

growth value focus
innovation quality
diversity safety
2013 leaders
commitment
growth safety focus
commitment

Canfor and Canfor Pulp

sustainability report

leaders growth
quality partnerships
safety diversity commitment
value
vision strength focus
leaders innovation
engagement



the first combined sustainability report

This document is the first combined sustainability report for Canfor Corporation and Canfor Pulp. It is Canfor Corporation's 13th sustainability report; the third to the comprehensive Global Reporting Initiative (GRI) guidelines for sustainability reporting. Canfor Pulp Products Inc. (Canfor Pulp) produced its first sustainability report in 2010 when it launched a company-wide strategy of sustainable enterprise.

Canfor and Canfor Pulp remain separate companies, Canfor holds a 50.4% interest in Canfor Pulp, and steps have been taken in the last few years to integrate management activities so we can increase efficiency through a shared services model and leverage purchasing power. In 2012, Canfor Corporation President and CEO Don Kayne became CEO of both companies, and in 2013, Michael Korenberg was named co-chair of the Canfor Corporation and Canfor Pulp Boards of Directors.

In Canfor's 2012 sustainability report, we stated our intention to release a joint report in 2013 to demonstrate our common commitment to transparency and sustainability, and to reflect the increased alignment in the operations of our two companies.

This report covers all Canfor and Canfor Pulp operations from January 1 to December 31, 2013. Canfor's solid wood manufacturing businesses include Canadian Forest Products Ltd. and two wholly owned subsidiaries—Daaquam Industries in Canada and Canfor Southern Pine in the United States. When our phased purchase agreement of Scotch and Gulf Lumber in Alabama is concluded in 2016, we will include its operations in our sustainability reporting.



A low-angle photograph of a forest with tall trees and a bright sunburst in the sky. The sun is positioned in the lower right quadrant, creating a starburst effect with rays extending across the sky. The trees are silhouetted against the bright sky, and the overall scene is bathed in a warm, golden light.

celebrating the past
looking to the
future



In 2013, we celebrated 75 years in business—and planned for the future by investing more than \$230 million in capital improvements to our manufacturing facilities.



quality products and clean energy

We turn virtually all of our fibre into lumber, pulp and clean energy. Canfor Pulp is one of North America's largest single producers of bioenergy.

58%
chips



12%
shavings

17%
hog

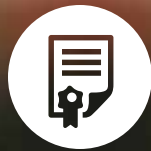
13%
sawdust



keeping our
workplaces
safe and
healthy



Our safety policies
set out clear responsibilities
and our injury rate
is a fraction of
the industry average.



attracting our future workforce

Through scholarships and recruitment activities,
we show youth the many career options
in our industry, and in our companies.





a recognized
leader
in market development



A panel of experts named Canfor one of the best Canadian companies doing business internationally. We were the first North American lumber company to enter the Chinese market.



award winning environmental performance

Canfor Pulp earned PAPTAC's first Environmental Strategy of the Year Award for improving air quality in Prince George. Our efforts were welcomed by residents, air quality groups and regulators.



An underwater photograph showing sunlight filtering through the water, creating a shimmering effect. The seabed is covered with dark, smooth rocks and patches of green seaweed. The text "protecting endangered species" is overlaid in white, lowercase letters.

protecting
endangered species



Canfor Pulp is supporting work by the Lheidli T'enneh First Nation to identify ways to conserve habitat for the Upper Fraser White Sturgeon.



third party verified

97% of the forests we manage are independently certified,
and all our mills have chain-of-custody certification.

97% forestlands
third-party certified



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Message from CEO Don Kayne

This joint sustainability report shows how Canfor and Canfor Pulp are aligning their operations to improve our environmental, social and economic performance, and to promote sustainability.

Product innovation and advances in energy generation and self-sufficiency have transformed the solid wood and pulp and paper sectors. At Canfor and Canfor Pulp, we have embraced this change, increasing our recovery rates and reducing our carbon footprint by turning what was once considered waste into valuable products and green, renewable energy. We are using virtually all of the fibre we harvest to produce lumber, pulp and green energy.

Our sustainable competitive advantage lies in the fact that we transform a renewable resource that grows with the power of the sun—trees—into high quality products the world needs. Both our companies are benefiting from growing market recognition that forest products are a superior environmental choice.

As you will see throughout this report, our goal is to make our products the preferred choice for customers worldwide. Our starting point is sustainable forest management. Canfor's commitment to protecting the diverse values in the forest lands we manage and renewing each carefully planned harvest area promptly is the foundation of ensuring we are producing the responsible products our customers demand. In 2013, we planted 55 million trees, seven million more than in 2012.

Our forest operations and our mills are certified to independent standards, giving customers solid assurance that they are buying products from responsible and legal sources. In 2013, 96.5% of the forests we managed were third-party certified, and all our mills had achieved chain-of-custody certification.

Wood is the only major building product that is natural, renewable, and stores carbon throughout its life cycle. We know that single-family homes, even in a recovering U.S. economy, are just the start. Advances in wood science and building technology make wood the right choice for many more applications, including multi-storey residential and non-residential structures.

The real future potential for solid wood lies in non-traditional applications and new markets such as China. Canfor was the first North American lumber company to enter the China market in 1999—and in 2013 that country was our largest offshore market. Today it offers diversified market opportunities with a growing acceptance of North American products and tremendous demand for housing and institutional structures.

Our work in China earned us recognition as one of the best Canadian companies doing business internationally. In November, we set the stage to make our position in China even stronger by signing a joint venture agreement with a local company to develop a secondary manufacturing facility at Caofeidian Port in Tangshan City.

Canfor Pulp is also pursuing new business streams. With less demand for newsprint and printing papers, we are focused on specialty and premium grades—and an amazing array of advanced products.

In 2013, both companies completed capital projects to enhance productivity, increase recovery rates and generate more renewable energy at our mills across North America—and we have much more planned for 2014. Canfor increased its production capacity by entering into a three-year purchase agreement to buy Scotch and Gulf Lumber of Alabama, one of the leading southern yellow pine producers in the United States.

One thing that will never change is our commitment to safety—it will always be our single highest priority. That's why we led an unprecedented—and award-winning—industry response to improve combustible dust management after two tragic mill explosions in British Columbia in 2012. By the time the official reports were issued early in 2014, Canfor had spent \$15 million on capital improvements at our B.C. mills, and implemented company-wide programs to reduce dust levels, improve controls on ignition sources, and increase audits and training.

We work every day to ensure that each and every Canfor employee knows that no task is so important or urgent that it can't be done safely. Our medical incident rate rose slightly in 2013 to 2.28, and our goal this year is to bring it back under our industry-leading target of 2.0.

In 2013, Canfor celebrated our 75th year in business, which presented an ideal opportunity to recognize the important contributions made by our employees, our customers and our communities, and to acknowledge the many partners who work with us so we can meet our high standards for environmental, social and economic performance.

On behalf of all of us at Canfor, I would like to thank all the individuals and organizations that contribute to our continued improvement in sustainability performance. We look forward to working with you in 2014 to move our sustainability goals ahead even further.



A handwritten signature in black ink, appearing to read 'Don Kayne', written in a cursive style.

Don Kayne
President and Chief Executive Officer

Message from Canfor Pulp President Brett Robinson

Canfor Pulp welcomes the opportunity to advance our accountability and transparency by joining with Canfor to produce our first joint sustainability report.

Our companies share a common goal: To be preferred suppliers of high-quality, sustainable forest products in markets around the world. Like other forest companies, we start with a raw material that is fully renewable—but we have taken this further by becoming leaders through our integrated and eco-efficient use of forests and fibre.

Canfor Pulp is a forward-thinking pulp, paper and energy company. We have an unmatched focus on innovation, and we are committed to using resources responsibly and efficiently to create more value with less impact on the environment.

We have combined the skill and ingenuity of our employees with the contributions of our Canfor Pulp Innovation Centre to go beyond the usual approach to sustainability. While we are still improving yields, minimizing waste and cutting costs, we have advanced to a broader approach—generating more renewable energy and finding new ways to drive down greenhouse gas and air emissions.

You will see examples throughout this report, including the fact that we are one of the largest single producers of bioenergy in North America. Our modern Kraft pulp mills operate as a large-scale bio-refinery, and our goal is to become energy self-sufficient and export surplus power to the electricity grid.

Our customers know they can rely on us for a secure supply of premium quality paper and pulp products. Our fibre meets the strict controls introduced by the United States, the European Union and Australia to ensure raw materials for all imported forest products are harvested in full compliance with local laws.

We source all of our fibre through agreements with Canfor or other B.C. suppliers, which means it meets B.C.'s tough forest laws and regulations. This gives our customers confidence they are buying products from sustainable and legal sources, and we will provide additional information they may need to meet local regulations.

Canfor Pulp and Canfor were among the early adopters of third-party forest certification. Our three pulp mills carry chain-of-custody certification to both Programme for Endorsement of Forest Certification (PEFC) and Forest Stewardship Council (FSC) standards. Chain-of-custody certification tracks forest products through all stages of production to the consumer.

We understand our customers' products and operations so we can address their needs. One example in 2013 was a strategic sales and marketing agreement with UPM-Kymmene Corporation that will provide our customers with access to a broader product portfolio.

While we know we must deliver results that maintain our competitive advantage, we also appreciate the importance of being a good neighbour and employer. Since 2011, we have supported the work of the Lheidli T'enneh First Nation Fisheries Program, which is monitoring the endangered Upper Fraser white sturgeon to better understand its habitat needs. We are committed to the health and safety of our employees, and promote safety improvement through data-driven education and training programs.

At Canfor Pulp, we view sustainability as a moral and a business imperative. We will maintain our position as a leader and deliver constant incremental improvements in our journey toward true sustainability by using our strengths to create more value with less impact.



A handwritten signature in blue ink, appearing to read 'Brett Robinson', written in a cursive style.

Brett Robinson
President

Profile: Canfor Corporation

Canadian Forest Products Ltd. (Canfor) is a leading Canadian integrated forest products company based in Vancouver, British Columbia (B.C.), involved primarily in the lumber business, with production facilities in Canada (British Columbia, Alberta, Quebec) and the United States (North Carolina, South Carolina and Alabama) and forest operations in British Columbia and Alberta. We also own a bleached chemi-thermo mechanical pulp facility in British Columbia.

