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Brothers-in-law John G. Prentice and L.L.G. "Poldi" Bentley immigrated to Canada with their families from their native Austria as war loomed over Europe. In 1938, they opened a veneer plant on the banks of the Fraser River in Vancouver, which employed 28 people making products for marine and aviation applications, including lead edges for the wings of the now-famous World War II Mosquito Bomber.

From these modest beginnings grew one of the largest and most respected forest products manufacturers in the world. Today Canfor employs nearly 4,000 people, making products that are sold literally around the globe. In every corner of the world, you will find Canfor products made by the many dedicated men and women in this organization.

True to our roots, Canfor continues to grow with an entrepreneurial and pioneering spirit. Today, Canfor is leading groundbreaking market development initiatives in burgeoning economies around the world. We're transforming our business with a focus on global markets and the needs of the world's population for sustainable, renewable resources.

At the same time, we're maintaining the focus on quality and customer satisfaction that we've built our company and our reputation on.

# OUR HISTORY IS RICH, BUT OUR FUTURE IS BRIGHTER.

Canfor marks its 75th anniversary in 2013. Throughout our company history, we have maintained a commitment to sustainable forest management built on our respect for forests and the environment, for the communities where we operate, for our employees and for our customers.

You will see evidence of this commitment throughout this report—Canfor’s 12th sustainability report, and our second to the comprehensive Global Reporting Initiative (GRI) Sustainability Reporting Framework. Over time, we have strengthened each report to provide more detail about our activities, with more evidence of how we are meeting our corporate social responsibility goals.

You will find an explanation of why we chose specific topics and indicators, and how this relates to the interests of our many stakeholders on page 22.

This report covers a period from January 1 to December 31, 2012 for our solid wood manufacturing businesses, including Canadian Forest Products Ltd. and two wholly-owned subsidiaries—Daaquam Industries in Quebec, Canada, and Canfor Southern Pine in South and North Carolina, USA.

Canfor owns 50.2% of Canfor Pulp Products Inc. In 2012, the two companies began integrating management activities to increase efficiency through a shared services model and to leverage purchasing power. Canfor Pulp has produced its own detailed sustainability report this year;<sup>1</sup> the companies intend to issue a joint sustainability report in 2013.

[1] Canfor Pulp’s Sustainability Report is posted at [www.canforpulp.com](http://www.canforpulp.com)







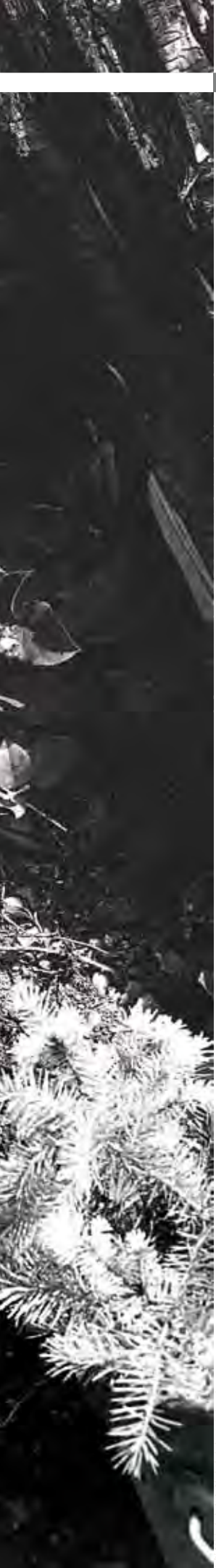
TREES FOR TOMORROW  
KEEP COOL

TREES FOR TOMORROW  
KEEP COOL 









Our success depends on the well-being of the forests we manage. Our skilled forest professionals protect biodiversity, species at risk, wildlife habitat and other forest values.

**IN 2012,  
WE PLANTED  
48 MILLION  
SEEDLINGS.**

Safety has always been Canfor's single highest priority. Our safety performance leads the industry.

**OUR INCIDENT  
RATE IS LESS  
THAN ONE  
QUARTER OF  
THE INDUSTRY  
AVERAGE.**





1960 safety week at Canfor's Woss Operation.











# CANFOR IS A WORLD LEADER IN ITS FOREST PRACTICES **AND** **MODERN MILL TECHNOLOGY.**

In 2012, we made over \$100 million in capital investments to help increase productivity and energy efficiency.

**CANFOR'S  
COMPREHENSIVE  
REPORTING  
LEADS THE  
SOLID WOOD  
MANUFACTURING  
INDUSTRY.**















Our depth of experience, specialization and sophistication has made Canfor an industry leader in manufacturing and delivering high-quality lumber products. We've developed strong relationships with valued customers around the world.

**WE DELIVER  
INDUSTRY-  
LEADING  
CUSTOMER  
SERVICE AND  
LOGISTICS  
SUPPORT.**

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# MESSAGE FROM CEO DON KAYNE

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Seventy-five years ago, two brothers-in-law built a small mill on the Fraser River near Vancouver, British Columbia.

This was the start of Canfor, which today is a world-leading integrated forest products company with operations in Canada and the United States, and customers around the world. We are a company that understands the importance of safety, environmental responsibility, quality, transparency and partnership.

Canfor's greatest strength—and a source of great pride—is our commitment to sustainable forest management. We continue to earn our social licence to operate in public forests by practicing sustainable forest management, by certifying our operations and mills, and by making sure we work with First Nations, local communities, and other interested parties.

In July 2012, I had the opportunity to talk about some of our values when I spoke to a special legislative committee studying ways to increase British Columbia's interior wood supply after the mountain pine beetle epidemic.

I told committee members that, while Canfor would welcome opportunities that might improve the timber supply, we wanted to be sure we could maintain our high environmental standards. I said we would not support actions that put us at odds with obligations of our registered professional foresters or jeopardize our third-party forest certifications.

Throughout this report, you will find many examples of how we build this corporate social responsibility into everything we do. It's the reason why Canfor was named one of BC's top employers, why we are once again on the Corporate Knights list of the best 50 corporate citizens in Canada.

In 2012, we planted 48 million seedlings, and made sure our forest operations protected biodiversity, species diversity, wildlife habitat and plant communities. We revised and updated our forestry principles, which support sustainable forest practices and continuous improvement.

Over 96% of the forest lands we manage are independently certified, as are all of our mills. We are one of the few primary lumber manufacturers able to offer products certified to each of third-party certification programs operating in North America.

In 2012, we donated more than \$275,000 to support events and organizations in the communities where we operate, as well as \$75,550 in scholarships. We set up payroll deductions so our staff could help the communities and individuals affected by the tragic sawmill explosions in Burns Lake and Prince George—and we matched their contributions.

Our Creating Opportunities for Public Involvement database lets us maintain an extensive record of public contacts so we can measure our performance in stakeholder consultation—and make sure anyone who has an interest in our operations has timely information. We work closely with First Nations communities, inviting their input into our forest management planning and providing economic opportunities.

We expanded our operations in British Columbia's southern interior in 2012, invested more than \$100 million in capital improvements across our mills, and announced plans for another \$40 million in upgrades.

We have invested close to \$375 million for major capital improvements in the last three years to keep our mills competitive and maintain stable local economies and employment. We also made significant investments in our pulp facilities, which are reported separately. We invested \$38.5 million in the Radium Mill—which had been closed since 2009—so we could reopen it in 2012 and create 144 jobs. We were so pleased when more than 70% of our Radium employees eligible for recall returned to us.

Our top priority is safety, and the statistics show this is making a difference. The 12-month rolling medical incident rate in December 2012 across our solid wood divisions was 1.97, down



from 2.24 last year. We are among the safest manufacturing companies in Canada.

Our commitment to staff and the fact we offer careers in safe, responsible workplaces with competitive wages has never been more important. As global demand for natural, sustainable wood products grows, one of our biggest challenges is finding the skilled workers we need to run our mills and manage our forest tenures. At Canfor, we are partnering with post-secondary institutions, talking to students, and encouraging our staff to spread the word about the immense potential of a career in the forest sector.

Wood is a smart, green solution for new construction and renovations. The environmental benefits of wood are undeniable, and modern advances and innovation are making it more versatile. The modern forest industry has its eye on the future, and I invite you to learn more about Canfor, our commitment to corporate responsibility and our vision for sustainability.

I would like to thank the employees across our company whose commitment drives Canfor's sustainability performance. I'd also like to thank the many First Nations, community members, scientists, elected officials, customers and forest users whose collaborative work allows us to improve our sustainability performance every day.



**Don Kayne**

President and Chief

Executive Officer



# COMPANY PROFILE

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Canfor is a leading Canadian integrated forest products company based in Vancouver, British Columbia, involved primarily in the lumber business, with production facilities in BC, Alberta, Quebec and the United States. We own a bleached chemi-thermo mechanical pulp facility and have a 50.2% interest in the pulp and paper business of Canfor Pulp Products Inc. (Canfor Pulp), all located in BC. At the end of December 2012, Canfor (excluding our Canfor Pulp operations) had 3,973 employees.

Canfor was #9 on the 2012 BC Business Top 100 Companies list for highest-earning publicly traded companies in the province<sup>2</sup>, and a top performer in the forestry sector. We were on the list of BC's Top Employers in 2013, and made Corporate Knight's list of the top 50 corporate citizens in Canada.

Canfor's lumber operations have a current annual production capacity of approximately 5.2 billion board feet of lumber. A significant proportion of our lumber production comprises specialty products that command premium prices, including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated lumber used in engineered applications such as roof trusses and floor joists.

In September 2012, we introduced Canfor RED to meet customer requests for lumber that originates from forests largely unaffected by a mountain pine beetle infestation in Western Canada.

Canfor holds approximately 16.4 million cubic metres of annual harvesting rights for our solid wood

operations under various forest tenures located in the interior region of British Columbia and northern Alberta, and we harvest logs from those tenures to supply our Western Canadian lumber operations. Any shortfalls in mill requirements are made up with wood purchased from those areas. Our manufacturing operations in Quebec and North and South Carolina mostly purchase logs from private land holdings.

Canfor conducts and is committed to research and development including fibre analysis, manufacturing processes, quality control, and product and building systems development. We are an active member of key industry research and development organizations. We maintain our connections to developments in industry research and technical information through our relationships with various associations, universities, research institutes, suppliers and customers.

Canfor's core values are safety, quality and customer satisfaction, which lead to return on invested capital. As a company, we work with diverse stakeholders to develop and deliver a vision for sustainable forest management so we can produce the truly responsible products our customers rely on.



# MARKETS AND MARKET DEVELOPMENT

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Canfor markets lumber products throughout North America and overseas, through our sales offices in Vancouver, Canada; Myrtle Beach, USA; Tokyo, Japan; and Shanghai, China.

While a significant proportion of Canfor's product is sold to markets in the United States, the proportion of shipments to offshore markets, particularly China, has risen significantly in recent years. Most of the lumber destined for North America is shipped by truck and rail, while the vast majority of products sold offshore are transported by container ship and, in the case of pulp exports, breakbulk cargo.

We work hard to gain a better understanding of customers around the globe by meeting with them, and inviting them to visit our mills and forests. In January 2012, Canfor executives travelled to Japan

to meet with key customers, and the following month we were among the industry delegates who joined Canadian Prime Minister Stephen Harper on a trade mission to China. We participated in other organized trade missions in markets of relevance to Canfor.

Canfor has been instrumental in promoting wood-frame construction in China, boosting demand for wood products from British Columbia and Canada. We have realized strong growth in exports to China through a collaborative market development program, working with other industry companies and the BC and Canadian Governments. In 2001, Canfor sold no appreciable volume of exports to the Chinese market; in 2012, we exported more than one billion board feet of lumber to China.

## STRONG LOCAL ROOTS

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Throughout our long history, we have looked for local talent to lead the company, manage our forest operations and run our mills. Currently, all company officers live in British Columbia with the exception of

the president of our Carolina operations, who lives in South Carolina. Eight of nine members of our Board of Directors call Vancouver, BC, home.

## MANAGEMENT CHANGES

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Several management changes were made in 2012 as Canfor and Canfor Pulp re-integrated to operate as one company:

- Canfor President and CEO Don Kayne was named CEO of Canfor Pulp when Joe Nemeth stepped down as Canfor Pulp President and CEO, effective September 30, 2012.

