**

### **1. Purpose**

The overall purpose of the EH&S Committee is to develop, review and make recommendations to the boards of directors (each a “**Board**” and, together, the “**Boards**”) of Canfor Corporation and Canfor Pulp Products Inc. (each a “**Company**” and, together, the “**Companies**”) or senior management of the Companies, as appropriate or as required, on matters related to their Environmental, Health and Safety policies and practices and to monitor compliance with government regulations and with their commitment to excellence on these issues.

The EH&S Committee has the authority to access such officers and employees of the Companies, and conduct any investigation, as may be appropriate and has the authority to retain, at a Company's expense, special legal and other consultants or experts it deems necessary in the performance of its duties.

### **2. EH&S Committee Composition and Meetings**

At least three-quarters (3/4) of the members of the EH&S Committee must be Independent Directors.

A Chair shall be appointed by the Boards annually from among the members of the EH&S Committee who are Independent Directors.

The EH&S Committee shall schedule regular meetings and shall meet at least twice in each year. At least one meeting per year shall be held at one of the Companies’ operations.

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

The EH&S Committee shall have the following duties and responsibilities and, to the extent necessary to carry out such duties and responsibilities, is delegated the powers of the Boards:

- (a) To review and make recommendations to the Boards concerning the following:
  - (i) the impact on the Companies, their directors, officers, employees and agents of any significant environmental, health and safety laws and regulations, such laws, regulations, related responsibilities and other ancillary matters being hereafter referred to as “EH&S Issues” and any recommendations as to policies arising from their assessment of said impact;
  - (ii) the compliance with policy statements and implementation standards adopted from time to time by the Companies on EH&S Issues;
  - (iii) the Companies’ environmental disaster response plan for each operation and degree of readiness;

- (iv) management programs and standards addressing health of employees and the public and the safety of the workplace; and
  - (v) the development of policies and initiatives in the area of environment, health and safety.
- (b) To report to the Boards from time to time, but not less than once per year, on the following:
- (i) the effectiveness of the Companies response to EH&S Issues, including compliance with statutory and regulatory requirements;
  - (ii) the implementation of, and compliance with, policy statements adopted on EH&S Issues;
  - (iii) risk management associated with EH&S Issues;
  - (iv) the overall efforts of the Companies to maintain priority status for the protection of the environment and for the health and safety of its employees and the public;
  - (v) any charges or actions relating to EH&S Issues initiated against the Companies, their directors, officers, employees or agents and the resolution of the same; and
  - (vi) any other material matter brought to the attention of the EH&S Committee during the course of the year.

## **JOINT CAPITAL EXPENDITURE COMMITTEE TERMS OF REFERENCE**

### **1. Purpose**

The Capex Committee is appointed by the boards of directors (each a “**Board**” and, together, the “**Boards**”) of Canfor Corporation and Canfor Pulp Production Inc. (each a “**Company**” and, together, the “**Companies**”) to assist the Boards in the review and recommendation of expenditures for capital projects for the Companies that are in excess of the management for each Company limit, but within the authority of the Capex Committee, as set by the Boards from time to time.

Subject to any change by the Boards, the Capex Committee will review and consider a Company’s expenditures of \$5 million or higher. The Capex Committee will have the authority to approve any expenditure by a Company between \$5 million and \$25 million. Any project approval in excess of \$25 million must be subject to the approval of the Board of the Company to which such expenditure relates. In addition, it will review any lesser expenditures referred to it by the Board or a Chief Executive Officer of either of the Companies.

### **2. Capital Expenditure Committee Composition and Meetings**

All members of the Capex Committee must be Independent Directors in accordance with the Governance Principles.

A Chair shall be appointed by the Boards annually from among the members of the Capex Committee.

The Capex Committee will meet as necessary. The Chair shall prepare and/ or approve an agenda in advance of each meeting.

All directors of the Companies, including management directors, may attend meetings of the Capex Committee provided, however, that no director is entitled to vote at such meetings and is not counted as part of the quorum for the Capex Committee if he or she is not a member of the Capex Committee.

The Capex Committee may hold in-camera sessions without management present, including management directors, at any committee meeting.