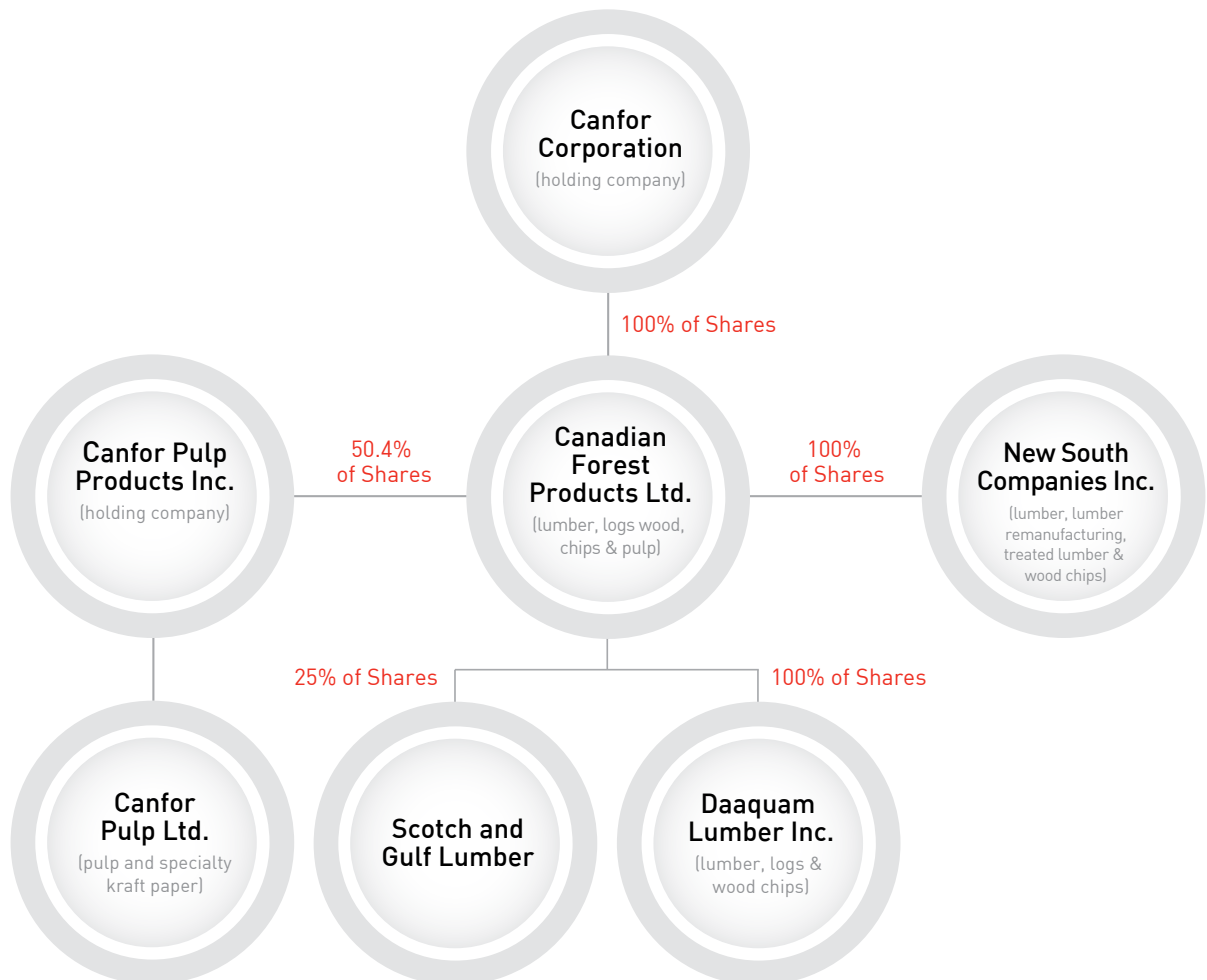
Canfor holds a 50.4% interest in Canfor Pulp, and has two wholly owned subsidiaries—Daaquam Lumber Inc.¹ in Canada and New South Companies Inc. in the United States. Canfor owns 25% of Scotch and Gulf Lumber, based in Alabama, and this ownership will increase to 100% over the three year term of the phased purchase agreement.

Canfor Pulp Products Inc. (Canfor Pulp) is based in Vancouver, B.C., and is a leading global supplier of pulp and

paper products. It owns and operates three pulp mills in Prince George, BC, with annual capacity to produce more than one million tonnes of northern softwood market Kraft pulp, 90% of which is bleached to become northern bleached softwood Kraft (NBSK) pulp. Canfor Pulp also produces about 140,000 tonnes of Kraft paper.

At the end of December 2013, Canfor Corporation directly employed 5,782 people.

Canfor's lumber operations have a current annual production capacity of approximately 5.6 billion board feet of lumber—this includes 100% of the capacity of the Scotch and Gulf sawmills acquired in 2013 through a three-year graduated purchase agreement. 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



[1] Canfor announced the sale of Daaquam Lumber Inc to Groupe Lebel Inc. of Quebec on February 28, 2014.

machine stress rated lumber used in engineered applications such as roof trusses and floor joists.

Canfor holds approximately 15.6 million cubic metres of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of British Columbia and in northern Alberta, and we harvest logs from those tenures to supply our interior lumber operations. Any shortfalls in mill requirements are made up with wood purchased from those areas. Our operations in Quebec and the United States mostly purchase logs from private land holdings.

Canfor Pulp is the world's fourth-largest producer of market NBSK, with a production capacity of more than one million tonnes of Kraft pulp and 140,000 tonnes of Kraft paper. We are the leading producer of fully bleached, high-performance Kraft paper, and our three mills are among the lowest-cost NBSK pulp producers in Canada. Canfor's Taylor pulp mill has an annual capacity of 220,000 tonnes of bleached chemi-thermo-mechanical pulp.

Canfor's lumber facilities produce wood chips as a by-product, and sell these to pulp mills, including our Taylor Pulp and Canfor Pulp mills. We also harvest pulpwood—logs

unsuitable for the production of lumber—from our northern forestry operations, and convert this to chips for our pulp mills.

Canfor is #7 on the 2013 BC Business Top 100 Companies list for largest profit gains among publicly traded companies in the province. Both Canfor and Canfor Pulp companies are among the largest companies in the province by revenue—Canfor placed #14 and Canfor Pulp #45.²

Canfor and Canfor Pulp are committed to research and development related to forest management, fibre analysis, manufacturing processes, quality control, and product and building systems development. We are active members of key industry research and development organizations, and maintain connections to developments in industry research and technical information through our relationships with various associations, universities, research institutes, suppliers and customers. Canfor Pulp operates a dedicated "open innovation" centre in Vancouver.

The core values of both companies are safety, quality and profitability. 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.

[2] BC Business 2013 Top 100 Companies in B.C. www.bcbusiness.ca/2013/top100



There is no substitute for Canfor



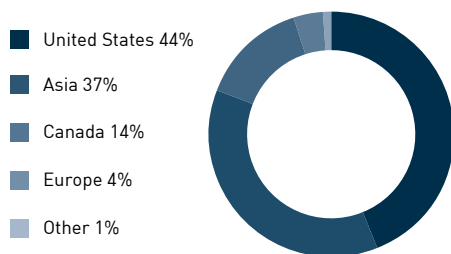
There is no substitute for Canfor

Markets and Market Development

Canfor and Canfor Pulp sell lumber, pulp and paper products in markets throughout North America and overseas through sales offices in Vancouver; Myrtle Beach, USA; Tokyo, Japan; and Shanghai, China. We have relationships with sales agents in other Asian and European countries through which we service those markets.

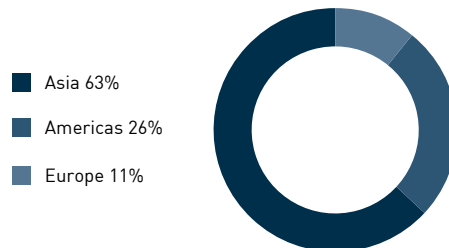
While our largest market for lumber is the United States, our shipments to offshore markets have increased in recent years, especially to China where there is growing acceptance of North American wood products for construction. Most of the lumber destined for North America is shipped by truck and rail, while the vast majority of products sold offshore are transported by container ship and, in the case of pulp export, breakbulk cargo.

LUMBER MARKET



Canfor Pulp has two wholly owned subsidiaries that market pulp—Canfor Pulp Japan Corporation in Japan and Canfor Pulp and Paper Europe SA in Europe. Premium 1 Papers, a sales and marketing partnership owned equally by Canfor Pulp and Tolko Marketing and Sales Ltd., markets all bleached and unbleached Kraft paper products produced by the Prince George Pulp and Paper operation and Tolko's unbleached Kraft paper mill in The Pas, Manitoba. In November, we announced that, beginning January 1, 2014, Canfor Pulp and UPM-Kymmene Corporation will co-market each other's pulp products in North America, Asia and Europe, expanding product offerings to customers and improving service delivery.

CANFOR PULP 2013 SALES



We work hard to gain a better understanding of customers in markets around the globe by meeting with them, and inviting them to visit our mills and forests. Through our Technical Marketing Program (TEMAP), Canfor Pulp production, innovation and sustainability staff contact customers directly. They arrange discussions, presentations and seminars so they can learn more about customer needs and serve them better.³

In 2013, we held events for customers in Canada, the United States, Japan and China to mark Canfor's 75th anniversary. In June, we joined staff from Wing—one of our largest Japanese customers—to mark the start of their 27th financial year. We participated in British Columbia government trade missions to Asia and India in October and November.

We were part of a British Columbia forest industry effort to help Japan recover from the 2011 earthquake and tsunami through the Canada-Japan (Tohoku) Reconstruction Project. In 2013, the opening of two buildings—the Donguri Ann Public Library and the Yuriage Public Market in Natori City—helped return a sense of normalcy to devastated communities.

In 2013, Canfor was named *International Business of the Year—Large Enterprise* in the third annual *HSBC International Business Awards*, which recognizes the best of Canadian companies doing business internationally.⁴ An independent panel of experts in international business chose Canfor for our leadership in the China market. We were the first North American lumber company to enter this market, and were central to collaborative government and industry market development that grew it from almost nothing in 2000 to record-breaking levels in 2013.

⁽³⁾ Canfor Pulp Technical Marketing Program www.temap.com

⁽⁴⁾ 2013 HSBC International Business Awards winners www.hsbc.ca/1/2/business/international/hsbc-advantage/international-business-awards

In October, Canfor signed a joint venture agreement with Tangshan Caofeidian Wood Industry Co. Ltd. of China to review possible construction of a secondary manufacturing facility in China's fast-growing Hebei Province. By working more closely with customers in China, we can expand our exports and range of product applications.

Canfor has relationships with customers in regional cities in China, which give us strengthened distribution channels and allow our lumber to reach a wider array of destinations and secondary customers. One of them is Chongqing Hongyun Trade Co. Ltd., which specializes in lumber imports and sales in Chongqing area. When it started a new store at the largest lumber trading market in Chongqing City, the company set up a demonstration shop to promote Canfor SPF.

As mentioned, in 2013 Canfor Pulp entered into a strategic sales and marketing agreement with UPM-Kymmene Corporation so customers have access to a broader product portfolio. Beginning in 2014, our sales network will represent and co-market UPM Pulp products in North America and Japan, and UPM's Pulp sales network will represent and co market Canfor Pulp products in Europe and China.

We understand our customers' products and operations so we can contribute to their success. Canfor Pulp partners with internationally recognized experts to deliver training on refiner fundamentals, and to support tissue customer optimization studies. We provide secure product delivery by co-ordinating with transportation partners worldwide.