Brett Robinson assumed the role of Canfor Pulp President, overseeing the company's pulp operations and marketing functions.<sup>3</sup>

- Alan Nicholl, Canfor Senior Vice-President, Finance, became Chief Financial Officer for both companies at the end of September 2012.

[2] <http://www.bcbusiness.ca/your-business/bcs-top-100-biggest-public-companies-2012>

[3] Canfor Pulp Announces Leadership Changes Aug. 2, 2012  
[www.canfor.com/docs/news-2012/canfor-pulp-announces-leadership-changes92889496F7B3A571950824C0.pdf?sfvrsn=2](http://www.canfor.com/docs/news-2012/canfor-pulp-announces-leadership-changes92889496F7B3A571950824C0.pdf?sfvrsn=2)

# RECOGNITION AND AWARDS

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Canfor's commitment to environmental performance, leadership and safety earned us several recognition awards in 2012.

## ALBERTA EMERALD AWARDS

Canfor is a member of the Foothills Landscape Management Forum, which received a prestigious Alberta Emerald Award in 2012.<sup>4</sup> The awards celebrate outstanding achievements in environmental protection and leadership in environmental excellence in the province.

Forum participants won the Shared Footprints Award for an access development plan in the Berland Smoky area—a diverse landscape with competing economic, social, cultural and environmental values. The forestry and energy sectors reduced their cumulative impact on the environment by prescribing integrated road and pipeline access. The Berland Smoky Regional Access Development Plan covers a significant portion of Canfor's forest management area, and supports our objectives to protect important caribou and grizzly bear habitat.

## ALBERTA FOREST PRODUCTS ASSOCIATION SAFETY AWARDS

Canfor received a 2012 Health and Safety Award from the Alberta Forest Products Association for our woodlands and manufacturing operations in Alberta. Our Grande Prairie mill earned an award for the best health and safety performance in 2011 for a sawmill with more than 300,000 person hours worked. To earn the award, the mill achieved a better-than-industry average for disabling injury rates and lost-time claim rates, with no fatalities or life-altering injuries. We also were awarded a 2012 safety award for both woodlands and manufacturing operations.

## BC'S TOP EMPLOYERS 2013

Canfor was selected as one of BC's top employers<sup>5</sup> for our skills development and employee engagement programs. We were also recognized for encouraging our employees to balance their work and personal lives through alternative work arrangements, and for helping older employees prepare for retirement.

## CORPORATE KNIGHTS BEST CORPORATE CITIZEN

In 2012, Canfor was ranked #41 in Corporate Knights' list of the best 50 corporate citizens in Canada<sup>6</sup>, which tracks environmental, social and governance indicators.

## SOUTH CAROLINA TRUCKING ASSOCIATION SAFETY AWARD

New South Express, a subsidiary that operates a fleet of trucks that transports Canfor products to market, received two First Place Private Fleet safety awards from the South Carolina Trucking Association—for one to two million miles travelled in local operations, and for one to two million miles travelled in intercity operations.

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[4] 21st Annual Emerald Awards Foothills Landscape Management Forum <http://emerald.foundation.ca/2012-recipient/shared-footprints-award>

[5] BC's Top Employers for 2013: Canfor [www.eluta.ca/top-employer-canadian-forest-products-\(2\)](http://www.eluta.ca/top-employer-canadian-forest-products-(2))

[6] Corporate Knights The 2012 Best 50 Corporate Citizens in Canada [www.corporateknights.com/node/1559](http://www.corporateknights.com/node/1559)





# IDENTIFYING STAKEHOLDERS AND KEY INDICATORS

As part of our commitment to sustainable forest management, Canfor maintains an open door policy so we can be sure we consider the interests of key stakeholders in all of our operations.

It is critically important to maintain open communication with First Nations and other parties interested in or impacted by our activities, which include local communities, other forest users, customers, environmental groups, all levels of government, employees, researchers and suppliers.

We define our stakeholders to be any person or group who is affected by our operations, or

conversely has the ability to affect our business. First Nations with traditional territories in our operating areas have special rights and interests that we must work collaboratively with them to address.

Our major stakeholder groups are provided in the table below. We selected the topics and indicators for this report by examining what is important to these key organizations and individuals, as described in the following table.

STAKEHOLDER/GROUP	INTERESTS
<b>Communities</b>	<ul style="list-style-type: none"> <li>• Economic stability</li> <li>• Community enhancement</li> <li>• Economic opportunities</li> <li>• Responsible forest management</li> </ul>
<b>First Nations</b>	<ul style="list-style-type: none"> <li>• Cultural heritage, traditional use, aboriginal rights and title</li> <li>• Employment opportunities</li> <li>• Economic stability</li> <li>• Economic opportunities</li> <li>• Responsible forest management</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>• Stable supply of quality products</li> <li>• Competitive prices</li> <li>• Responsible forest management</li> <li>• Efficient delivery</li> </ul>
<b>Environmental Groups / Recreationalists</b>	<ul style="list-style-type: none"> <li>• Responsible forest management</li> <li>• Protect endangered species/habitat</li> <li>• Maintain biodiversity</li> </ul>
<b>Government (provincial, state, federal)</b>	<ul style="list-style-type: none"> <li>• Responsible forest management</li> <li>• Timely regeneration</li> <li>• Market development</li> <li>• Compliance with laws</li> <li>• Research and development</li> </ul>
<b>Employees/unions</b>	<ul style="list-style-type: none"> <li>• Safe working conditions</li> <li>• Competitive wages</li> <li>• Training</li> <li>• Advancement opportunities</li> <li>• Career opportunities</li> <li>• Workforce diversity</li> </ul>
<b>Logging contractors</b>	<ul style="list-style-type: none"> <li>• Stable employment</li> <li>• Clear performance expectations (environmental, safety, operational etc)</li> <li>• Safe working conditions</li> <li>• Competitive rates</li> </ul>
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>• Economic stability</li> <li>• Market development, expanding use of wood</li> <li>• Return on investment</li> <li>• Product development</li> </ul>
<b>CSA Public Advisory Committees</b>	<ul style="list-style-type: none"> <li>• Address certification requirements</li> </ul>



# KEY STATISTICS

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CATEGORY

STATISTICS

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**Social**

- 3,973 total workforce
  - 1.97 medical incident rate
  - Over \$100 million invested in mills
  - \$276,959 charitable donations
  - \$75,550 in scholarships
- 

**Environmental**

- 16.4 million cubic metres annual harvesting rights
  - 96.3% of forestlands certified
  - Products certified to each of the major certification systems
  - Planted 48 million trees in 2012
  - Zero (0) high significance, zero (0) moderate significance and 66 low significance non-compliance incidents for forestry operations
  - 17 manufacturing non-compliances
  - Developed Strategic Energy Management Plan
- 

**Economic**

- \$2.71 billion total sales
  - \$76.9 million operating income
  - 5.2 billion board feet annual production capacity
  - Canfor Pulp integration
  - Re-start of Radium Mill, employing 144 people
  - Acquisition of Tembec Industries Southern BC solid wood assets
  - Strong balance sheet
-

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# SUSTAINABLE FOREST MANAGEMENT



# ENVIRONMENT AND FORESTRY PRINCIPLES

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Canfor's Forest Management System Manual ensures all woodlands operations on company forest tenures are managed sustainably and environmental practices continue to improve. This is set out in Canfor's Environment Policy<sup>7</sup> and Forestry Principles<sup>8</sup>, which are developed and maintained by senior executives, approved by the President and CEO, reviewed by the Board of Directors, and posted on our website. The forestry principles were revised and expanded in 2012 (see opposite page).

Canfor's Corporate Environmental Management Committee, chaired by the Senior Vice-President, Forestry, Environment and Energy, provides high-level oversight and due diligence, and advises the Board of Directors about our environmental and sustainable forest management performance. Among other things, the committee assesses company-wide trends, allocates resources and recommends improvements.

The Board of Directors also has an Environmental, Health and Safety Committee

to review and make recommendations to the board about environmental, health and safety issues and relevant policies. It reports to the full board on a quarterly basis on topics such as Canfor's efforts to maintain priority status for the protection of the environment, and the health and safety of our employees and the public.

At least once a year, Canfor's Forest Management Group holds a management review to evaluate whether environmental objectives and targets are being met and to anticipate needs for change as part of the continual improvement cycle.

In addition to complying with legal and other requirements that apply to our operations, Canfor meets voluntary requirements related to environmental, safety and/or First Nations concerns. We regularly renew our environmental performance objectives, measure our progress toward achieving them, and make sure staff have the necessary training to meet them.

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[7] Canfor Environment Policy May 2011 [http://www.canfor.com/docs/news-2010/canfor-environment-policy\\_2011.pdf?sfvrsn=2](http://www.canfor.com/docs/news-2010/canfor-environment-policy_2011.pdf?sfvrsn=2)

[8] Canfor Sustainable Forest Management Commitments May 2012 <http://www.canfor.com/docs/responsibility/canfor-sfm-commitments.pdf?sfvrsn=0>



# SUSTAINABLE FOREST MANAGEMENT COMMITMENTS

We will manage forests to maintain and enhance the long-term health of forest ecosystems, while providing ecological, economic, social and cultural opportunities for the benefit of current and future generations. In the management of forests we will honour relevant international agreements and conventions to which Canada is a signatory.

## ACCOUNTABILITY

We will be accountable to the public for managing forests to achieve current and future values. One way we will demonstrate this is by certifying our forestry operations to internationally recognized, third-party verified sustainable forest management certification standards.

## ADAPTIVE MANAGEMENT

We will use adaptive management to continually improve sustainable forest management by identifying values, setting objectives and targets for the objectives, and monitoring results. We will modify management practices as necessary to achieve the desired results.

## SCIENCE

We will utilize science to improve our knowledge of forests and sustainable forest management and will monitor and incorporate advances in sustainable forest management science and technology where applicable.

## MULTIPLE VALUE MANAGEMENT

We will manage forests for a multitude of values, including biodiversity, timber, water, soil, wildlife, fish/riparian, visual quality, recreation, resource features and cultural heritage resources.

## HEALTH AND SAFETY

We will conduct our operations in a manner which will provide a safe environment for employees, contractors, and others who use roads and forest areas we manage.

## ABORIGINAL PEOPLES

We recognize and will respect Aboriginal rights, title and treaty rights when planning and undertaking forest management activities.

## OPPORTUNITIES FOR PARTICIPATION

We will provide opportunities for the public, communities, other stakeholders and Aboriginal Peoples with rights and interests in sustainable forest management to participate in the development and monitoring of our Sustainable Forest Management Plans.

## SCALE

We will define objectives over a variety of time intervals (temporal scales) and at spatial scales of stand, landscape and forest. This produces ecological diversity and allows for the management of a range of conditions, from early successional to old growth.

## TIMBER RESOURCE

We will advocate for a continuous supply of affordable timber from legal sources in order to carry out our business of harvesting, manufacturing and marketing forest products for the sustained economic benefit of our employees, the public, communities and shareholders, today and for future generations.

## FOREST LAND BASE

We will advocate for the maintenance of the forest land base as an asset for current and future generations.

# FOREST STEWARDSHIP PLANS

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As 95% of British Columbia's forests are government owned, Canfor operates primarily on public lands. Under the province's *Forest and Range Practices Act*, our forest divisions must prepare forest stewardship plans that show how our operations will meet objectives set by government for soils, timber, wildlife, water, fish, biodiversity and cultural heritage resources. Before government approves the plan, we

must invite and consider public and First Nations comments.

In Alberta, we are required to develop forest management plans that consider a broad range of forest values and social, economic and environmental factors such as watershed, environment and wildlife habitat. We must provide an opportunity for public consultation when preparing these plans.

## INDEPENDENT CERTIFICATION

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Canfor is one of the few primary lumber manufacturers to offer products certified to each of the independent certification programs in North America—the Canadian Standards Association (CSA) Sustainable Forest Management Standard, the Forest Stewardship Council (FSC) and the Sustainable Forestry Initiative (SFI). Both CSA and SFI are fully endorsed by the Programme for the Endorsement of Forest Certification.