The Capex Committee has the authority to access such officers and employees of the Companies and conduct any investigation as may be appropriate and has the authority to retain, at a Company’s expense, special legal, financial, engineering or other consultants or experts it deems necessary in the performance of its duties.

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

The Capex Committee shall have the following duties and responsibilities in respect of capital expenditures of each of the Companies:

- (a) to review and assess project risk and ensure that an appropriate risk assessment analysis is implemented in each of the Companies’ approval for expenditure (AFE) process;

- (b) to review and assess the minimum hurdle rates and/ or discounts rates established by each of the Companies for assessment of capital projects;
- (c) to review and assess AFEs as submitted by each of the Companies including a consideration of the proposed economic benefits of the project, the strategic value to each of the Companies and the ability of the Company to conclude the project;
- (d) to review and assess the underlying economic assumptions used in each Companies' assessment of capital projects.
- (e) to review and assess asset divestitures.

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

- (a) The Capex Committee will review at least once annually, and evaluate the adequacy of these Terms of Reference and the committee's performance, and report its evaluation and any recommendations for change to the Governance Committee.
- (b) The Capex Committee will have such other duties and responsibilities, and review such other matters, as are from time to time referred to it by the Boards.
- (c) Capex Committee will provide regular reports to the Boards with respect to its duties and responsibilities hereunder, including any projects considered by the committee.

## **Committee Appointment and Meeting Procedures**

All Committees appointed by the Boards shall operate under the following procedures and practices:

### **1. Appointment**

- (a) Each Committee shall be comprised of at least three members.
- (b) The members of each Committee shall be appointed by the Boards at the first meeting of the Boards following each Annual General Meeting and, in the case of any joint committees, by the Boards of both Companies at that time. A director shall cease to be a member of any Committees of which he or she is a member upon ceasing to be a director of either of the Companies and may be removed or replaced at any other time at the discretion of the Board which appointed him or her and otherwise by the Boards jointly. Each member shall hold office until the earlier of the close of the last Annual General Meeting of the Companies following the member's appointment or until the member resigns, is replaced or is removed by the Board which appointed him or her or the Boards jointly, as the case may be.
- (c) The Corporate Secretary of a Company, as designated by the Chairman, shall be the Secretary to each of its committees and the Chairman of the meeting shall be the Secretary for in-camera sessions.

### **2. Calling and Notice of Meetings**

- (a) In addition to the regularly scheduled meetings of a Committee scheduled by the Chair of the Committee, the Chair of a Committee or any two other members of a Committee may call a meeting of the Committee at any time.
- (b) Not less than 5 business days prior to any Committee meeting, the Secretary shall circulate notice of the meeting to each member of the Committee, together with the agenda for the meeting as well as any materials to be discussed or reviewed at the meeting. Advance notice of any meeting may be waived by a majority of the members of the Committee.

### **3. Meeting Procedures**

- (a) If all members consent, one or more members of a Committee may participate in a meeting by means of such telephonic, electronic or other communication facilities as will permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by such means is deemed to be present at that meeting.
- (b) A quorum for a meeting of a Committee shall consist of a simple majority of the members of the Committee.
- (c) Questions arising at any meeting shall be determined by a majority of votes of the

members present, and in case of an equality of votes, the Chair shall have a second casting vote.

- (d) The Secretary (or person acting as such) shall keep regular minutes of a Committee's business at meetings of the Committee and cause them to be recorded in books kept for that purpose.
- (e) A Committee may, as it sees fit, from time to time to invite such other directors, officers and employees of the Company to attend any meeting of the Committee and assist in the discussion and consideration of the business of the Committee. The Secretary shall provide notice of such meeting to any such director, officer or employee and request their attendance at the meeting.

## CODE OF CONDUCT

**Purpose:** The purpose of this Code of Conduct is to define the standards and values which each of Canfor Corporation and Canfor Pulp Products Inc. (each a “**Company**” and, together, the “**Companies**”) expects its personnel to follow in their dealings with stakeholders. It is designed to help the Companies’ personnel make the right business decisions, consistent with their corporate values of integrity, trust, openness and respect for people and to behave in a manner that reflects the Companies’ high ethical standards.