In June, Canfor Southern Pine took 30 LMC Aspiring Leaders—family members being groomed to take over family-owned lumberyards across the United States—on a tour of our Conway Mill. These are the people who will control lumber purchasing for the next 30 years, and the tour introduced them to our business and our company. In 2013, Canfor Southern Pine also became the exclusive sales and marketing agent for southern yellow pine products from the Southern Parallel Forest Products sawmill in Albertville, Alabama.

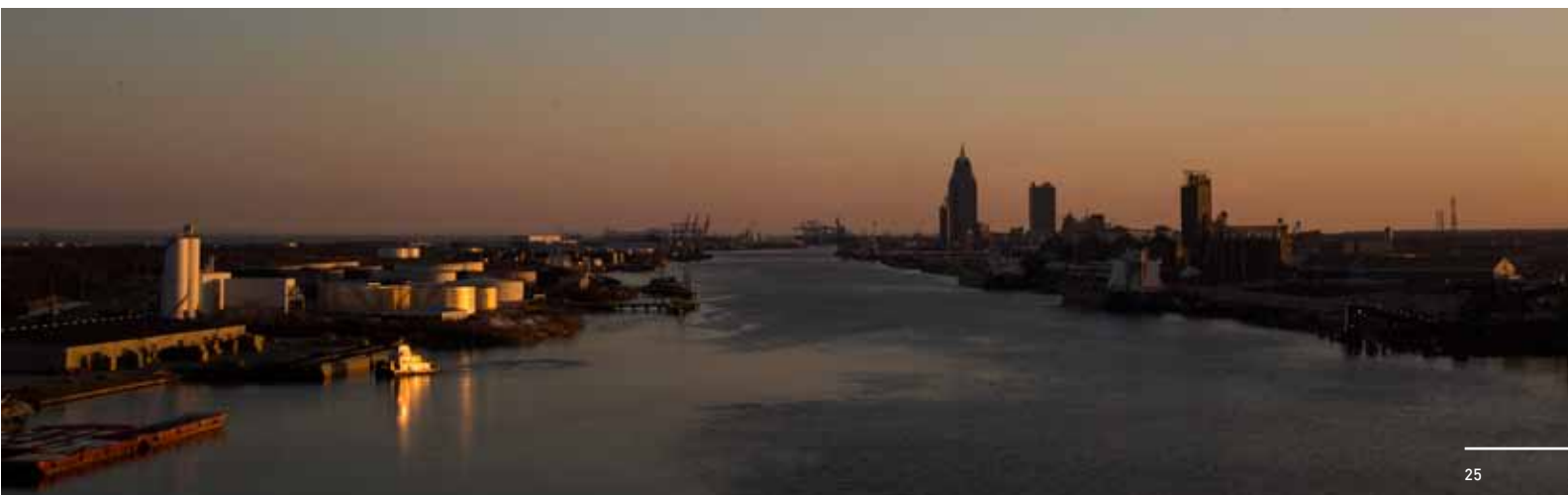
The response to the launch of our new Canfor RED product line in 2012 was so positive we began to brand our premium J-Grade products for our Japanese markets as Canfor RED. We took this opportunity to launch a website in Japanese, and produce a short promotional video to introduce Canfor Red to our customers in Japan.

Strong Local Roots

Throughout our long history, we have looked for local talent to lead our companies, manage our forest operations and run our mills. Currently, all of our company officers are long-term residents of our operating regions—the majority were born and educated in British Columbia, while the president of Canfor Southern Pine is from South Carolina. Canfor President and CEO Don Kayne is a 37-year veteran of the company and Canfor Pulp President Brett Robinson has worked in Canfor's pulp operations for the last 25 years.

There are 14 individuals on the Canfor and Canfor Pulp boards of directors; 13 are located in British Columbia and one in South Carolina.

When Canfor entered into a phased purchase agreement with Scotch and Gulf, we welcomed the opportunity to work with a company that shares our strong family roots. The Harrigan, O'Melia and Stimpson families built Scotch and Gulf by investing generations of experience and passion in land, timber and local communities, and they remain deeply committed to the industry.



Identifying Stakeholders and Key Indicators

Canfor and Canfor Pulp maintain 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 potentially impacted by our forest management or manufacturing activities, which include local communities, other forest users, customers, environmental groups, all levels of government, employees, contractors, 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, and we work collaboratively with them to address these.

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 table.

STAKEHOLDER/GROUP	INTERESTS
Communities	<ul style="list-style-type: none"> ▶ Economic stability ▶ Community enhancement ▶ Environment ▶ Safety on community roads ▶ Economic opportunities ▶ Responsible forest management ▶ Water quality (community watersheds) ▶ Air quality (local airshed advisory group)
First Nations	<ul style="list-style-type: none"> ▶ Cultural heritage, traditional use, treaty rights, aboriginal rights and title ▶ Employment opportunities ▶ Economic stability ▶ Economic opportunities ▶ Responsible forest management
Customers	<ul style="list-style-type: none"> ▶ Stable supply of quality products ▶ Competitive prices ▶ Responsible forest management ▶ Efficient delivery
Environmental Groups / Recreationalists	<ul style="list-style-type: none"> ▶ Responsible forest management ▶ Protection of species at risk/habitat ▶ Maintenance of biodiversity ▶ Safe forest roads
Post-secondary institutions	<ul style="list-style-type: none"> ▶ Research and development ▶ Recruitment
Government (provincial/ state, federal)	<ul style="list-style-type: none"> ▶ Responsible forest management ▶ Timely regeneration ▶ Research and development ▶ Compliance with laws ▶ Forest health ▶ Market development
Employees/unions	<ul style="list-style-type: none"> ▶ Safe working conditions ▶ Competitive wages ▶ Workforce diversity ▶ Advancement opportunities ▶ Training
Shareholders	<ul style="list-style-type: none"> ▶ Economic stability ▶ Market development, expanding use of wood ▶ Return on investment ▶ Product development ▶ Responsible operations
CSA Public Advisory Committees	<ul style="list-style-type: none"> ▶ Certification requirements ▶ Impact on forest management ▶ Management of local issues

Key Statistics— Canfor and Canfor Pulp

CATEGORY	STATISTICS
Social	<ul style="list-style-type: none"> ▶ 5,782 total workforce ▶ 2.28 medical incident rate ▶ \$234 million invested in mills ▶ \$574,675 charitable donations ▶ \$41,623 in scholarships and bursaries ▶ \$125,000 for university research
Environmental	<ul style="list-style-type: none"> ▶ 15.6 million cubic metres annual harvesting rights⁵ ▶ 97% of forest lands third party certified ▶ Products certified to all major certification systems (CSA, FSC, SFI)⁶ ▶ Planted 55 million seedlings in 2013 ▶ 0 high significance incidents of reportable non-compliances in forestry operations ▶ 0.29 moderate significance incidents of non-compliance per million cubic metres of harvest volume ▶ 3.3 low significance incidents of non-compliance per million cubic metres of harvest volume ▶ Canfor Pulp able to provide 100% of pulp under FSC-controlled wood standard ▶ Up to 910,000 tonnes of PEFC-certified pulp
Economic	<ul style="list-style-type: none"> ▶ \$3.2 billion in sales (Canfor); \$886 million (Canfor Pulp) ▶ \$229 million net income (Canfor); \$42 million (Canfor Pulp) ▶ 5.6 billion board feet annual production capacity⁷ ▶ 1.36 million tonnes pulp and paper⁸ ▶ \$234 million in capital investments

(5) Entered into agreement with West Fraser Mills Ltd. to exchange 382,194 cubic metres of tenure near Quesnel and 53,627 cubic metres near Burns Lake for 324,500 cubic metres near Houston

(6) CSA: Canadian Standards Association Standard for Sustainable Forest Management (Z809); FSC: Forest Stewardship Council; SFI: Sustainable Forestry Initiative

(7) Includes 100% capacity of Scotch and Gulf sawmills.

(8) 1.14 million tonnes Kraft pulp and paper; 220,000 tonnes BCTM pulp.







sustainable
forest
management



Canfor manages forests directly on the lands for which we have tenure agreements between the governments of British Columbia and Alberta and our wholly-owned subsidiary Canadian Forest Products Ltd. On these lands, we have third-party sustainable forest management certification and carry out extensive management and monitoring to deliver on our commitment to sustainable forestry.

Canfor Pulp and Canfor Southern Pine do not manage forest lands directly, and instead deliver on their commitment to sustainable forestry through their fibre-sourcing practices.

In the following sections, discussion of on-the-ground forest management practices and commitments refers to our tenured areas, and discussion related to fibre sourcing and management will be prefaced by identifying the operating business to which we refer.

Environment and Forestry Commitments

Canfor's Forest Management System ensures all woodland operations on company forest tenures are managed sustainably, and environmental practices continue to improve.

Canfor's Environment Policy⁹ and Sustainable Forest Management Commitments¹⁰ are developed and maintained by senior executives, approved by the President and CEO, reviewed by the Board of Directors, and posted on our website (see page 32).

Canfor's Corporate Environmental Management Committee, chaired by the Senior Vice-President, Energy, Environment, Transportation and Sourcing, 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 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 continuous 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 and ensure staff have the necessary training to meet them.

[9] Canfor Environment Policy May 2011 www.canfor.com/docs/news-2010/canfor-environment-policy_2011.pdf?sfvrsn=2

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

Sustainable Forest Management Commitments

SUSTAINABLE FOREST MANAGEMENT

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.

Legal Source of Fibre

All of the forest tenures we manage are in British Columbia and Alberta where a comprehensive suite of laws and regulations assures customers they are buying wood and paper products from sustainable and legal sources.

In British Columbia, we operate 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 values such as soils, timber, wildlife, water, fish, biodiversity and cultural heritage resources. Before government approves the plan, we must invite and consider public and First Nation 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.

In 2013, the provincial government of Quebec assumed responsibility for all forest management activities on Crown land. Our harvesting activities in this province were limited to 31,000 cubic metres in 2013.

On the lands we manage in British Columbia and Alberta, both provinces monitor compliance through planned and random audits of forest operations and field inspections to ensure forest laws are being followed. British Columbia's independent Forest Practices Board conducts audits and investigations, and issues public reports.

In 2013, the Forest Practices Board released results of an audit that found Canfor was in full compliance with forestry legislation and the local land and resource management plan on our area-based tenure known as Tree Farm Licence 48. The audit covered all aspects of comprehensive forest management, including road management, wildlife habitat planning, harvesting, silviculture, and fire preparedness. This area, near Chetwynd in northern British Columbia, is home to a vibrant mix of wildlife, including mountain goat, caribou, moose, elk, deer and wide-ranging carnivores.¹¹

Canfor Pulp sources 100% of its fibre from the strictly regulated and monitored forests of British Columbia, making it a reliable source of pulp and paper from legally harvested and regenerated forests.

[11] Canfor Tree Farm Licence 48 March 2013: Audit of Forest Planning and Practices www.fpb.gov.bc.ca/ARC152_Audit_of_Canadian_Forest_Products_TFL_48_Peace_District.pdf

COMPLYING WITH EU REGULATIONS

The European Union Timber Regulation (EUTR), which prohibits illegally harvested forest products from being placed on the market in EU member countries, came into effect on March 3, 2013. The regulations require that companies demonstrate due diligence with respect to the sources of their raw materials. This includes having a full understanding of the geographical forest region where the material originated and any risks inherent with the supply. This requirement is in addition to independent forest and chain-of-custody certification. Canfor and Canfor Pulp have been providing customers with the information they need to comply with the regulation since it became law.