In total, 96.3% of Canfor's forestlands are certified to the CSA, SFI or FSC standards for sustainable forest management. We also carry chain-of-custody certification on our facilities, which is discussed on page 46 of the Manufacturing Report section of this document, and our Canfor Southern Pine operations are committed to implementing and achieving the SFI Standard (2010-2014 Edition) in its procurement of wood to supply their manufacturing facilities in North and South Carolina.

### FOREST STEWARDSHIP COUNCIL

Canfor's East Kootenays operations, purchased from Tembec in 2012, were certified to the FSC BC Standard and re-audited later in the year. The Sustainable Forest Management Plan developed by Tembec has been extended so one plan can be developed for all of the East Kootenays as Canfor intends to seek FSC certification for our Radium operations, which were owned by Canfor prior to the Tembec acquisition and are currently certified to CSA.

For the 2012 annual audit,<sup>9</sup> the audit team visited six recent harvest sites, and found conformance with requirements related to high conservation value forests, wildlife features, riparian zones, wildlife tree patches, steep slopes, corridors and other practices. It reported local procurement accounted for 68.9% of supplies and services in 2011.

Concerned Residents of Sheep Creek registered a number of concerns, including one related to consultation. A collaborative plan developed with the group was not passed on when the staff person responsible left the company. Canfor has since implemented our Creating Opportunities for Public Involvement database for all former Tembec holdings, which ensures public comments are not lost.

The auditors also made observations related to managing dust from logging roads that is affecting residential properties, the need for data to confirm retention levels, and failure to report encounters with motorized vehicles in areas closed to unpermitted vehicles.

### CANADIAN STANDARDS ASSOCIATION

Canfor has CSA certification for a large proportion of our operations in British Columbia and Alberta, with a total of four separate certificates: one for multi-partner sites in northern British Columbia, one for Tree Farm Licence 48, one for the Fort St. John Code Pilot, and one for Grande Prairie.



The 2012 CSA Z809 Re-certification/ISO 14001 Surveillance Audit<sup>10</sup> of Canfor's operations in British Columbia and Alberta found our sustainable forest management system continues to be implemented and maintained as required. The auditors identified good practices, such as:

- Canfor staff and Public Advisory Group members made considerable efforts to address incremental requirements for all the company's sustainable forest management plans;
- we conducted a thorough and well-documented review of the Forest Management System in 2011; and
- we implemented a standard of set indicators to provide a more uniform approach to sustainable forest management plans, and to create efficiencies in annual reporting.

The audit identified good practices in specific forestry divisions in British Columbia, including:

- an engaged and effective Public Advisory Group in Prince George;
- a Mackenzie logging contractor who used four waste logs at the corners of a temporary bridge to protect it and better delineate its location during winter;
- efforts to identify unmapped areas of sensitive soils and focus retention around them by a Quesnel logging contractor; and
- work by Fort Nelson staff in cooperation with the BC Ministry of Forests, Lands, and Natural Resource Operations to create a ledger to help ensure the overall percentage of forest types are maintained through restocking efforts.

The audit also identified the following good practices in Alberta:

- all Grande Prairie woodlands staff receive credible and effective Aboriginal awareness training in consultation with local Aboriginal groups.

In total, the audits for the four certificates identified 11 minor non-conformities. The CSA multi-site audit identified eight minor non-conformities related to keeping records of all stakeholder communications, operational controls at one bridge construction project, tracking all actions to correct audit findings, issues with forecasting information and/or current status information in some sustainable forestry management plans, and failure to post one plan promptly. The auditors also found there was no explicit strategy to assess the risk of oil and gas exploration and development activities on targets in the Fort Nelson sustainable forest management plan. There were five systemic opportunities for improvement noted, and non-systemic weaknesses were noted and reported to the appropriate woodlands operations.

A CSA re-certification audit of Canfor and BC Timber Sales operations in Tree Farm Licence 48 in the Chetwynd, BC region found no non-conformities and identified both a number of good practices and three opportunities for improvement related to operational procedures.

The Fort St. John Code Pilot CSA surveillance audit identified good practices related to stream and habitat features protected within wildlife tree patches; low disturbance levels; and protection of non-classified drainage, in addition to other streams, so operators know where they are located and can exercise caution around them. The audit identified one minor non-conformity and one opportunity for improvement, both related to operational controls and emergency preparedness and response procedures.

The Grande Prairie audit identified two minor non-conformities related to data on current indicator status and updating information on opportunities for improvement in the Internal Tracking System. The audit also identified eight opportunities for improvement.

[9] <http://www.canfor.com/responsibility/environmental/certification>

[10] KPMG 2012 CSA Z809 Re-certification/ISO 14001 Surveillance Audit Public Summary Report  
<http://www.canfor.com/docs/responsibility/2012-canfor-csa-z809-14k-public-summary-report.pdf?sfvrsn=2>

# REGENERATING FORESTS

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Prompt reforestation of harvested areas improves ecosystem resilience and forest health, while maintaining the productive capacity of the forest and ensuring it continues to sequester and store carbon.

Canfor uses ecologically suitable species to restore all harvested areas to healthy, native forests. In 2012, we planted 48 million seedlings –12.8 million more than 2011. This included 43.9 million seedlings in British Columbia and 4.1 million in Alberta.

In 2012, Canfor's J.D. Little Forest Centre in Prince George, BC produced 7.5 million spruce seedlings—representing roughly 15% of the trees we plant in British Columbia and Alberta. The seedlings are grown to the desired size, then “lifted” from the styroblocks they are grown in each November before they are wrapped and packed in boxes for cold storage, transportation and eventual planting in

Canfor reforestation sites. By locally growing spruce seedlings to be planted in the Prince George area, we reduce shipping distances and fuel consumption.

Canfor operations in Alberta and British Columbia use genetically improved seed grown at either Huallen Seed Orchard near Grande Prairie, Alberta or at the Vernon Seed Orchard Company site near Vernon, BC. Improved seed is created through the controlled breeding of trees that exhibit superior attributes in the wild. There is no genetic modification; it involves the careful cross-pollination of trees that exhibit desired characteristics such as fast growth or natural disease resistance. In Alberta, approximately 40% of Canfor harvested sites are planted with genetically improved stock, and in British Columbia 47.6% of our trees came from seed orchard stock in 2012.

# CONSERVING BIODIVERSITY

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Canfor has detailed sustainable forest management plans for each of our operations that outline our strategies for managing biodiversity at species, stand and landscape levels. Examples include strategies for down wood retention, riparian reserves, rare ecosystems and species at risk.

There are many examples across our organization of plans, measures and activities taken to conserve and protect biodiversity:

- In British Columbia's southern Interior, Canfor staff worked collaboratively with environmental groups, government and wildlife experts to identify areas of high conservation value in our East Kootenays operations. They then developed forest management strategies to protect these values, and effectiveness monitoring to determine how well the strategies are working. Some of the areas were designated as reserves, with no logging or road building.
- In the Prince George region, Canfor reserved from harvest two old-growth forest stands

with an abundance of blue-green lichens, said to be unparalleled on a global scale. Expert lichenologists identified 31 species of lichens, including 15 that are extremely rare, four that are new to science, and one recommended for threatened status under Canada's *Species at Risk Act*.

- In 2012, as a result of feedback from our Mackenzie Public Advisory Group and certification auditor, Canfor decided to undertake field sampling to determine how much coarse woody debris is being left by our logging practices. The research will take place in the summer of 2013, and will provide baseline data so targets can be set if necessary.
- Recognizing that Douglas-fir is at the northern extent of its range in the Fort St. James area and therefore plays an important role in biodiversity, Canfor has introduced a no-net-loss strategy for Douglas-fir across its forest management area.



# PROTECTING HABITAT

As part of our sustainable forest management, Canfor protects species diversity by ensuring habitats for native species are maintained through time, including those for known occurrences of species at risk. A comprehensive species accounting system is being developed by independent scientists for all Canfor's British Columbia operations so we can monitor impacts on priority species and take action if negative impacts appear to be occurring.

Canfor has identified three species in our operating areas that are red listed by the International Union for Conservation of Nature and 21 species currently on Canada's species-at-risk list—including the rusty blackbird, western screech owl, Williamson's sapsucker, American badger and Rocky Mountain tailed frog. There are four endangered species, seven classified as vulnerable/threatened, and 10 classified as near-threatened/special concern. Special management practices and monitoring are implemented to manage species at risk and their habitat requirements in our operating areas.

Canfor has also identified rare ecosystems in most of our operating areas, and we either create reserves or remove them from harvest areas. These ecosystems can have rare species associated with them, including small plants, lichens and invertebrates that are not easily monitored.

In the East Kootenays, Canfor is working with government staff to restore grasslands and open forests impacted by forest encroachment due to

fire suppression. Priority areas are logged with the goal of removing all but the largest trees so bunchgrasses and shrubs that provide important winter forage for deer, elk and cattle can increase, and habitat is restored for endangered open-country species such as the badger and Lewis's woodpecker.

In northeast British Columbia, Canfor is protecting biodiversity-rich riparian areas with reserves averaging more than twice the legal minimum width. These reserves protect valuable wildlife habitat, help maintain water quality, and cool temperatures for aquatic life. Also in this region, we selected five warbler species of regional importance for special management practices, including retaining larger wildlife tree patches in areas where these species are likely to breed.

Canfor has addressed the need for survival of the Little Smoky woodland caribou herd in west-central Alberta, classified as threatened by the Committee on the Status of Endangered Wildlife in Canada (COSEWIC), through a number of management strategies. These include long-term harvest deferral in the area with the most intact caribou habitat.

Canfor forest management operating rules identify mineral licks as sensitive sites, and require a buffer of at least 100 metres, depending on specific circumstances. In the Grande Prairie management area, more than 100 significant wildlife mineral licks have been conserved.



1951 Head Office Forestry Engineer

# RESPONDING TO CLIMATE CHANGE

In British Columbia, government researchers have found that climate change is already impacting ecosystems, and expect this will accelerate over time. Evidence includes the mountain pine beetle infestation, which is believed to be a direct result of higher average annual temperatures. Normally, cold winters along with forest fires and natural predators kept populations in check.

Canfor recognizes we will have to adapt so we can continue to practice sustainable forest management in a changing climate and manage for uncertain future conditions. Successful adaptation means we will need to monitor changing ecosystems, find ways to enhance ecosystem resilience, and make sure our forest professionals have the knowledge, tools and guidance they need to make decisions when dealing with uncertain future conditions.

The Alberta Tree Improvement Association, of which Canfor is a member, is conducting research to evaluate the genetics of Alberta's major tree species in order to identify and conserve distinct populations that may be threatened by climate change. Multi-year funding for this project has been secured from the Alberta Climate Change and Emission Management Corporation.

Improving our manufacturing processes, reducing our greenhouse gas emissions, and increasing the proportion of our energy needs met by sustainable biomass are also important components of Canfor's response to climate change. More information can be found in the manufacturing report section of this document.

## CARBON BUDGETING

Models for calculating a forest carbon budget are allowing forest professionals to determine when a specific forest is expected to be a net carbon source or sink over the period normally used for wood-supply forecasts.

Canfor's carbon strategy is to maintain some old growth on the land base for carbon storage, reforest harvested areas promptly for carbon uptake, and reduce conversion by minimizing

permanent access roads. We continue to monitor developments in carbon sequestration modeling both at the provincial and regional level, and use this in our management planning. Our Grande Prairie operation is using the CFS-CBM-3 model developed by the Canadian Forest Service to project forest carbon pools on the company's operating area throughout the 200 year planning horizon.

As a member of the Forest Products Association of Canada (FPAC), Canfor is part of a world-leading commitment—supported by WWF-Canada and an independent advisory group—for industry-wide carbon neutrality by 2015 without the purchase of carbon-offset credits. FPAC has also initiated a CO<sub>2</sub>Neutral Alliance to encourage progressive action throughout the entire forest products value chain.<sup>11</sup>

Actively growing, healthy forests absorb carbon dioxide and convert it to stored carbon in the tree. A report by the Intergovernmental Panel on Climate Change in 2007 concluded: "In the long term, a sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit."<sup>12</sup>

## BENEFITS OF WOOD

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

Over the last decade, the world's population has expanded by a billion people, and an additional billion people are expected to be added to the planet by 2020.<sup>13</sup> Given this pace of population growth and the fact that all of these people will have housing and sustenance needs, there is a powerful role for wood products in providing for the needs of the planet with reduced environmental



cost. Governments and organizations around the world are embracing it as a means of improving the environmental performance of buildings.<sup>14</sup>

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

Canfor promotes the environmental benefits of wood, and is a leader in finding new ways to build with wood and in the evolution of building codes to encourage the use of wood products. Our website includes a section highlighting the many benefits of wood—the only major building product that is natural, renewable, and stores carbon throughout its life cycle.