**Application:** This Code of Conduct applies to all personnel (“**Canfor Personnel**”) of the Companies and each of their subsidiaries (including Canfor Pulp Holding Inc. and Canfor Pulp Limited Partnership) (collectively, “**Canfor**”), including every director of Canfor (“**Directors**”), every officer of the Companies, the full list of whom are included in the Companies’ annual reports (“**Officers**”) and every other employee of the Companies (“**Employees**”).

**General:** This Code of Conduct is designed to:

- promote ethical and legal conduct by all Canfor Personnel;
- ensure all Canfor Personnel act prudently, diligently, honestly and with integrity;
- ensure compliance by all Canfor Personnel with all applicable domestic and foreign laws;
- ensure conflicts arising between the personal interests or activities of Canfor Personnel and their duties to Canfor are disclosed and acknowledged or, in certain circumstances, prohibited and that appropriate methods dealing with any such conflicts are provided for; and
- ensure Canfor Personnel use Canfor 's property and opportunities in an appropriate fashion and not for personal benefit;

**Obeying the Law:** Canfor operates within a complex framework of Canadian federal, provincial and municipal laws, as well as the laws and regulations of other countries in which it does business. In addition, due to the nature of its operations, Canfor's operations are particularly affected by environmental laws and regulations and are subject to national and international laws regarding corrupt practices.

All Canfor Personnel are expected to comply with applicable laws and regulations of Canada and any other country where Canfor carries on

business. No Director, Officer or Employee, no matter what position or title he or she holds, is ever expected to commit or condone an illegal act, or to instruct other Canfor Personnel to do so on behalf of Canfor.

**Respecting  
Others:**

**(a) Canfor Personnel**

All Canfor Personnel are expected to make decisions regarding the hiring and promotion of other Canfor Personnel on the basis of merit and in accordance with applicable human rights legislation and the relevant provisions of Canfor's collective agreements.

Canfor believes all Canfor Personnel have the right to pursue their careers at Canfor free from harassment and free from discrimination based on any ground prohibited by law, including race, colour, ancestry, place of origin, political belief, religion, marital status, family status, physical or mental disability, sex, sexual orientation or age. Canfor has developed a specific ***Bullying and Harassment Policy*** which all Canfor Personnel are expected to follow.

The Company believes all Canfor Personnel are entitled to a safe and healthful working environment. Canfor has developed a specific ***Occupational Health and Safety Policy*** Statement entitled "Safety Comes First at Canfor" which all Canfor Personnel are expected to follow to ensure that a safe and healthful working environment is provided for all Canfor Personnel and all others providing services at Canfor's worksites.

Canfor has developed ***other specific policies which address employee rights***. Canfor Personnel should be familiar with these policies, which are available through the Human Resources Department.

**(b) Customers and Suppliers**

Relationships with customers and suppliers are critical to the continuing success of Canfor. In dealings with customers and suppliers, all Canfor Personnel must conduct themselves with honesty, integrity and respect. All Canfor Personnel must ensure the confidentiality of all customer and supplier information unless disclosure is required by law or authorized by the customer or supplier.

Canfor has developed a specific Gift and Entertainment policy which all Canfor Personnel are expected to follow, and which is described below.

**(c) Communities**

Canfor wishes to be a valued and respected member of the communities in which it operates. In dealings with communities, including First Nations communities, or any community leaders, all Canfor Personnel must act in accordance with applicable law and in an environmentally responsible



manner. Canfor has developed a specific *Environmental Policy* which all Canfor Personnel are expected to follow.

**Conflicts of Interest:**

A conflict of interest arises when a Director, Officer or Employee must choose between Canfor's best interests and their personal interests, including any transactions or agreements by a Company in which he or she has an interest (material or otherwise). Any situation where the judgment of a Director, Officer or Employee may be compromised, where he or she shows undue favouritism to any party or where he or she receives a benefit of some kind, is potentially a conflict of interest. All Canfor Personnel must strive to avoid situations that create a conflict, create the appearance of a conflict, or have the potential to create a conflict. If any of these situations occur, Canfor Personnel are responsible for disclosing and, where appropriate, taking action to remedy the conflict of interest.