Independent Certification

	CSA	FSC	SFI	TOTAL
Certified area (millions of hectares)	18.94	1.19	0.68	20.81
Percentage of total tenure area	84.3%	8.6%	3.6%	96.5%

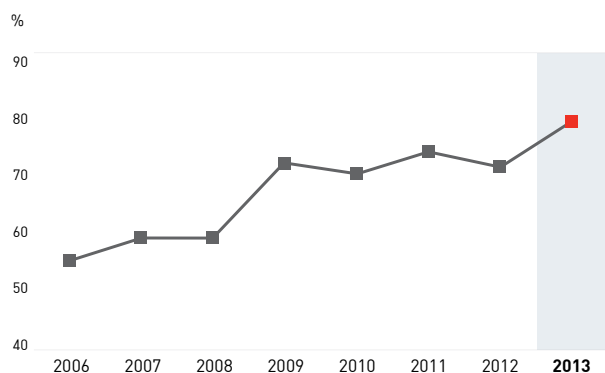
Canfor is one of the few primary lumber manufacturers to offer products third-party certified to all of the independent certification programs in North America—the Canadian Standards Association (CSA) Sustainable Forest Management Standard, the Forest Stewardship Council (FSC) and the Sustainable Forestry Initiative (SFI). CSA and SFI are fully endorsed by the international umbrella organization for certification, the Programme for the Endorsement of Forest Certification.¹²

Canfor actively contributes to the development of forest certification standards. Our British Columbia Chief Forester is a member of the Standards Development Group responsible for overseeing and providing strategic direction for the revision of the FSC forest management standard in Canada. The Planning Manager for the Forest Management Group sits on the CSA Sustainable Forest Management Technical Committee.

In total, 96.5% of Canfor's forestlands are certified to the CSA, SFI or FSC standards for sustainable forest management—18.9 million hectares to CSA; 1.2 million hectares to FSC and 680,000 hectares to SFI.

Canfor Pulp gives preference to suppliers that offer third-party certified fibre. Over time, the percentage of our fibre inputs that are certified has steadily increased.

CERTIFIED FIBRE PERCENTAGE - CANFOR PULP



Canfor Pulp met its target of 80% of fibre from third-party certified sources that was covered by a complete chain of custody. The actual percentage is higher but in some cases a chain of custody is not in place.

CANADIAN STANDARDS ASSOCIATION

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

The 2013 surveillance audit of Canfor's operations in British Columbia and Alberta found our sustainable forest management system meets ISO 14001 and CSA Z809 requirements.¹³

The audit team found a high level of conformance with Forest Management System requirements and applicable regulatory requirements on the field sites visited, and identified good practices such as:

- ▶ Our Radium division closed roads in advance of June flooding in the Kootenay Region, and prepared a hazard alert warning employees of potential risks and recommending safety precautions such as checking road and bridge conditions before starting work in a new area, reducing speeds on forest roads and flagging problem areas to help other motorists. Staff were also asked to report any road or structure issues.
- ▶ Recently harvested blocks near Houston addressed biodiversity and wildlife habitat concerns by ensuring stand level retention—an average of 14.5% of blocks harvested in 2011/12 were retained in wildlife tree patches, more than twice the target of 7%.
- ▶ Our Chetwynd division has used LiDAR technology for its logging plan maps for a number of years, leading to significant improvements in harvesting on and adjacent to steep slopes.
- ▶ Our Fort St. John division addresses First Nations concerns about operations by, among other things, avoiding herbicide use in the critical community use area, providing a buffer around the reserve, and working to improve communications.
- ▶ Through Creating Opportunities for Public Involvement, our Grande Prairie woodlands staff have made persistent efforts to encourage First Nations to engage in forest management consultation through the Forest Management Advisory Committee.
- ▶ A logging contractor in the Quesnel area used a moveable checkpoint containing key Forest Management System and safety documentation.

¹² Third-party certification is considered the most robust and transparent form of certification as a fully independent and competent auditor verifies conformance of operations to the certification standard. In first-party certification, companies attest to their own conformance. Second-party certification involves verification by an organization related to the company.

¹³ Canadian Forest Products Ltd. 2013 CSA Z809/ISO 14001 Surveillance Audit Public Summary Report www.canfor.com/docs/responsibility/2013-canfor-csa-z809-14k-public-summary-report_final.pdf?sfvrsn=0

The audit found good progress on eight open minor non-conformances, and closed five. Of the three that require further improvements, two are related to fuel management requirements and one to the provision of current status information related to Sustainable Forest Management Plan indicators. Four new non-conformities were identified:

- ▶ At the time of the site visit, a Quesnel Sustainable Forest Management Plan annual report for 2011 had not been finalized and made publicly available, an oversight that was promptly corrected;¹⁴
- ▶ Excessive site disturbance on part of a Vavenby block, and failure to clean accumulated soil and gravel from a bridge, leading to sediment in a stream;
- ▶ Incomplete inspection of a bridge used for hauling in the Vanderhoof area; and
- ▶ A lack of forecasting information for several key indicators in the Fort Nelson Sustainable Forest Management Plan.

There were also systemic opportunities for improvement cited, relating to prompt public reporting of Sustainable Forest Management Plans as well as isolated cases of weakness in applying Canfor's operational controls to meet environmental objectives and regulatory requirements and to address non-conformities identified through internal and external audits.

FOREST STEWARDSHIP COUNCIL

An audit in September 2013 found that Canfor's East Kootenays operations met the requirements of the Forest Stewardship Council's BC Standard, and were issued a certificate that expires in October 2014.¹⁵ The annual audit viewed logging sites with issues related to high conservation value forests, riparian protection and stream crossings, structural retention implementation and effectiveness monitoring. The audit team met with 21 individuals including representatives of First Nations, government, environmental groups, contractors, rights holders and community groups.

The audit report noted that Canfor promptly addressed and resolved a variety of minor issues and concerns documented in our Creating Opportunities for Public Involvement database (see Engaging Stakeholders page 42), and also noted extensive engagement with interest groups and stakeholders in sensitive areas in the Flathead River Valley.

It found Canfor had addressed non-conformances from previous audits. Actions included implementing a process so staff report possible illegal activities in access management areas and revising safety guidance documents related to contractor requirements. There were two new minor non-conformances: The lack of a protocol agreement between Canfor and the Ktunaxa Nation Council and failure to meet snag retention targets in some areas reviewed.

The auditors met with Concerned Residents of Sheep Creek who had registered a number of concerns during previous audits. They found that while the group says it continues to have some concerns, there is no non-conformity because the steps for communication are in place and being implemented.

SUSTAINABLE FORESTRY INITIATIVE

Canfor's holds tenured harvest volume within the Alberta Forest Management Area held by Daishowa-Marubeni International (DMI) are certified to the Sustainable Forestry Initiative.¹⁶ Canfor's operations within this FMA must comply with the SFI certification held by DMI.

In September 2013, an audit team found the DMI Peace River Pulp Woodlands operations, harvest and silviculture operations of embedded conifer holders, and DMI fibre procurement operations met the requirements of the SFI 2010-2014 Standard.

Good practices identified included:

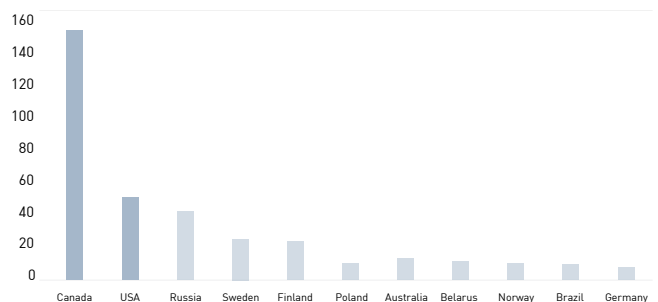
- ▶ A good level of coordination and integration among various tenure holders, including Canfor Grande Prairie, to support sustainable forest management.
- ▶ Crown land ground rules were applied to DMI's fibre purchase program even though this is not required—an example included establishment of a 30-metre buffer for an unoccupied stick nest in a stand of aspen DMI was buying from a local landowner.
- ▶ There was a notable training program for layout contractors, including a workshop and field visit.

The audit found DMI has adequately responded to all previous findings of non-conformity, and closed them. It identified two minor non-conformities. In one case, a stakeholder was not notified of harvesting because of an error in internal tracking procedures, and in a second situation a log fill for a skid crossing on an intermittent stream was not removed following operations. The audit also referenced four opportunities for improvement related to forest productivity, water protection and continual improvement.

CANADA AND UNITED STATES LEAD THE WORLD IN CERTIFICATION

There are three internationally recognized certification programs in North America: Canadian Standards Association (CSA), Forest Stewardship Council (FSC), and Sustainable Forestry Initiative®

Millions of Hectares Certified



(SFI). Both Canada and the United States are leaders in forest certification globally, which highlights the commitment to sustainability of North American forest managers.

[14] www.canfor.com/docs/responsibility/quesnel_2011_annual_report.pdf?sfvrsn=0

[15] Rainforest Alliance Forest Management 2013 Annual Audit Report for Canadian Forest Products Ltd. www.canfor.com/docs/responsibility/canfor-east-kootenays-fsc-fm-audit-13-client.pdf

[16] DMI Peace River Pulp Woodlands and Embedded Conifer Quotas September 2013 www.sfi-program.org/sfi-standard/audit-reports/daishowa-marubeni-international-peace-river-pulp-woodlands-dmi-september-2013/

Chain-of-Custody Certification

Customers worldwide are taking a greater interest in understanding the origin of the forest products they purchase. Canfor and Canfor Pulp carry chain-of-custody certification for our facilities so customers can be confident they are buying products from well-managed forests. Chain-of-custody certification requires tracking of forest products through all stages of production to the consumer.

Three of our British Columbia sawmills are certified to the Forest Stewardship Council^{17 18 19}, and the rest of our Canadian facilities are chain-of-custody certified to the Programme for the Endorsement of Forest Certification (PEFC).²⁰

Canfor Southern Pine is committed to implementing and achieving the SFI Standard (2010-2014 Edition) in its procurement of wood to supply its manufacturing facilities in North and South Carolina.²¹

At Canfor Pulp, all of the fibre we use to make our pulp and paper originates within British Columbia, and all the

forest operations we source from are in full legal compliance with provincial forest laws. Canfor Pulp is committed to establishing and maintaining a chain-of-custody system consistent with PEFC and FSC standards within selected operations to create an information link between the raw material used in company manufacturing plants and the forest area of origin of the raw material.²²

All Canfor Pulp fibre sources have been subject to a chain-of-custody audit to FSC Standards, and all of the products we make are eligible to be treated as FSC-controlled wood if the customer purchasing them has FSC chain-of-custody certification.²³ Sawmill residuals, which we treat as basic raw materials, are covered by our chain of custody. We can also provide customers with PEFC-certified pulp if they require it.²⁴ Both FSC and PEFC require that we have in place audited risk assessments on all the locations for our fibre. These are publicly available on the FSC database.