## **MOUNTAIN PINE BEETLE**

In July 2012, our President and CEO Don Kayne advised a special committee of the British Columbia legislature to proceed with caution when looking for ways to increase the mid-term timber supply in the BC Interior in the aftermath of the mountain pine beetle infestation.<sup>15</sup>

He told committee members that British Columbia's world-leading model of sustainability is recognized and valued globally, and has allowed the province to tap into the new environmental paradigm in green building that is creating demand for wood products.

He said that while Canfor would welcome opportunities that might improve the mid-term

timber supply, "we first must be convinced these actions are well thought out, fair, and inclusive—and fit with our vision of sustainability".

He noted that Canfor has made tough choices—including strategic decisions to invest in some mills and close others we knew would not be viable—and will continue to do what is necessary to reconcile our operations to address the reality of the mid-term supply so we can remain competitive, working with communities, First Nations, government and the public.

Canfor also continues to respond to the mountain pine beetle infestation by focusing our harvesting activities on commercially viable lodgepole pine stands in affected areas. This allows our forest managers to replant these areas so they can be returned to a new healthy forest.

In Alberta, Canfor and other forest companies continue to work collaboratively with the Alberta government to address the mountain pine beetle infestation. The Alberta government has assumed responsibility for survey and detection activities, and continues to undertake an aggressive program involving the removal of infested trees from stands in remote, inaccessible areas. Canfor is complying with Alberta's strategy to remove 75% of the most susceptible pine stands within the next 15 years as a means of reducing the risk of beetle spread and minimizing the loss of timber volume and value.

[11] Forest Products Association of Canada Collaboration and Partnerships [www.fpac.ca/index.php/en/collaboration/](http://www.fpac.ca/index.php/en/collaboration/)

[12] IPCC Fourth Assessment Report: Mitigation of Climate Change Executive Summary [www.ipcc.ch/publications\\_and\\_data/ar4/wg3/en/ch9s9-es.html](http://www.ipcc.ch/publications_and_data/ar4/wg3/en/ch9s9-es.html)

[13] United Nations: World Population Prospects. 2011. [http://esa.un.org/unpd/wpp/Documentation/pdf/WPP2010\\_Highlights.pdf](http://esa.un.org/unpd/wpp/Documentation/pdf/WPP2010_Highlights.pdf)

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

[15] Full text of Don Kayne's remarks available at: [www.canfor.com/media-center/world-of-wood-blog/world-of-wood-blog/2012/07/09/special-committee-on-timber-supply](http://www.canfor.com/media-center/world-of-wood-blog/world-of-wood-blog/2012/07/09/special-committee-on-timber-supply)

# ENGAGING STAKEHOLDERS

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A critical element of Canfor's sustainable forest management is our commitment to public participation and open communication with First Nations, local communities, interested stakeholders and other resource users.

Canfor divisions rely on a public advisory process to provide information about our forestry operations and address any interests and concerns in a timely and cost-effective manner. Each division reaches out through a stakeholder communications and referrals process so we can receive and respond to a wide range of public input.

Canfor's proprietary Creating Opportunities for Public Involvement (COPI) database provides a record of stakeholder contact information and serves as a repository for communications. COPI can also be used to send out information and generate reports. The database includes spatial information to identify areas of geographic interest, as well as spatial information linked to overlapping tenures such as guide outfitters, trappers and mineral tenure holders.

COPI allows us to support good communication by defining how the process will operate and who is responsible, and measuring system performance through the use of key performance indicators.

Canfor uses staff knowledge, our CSA Public Advisory Groups, newspaper advertisements, open houses and presentations to local government, associations or interest groups to develop our list of stakeholders. Staff in all locations meet with local and regional interests and with other forest users so we can be sure their needs and concerns are considered when we are drawing up our management plans.

In addition to using the COPI database to mail information to stakeholders and interested parties, we reach out through newspaper advertisements and articles, annual reports, pre-harvest notifications and field trips. We also communicate with interested parties via email messages, telephone conversations and appointments. As required through our environmental policy and sustainable forest management commitments, we offer

educational opportunities to raise understanding about forestry and our forest practices.

Through our CSA certification process, we have Public Advisory Groups that identify and select indicators, measures and targets for sustainable forest management plans, review each plan, design monitoring programs and recommend improvements, and resolve relevant issues. Members are recruited through personal invitations and public activities such as open houses and advertisements, and reflect a wide range of interests, including First Nations, environment/conservation, agriculture, academia/science, local government, labour, recreation, small business, forestry contractors, trappers and woodlot owners. We encourage members of the public to participate in discussions at advisory group meetings.

In regions such as northeastern British Columbia and Alberta where there is extensive oil and gas exploration and development, Canfor reaches out to oil and gas companies to integrate road and pipeline access to reduce the cumulative impact on the environment. We are a member of the Foothills Landscape Management Forum, which won an Alberta Emerald Award in 2012 for the Berland Smoky Regional Access Development Plan through which forestry and energy sectors prescribe the location and density of main and secondary access routes.

We measure the satisfaction of our Public Advisory Groups by asking members attending each meeting to fill out a feedback form—if the average assessment falls below 4/good on a scale of 1 to 5, we take corrective action.

Early in 2012, Canfor launched a new corporate website ([www.canfor.com](http://www.canfor.com)), positioning us to support our global customer base with the information they need, and providing information about our activities to our operating communities and other interested parties. A corporate video to introduce the company is also posted on the website.





# ROUSE PASTURE

In the Kootenay region of British Columbia, Canfor altered our Rouse pasture trench restoration harvesting plans to address concerns from local stakeholder groups. In fall 2012, our staff invited residents to identify features they wanted to protect—and this led us to add four new reserves and set aside many snags and large live trees. We also put no-machine zones around a potential bear den and number of badger dens, and agreed not to chip on the site but to instead move pulping logs to a local pulp mill and either burn or grind limbs and tops.

# WORKING WITH FIRST NATIONS

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Canfor operates primarily on publicly owned land in Canada, over which First Nations in many instances have unresolved and overlapping tenure rights and title concerns with the Crown. Canfor has delegated consultation responsibilities through our relationship with the Crown as a tenure holder, and at the same time endeavours to cultivate productive working relationships with First Nations with interests that overlap our tenure agreements. Through these productive working relationships we aim to resolve any areas of conflict or concern proactively and informally, though this is not always possible.

Canfor provides economic opportunities for First Nations people through partnerships, joint ventures, cooperative agreements, memoranda of understanding or business contracts.

In 2012, a contractor we nominated won the national Aboriginal Forest Products Business Leadership Award. Duz Cho, which is owned by the McLeod Lake Indian Band, carries out harvesting and road building for Canfor in the Mackenzie area in British Columbia, and our staff nominated the company for its commitment to safety, environmental leadership, performance, and community support.

Local First Nations, who have a unique legal status and may possess special knowledge based on their traditional practices and experience, are

encouraged to participate with our Public Advisory Groups. If we are advised of a sacred or culturally important site or use, we work with First Nations to identify a prescription both parties deem necessary to protect it. Canfor has used our Creating Opportunities for Public Involvement database to keep detailed records of consultation since 2007.

In the Kootenay region of British Columbia, we have a protocol agreement with Ktunaxa Nation Council (KNC) requiring that our local staff develop a matrix describing the level of consultation and information sharing based on the potential risk and impact of forestry activities. We also work with the KNC at a strategic level to identify culturally important high conservation value forests and associated management strategies.

Canfor invited Aboriginal communities in our BC operating areas to identify exceptional students who could be our guests at the 19th Annual National Aboriginal Achievement Awards in Vancouver in February 2012. We received 85 recommendations from 25 bands and, through a committee selection process, chose 11 post-secondary students and three chiefs to join us. The awards are Canada's largest and most influential showcase of Aboriginal achievement.



PREPARED FOR EMPLOYEES OF THE DIVISIONS AND A

CANADIAN FOREST P



# CANADIAN BOREAL FOREST AGREEMENT

Canfor continues to actively participate in initiatives under the Canadian Boreal Forest Agreement (CBFA), a collaborative multi-year agreement signed in 2010 by major Canadian forest companies and environmental groups. Canfor holds forest tenures on 8.8 million hectares of boreal forest in British Columbia and Alberta that are covered under the agreement.

We are represented on the CBFA steering committee, national level working groups for each of the six strategic goals, and the BC/Alberta Regional Working Group.

While CBFA has fallen short of its original aggressive timeline targets for implementation—especially related to caribou action plans and proposed protected areas—there were a number of important achievements in 2012. Agreement signatories negotiated a contribution agreement with the federal government that will greatly

assist with the achievement of project milestones, methodological frameworks were completed for caribou action planning and protected areas planning, and a bilateral Proposed Caribou Action Plan was submitted to the Ontario Government.

The BC/Alberta Regional Working Group initiated caribou and protected areas planning for the west-central Alberta region, which includes one of Canfor's operating areas. The working group also developed and implemented engagement processes with aboriginal groups, Alberta government representatives and the oil and gas sector.

The CBFA commits signatories to achieving strategic goals that address both environmental and economic sustainability in the boreal forest. The geographic scope of the agreement includes more than 72 million hectares of boreal forest across Canada.

1967 Previous Canfor Logo

**NEWSLETTER**

AFFILIATED COMPANIES OF  
**PRODUCTS LTD.**



# COMPLIANCE – FORESTRY

Canfor monitors incidents of non-compliance and categorizes them by significance as in accordance with the following criteria:

## HIGH SIGNIFICANCE:

- Has caused serious environmental damage; **or**
- Will negatively impact public trust at the provincial level or beyond; **or**
- Will result in \$100,000 or more in total costs, including legal costs, fines, or remediation; **or**
- Will result in a potential loss of certification due to a major non-conformance identified during an external audit.

## MEDIUM SIGNIFICANCE:

- Has caused moderate environmental damage; **or**
- Will negatively impact public trust locally; **or**

- Will result in \$15,000 or more in total costs, including legal costs, fines, or remediation.
- Result of a breakdown or failure to comply with multiple operational plans and/or FMS processes or procedures.

## LOW SIGNIFICANCE:

- Has caused minimal environmental damage;
- Will not affect local public trust; **and**
- Will result in less than \$15,000 in total costs, including legal costs, fines, or remediation.
- Result of a breakdown or failure to comply with an operational plan or an FMS process or procedure.

## IN 2012, IN OUR FORESTRY OPERATIONS, WE RECORDED TO FOLLOWING OCCURRENCES OF NON-COMPLIANCE:

SIGNIFICANCE	TOTAL NUMBER OF INCIDENTS	INCIDENTS PER PER MILLION CUBIC METRES OF DELIVERED LOG VOLUME <sup>16 17</sup>
High	0	0
Moderate	0	0
Low	66	4.87

[16] Total delivered volume for 2012 was 13,544,063 cubic metres. This includes only volume on lands controlled / managed by Canfor where we direct operations—not volumes of wood purchased from other tenure holders.

[17] Comparable figures for 2011 operating year were 0 high severity incidents, 4 moderate, 77 low on 10,537,760 cubic metres of delivered log volume.



In 1972, Hans Knapp planted our 20 millionth tree. This photo was taken in 1985 when the original planters revisited the tree.





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# MANUFACTURING REPORT



# CAPITAL INVESTMENTS

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In 2012, Canfor invested more than \$100 million in capital improvements for our sawmills—and announced we would invest \$40 million to upgrade our Elko mill. The investments will enhance production and cost performance at the mills, allowing them to remain competitive through all economic cycles.