Situations that can potentially give rise to a conflict of interest are numerous:-

- Canfor Personnel should not have any direct personal interest in a transaction to which a Company is a party, unless fully disclosed to the responsible Senior Vice President, and the Company's Senior Vice President, Corporate Development, Legal Affairs and Human Resources, and approved by the responsible Senior Vice President.;
- Canfor Personnel should not use their position with a Company to solicit or conduct business for personal benefit or gain;
- Canfor Personnel should not accept gifts or benefits from customers, suppliers, business associates or companies who do or wish to do business with Canfor, other than modest or token non-monetary gifts (see also "Gifts and Entertainment" below); and
- Canfor Personnel must not inappropriately use their position for personal benefit, for the benefit of other Canfor Personnel with whom they are direct relatives or with whom they permanently reside, or to the detriment of other Canfor Personnel.

Canfor has developed a specific *Ethics and Conflict of Interest Policy* which all Canfor Personnel are expected to follow.

**Gifts and Entertainment:**

The exchange of gifts or entertainment by Canfor Personnel with Canfor's customers, suppliers and other service providers may give rise to an actual or perceived conflict of interest between the personal interests of Canfor Personnel and the best interests of Canfor. Therefore, it is Canfor's policy that no Canfor Personnel may accept or request any gift or entertainment from any current or potential customer, supplier or other service provider which might influence, or be perceived to influence, their business

decision or judgment.

Accordingly, Canfor has a zero tolerance policy regarding unsolicited gifts or entertainment and Canfor Personnel should not accept or request any gift or entertainment from current or potential customers, suppliers or service providers. Examples of unacceptable gifts and entertainment which should never be accepted are as follows:

- gifts of money or gifts with a direct monetary value such as gift certificates, discounts, services or loans;
- meals, travel and travel accommodations for business or personal purposes;
- sporting or cultural event tickets;
- gifts or entertainment received prior to or during a competitive bid or procurement process;
- gifts or entertainment intended for personal use; and
- gifts or entertainment of more than a nominal value or which are not easily reciprocated.

For the purposes of this Code, the following shall not be considered gifts and entertainment and may be accepted by Canfor Personnel within reason:

- continuing professional education or development opportunities;
- meals provided or paid for by customers, suppliers or service providers during traditional business hours where business discussions or negotiations are the main purpose of the meeting;
- mementos or other similar awards provided as recognition of a particular matter, provided the memento or award has no intrinsic value;
- branded promotional give-away items that have a nominal value;
- industry events where multiple clients or potential clients are invited or open to the public; and
- business meals or entertainment where the giver is present, business discussions take place or are contiguous and the meal or entertainment is of reasonable value.

Canfor Personnel should never consider accepting any gift or entertainment if it would affect their ability to act in Canfor's best interests. Before considering whether to accept any gift or entertainment, Canfor Personnel should ask themselves:

- will the acceptance reflect poorly on Canfor?
- is there a valid business reason to accept the gift or entertainment, and does the acceptance accomplish a legitimate business purpose?
- will the acceptance create a negative impression in the minds of our co-workers or outsiders?
- is the acceptance consistent with good business practices?
- is the value reasonable, given the nature of the event or other context within which the gift, favor or the like is given?
- is the expense and frequency of the activity reasonable?

In some situations (in particular, in some cultures) the refusal or return of a gift or an invitation to entertainment may be considered offensive, inappropriate or cause professional embarrassment. In such cases, accepting such an item on behalf of Canfor could be acceptable provided the item is immediately turned over (where possible) to Canfor. Such an item or action must also be disclosed immediately to the Senior Vice President, Corporate Development and Legal Affairs.

Any Canfor Personnel who become aware of a violation or potential violation of this gift and entertainment portion of the Code must contact the Senior Vice President, Corporate Development and Legal Affairs immediately. The determination of whether a violation of the Code has occurred will be made by the General Counsel.