[17] FSC Chain of Custody Documented Control System Canal Flats and Elko April 2012 [www.canfor.com/docs/responsibility/3\)-chain-of-custody-documented-control-system.pdf?sfvrsn=2](http://www.canfor.com/docs/responsibility/3)-chain-of-custody-documented-control-system.pdf?sfvrsn=2)

[18] FSC Risk Assessment Canal Flats and Elko April 2012 [www.canfor.com/docs/responsibility/5\)-risk-analysis-for-fibre-procurement.pdf?sfvrsn=2](http://www.canfor.com/docs/responsibility/5)-risk-analysis-for-fibre-procurement.pdf?sfvrsn=2)

[19] FSC Multi-site Chain of Custody and Controlled Wood March 2012 [www.canfor.com/docs/responsibility/23\)-canfor-fsc-coc-cert-in-2012-1.pdf?sfvrsn=2](http://www.canfor.com/docs/responsibility/23)-canfor-fsc-coc-cert-in-2012-1.pdf?sfvrsn=2)

[20] Canfor PEFC chain-of-custody certificate October 2013 www.canfor.com/docs/responsibility/2013-oct-canfor-pefc-coc-revised-re-reg-cert.pdf?sfvrsn=0

[21] Canfor Southern Pine 2013 SFI Summary Surveillance Audit Report www.sfiprogram.org/sfi-standard/audit-reports/canfor-southern-pine-july-2013/

[22] Canfor Pulp Chain of Custody Policy July 2013 www.canforpulp.com/_resources/company/CPLP_COC_201307.pdf

[23] Canfor Pulp FSC Certificate RA-COC-003366/RA-CA-003366

[24] Canfor Pulp PEFC Certification KPMG 2563, valid until March 5, 2017



Regenerating Forests

Prompt reforestation of harvested areas is key to sustainable forest management. This ensures the forest maintains its ability to grow trees, and provides the young trees with a head start against competing vegetation to reduce the need for manual or chemical brushing treatments. Stands are considered free growing when they reach a stage where their density, health and height make them less vulnerable to competition and more likely to reach maturity.

Canfor uses ecologically suitable species to restore all harvested areas to healthy, native free-growing forests promptly. We determine the species before we harvest, basing the choice on ecosystem type and potential regeneration risks such as frost, flooding or heavy snow.

We also use natural regeneration of local tree species where appropriate to maintain genetic diversity and ensure the trees are adapted to local conditions so they are able to withstand natural disturbance events and agents.

In 2013, we planted 55 million trees on our tenures—seven million more than in 2012. Canfor owns and operates our own tree seedling nursery, which produces about 14% of our seedling requirements. In addition to the trees we grow ourselves, we buy seedlings from three independent nurseries—PRT, Woodmere, and Silvagro. About 37 million seedlings were planted between May 1 and June 21, and another 18 million from June 25 to August 1.

In March, the roof of the cold storage unit at our J.D. Little Nursery in Prince George collapsed under a load of snow. The seedlings are kept in cold storage to mimic the dormant stage trees experience through winter, and are thawed when it is time to plant them. The warm outside temperatures at the time of the roof collapse meant the seedlings would thaw and die before they could be planted. Nursery and regional Canfor staff worked long hours to save almost all of the 15 million seedlings in storage at the time, and found them new cold storage placement while our facility was repaired.

Canfor operations in Alberta and British Columbia use genetically improved seed grown at either the Huallen Seed Orchard near Grande Prairie, Alberta, or at the Vernon Seed Orchard Company site near Vernon, B.C. 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 a little more than half of our seedlings are grown from improved seed.



Conserving Biodiversity

Canfor has detailed Sustainable Forest Management Plans for each of its operations. They include plans, measures and activities that conserve and protect areas with high conservation values such as riparian areas and old growth forests.

These plans 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. A comprehensive species accounting system is in the process of being developed for all our B.C. operations by independent scientists so we can monitor impacts on priority species and take action if negative impacts appear to be occurring.

A team of Canfor staff from British Columbia and Alberta has met to compare how each of our regions is managing for species at risk and other species of interest, and to develop common reporting strategies. Our goal for 2014—and an important component of our biodiversity strategy—is to develop consistent management strategies based on the best available science so we can better understand how well we are managing these species.

While a healthy forest includes a range of stand ages, older forests play a significant role in maintaining biological diversity. In areas affected by the mountain pine beetle, older pine-leading stands are the most susceptible to the infestation. In our Prince George operating area, we are working with other licensees to develop a strategy to retain and increase old forest stands over time for units identified as having a deficit.

In the Houston area, Canfor and BC Timber Sales have introduced mitigation measures to deal with sensitive watersheds in areas impacted by beetle infestation, including stream crossing quality surveys, inventory reviews, and measures to manage runoff and ditch flow such as silt fences and grass seeding.

Coarse woody debris, such as logs, exposed roots and large fallen branches, provide habitat for plants, animals and insects, and are an important source of soil nutrients as they decay. In our Grande Prairie tenure, measurements have confirmed that the volume of coarse woody debris left after harvesting consistently exceeds the pre-harvest volume.

Protecting Habitat

Our operational plans contain conservation measures to protect habitat for species of management concern, and we monitor general trends in habitat types, elements and patterns.

Canfor has identified five species in our operating areas that are red listed by the International Union for Conservation of Nature—the whitebark pine, the rusty blackbird, the western toad, the olive-sided flycatcher and western white pine. There are 21 species recommended for listing on *Canada's Species at Risk Act*, including the western screech owl, American badger, Lewis's woodpecker, monarch butterfly and Rocky Mountain tailed frog. We use special management practices and monitoring to meet the habitat requirements of species at risk in our operating areas.

In the Vanderhoof area, we worked with local biologists and First Nations to develop special management strategies for potential caribou habitat in the area adjacent to Entiako Provincial Park. These strategies will be implemented over the next two years while harvesting occurs in the area.

As part of our FSC certification, we worked collaboratively with environmental groups, government and wildlife experts to identify areas of high conservation value in our East Kootenay operations, and to develop forest management strategies to protect these areas. In 2013, we conducted effectiveness monitoring in partnership with a local

environmental group, and preliminary results showed the strategies appear to be maintaining the biodiversity values present. The study identified the need to reduce the amount of waste wood left in piles on cutblocks so we created a new staff position to focus on this. As a result, there is less waste and more large logs are being left behind for wildlife habitat.

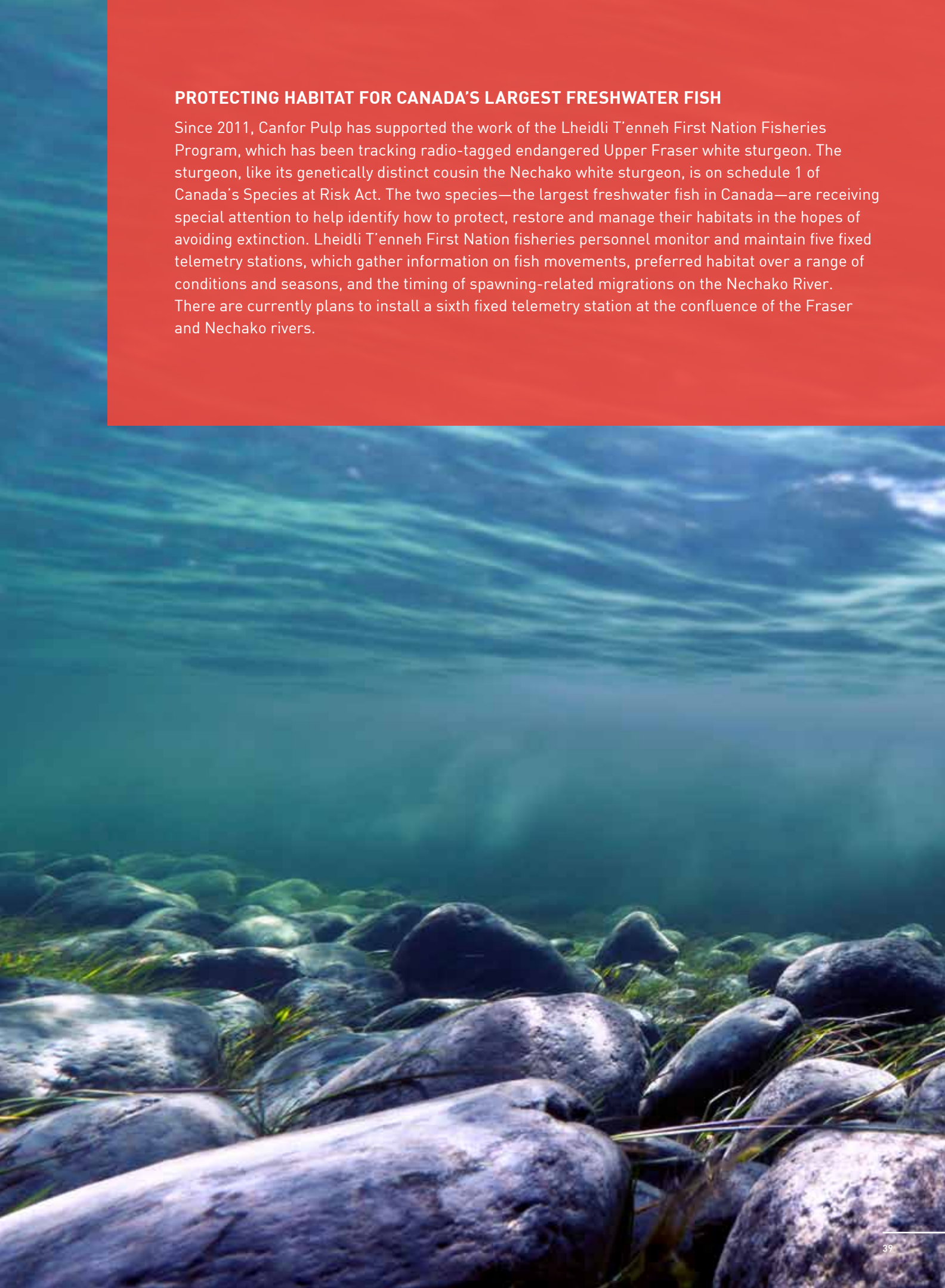
In the East Kootenays, we completed four years of water quality monitoring on a stream feeding into a significant bull trout spawning area. We designed extensive road works, and monitoring indicated this had prevented increases in water sedimentation due to harvesting.

In Grande Prairie, we worked with researchers from the Foothills Research Institute and timber supply modellers to create a new planning tool that simultaneously evaluates the effect of proposed forest harvesting on caribou habitat. It will allow us to spatially project future caribou habitat conditions under a range of timber harvesting scenarios.

In TFL 48 near Mackenzie, biodiversity-rich stream and lake-side areas were protected with reserves averaging more than twice the legal minimum width. In addition to protecting valuable wildlife habitat, these reserves help maintain water quality and cool temperatures for aquatic life.