Over the last three years, we have invested close to \$375 million for major capital improvements at our British Columbia solid wood facilities, and spent a significant amount to keep all of our mills competitive in order to maintain economic operation and stable employment. Additional investments in our pulp operations are reported separately.

In October 2012, Canfor officially reopened our operations at Radium in the Kootenay region after investing \$38.5 million to upgrade the sawmill and build a new planer mill. The mill, which had

been closed since 2009, will employ 144 people when it is running at full capacity, and is expected to produce 260 million board feet annually.<sup>18</sup>

We installed a new kiln as part of a \$1.5-million capital investment in the Canal Flats mill, also in the Kootenays, which opened in October 2012.

The Vavenby mill added a second shift in January 2012—bringing total employment at the site to 146 as well as providing work for local logging contractors. The mill in northern British Columbia was shut down in 2009 and restarted in 2011 with a single shift following a \$24-million capital investment.

At the end of 2012, Canfor announced \$40 million to build a greenfield planer mill complex and increase the kiln drying capacity at our Elko sawmill, also in the Kootenay region. The work will begin in early 2013, with anticipated completion by Fall.<sup>19</sup>

# COMPANY CHANGES

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In March 2012, Canfor completed the acquisition of Tembec Industries Ltd.'s solid wood assets in the East Kootenay region of British Columbia—and welcomed 505 new employees. The transaction included the Elko and Canal Flats sawmills, about 1.1 million cubic metres of combined Crown, private and contract annual allowable cut, and a long-term residual fibre supply agreement for Tembec's Skookumchuck mill.<sup>20</sup>

In November, Canfor agreed to sell our 50% interest in Peace Valley OSB mill to Louisiana-

Pacific Canada Ltd., which would become the sole owner of the panel plant in Fort St. John, BC.<sup>21</sup> We also sold a remanufacturing plant in Bellingham, Washington state, USA.

Two BC mills were permanently closed in January 2012—the Tackama Plywood plant in Fort Nelson, which had been idle since 2008, and the Rustad Sawmill in Prince George, which has not operated since 2009.<sup>22</sup>

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[18] Canfor Reopens Radium Sawmill Oct. 31, 2012 [www.canfor.com/docs/news-2012/media\\_advisory\\_10\\_2012\\_radium.pdf?sfvrsn=2](http://www.canfor.com/docs/news-2012/media_advisory_10_2012_radium.pdf?sfvrsn=2)

[19] Canfor Announces Capital Investments in Elko Sawmill Dec. 17, 2012 [www.canfor.com/docs/news-2012/media\\_advisory\\_17-12-2012\\_elko.pdf?sfvrsn=2](http://www.canfor.com/docs/news-2012/media_advisory_17-12-2012_elko.pdf?sfvrsn=2)

[20] Canfor Completes Purchase of Tembec's BC Southern Interior Wood Products Assets March 23, 2012 [www.canfor.com/docs/news-2012/nr120323\\_tembec.pdf?sfvrsn=2](http://www.canfor.com/docs/news-2012/nr120323_tembec.pdf?sfvrsn=2)

[21] Canfor to Sell Shares in Peace Valley OSB Joint Venture to LP Nov. 28, 2012 [www.canfor.com/docs/news-2012/media\\_advisory\\_11-28-2012\\_peace-valley---final.pdf?sfvrsn=2](http://www.canfor.com/docs/news-2012/media_advisory_11-28-2012_peace-valley---final.pdf?sfvrsn=2)

[22] Canfor Announces Permanent Closure of Rustad and Tackama Operations Dec. 5, 2011 [www.canfor.com/docs/news-2011/nr111205\\_rustad\\_and\\_tackama\\_closure.pdf?sfvrsn=0](http://www.canfor.com/docs/news-2011/nr111205_rustad_and_tackama_closure.pdf?sfvrsn=0)





1970's Logging Truck



# CHAIN-OF-CUSTODY CERTIFICATION

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As well as certifying our forest operations, Canfor has independent chain-of-custody certification at all of our mills to one of three third-party standards.

Two of our British Columbia sawmills are certified to the Forest Stewardship Council,<sup>23,24</sup> and the rest of our Canadian facilities are certified to the Programme for the Endorsement of Forest Certification (PEFC).<sup>25</sup> FSC and PEFC chain-of-custody certification gives our customers confidence

our products are from well-managed forests. It means we are tracking every piece of lumber used in our mills from the forest of origin and through every step of the manufacturing process.

In the United States, Canfor Southern Pine has certified its four lumber mills in Camden, Conway and Darlington, SC, and Graham, NC, to the procurement requirements of the SFI 2010-2014 Standard.<sup>26,27</sup>

# ENERGY MANAGEMENT

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Canfor has developed a strategic energy management plan (SEMP) with aggressive but achievable 10% reduction targets for electrical energy consumed per unit of production for all of our wood products operations over a two-year period (2013–2014). Reaching this goal by reducing our electrical consumption would save 40,000 MWh annually—enough to power 2,800 homes while improving our sawmill energy efficiency and reducing costs.

In 2011, Canfor hired an Energy Manager, co-funded by BC Hydro, who has a specific focus on energy cost reduction for our wood products facilities. We developed a plan to build a robust program with the tools and support necessary for each operation to identify energy savings opportunities, implement actions, and measure progress and success.

Throughout 2012, key components of our SEMP have been implemented, including several hard-wired projects co-funded by BC Hydro. We installed a compressor system in Quesnel that saves 1,000 MWh/year, and LED lighting and

advanced controls in our new Radium Planer that will save more than 500 MWh/year. The energy saved from these two projects alone is enough to power 107 homes each year.

With the SEMP, we have central reporting of energy data by all of our BC and Alberta operations, allowing us to develop key energy performance indicators and operation-specific targets to help us meet our overall energy efficiency goals. We also created an internal energy website with interactive dashboards, tools and resources so the information is accessible, and can be used to increase engagement and raise employee awareness of the potential for and value of energy savings.

Changing employee behaviour and installing hard-wired energy efficiency projects are the keys to the success of our strategic energy management—one way Canfor is demonstrating our commitment to improving efficiency in every aspect of our business.

# CARBON FOOTPRINT

The \$38.5-million upgrade that led to the 2012 restart of our Radium sawmill in British Columbia included a 38 MMBTU/hr biomass-fired heat energy system to replace the propane system that had been used to heat the lumber dry kilns.

Switching from propane to biomass fuel, which is carbon dioxide emission neutral, has resulted in approximately 9,000 t CO<sub>2</sub>e/year of greenhouse gas emission reductions. Canfor has installed biomass-

fired energy systems to replace natural gas kiln and mill heat at four other sawmills since 2009. The Radium project brings our total annual greenhouse gas emission reductions due to fuel switching projects to about 50,000 t CO<sub>2</sub>e. Temporary market closures of three of these five mills from 2009 to 2011 means these reductions are largely not reflected in our total greenhouse gas emissions numbers for this period.

- [23] FSC Chain of Custody Documented Control System <http://www.canfor.com/docs/responsibility/3-chain-of-custody-documented-control-system.pdf?sfvrsn=2>
- [24] FSC Risk Assessment <http://www.canfor.com/docs/responsibility/5-risk-analysis-for-fibre-procurement.pdf?sfvrsn=2>
- [25] PEFC Chain-of-Custody certificate <http://www.canfor.com/docs/responsibility/2012-june-canfor-pefc-coc-rereg-cert.pdf?sfvrsn=2>
- [26] Canfor Southern Pine SFI Standard Implementation Policy <http://www.canfor.com/responsibility/environmental/sustainable-forestry-initiative>
- [27] NSF Canfor Southern Pine Surveillance Audit Report August 2012 <http://www.sfiprogram.org/AuditPDFs/Canfor%202012%20Surveillance%20AR%20R2.pdf>

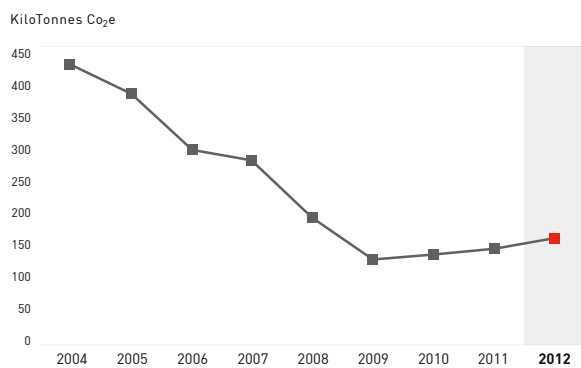
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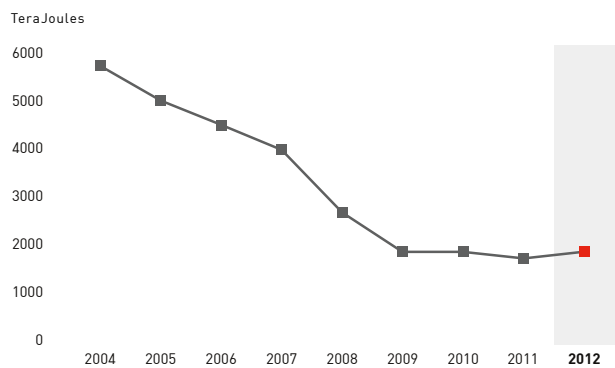


## GREENHOUSE GAS EMISSIONS



Canfor's overall greenhouse gas emissions increased in 2012 due to increased mill production levels and acquisition of the Elko and Canal Flats facilities.

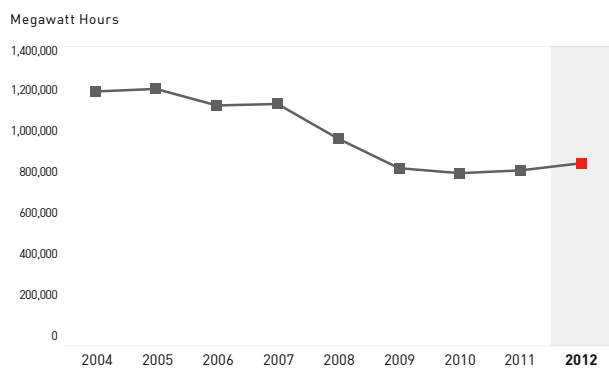
## NATURAL GAS USE



Natural gas purchases are one third of 2004 levels with all but two of Canfor's sawmills using biomass-generated heat for lumber drying.

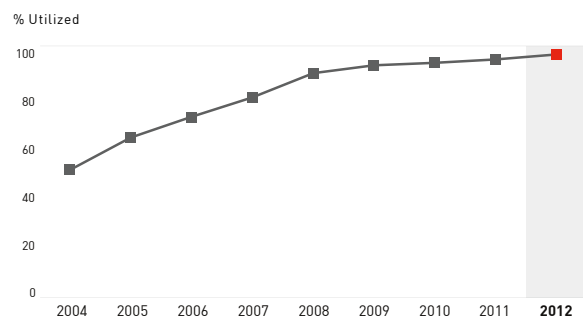


## ELECTRICITY PURCHASES



Canfor has established aggressive targets to reduce electricity use per unit of production over the next two years.

## WOOD RESIDUE UTILIZATION



Through substantial capital investments in biomass energy projects over the past decade, Canfor now generates significant additional revenue from sawmill wood residues.



# COMPLIANCE – MANUFACTURING

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Canfor was in compliance with regulatory requirements at our manufacturing facilities, with the following exceptions. Canfor had a total of 17 non-compliance issues in 2012 compared with 12 in 2011.

## AIR

We exceeded permitted biomass energy system particulate emission limits for two compliance tests at one sawmill and one compliance test at a second facility. We enhanced energy system monitoring and maintenance at all mills with similar systems, and conducted operator training to prevent recurrence.

At our joint venture OSB facility there was an exceedance of the dryer stack airflow limit in mid-November. Necessary corrective actions to remedy the issue are being developed.

At our joint venture wood pellet facility, where Canfor is a 60% owner, permitted dryer particulate emission limits were exceeded for two compliance tests. Repairs were made to emission control equipment, and monitoring and maintenance improved to prevent recurrence.

At another sawmill, the BC Ministry of Environment issued a warning letter for continued operation of a lumber dry kiln on direct heat from suspension burning of planer shavings after authorization to operate on this fuel had expired. The kiln in question was shut down immediately, and only restarted following amendment of the air permit re-authorizing its operation. We issued a directive to all facilities to ensure they obtain appropriate authorizations for emissions to the environment.