Canfor's gift and entertainment policy is applicable to all Canfor Personnel. All Canfor Personnel should familiarize themselves with this policy and with the special rules applying to gift or entertainment exchanges with foreign officials in Canfor's "***Foreign Anti-Corruption Compliance Policy***" (see "Improper Payments and Corrupt Practices" below)

**Improper  
Payments and  
Corrupt  
Practices:**

It is strictly prohibited for Canfor or any Canfor Personnel to make payments or to confer any other benefit on a government or public official in any country in order to obtain a business advantage. Such conduct is a criminal offence in Canada, the United States and many other countries where Canfor carries on business, and can give rise to severe legal penalties for Canfor and/or Canfor Personnel.

Canfor strictly prohibits engaging in or tolerating bribery or any other form of corruption. More specifically, it is strictly prohibited for Canfor or any Canfor Personnel to give or offer a government or public official or candidate for public office anything of value or a gift, loan, reward, advantage or a benefit of any kind:

- in exchange for an act or omission by the official in connection with the performance of the official's duties or functions; or
- to induce the official to use his or her position to influence any acts or decisions of the domestic or foreign government body for which the official performs duties or functions.

It is also strictly prohibited for Canfor or any Canfor Personnel to condone any such giving or offering by another person who may be viewed as representing Canfor (i.e. a business representative or agent, or a joint venture or other business partner).

If an attempt is made by a public official (or by another person on behalf of a government or public official) to solicit or extort a benefit of any kind, it must not be complied with and should immediately be reported in full detail to the relevant Senior Vice President Corporate Development and Legal Affairs.

Canfor has developed a specific *Foreign Anti-Corruption Compliance Policy* which all Canfor Personnel are expected to follow, a copy of which is available at

[http://online.canfor.ca/dpt\\_hr/hr\\_forms/forms/canfor\\_anti\\_corruption\\_compliance\\_policy\\_jan2014.pdf](http://online.canfor.ca/dpt_hr/hr_forms/forms/canfor_anti_corruption_compliance_policy_jan2014.pdf).

**Confidential Information:**

Canfor Personnel have access to corporate information which is sensitive or confidential. Information such as personnel records, payroll records, customer information, company strategies, financial and competitive information is all confidential. Release of such information is potentially harmful to Canfor, Canfor Personnel, suppliers and/or customers and, in some cases, it is illegal. Canfor Personnel must use extreme care when dealing with confidential or sensitive information. Such information must not be released to anyone inside or outside of Canfor, who is not authorized or legally entitled to receive it.

Canfor has developed a specific *Corporate Disclosure Policy* which all Canfor Personnel are expected to follow.

**Insider Trading:**

Trading of publicly listed securities or their derivatives on the basis of insider information is against the law and can result in significant fines and even jail sentences. Canfor has developed a specific *Share Trading Policy* which all Canfor Personnel are expected to follow.

**Integrity of  
Records and  
Internal  
Controls:**

The integrity of Canfor's, records and financial reporting is critical to its on-going success. All assets, liabilities and transactions must be accurately and completely reported in its books and records and supported by necessary documentation. No asset, liability or transaction is to be concealed from management or Canfor's internal or external auditors.

Use of Canfor's funds or other assets for unlawful or improper purposes is prohibited. All transactions must be authorized and executed in accordance with Canfor's policies and the instructions of management. Appropriate accounting and financial policies, procedures, controls and audit processes must be maintained.

Canfor Personnel, regardless of their position in the organization, are expected to follow internal policies and procedures designed to protect the integrity of corporate data. This includes adherence to procedures related to security of computer systems.

Financial reports which are made available to the shareholders and the public are prepared in accordance with generally accepted accounting principles as well as applicable laws and regulations.

Canfor Personnel are encouraged to question and report to the Chair of Audit Committee transactions which appear to be contrary to any of Canfor's established policies and procedures.

**Commitment:**

Canfor Personnel are expected to be committed to Canfor and to dedicate all appropriate efforts to Canfor, based on the nature of their position with Canfor. Canfor Personnel are expected to avoid assuming additional obligations, such as taking a second job, running a business or serving as an officer or director of another organization, if those obligations would interfere with their ability to fully and effectively perform their duties with Canfor.