PROTECTING HABITAT FOR CANADA'S LARGEST FRESHWATER FISH

Since 2011, Canfor Pulp has supported the work of the Lheidli T'enneh First Nation Fisheries Program, which has been tracking radio-tagged endangered Upper Fraser white sturgeon. The sturgeon, like its genetically distinct cousin the Nechako white sturgeon, is on schedule 1 of Canada's Species at Risk Act. The two species—the largest freshwater fish in Canada—are receiving special attention to help identify how to protect, restore and manage their habitats in the hopes of avoiding extinction. Lheidli T'enneh First Nation fisheries personnel monitor and maintain five fixed telemetry stations, which gather information on fish movements, preferred habitat over a range of conditions and seasons, and the timing of spawning-related migrations on the Nechako River. There are currently plans to install a sixth fixed telemetry station at the confluence of the Fraser and Nechako rivers.



Responding to Climate Change

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".²⁵

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.

Products or processes are carbon neutral if they do not add carbon dioxide to the atmosphere. Forest biomass used in

pulp or wood production is generally considered carbon neutral because it absorbs carbon dioxide by photosynthesis while the tree is growing, and when it decomposes or is burned—either directly or after conversion to a biofuel such as black liquor—it releases the carbon dioxide back into the atmosphere where it re-enters the natural biogenic cycle.

BENEFITS OF WOOD

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.

We know that individuals, companies and governments around the world are finding that use of wood is an effective means to improve the environmental performance of the buildings they construct.

Wood is the only major building product that is natural, renewable, and stores carbon throughout its life cycle. Furthermore, the environmental benefits are strengthened when the wood comes from a company like Canfor that utilizes wood manufacturing technology and sustainable forest practices, backed by third-party forest certification.

[25] IPCC Fourth Assessment Report: Mitigation of Climate Change Executive Summary www.ipcc.ch/publications_and_data/ar4/wg3/en/ch9s9-es.html



In developed countries, buildings represent about 35% to 40% of the total national energy consumption and a similar percentage of total national carbon emissions. Greening our buildings is a critical element in the quest for sustainability and the fight against climate change.

Advances in wood science and building technology, adopted through modern building codes, allow wood to be used in an increasingly broad range of non-residential, multi-storey and longer-span buildings and applications. In addition to traditional wood and timber-frame construction and finishing applications, there's a role for wood in every project.

Green building standards that scientifically analyse product impacts using life cycle assessment reward wood use for its dramatic benefits on improving green building performance. Truly nature's building material, wood is the clear sustainable choice.

MOUNTAIN PINE BEETLE

The mountain pine beetle has had significant impacts on forests in British Columbia and to a lesser extent, Alberta. While the beetle has mostly run its course in B.C. forests, Canfor is working with government to slow the spread of the beetle in Alberta.

A key component of Canfor's mountain pine beetle strategy in Alberta has been implementation of a significant shift in harvesting priority to address pine stands that are most susceptible to mountain pine beetle attack. Since 2013, this has resulted in an accelerated harvest of pine stands north of the Peace River on Canfor's quota area where the infestation has been most extensive. This shift northward has been possible because the majority of susceptible pine stands on the Forest Management Agreement area south of Grande Prairie have been successfully harvested, in most cases before they became heavily infested.

Another aspect of mountain pine beetle management in Alberta is to mitigate the potential mid-term loss of timber supply resulting from the infestation and the related accelerated pine harvest. Canfor's new forest management plan, scheduled for submission to the Alberta government in 2014, will include a suite of strategies to ensure the mid- and long-term timber supply is optimized while still addressing other resource objectives.

WATER RESOURCES

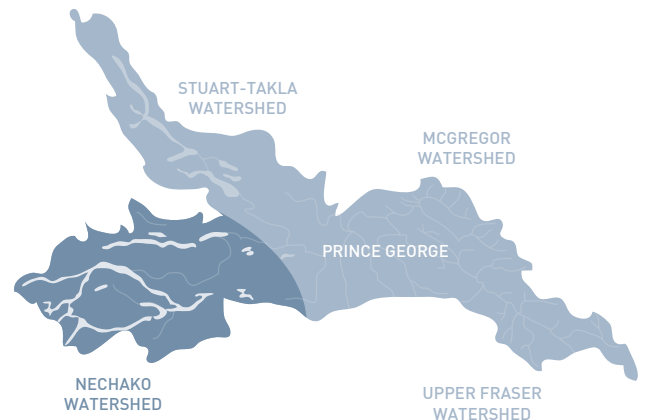
Pulp and paper mills, including Canfor Pulp's three mills in Prince George, are heavily dependent on water. British Columbia's climate has changed over the last 100 years, and we expect this will continue with warmer and wetter conditions in the future. Higher local temperatures and rainfall will lead to unbalanced conditions within local watersheds.

We draw water for our mills from the Nechako and the Fraser Rivers. While this represents less than one per cent of the volume, we have been working with researchers at the University of British Columbia to understand how these flows may change.

BRITISH COLUMBIA



UPPER FRASER REGION



Engaging Stakeholders

As noted, Canfor and Canfor Pulp work with a wide range of stakeholders. There is significant public involvement in the development of our Sustainable Forest Management Plans. The Morice plan in the Houston area of northern British Columbia, for example, involved more than 100 meetings and 200 people representing a wide variety of expertise and a cross-section of local interests.

Our proprietary Creating Opportunities for Public Involvement (COPI) database supports our public communications by identifying who is responsible and measuring system performance. It provides both a record of stakeholder contact information and a repository for communications, and can be used to send out information and generate reports. The database includes spatial

information that identifies areas of geographic interest and links to overlapping tenure holders such as guide outfitters, trappers and mineral tenure holders.

We rely on staff knowledge, Public Advisory Groups associated with our forest certification program commitments, 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.

Public Advisory Group members help us deliver on our commitment to sustainable forest management. In 2013, the Prince George Public Advisory Group received the third CSA



RADIUM HOT SPRINGS TRAFFIC CONCERNS

Our sawmill in Radium is near a residential area so we took steps to manage noise and traffic after we reopened it in 2012. We invested \$100,000 to reduce noise in the mill by enclosing buildings, applying plastic coating to chains and conveyors, and installing special back-up alarms on mobile equipment. We spent \$85,000 to apply magnesium chloride in our millyard and on road surfaces to reduce dust, and are supporting community efforts to enforce speed limits on municipal roads. We discussed our actions with residents at a public meeting in September.

Sustainable Forest Management User Group Chairman's award for leadership and personal commitment to sustainable forest management. Public Advisory Committees help ensure local forest management meets strict on-the-ground tests required by the Canadian Standards Association sustainable forest certification standard for biological, environmental and social criteria.

Canfor Pulp has been working with the local airshed advisory group in Prince George. At a North Central BC Clean Air Forum in March, we reported excellent success in reducing at-source particulate matter, odour and fossil fuel use while producing more green power and more pulp.

Canfor Southern Pine hosted mill tours and was involved in other public awareness events involving schools, camps and service clubs. In North Carolina, we took part in a number of events, including Envirothon, the Alamance County Chamber of Commerce Agriculture Banquet, and a Tree Farm landowner workshop. In South Carolina, activities included chairing the state's sustainable forestry teachers' tour and making presentations about forest certification and procurement at

Clemson University. Canfor Southern Pine representatives serve on the boards for both the North Carolina and South Carolina forestry associations.

In Houston, we were involved with public awareness and educational activities, supporting an exhibit at the local mall and field trips for local high school students. And in Prince George, we participated in public outreach activities that reached more than 325 people of all age—including field tours, presentations, elementary and high school events, and a career day at the University of Northern British Columbia.

In Grande Prairie, Canfor participated in educational programs that reached 3,156 local students in 2013. Events included the annual *Walk Through the Forest* program during which a total of 930 Grade 6 students from 25 schools in the Alberta Peace Region learned about forests and the forest industry first hand. On Arbor Day in May, more than 1,300 Grade 1 students from 37 schools in the region were presented with tree seedlings and planting instructions from local forestry professionals, including several Canfor staff members.



Working with First Nations

We maintain good working relationships with First Nations communities in our operating areas, and have successful business arrangements with many of them including Ktunaxa, Lheidli T'enneh, Moricetown, Cheslatta, Stelat'en, McLeod Lake, Kluskus and West Moberly First Nations.

In 2013, we signed fibre supply agreements with First Nations who have access to timber in British Columbia's Southern Interior—Nupqu Development Corporation, a company owned by the communities of the Ktunaxa Nation; the Lower Kootenay Indian Band, one of the bands in Ktunaxa Nation; and the Shuswap Indian Band. Canfor is also working on an agreement with the St. Mary's and Akisqnuq Indian Bands. Under these agreements, Canfor manages the tenure, and the First Nations earn revenue by selling us the timber.

Through open communication with First Nations, we ensure that areas of cultural importance are managed in a way that

retains their traditions and values, and benefit from local and traditional knowledge. For example, Prince George forestry planners moved a harvest boundary from 10 to 30 metres from the Duzcho-Stuart-McLeod Lake Pack Trail to avoid clusters of culturally modified trees, and created a reserve to protect an area identified as having a high archaeological potential.

We identify and track culturally important, sacred and spiritual sites so they can be managed appropriately or protected, and make sure our staff are trained in cultural awareness. Under a draft protocol agreement, Canfor and Ktunaxa Nation Council are building a working relationship of mutual professionalism, good faith, respect, openness, trust, understanding and integrity.

Canadian Boreal Forest Agreement

The Canadian Boreal Forest Agreement²⁶ is a collaborative, multi-year agreement that was signed in 2010 by major Canadian forest companies and environmental groups. The agreement commits signatories to achieving strategic goals that address both environmental and economic sustainability in the boreal forest. The geographic scope of the agreement spans more than 72 million hectares of boreal forest across Canada.

Canfor remains committed to the Canadian Boreal Forest Agreement, both at the national level and with regional work in Alberta and British Columbia where we operate. The complexities of land use planning continue to take more resources and time than originally envisioned when this agreement was signed.

Nationally, work on Goal 1 to achieve world-leading boreal sustainable forest management practices is proceeding well. Draft forestry requirements are being field tested this year, including at one of our operations, and refinements are expected prior to completion.

Our staff are active in the Alberta and British Columbia regional working group, and the current work plan is focusing on an area in West Central Alberta, which includes a portion of our Grande Prairie Forest Management Area. It is one of the most challenging landscapes in Canada, and will require creative outcomes to be successful.

There is also regional work underway in Manitoba, Newfoundland and Saskatchewan, and the Ontario government is completing its analysis of the first bilateral plan developed under the agreement for northeast Ontario.

[26] Canadian Boreal Forest Agreement www.canadianborealforestagreement.com

Compliance—Forestry

Canfor monitors incidents of non-compliance and categorizes them by severity according to 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 2013, IN OUR FORESTRY OPERATIONS, WE RECORDED TO FOLLOWING OCCURRENCES OF NON-COMPLIANCE:

SEVERITY	INCIDENTS PER MILLION CUBIC METRES OF DELIVERED LOG VOLUME ^{27 28}
High	0
Medium	0.26
Low	3.3

[27] Total delivered volume for 2013 was 16,482,370 cubic metres.