At another mill, the Ministry of Environment sent a warning letter following several public complaints about fugitive dust on a mill access road. The road was subsequently closed off.

At a combined heat and power facility, we exceeded hourly carbon monoxide emission limits numerous times over a period of several days due to a plugged ash hopper and a combination of extremely cold weather and poor quality biomass fuel. The issue was addressed through establishing procedures to check and address ash hopper plugging and improved blending of biomass fuel.

## EFFLUENT

At one operation, annual oil water separator tests required by permit were conducted when there was no discharge from the separator device, resulting in excessive readings. Approval has been obtained to conduct the annual sampling in the following Spring when there is a discharge. Proper instruction on sampling has been provided to applicable personnel.

## SPILLS

We had four reportable hydraulic oil spills at our operations, all due to breakage of hydraulic hoses on logyard mobile equipment. The spills were cleaned up, appropriate regulatory agencies notified promptly, and internal follow-up investigations completed.

## LANDFILL

We exceeded permitted deposits of soil and woody debris removed as part of regular logyard maintenance at one operation. We are awaiting approval from the Ministry of Environment to site a new landfill at the operation and resolve the ongoing compliance issue. For this same landfill, a Ministry of Environment inspection indicated non-compliance due to visible ponding of what appeared to be landfill leachate and landfill lift height exceeding the authorized level. We addressed these issues by re-sloping drainage ditches adjacent to the landfill so rainfall does not accumulate, and confirming the Ministry of Environment had previously approved use of the soil/bark material being landfilled as cover.

## MONETARY FINES

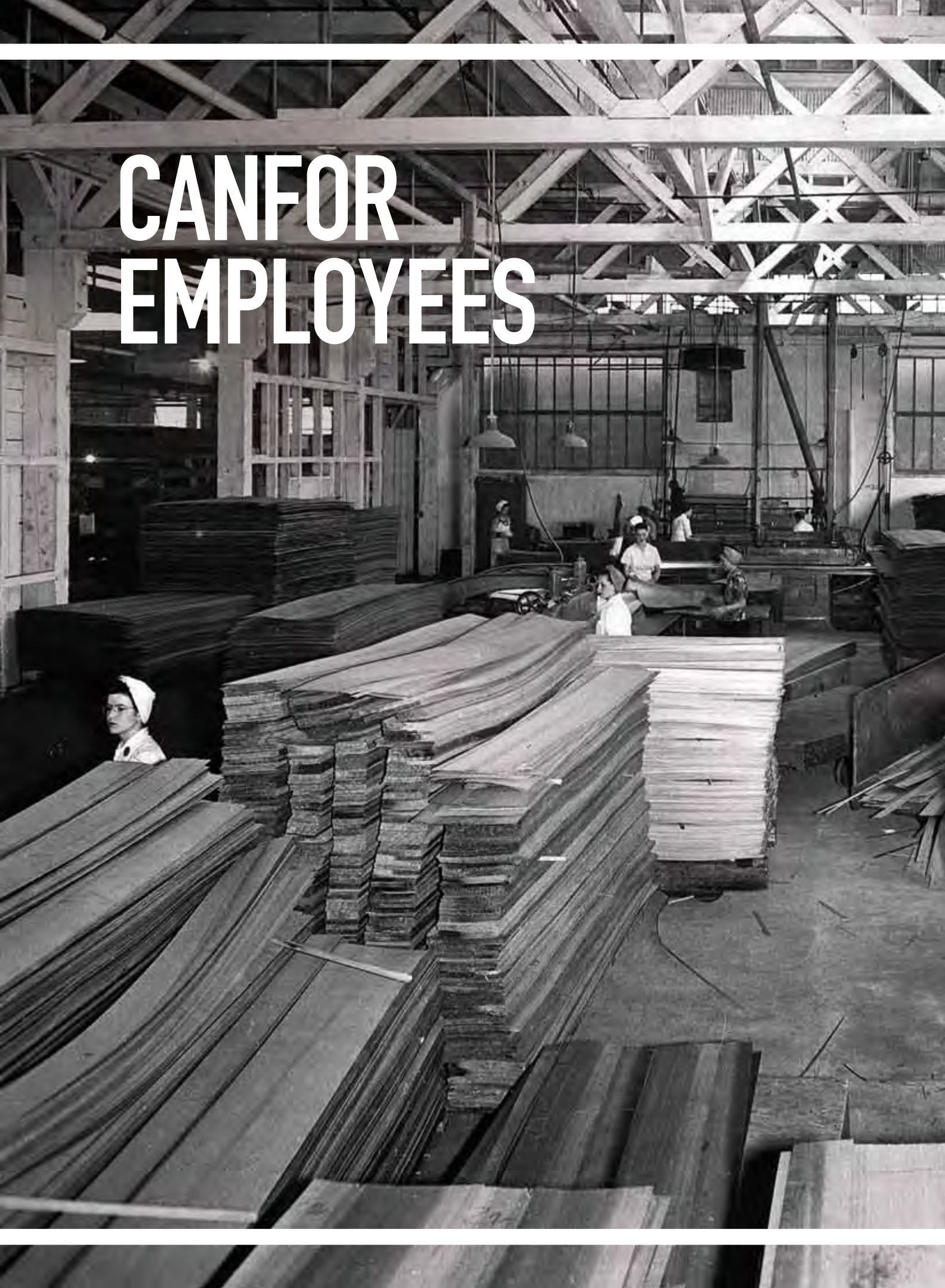
The South Carolina Department of Environmental and Natural Resources levied a \$3,000 (US) fine at one of Canfor New South's operations for exceeding boiler opacity (smoke) limits for a period of six minutes. This had been caused by a temporary minor boiler upset that was quickly corrected.





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# CANFOR EMPLOYEES





# WORKFORCE

	SALARY			HOURLY		
	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
BC	482	187	669	2,067	223	2,290
Alberta	24	13	37	129	19	148
CSP (US)	87	25	112	489	28	517
Quebec	20	8	28	158	2	160
Asia (China & Japan)	6	6	12	0	0	0
	<b>619</b>	<b>239</b>	<b>858</b>	<b>2,843</b>	<b>272</b>	<b>3,115</b>



1943 Englewood Logging Division



# HEALTH & SAFETY

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Safety is Canfor's single highest priority, and we take pride in the fact that our employees consistently keep us a safety leader in our sector. Our Safety and Health Policy affirms every employee's right to refuse unsafe work, and all staff are encouraged to report any safety concerns they may have to their supervisor, a safety committee member, or someone in authority—up to and including the CEO.

All Canfor staff are represented by formal joint management-worker health and safety committees, and are allowed time to attend safety meetings during work hours. In British Columbia, we require that all of our contractors are SAFE company certified by the BC Forest Safety Council.<sup>28</sup>

In 2012, our medical incident rate (MIR) was 1.97 across the company, meeting our target to achieve a rate of 2.0 or lower, and improving on our 2011 rate of 2.24. The Peace Valley OSB plant, J.D. Little Forest Centre and New South Express registered zero MIRs in 2012.

In 2012, winners of our President's Safety awards with the lowest MIR for the year were:

- **Sawmills:** Grande Prairie had the lowest MIR with 0.63.
- **Sawmill with Lowest MIR for previous three years:** Graham with a three-year MIR average of 0.56.
- **Woodlands and trucking:** New South Express had the lowest MIR at 0.0.

Mills that earned honourable mentions with MIRs of less than our target of 2.0 in 2012 included Graham (0.83), Prince George Sawmill (1.0), Quesnel (1.27), Plateau (1.36), Mackenzie (1.6), and Daaquam (1.62). Peace Valley OSB has had three consecutive years with an MIR of 0.0, and Taylor Pulp had an MIR in 2012 of 0.95.

In May 2012, George Park Jr., a certified millwright working for Nechako Construction, a division of BID Group, was killed when performing overnight maintenance work at Canfor's Plateau Sawmill in Vanderhoof, BC. The company worked with investigators (staff, safety committees, union, contractors, WorkSafe BC) to ensure any necessary steps are taken to improve safety above and beyond regulatory requirements.

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[28] BC Forest Safety Council [www.bcforestsafesafe.org](http://www.bcforestsafesafe.org)

# WOOD DUST RESPONSE

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When explosions destroyed two sawmills in British Columbia in 2012, Canfor was among the industry leaders to take immediate and comprehensive action.

We significantly reduced wood dust levels and improved controls on ignition sources in all of our facilities. At the same time, we initiated an aggressive capital improvement program to improve wood dust extraction and reduce the risks posed by ignition sources. In May, we brought together participants from all of Canfor's mills in British Columbia and Alberta, as well as union representatives. This group developed a company-wide wood dust program that took best practices from many Canfor mills and moved this to a consistent approach that was applied across the company. It was backed by a risk assessment process, specific operational standards, employee training and communication, and an audit process to evaluate our performance on the operating floor.

Canfor also created a new management position responsible for leadership in safety initiatives, including our wood dust response.

Soon after WorkSafe BC released new information in response to the explosions, we put them into effect. If an inspection identified a non-compliance, we took immediate action to address the outstanding issues.

Canfor consults with some of the foremost experts in wood dust management in manufacturing, and continues to work with unions, safety experts and government regulators to improve our management of this issue. Our CEO, and his colleagues from other large sawmilling companies in British Columbia, immediately established a task group to find ways to address combustion risks and make mills safer. One of their actions was to develop a third-party auditable wood dust management standard.

# INVESTING IN OUR PEOPLE

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Canfor works hard to support our employees, with regular performance reviews and personal development plans. All staff in our Forest Management Group complete personal development plans, and all salaried employees receive annual performance reviews under the Canfor Salaried Incentive Plan (CSIP). CSIP rewards employees based on their personal performance and the performance of the company.

Our Human Resources department is developing a detailed succession plan that identifies top-performing staff and lays out a professional development and training plan to prepare them to advance their careers within the company.

In an annual competition organized by editors of Canada's Top 100 Employers, Canfor was selected as one of BC's top employers for 2013 for our

activities related to employee engagement and employee development and support. The competition compares employers to other organizations in their field to determine which offer the most progressive and forward-thinking programs.

Among other things, Canfor was recognized for helping employees balance work and personal life by offering alternative work arrangements such as flexible hours, telecommuting, and shortened and compressed work weeks, and for helping older employees prepare for retirement through planning assistance and phased-in work options.





*The*  
**Magazine**

**CANADIAN FOREST PRODUCTS LTD.**

**PACIFIC VENEER AND PLYWOOD DIVISION**



1951 employee newsletter



# COLLECTIVE AGREEMENTS

	UNIONIZED	NON-UNIONIZED	TOTAL	UNIONIZED
BC - Lumber	2,216	635	2,851	78%
BC - Pulp	-	108	108	0%
Alberta	134	51	185	73%
Quebec	-	188	188	0%
CSP [US]	-	629	629	0%
Asia	-	12	12	0%
	<b>2,350</b>	<b>1,623</b>	<b>3,973</b>	<b>59%</b>

About 59% Canfor employees are represented by unions—including the United Steel Workers (USW); the Pulp, Paper and Woodworkers of Canada (PPWC); and the Communications, Energy and Paperworkers Union (CEP).

Canadian Forest Products Train Cars



# REMUNERATION

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Canfor has 3,115 employees who are paid on an hourly basis, most in mill production positions, and 858 in salaried positions. The hourly employees include 2,843 men and 272 women; the salaried positions include 619 men and 239 women.

Entry-level employees working for Canfor earn substantially more than the minimum wage.

In British Columbia and Alberta, entry-level employees earn a starting wage between \$23 and \$25 an hour—roughly two-and-a-half times the minimum wage (\$10.25 an hour in BC; \$9.75 in Alberta).

Canfor also offers competitive benefits and pension packages.

# EMPLOYEE AND FAMILY ASSISTANCE PROGRAM

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Canfor's Employee and Family Assistance Program provides voluntary, confidential, professional counselling to employees and their families to resolve problems that affect their personal lives and, in some cases, their job performance. Problems addressed through this program include, but are not limited to: emotional, alcohol and drug abuse or dependency, family and marital issues.