Subject to the foregoing, Canfor Personnel may serve as a director of another significant organization, such as a public company or widely recognized non-profit organization, if:

- such service is consistent with, and does not interfere with, their duties to Canfor;
- such service does not give rise to a conflict of interest;
- in the case of Directors, such directorship or other relationship has been reported to the Chairman of the Board of which he or she is an director;

- in the case of Officers, such directorship or other relationship has been disclosed to, and approved by, the Chief Executive Officer of the Company of which he or she is an Officer; and
- in the case of the Chief Executive Officer, such directorship or other relationship has been disclosed to the Chairman and approved by the Board of which he or she is the Chief Executive Officer.

**Preferential Treatment:**

Canfor Personnel must not act in their official role to assist organizations or persons in their dealings with Canfor if that may result in preferential treatment to that organization or person.

**Public Comment:**

Canfor Personnel should not engage in activity or speak publicly on matters where this could be perceived as an official act or representation of Canfor, unless the act or representation is authorize in accordance with Canfor's Corporate Disclosure Policy. All Canfor Personnel are expected to follow that Policy, which deals with public comment in greater detail.

**Political Activities:**

Canfor Personnel are free to participate in political activities. Political activities, however, must be clearly separated from activities related to their employment or appointment. Canfor Personnel must not engage in political activities during working hours or use corporate facilities, equipment, or resources in support of these activities.

Canfor Personnel holding public office are expected to comply with all generally applicable laws relating to the avoidance of any conflict of interest.

**Fraudulent Conduct:**

Any act, omission or behaviour on the part of a Director, Officer or Employee undertaken with the intent to defraud or mislead Canfor, whether financially or otherwise, will be grounds for disciplinary action, which may include retention of amounts due, dismissal and prosecution. Canfor has developed a *specific policy entitled "Steps to be Taken When Theft or Fraud are Suspected"* which all Canfor Personnel are expected to follow.

**Compliance:**

It is critical to Canfor's success that Canfor Personnel conduct themselves ethically and legally in every aspect of their business activities. All Canfor Personnel are required to comply with this Code of Conduct. Directors, Officers and Employees in supervisory positions must assume a responsibility for the actions and conduct of other Employees who report to them. Canfor Personnel can fulfill this responsibility through prudent management practices such as:

- leading by example and exhibiting high standards of ethical behaviour;
- ensuring this Code of communicated on a Canfor-wide basis;

- appropriately investigating situations which may indicate a breach of this Code of Conduct; and
- dealing with known breaches of this Code of Conduct in an appropriate manner.

Violations of this Code of Conduct will result in Canfor taking appropriate action, including possible discharge from employment. Canfor Personnel should also be aware that potential personal liability does not end with Canfor. Depending on the circumstances, an individual may also face civil or criminal charges and penalties.

**Reporting:**

Any Director, Officer or Employee who believes a violation of this Code has occurred has an obligation to report the violation to an appropriate Company official. Possible violations should also be reported to an appropriate supervisor in an Employee's work area, if applicable. However, where a Director, Officer or Employee is uncertain as to how a violation of this Code should be reported, or is not comfortable going to his or her supervisor (if any), they should consult, in confidence, with the Senior Vice President, Corporate Development and Legal Affairs or any Senior Vice President.

Any deficiencies in disclosure matters or non-compliance with the Disclosure Policy shall be reported to the Company's Disclosure Committee or directly to the Audit Committee.

Canfor will not take or allow any reprisal against Director, Officer or Employee who, in good faith, reports a suspected violation of this policy. Any such reprisal by a Director, Officer or Employee will in itself be considered a very serious breach of this Code and subject to disciplinary action.

All reported violations will be investigated. Where an investigation determines that a violation has occurred, appropriate action will be taken.

Code clarifications should be directed to the Senior Vice President, Corporate Development and Legal Affairs.

**Conclusion:**

All Canfor Personnel are bound by this Code of Conduct. Canfor reserves the right to modify or amend this Code of Conduct, which shall become binding on all Canfor Personnel when communicated. This Code of Conduct does not constitute an exhaustive statement and is to be interpreted as a general guideline to give Canfor Personnel the basis of conduct considered by Canfor to be unacceptable, on the one hand, and reasonable, lawful and acceptable, on the other hand, and to permit Canfor Personnel to advise those outside Canfor of its official policies.