[28] Comparable figures for 2012 operating year were 0 high severity incidents, 0 moderate, 4.87 low on 13,544,063 cubic metres of delivered log volume.







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canfor

Capital Investments

In the last three financial years, Canfor has made capital investments of more than \$450 million at its lumber operations. In 2013, these included completion of \$80 million in capital improvements at two British Columbia sawmills—Mackenzie in the north and Elko in the interior—to enhance productivity and cost performance. We invested \$40 million at Elko to increase kiln drying capacity and build a new greenfield planer mill complex; and \$40 million at Mackenzie to modify and upgrade the sawmill, kilns and planer. A new \$10 million biomass-fueled Heat Energy System was also started up at Vavenby in southern British Columbia in fall 2013.

In December, we announced we would invest \$36 million in our Houston sawmill to upgrade primary and secondary

breakdown lines and install advanced scanning and optimization technology. This will improve efficiency and recovery at the mill.

Canfor Southern Pine completed an \$12-million expansion at our mill in Darlington, SC, which resulted in a second shift and 67 new jobs by the end of 2013. Additions included a new chip bin, continuous kiln and sawmill by-product conveying additions and improvements.

We also completed the installation of a \$4-million continuous kiln at our Conway, SC, mill in June, with a drying capacity of more than 80 million board feet. The energy-efficient heat recovery process provides optimal conditioning for improved product quality.



Company Changes

In August, Canfor completed the first of phase of a purchase agreement over three years to buy Scotch and Gulf Lumber of Alabama. The \$80-million agreement involves three sawmills, which have a combined production capacity of 440 million board feet and are among the leading southern yellow pine producers in the United States.

In May, Canfor announced it had completed the sale of its 50% interest in the Peace Valley Oriented Strand Board joint venture in Fort St. John, B.C., to Louisiana Pacific Canada Ltd. for \$77 million plus working capital. LP is the sole owner of the mill, and we will continue to manage its fibre resources.

In October 2013, Canfor announced that we will permanently close our Quesnel Sawmill in British Columbia. We were forced to make this difficult decision as there is insufficient timber availability in the region to supply the mill, owing to the

mountain pine beetle epidemic. The closure will occur in March 2014. The annual capacity of this operation is 250 million board feet of SPF lumber. In total, 209 people work at the Quesnel facility; all have been offered jobs at another Canfor division or placement assistance to find employment with another company in the community of Quesnel.

On October 24, 2013, Canfor entered into an agreement with West Fraser Mills Ltd. ("West Fraser") for an exchange in forest tenure rights. Canfor exchanged 382,194 cubic metres of replaceable forest license allowable annual cut in the Quesnel Timber Supply Area and 53,627 cubic metres near Burns Lake with West Fraser for 324,500 cubic metres of replaceable forest license allowable annual cut in the Morice Timber Supply Area as well as a non-replaceable license and undercut volumes. The agreement is subject to customary review procedures.

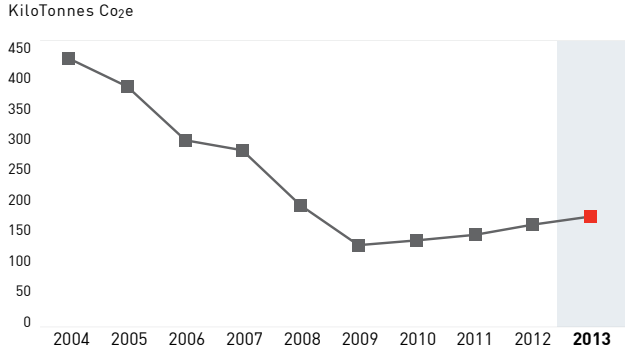


Carbon Footprint

Canfor and Canfor Pulp continue to implement measures to combat climate change by improving our manufacturing processes, and through increased use of sustainable biomass for power and heat, reducing our greenhouse gas emissions. Using biomass in place of fossil fuels reduces our operating costs, yielding economic as well as environmental benefits.

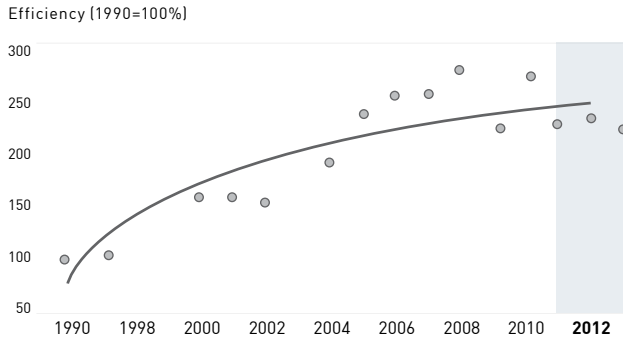
In 2013, we invested \$38.7 million to move closer toward energy self-sufficiency, using wood residuals generated in our manufacturing process to generate heat and energy.

CANFOR GREENHOUSE GAS EMISSIONS



Greenhouse gas emissions increased slightly due to a full year of operation at the Elko Sawmill, which currently uses natural gas for lumber drying; the restart of our Radium operation in fall 2012; and related mobile equipment diesel use.

CANFOR PULP GREENHOUSE GAS REDUCTION EFFICIENCY:



Despite a reduction in the reduction value in 2013, we continue to trend at a level of double the efficiency we were operating at in 1990, the Kyoto reference year.



Compliance—Manufacturing

Canfor was in substantial compliance with regulatory requirements at our manufacturing facilities with the following exceptions:

AIR

Canfor received two warnings at one sawmill—one for burning unauthorized fuel in a biomass-fired energy system and failure to report an emergency condition preventing compliance with a permit requirement, and one for unauthorized air emissions. The first situation involved a contained leak of thermal oil from the heat exchanger within the combustion zone of a biomass furnace that is only authorized to burn biomass. The furnace shut down automatically as it is designed to do, and the leak was repaired. The second related to spontaneous combustion in bark being stored on the mill site. The fire was extinguished, and measures are being taken to prevent a buildup of bark in the future.

We received advisory letters at two sawmills. One was for unauthorized operation of air emission equipment and failure to conduct sampling required by permit. The unauthorized emission source was a very small cyclone used to separate saw filing metal grindings that was inexplicably not included in the air permit. We received a permit amendment authorizing the emission source and deferring the air emission sampling. The second advisory letter was for operating equipment without authorization. In this case, we applied for a minor permit amendment well before planned start-up of the equipment, but administrative factors delayed issuance of the permit by more than two years.

At a combined heat and power plant, we exceeded carbon monoxide emissions several times because of frigid ambient temperatures and snow and ice in the incoming biomass fuel. The issue was resolved with warmer weather and improved fuel quality.

SPILLS

Canfor had two reportable hydraulic oil spills at two sawmills, both due to ruptured hydraulic hoses on forklifts. A third spill occurred at another sawmill when oil leaked from a compressor

room to the ground. The spills were contained and cleaned up, appropriate regulatory agencies were notified promptly, and internal follow-up investigations completed.

A B.C. Ministry of Environment investigation of a complaint led to one mill receiving an advisory letter for very minor leaks of hydraulic oil onto the snow from two mill hydraulic units. We installed drip trays below the hydraulic units to contain any future leaks.

LANDFILL

Three of our operations exceeded permitted deposits of soil and woody debris removed as part of regular logyard maintenance. In efforts to reduce or eliminate deposits at our landfills, we tested screening and rock/bark separation equipment at one facility in fall 2013, and plan a further trial in spring 2014.

Another operation received an advisory letter for storing plastic pipe on a landfill and when an exposed area of the landfill indicated oversized woody material. We removed the plastic pipe and advised staff how to store it before recycling it, and removed the oversized woody material from the landfill. At a permanently closed operation where nothing had been deposited at the landfill for several years, we received a letter from the B.C. Ministry of Environment for failure to submit an annual landfill report. We advised the Ministry that we do not intend to make further deposits to the landfill, and plan to submit a landfill closure report.

MONETARY FINES

The Quebec Ministry of Environment levied a \$2,500 administrative penalty against one of our Quebec operations when a small quantity of oil was observed in a mill drainage ditch during a ministry inspection. Subsequent testing indicated hydrocarbons were within acceptable levels.





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Canfor Pulp's Sustainable Enterprise model embraces environmental, social and economic considerations and is committed to the responsible and efficient use of resources to create more value for all stakeholders, with less impact on the environment.

Capital Investments

Canfor Pulp invested \$43.6 million for capital improvements at its pulp and paper operations in 2013. This will improve the environmental and economic performance of our mills to maximize long-term benefits.

Company Changes

On December 27, 2013, Canfor Pulp Partnership Inc. transferred all of its partnership units in Canfor Pulp LP to Canfor Pulp Holding Inc. (the general partner) in exchange for new shares of Canfor Pulp Holding Inc. As a result of this share exchange,

Canfor Pulp LP was dissolved and all of the assets formerly held by Canfor Pulp LP are held by Canfor Pulp Holding Inc. Canfor Pulp Holding Inc. was subsequently renamed Canfor Pulp Ltd.

Air

We completed the installation of an electrostatic precipitator on the #1 Power Boiler at the Prince George mill which achieved the expected reduction in particulate emissions to air. The mass flow discharge after the installation measured 0.21 kg/hr against the current permit limit of 41.4 kg/hr.

This particulate reduction, along with that achieved already by the No. 1 Recovery Boiler Low Odour Project at the Northwood mill, has reduced our particulate emissions by approximately 40%, which is fully in line with the Prince George Air Improvement Roundtable's goal for reduced emissions from all major sources in the airshed by 2016.

During PaperWeek Canada 2013, the Pulp & Paper Technical Association of Canada (PAPTAC) awarded its first Environmental Strategy of the Year Award to our Prince George Pulp Mill for significant improvements to environmental performance over the

last decade. In presenting the award, Canadian Forest Service Deputy Minister Tom Rosser said: "Canfor Pulp has demonstrated long-term concerted efforts to reduce its impact on the community with respect to air emissions and other environmental impacts over the years leading to overwhelming positive response from residents, air quality groups and local government".²⁹

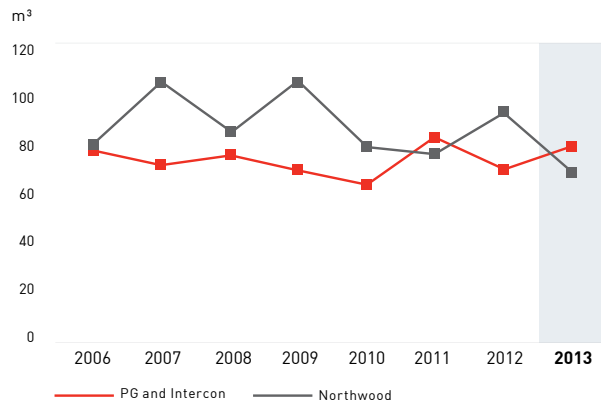
During 2013, Canfor Pulp began working on an interactive air quality kiosk at Prince George's Exploration Place science centre so residents can see how the city's air quality is improving. The kiosk uses a touch screen to access real-time air quality data from monitors installed on the roof of the science centre. We have invested more than \$180 million in three significant air quality improvement projects at our Prince George mills, and studies by FPInnovations found this has led to a significant drop in the percentage of time odour is detectable.