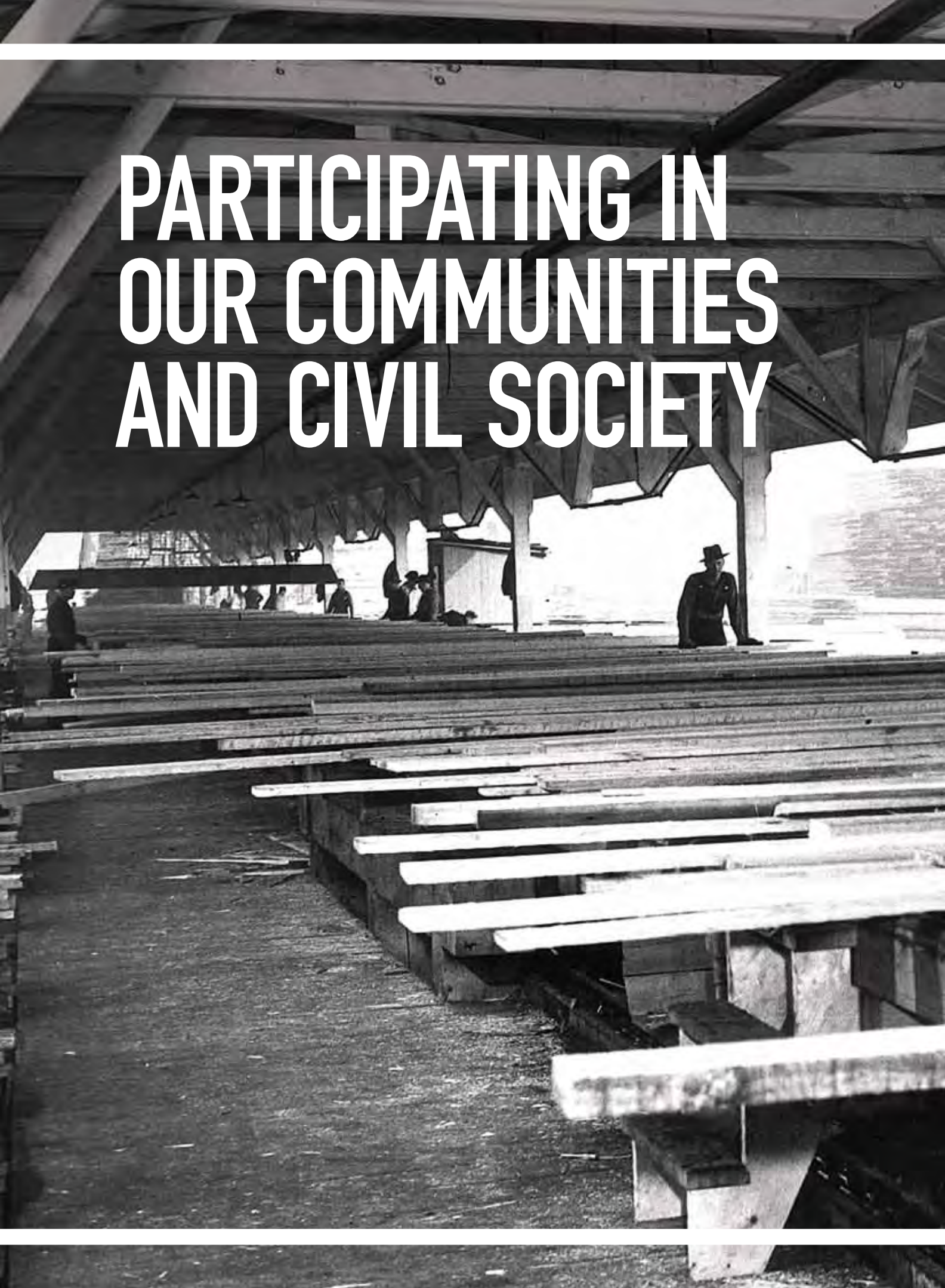
The program requires that employee calls for assistance be returned within 24 hours by the service provider, and appointments be available within two to three days, with same-day service in urgent situations. Counsellors must have Masters-level training and at least three years of experience. Services are provided to employees free of charge.





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# PARTICIPATING IN OUR COMMUNITIES AND CIVIL SOCIETY



# YOUTH AND EDUCATION

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In 2012, Canfor invested \$75,550 to support scholarships, bursaries and awards for post-secondary students in education streams related to our core business, such as forestry and ecosystem management, trades and technology, forest business and management. This included \$2,050 for scholarships to support First Nations students, and \$4,500 for legacy graduate scholarships for the advancement of northern British Columbia.

Canfor and the BID Group announced plans to introduce a memorial scholarship in memory of George Park Jr., a certified millwright working for Nechako Construction, a division of BID, who was killed in an accident at Canfor's Plateau Sawmill in Vanderhoof, BC in May 2012. The scholarship will support students training to be millwrights.

## INSTITUTIONS WITH CANFOR SCHOLARSHIPS INCLUDE:

- University of Northern British Columbia, Prince George, BC
- University of British Columbia, Vancouver, BC
- British Columbia Institute of Technology, Burnaby, BC
- Northern Lights College, Dawson Creek, BC
- Northern Alberta Institute of Technology, Edmonton, Alberta
- Vancouver Community College, Vancouver, BC
- College of New Caledonia, BC
- School District #57 in Prince George, BC

# RECRUITMENT

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To promote the tremendous opportunities ahead for the forest sector, Canfor launched a number of activities in 2012 to attract new employees and encourage students to pursue disciplines related to the company's core business. Through the year, Canfor's President and CEO and other company representatives met with students from post-secondary institutions to discuss career options available with the company.



# COMMUNITY ENHANCEMENT

Canfor and our employees are active members of the communities where we operate, and have a long tradition of supporting a variety of events and organizations, both locally and corporately. In 2012, we collectively donated \$276,959 to support organizations and projects that provide broad value, such as groups that deliver innovative community programs focusing on youth and education, community enhancement, forestry and environment, amateur sports, and health and wellness.

Canfor and our employees supported the communities and individuals affected by tragic explosions that destroyed two British Columbia sawmills early in 2012—Babine Forest Products in Burns Lake and Lakeland Mills in Prince George. Canfor implemented a payroll deduction system to allow staff to donate funds, and matched the contributions. The company alone donated more than \$70,000.

Canfor and Canfor Pulp also raised \$348,244 for 2012 United Way campaigns in British Columbia and Alberta—this included \$298,244<sup>29</sup> raised by employees and a \$50,000 corporate donation. Among other things, we contributed to holiday food banks in Vancouver; Cranbrook, BC; Clearwater, BC; and Bellingham, WA; sponsored a cultural wall at the Prince George Airport; and supported the 22nd Annual Yaoan Nukiy Pow Wow in Creston, BC, which included First Nations from across our operating areas.

During 2012, Canfor organized our first Playhouse Challenge—offering a fun way to show off the versatility of wood, and raise money for Habitat for Humanity Canada. The competition brought together seven BC forest products companies who donated materials and teamed up with an architectural team and a builder to design and build unique playhouses with wood. The playhouses were displayed at the 2012 Pacific National Exhibition in Vancouver, then auctioned off to pre-registered corporate buyers who donated them to public

venues across the province. The more than \$100,000 raised by the project went to Habitat for Humanity Canada affiliates across British Columbia.<sup>30</sup>

In November, Canfor and Canfor Pulp sponsored The Big Blue Ball in Prince George, BC, organized by the local Rotary Club to raise awareness about men's health issues such as prostate cancer. The event helped raise funds for free clinics where men can get a free PSA test or ask about other health issues. We promoted the clinics at Canfor facilities, and encouraged our male employees to participate.

When Mackenzie, in northern British Columbia, placed among the top five in the 2011 Kraft Hockeyville competition, Canfor helped the town celebrate by sponsoring airplane flights so the Canucks Alumni could come from Vancouver to play a charity match against local hockey teams. The game was sold out three hours after tickets went on sale.

Canfor donated \$5,800 worth of lumber toward efforts to restore heritage buildings and improve storage conditions for artifacts in Barkerville, an active gold rush town from 1862 to 1958. The town, a popular tourist attraction east of Quesnel, BC, has one of the largest collections of early gold rush artifacts in North America.

Thousands of spruce and Douglas-fir seedlings were handed out by Canfor staff at the 2012 Canada Day Tree Giveaway in Prince George. They also provided advice on planting the trees, and answered questions about Canfor's reforestation efforts. The seedlings were donated by PRT Nursery, a private nursery in Prince George that provides a lot of the seedlings Canfor uses to regenerate the areas it harvests.

Earlier in the year, Canfor provided trees and helped organize an event in Prince George where 1,000 seedlings were planted to mark 1,000 days before the 2015 Canada Winter Games. Five sports organizations helped plant the seedlings at four locations in the city.

[29] Monies raised/donated by staff are not included in \$276,959 corporate donation total.  
[30] This \$100,000 is additional to the \$276,959 reported as corporate charitable donations.

# TRADE ASSOCIATION AND OTHER MEMBERSHIPS

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Canfor is an active member of a number of trade associations that promote forest products and advance the forest sector. These include the Forest Products Association of Canada (FPAC), the Council of Forest Industries (COFI) in British Columbia, and the Alberta Forest Products Association (AFPA). We also belong to the BC Business Council, and our CEO is a member of the Canadian Council of Chief Executives. We are a member of the Vancouver Board of Trade, the BC Business Council, and numerous chambers of commerce across our operating communities.

FPAC represents Canada's wood, pulp and paper producers nationally and internationally in government, trade, and environmental affairs. COFI is the voice of British Columbia's interior forest industry,

and offers members service in the areas of forest policy, quality control, international market and trade development, public affairs and community relations. FORESTCARE is the AFPA's program of continuous improvement, industry promotion, public education, issues management, public and government relations, transportation, and other resources.

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

# POLITICAL CONTRIBUTIONS

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In 2012, Canadian Forest Products Ltd. made political donations totalling \$116,300 to support activities and individuals representing the two major political parties in British Columbia—the BC Liberal Party and the BC New Democratic Party.



1967 Head office



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# PERFORMANCE AGAINST 2012 TARGETS







# PERFORMANCE AGAINST 2012 TARGETS

## FORESTRY GOALS

- **Objective:** Reduce the number of harvest and road boundary location errors by 22%.
- **Performance:** This target was not achieved. The number of harvest and road boundary location errors increased by 40% to 14 in 2012 from 10 in 2011. All were low significance incidents and were investigated to identify the root cause and corrective measures implemented so performance can be improved in 2013.
- **Objective:** Reduce the operational-related impacts on fish habitat by 50%—to one from two.
- **Performance:** We met this target by reducing operational-related impacts to one from two.
- **Objective:** Reduce the number of occurrences of sedimentation and/or disruption of water flow by 40%—to three incidents from five.
- **Performance:** This target was not met. The number of occurrences remained at five. We investigated each incident and implemented corrective measures with operational staff for future improvement.

## MANUFACTURING AUDITS

- **Objective:** We will complete six internal environmental audits of solid wood facilities, maintaining a three-year cycle of audits for all our manufacturing facilities.
- **Performance:** We completed environmental audits of five sawmills. A sixth audit was deferred until 2013 because the sawmill was restarting a second shift.

## CARBON FOOTPRINT

- **Objective:** We will complete the carbon footprint evaluation of our activities.
- **Performance:** The carbon assessment tool input data gathering is close to complete from harvesting through manufacturing to shipping lumber products to market for our British Columbia and Alberta operations.

## TRANSFORMATIVE TECHNOLOGIES

- **Objective:** We will seek out new, innovative technologies to create additional value from our woodlands and manufacturing byproducts.
- **Performance:** We reached agreement with a BC-based wood pellet manufacturer on location of a new state-of-the-art pellet plant at our Chetwynd sawmill. We are currently exploring surplus wood residue utilization options at other sawmills, including wood pellets, black pellets and electricity generation from thermal energy system waste heat using Organic Rankine Cycle technology.

## SAFETY GOALS

- **Objective:** Company-wide medical incident rate of 2.0 or lower.
- **Performance:** In 2012, we achieved an MIR of 1.97 across the company.





## COMMUNITY GOALS

- **Objective:** Meet with the mayor and council of each Canfor community at minimum once in 2012.
- **Performance:** This target was not achieved. Canfor held meetings with the mayor and council of two-thirds of our operating communities in 2012.
- **Objective:** Host participation of exceptional aboriginal youth in the National Aboriginal Achievement Awards.
- **Performance:** This target was achieved. We invited BC Aboriginal communities in our operating areas to identify exceptional youth, and hosted 11 post-secondary students and three chiefs at the awards.
- **Objective:** Formalize Canfor's educational institutions donations policy to ensure fairness between the institutions to which we contribute.
- **Performance:** This objective was achieved through discussions and negotiation of agreements with the major educational institutions Canfor supports. New scholarship programs are being implemented in 2013.



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# LOOKING AHEAD TO 2013









# FORESTRY AND MANUFACTURING OBJECTIVES AND TARGETS FOR 2013

## FORESTRY TARGETS

- Reduce the number of harvest and road boundary location errors to nine from 14 (a 35% reduction).
- Reduce the number of incidents where herbicide is applied outside of a management zone to 15 from 19.
- Reduce the number of occurrences of sedimentation and/or disruption of water flow by 40%—to three incidents from five.

## MANUFACTURING AUDITS

- Conduct internal environmental audits at six manufacturing facilities.

## ENERGY EFFICIENCY

- Implement an energy use reduction plan for solid wood facilities, including a 10% reduction in electricity use per unit of production over the next two years.

## SAFETY GOALS

- Maintain a company-wide MIR of 2.0 or lower.

## COMMUNITY GOALS

- Establish new scholarship programs to encourage youth, First Nations to pursue careers in forestry-related disciplines.
- Host public events commemorating Canfor's 75th Anniversary in our operating communities.
- Meet with mayor of each Canfor community.

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# GRI CONTENT INDEX

		Reported	Location
<b>STRATEGY AND ANALYSIS</b>			
1.1	Statement from the most senior decision-maker of the organization	•	SR: CEO's message (p 16-17)
1.2	Description of key impacts, risks, and opportunities	•	SR: Throughout AR: <sup>1</sup> Throughout MD&A: <sup>2</sup> Overview of 2012 (p 3); Risks and Uncertainties (p 37-44)
<b>ORGANIZATIONAL PROFILE</b>			
2.1	Name of the organization.	•	SR: Company Profile (p 18)
2.2	Primary brands, products, and/or services.	•	SR: Company Profile (p 18) AR: Company Overview (p 16-17)
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	•	SR: Company Profile (p 18) AR: Company Overview (p 16) AIF: <sup>3</sup> Corporate Structure (p 2)
2.4	Location of organization's headquarters.	•	SR: Company Profile (p 18) AR: Company Overview (p 16)
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	•	SR: Company Profile (p 18) AR: Company Overview (p 16)
2.6	Nature of ownership and legal form.	•	AR: Company Overview (p 16)
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	•	SR: Markets and Market Development (p 19) AR: Markets and Pricing (p 18-20) MD&A: Markets and Pricing (p 4-6)
2.8	Scale of the reporting organization.	•	SR: Company Profile (p 18) AR: Company Overview (p 16)
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	•	SR: Management Changes (p 19); Company Changes (p 42) AIF: Significant events (p 4-5)
2.10	Awards received in the reporting period.	•	SR: Recognition and Awards (p 20)
<b>REPORT PROFILE</b>			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	•	SR: (p 1)
3.2	Date of most recent previous report (if any).	•	March 2012 <sup>4</sup>
3.3	Reporting cycle (annual, biennial, etc.)	•	Annual
3.4	Contact point for questions.	•	SR: Final page (p 83)

		Reported	Location
<b>REPORT SCOPE AND BOUNDARY</b>			
3.5	Process for defining report content.	•	SR: Identifying Stakeholders and Key Indicators (p 22)
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	•	SR: (p 1)
3.7	State any specific limitations on the scope or boundary of the report (see completeness Principle for explanation of scope).	•	SR: (p 1)
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	•	SR: (p 1)
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	•	SR: Throughout
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	•	SR: (p 1); Company Changes (p 42)
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	•	SR: (p 1); Company Changes (p 42); Greenhouse Gas Emissions (p 46)
<b>GRI CONTENT INDEX</b>			
3.12	Table identifying the location of the Standard Disclosures in the report.	•	This document
<b>ASSURANCE</b>			
3.13	Policy and current practice with regard to seeking external assurance for the report.	•	Assurance of this report was not sought but will be considered for subsequent sustainability reports prepared to GRI.

[1] Annual Report <http://www.canfor.com/investor-relations/reports/annual-reports>  
 [2] Management Discussion and Analysis [http://www.canfor.com/docs/investor-relations/2012\\_md-a\\_sedar.pdf?sfvrsn=2](http://www.canfor.com/docs/investor-relations/2012_md-a_sedar.pdf?sfvrsn=2)  
 [3] Annual Information Form: <http://www.canfor.com/docs/investor-relations/canfor-aif-2012.pdf?sfvrsn=2>  
 [4] Canfor Sustainability Report 2011 [http://www.canfor.com/docs/investor-relations/sr\\_2011\\_web.pdf?sfvrsn=2](http://www.canfor.com/docs/investor-relations/sr_2011_web.pdf?sfvrsn=2)



		Reported	Location
<b>GOVERNANCE</b>			
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	•	AIF: Directors and Officers (p 19) SR: Environment and Forestry Principles (p 26-27) AR: Management's Responsibility (p 49)
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	•	AR: Directors and Officers (p 86) AIF: Officers (p 24)
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	•	AIF: Directors and Officers (p 19-24)
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	•	AIF: Description of Capital Structure (p 25)
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives.	•	Information Circular (p 5-9)
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	•	AIF: Conflicts of Interest (p 25)
4.7	Process for determining the composition, qualifications and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.		Not reported
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	•	SR: (p 1); Environment and Forestry Principles (p 26-27) Canfor Website: <a href="http://www.canfor.com/responsibility">www.canfor.com/responsibility</a>
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	•	AIF: Directors and Officers (p 19-24) SR: Environment and Forestry Principles (p 26-27)
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	•	AIF: Audit Committee Terms of Reference (p 31-35)

		Reported	Location
<b>COMMITMENT TO EXTERNAL INITIATIVES</b>			
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	•	SR: Sustainable Forest Management (p 24-37)
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	•	SR: Independent Certification (28-29); Protecting Habitat (p 31); Canadian Boreal Forest Agreement (p 37)
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations.	•	SR: Trade Association and Other Memberships (p 62)
<b>STAKEHOLDER ENGAGEMENT</b>			
4.14	List of stakeholder groups engaged by the organization.	•	SR: Identifying Stakeholders and Key Indicators (p 22)
4.15	Basis for identification and selection of stakeholders with whom to engage.	•	SR: Identifying Stakeholders and Key Indicators (p 22); Engaging Stakeholders (p 34)
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	•	SR: Identifying Stakeholders and Key Indicators (p 22); Engaging Stakeholders (p 34)
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	•	SR: Sustainable Forest Management (p 24-37); Sustainable Forest Management Plans and associated Annual Reports (posted at <a href="http://www.canfor.com/responsibility/environmental/plans">www.canfor.com/responsibility/environmental/plans</a> ) track responses to specific stakeholder interests and concerns
<b>ECONOMIC PERFORMANCE</b>			
	Management Approach to Economic Sustainability		AR: Business Strategy (p 17) MD&A: Business Strategy (p 3)
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	•	AR: Throughout SR: Key Statistics (p 23) MD&A: Operating Results by Business Segment – 2012 Compared to 2011 (p 15-22)
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	•	SR: Responding to Climate Change (p 32-33) AR: Impacts of Mountain Pine Beetle (p 23)

		Reported	Location
EC3	Coverage of the organization's defined benefit plan obligations.	•	AR: Commitments; Employee Future Benefits (p 66-69) MD&A: Employee Future Benefits (p 33-34 and p 38)
EC4	Significant financial assistance received from government.	•	None
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	•	SR: Remuneration (p 57)
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	•	SR: Strong Local Roots (p 19)
<b>ENVIRONMENTAL PERFORMANCE</b>			
	Management Approach to Environmental Responsibility		SR: Environment and Forestry Principles (p 26-27) Canfor website: <a href="http://www.canfor.com/responsibility/environmental">www.canfor.com/responsibility/environmental</a>
EN1	Materials used by weight or volume.	•	AIF: Wood Fibre Supply (p 11)
EN2	Percentage of materials used that are recycled input materials.	•	Zero. Canfor is primary forest products manufacturer.
EN3	Direct energy consumption by primary energy source.		SR: Energy Management (p 44); Natural Gas Use (p 46); Electricity Purchases (p 47)
EN5	Energy saved due to conservation and efficiency improvements.	•	SR: Energy Management (p 44); Natural Gas Use (p 46); Electricity Purchases (p 47)
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	•	SR: Energy Management (p 44); Carbon Footprint (p 45)
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	•	SR: Conserving Biodiversity (p 30); Canfor does not hold tenures within protected areas
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	•	SR: Conserving Biodiversity (p 30) Canfor website: Sustainable Forest Management Plans ( <a href="http://www.canfor.com/responsibility/environmental/plans">www.canfor.com/responsibility/environmental/plans</a> )



		Reported	Location
EN13	Habitats protected or restored.	•	SR: Conserving Biodiversity (p 30); Regenerating forests (p 30) Canfor website: Sustainable Forest Management Plans ( <a href="http://www.canfor.com/responsibility/environmental/plans">www.canfor.com/responsibility/environmental/plans</a> )
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	•	SR: Environment and Forestry Principles (p 26-27); Conserving Biodiversity (p 30) Canfor website: Sustainable Forest Management Plans ( <a href="http://www.canfor.com/responsibility/environmental/plans">www.canfor.com/responsibility/environmental/plans</a> )
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	•	SR: Protecting Habitat (p 31)
EN16	Total direct and indirect greenhouse gas emissions by weight.	•	SR: Greenhouse Gas Emissions (p 46)
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	•	SR: Carbon Footprint (p 45)
EN23	Total number and volume of significant spills.	•	SR: Compliance-Manufacturing Report (p 48)
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	•	SR: Compliance-Manufacturing (p 48)
<b>SOCIAL PERFORMANCE</b>			
	Management disclosures		SR: Canfor Employees (p 50-57); Participating in Our Communities and Civil Society (p 58-62) Canfor Website: Environmental Responsibility ( <a href="http://www.canfor.com/responsibility/environmental">www.canfor.com/responsibility/environmental</a> )
LA1	Total workforce by employment type, employment contract, and region broken down by gender.	•	SR: Workforce (p 52)
LA4	Percentage of employees covered by collective bargaining agreements.	•	SR: Collective Agreements (p 56)
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	•	SR: Health & Safety (p 53)

		Reported	Location
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and gender.	• <sup>5</sup>	SR: Health & Safety (p 53)
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	•	SR: Employee and Family Assistance Program (p 57)
LA9	Health and safety topics covered in formal agreements with trade unions	•	SR: Health & Safety (p 53)
LA12	Percentage of employees receiving regular performance and career development reviews by gender.	• <sup>6</sup>	SR: Investing in our People (p 54)
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	N/A	Canfor operates in Canada and the United States where human rights are governed in legislation.
S05	Public policy positions and participation in public policy development and lobbying.	•	SR: Trade Association and Other Memberships (p 62) Canfor has four lobbyists registered in BC, available online at <a href="http://www.lobbyistsregistrar.bc.ca">www.lobbyistsregistrar.bc.ca</a>
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	•	SR: Chain-of-Custody Certification (p 44)
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	•	SR: Political Contributions (p 62)

[5] Injury, lost time incidents and medical incident rate are not recorded by gender  
 [6] Program described but statistics not available as part of records system







For more information contact:

Canfor Communications  
**Canadian Forest Products Ltd.**  
100-1700 West 75th Avenue  
Vancouver, BC V6P 6G2 Canada  
communications@canfor.com  
604-661-5225



[WWW.CANFOR.COM](http://WWW.CANFOR.COM)



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