[29] PAPTAC Environmental Strategy of the Year Award www.paptac.ca/index.php/en/association-paptac/national-paptac-awards/283-environmental-strategy-of-the-year-award.html

Water Resources

Canfor Pulp uses water drawn from the Nechako and Fraser Rivers in our manufacturing process. During 2013, the pulp mills and the paper mill combined used 74.7 cubic metres of water per air dry metric tonne of pulp and paper produced.

WATER USE



The improving trend in water use at the Prince George and Intercon mill continued with a significant improvement over the 2012 value. Volume used at Northwood was higher than in 2013.

Approximately 98% of the water we process is returned to the river; only 2% is actually consumed in the process. The bulk of the water we process is withdrawn from and returned to the adjacent rivers.

In addition to the river water, we also receive water as moisture in the chips we process and in the chemicals we receive. We lose water from our mill systems in the form of moisture in waste to landfill and steam to atmosphere as well as in the pulp and paper we sell. The amounts of water in these miscellaneous inputs and outputs are quite small in comparison to the volumes drawn from the river. All inputs and outputs have been included in the water balance figures given above.

Innovation

In 2013, we invested \$125,000 for sustainability-related research work, including a project dealing with opportunities for the disposal and beneficial use of ash from bioenergy production.

We launched the Canfor Pulp University Grants Program in 2011 to foster collaborative research between our company and the universities of British Columbia and Northern British Columbia. We have invested more than \$400,000 to support pan-Canadian university research.

In 2013, two British Columbia researchers received \$75,000 to study ways to derive value from waste products in pulp mills. Dr. Heather Trajano of the University of British Columbia and Dr. Rodger Beatson of the BC Institute of Technology are involved in a project on recovery of hemicellulose monomers and oligomers from pulp mill waste streams for use as strength additives in paper products. This is the fourth award, bringing

the total dollar value to \$200,000. Professor James Olson, Director of the UBC Pulp and Paper Centre, says the program is "a shining example of how the B.C. forest industry partners with universities to develop innovative high-value bio-products for the emerging bio-economy".

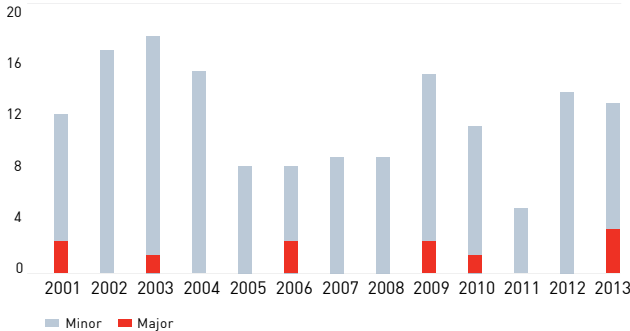
In October 2013, Canada's Energy Minister James Moore congratulated Canfor Pulp for its university grants program, stating: "Your organization's support for cutting-edge collaborative research demonstrates the value companies can realize in working with our talented researchers for their innovation needs".

Canfor Pulp Innovation delivers opportunities for continuous customer and mill improvement, helping to improve our premium quality and securing our position as a global leader in NBSK and its applications.

Compliance—Canfor Pulp

Canfor Pulp’s commitment to transparency includes reporting on our manufacturing processes.

ENVIRONMENTAL INCIDENTS



Minor items for manufacturing are those that are not expected to result in enforcement action.

Major items are those that have or could initiate enforcement action and which have or could cause significant damage to the environment or the Company (financial or reputation).

Canfor Pulp operations were in substantial compliance with all operating permits in 2013. There were three isolated air permit non-compliances, and 10 reportable incidents. While none of these had any lasting impact in the environment, we regard this increase in incidents as a strong warning and conducted aggressive root cause analysis as well as implementing effective responses to each of them.

The following provides details on the 13 incidents:

- ▶ **Water:** No incidents
- ▶ **Air:** Three major air permit stack test failures, one minor spill to air, and one bypass of works.
- ▶ **Land:** Eight minor spills to ground, all were contained and cleaned up.







energy management



Canfor and Canfor Pulp are committed to making the best use of every tree harvested, and we turn virtually all of our fibre into useful products. We reduced the carbon footprint of both companies through increased efficiency and by using wood residuals from our production processes as a source of renewable energy.

Energy Management: Canfor

In 2013, Canfor continued developing and implementing our strategic energy management plan. We completed installation of a new compressed air system at our Mackenzie Sawmill, which will save an estimated 2,300 MWh of electricity annually. We also approved three new projects: A \$6-million to \$7-million 2MW organic rankine cycle generation unit for our Fort St. John Sawmill that will use surplus heat and bark, and two large-scale LED lighting upgrades at our Elko and Houston mills that are funded through BC Hydro Power Smart and will save an estimated 3,800 MWh of electricity annually. Together, these four projects will conserve enough power to meet the needs of 1,260 homes.

Canfor's energy manager, based in Prince George and co-funded by BC Hydro, has a specific focus on reducing energy costs for our wood products manufacturing facilities. Through our strategic energy management plan, we identify opportunities through both hard-wired energy-efficiency projects and changes in employee behaviour through increased awareness. The plan considers the energy resources we use, and asks the fundamental question of where we can gain efficiency in our processes.

In 2012, we established a target of reducing the electricity used per thousand board feet of production at all our facilities by 10% over a two-year period, to the end of 2014. We are tracking our electricity use through real time metering, and this

information is available to all our wood products facilities. A review of our 2013 statistics shows that while we have made progress at some operations, we have work to do to realize our target.

In 2007, we began to convert all of our sawmill lumber drying to renewable biomass energy systems from natural gas and propane—beginning at our Houston division. In 2014, we will be heat energy self-sufficient at all our manufacturing facilities once we complete the installation of a 38 MMBTU/hr biomass-fired thermal energy system and conversion of the lumber dry kilns at Elko Division.

In 2011, we purchased the 18 MW Canfor Green Energy Combined Heat and Power Plant in Grande Prairie, and began moving toward electricity self-sufficiency at our wood products facilities.

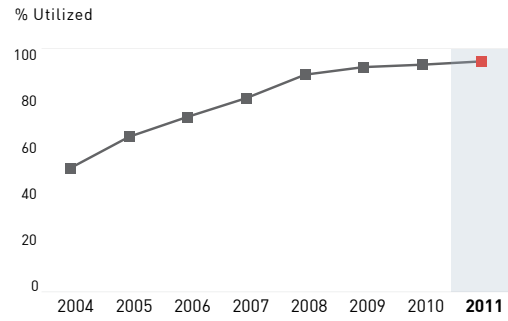
Our focus throughout 2013 has been to prepare for the future through advancements in energy management at our wood products manufacturing facilities. These include improved energy awareness, key pilot projects showcasing new and innovative technology such as advanced power monitoring and hydraulic controls, and implementation of several larger-scale projects, all of which will result in energy efficiency improvements. Improved energy management is one of the many ways we are demonstrating our commitment to improving efficiency and sustainability in every aspect of our business.

CANFOR NATURAL GAS USE



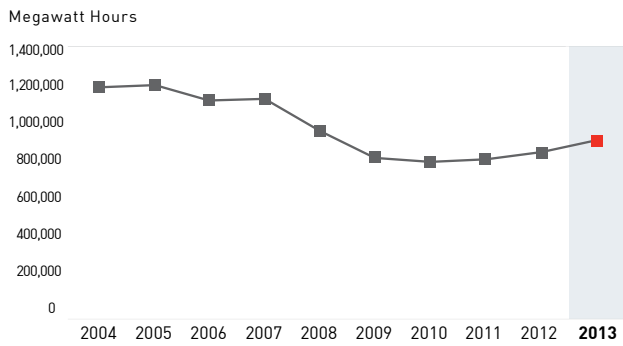
Natural gas use was up slightly due to natural winter temperature variations and a full year of operating Elko's natural gas-fired lumber dry kilns.

CANFOR WOOD RESIDUE UTILIZATION



Close to 100% of wood residues generated at our manufacturing facilities continue to be utilized for products such as renewable heat and power generation, wood pellet production and sawdust pulp.

CANFOR ELECTRICITY PURCHASES



Electricity purchases increased due to improved lumber markets and increased mill run rates.

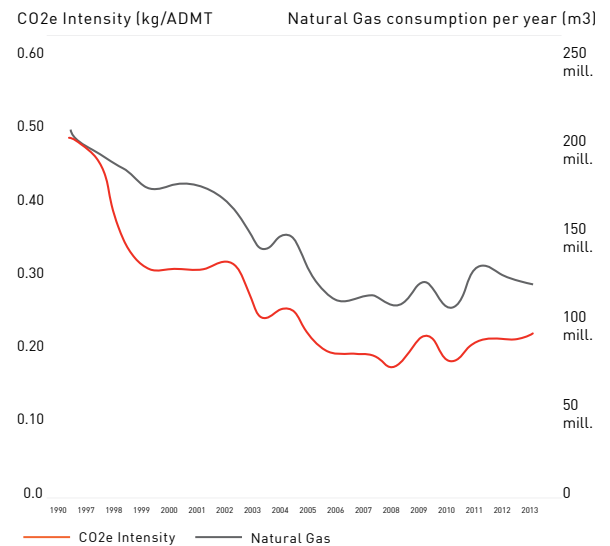


Energy Management: Canfor Pulp

Canfor Pulp is one of the largest single producers of bioenergy in North America, and its goal is to develop enough capacity to become energy self-sufficient. Our modern Kraft pulp mills operate as a large-scale bio-refinery. They separate fibres and use the non-fibrous components as fuel, minimizing waste and ecological impact. We use steam generated in the wood residue and recovery boilers to generate electricity and process heat for our operations.

In 2013, Canfor Pulp made solid progress on an agreement under BC Hydro's Integrated Power Offer, which encourages pulp and paper producers to generate more renewable energy and reduce their own energy requirements. We invested \$28.6 million in capital projects related to energy, including a new electrostatic precipitator at the Prince George Pulp Mill, which allows the mill to meet a full power production capacity while reducing particulate emissions. We are also upgrading two turbo-generators at our Northwood Mill, which will add 11 megawatts of capacity when it is commercially operational in 2014.

CANFOR PULP NATURAL GAS CONSUMPTION



The absolute level of natural gas consumption was lower in 2013 but there was still an increase in the greenhouse gas concentrations as mill production was also lower.







canfor
and canfor pulp
employees

Workforce

	SALARY			HOURLY			GRAND TOTAL
	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	
British Columbia	760	302	1062	3078	249	3327	4389
Alberta	26	12	38	157	17	174	212
United States	850	28	113	569	30	599	712
Quebec	20	8	28	156	2	158	186
Asia (China & Japan)	6	7	13	0	0	0	13
Europe	1	3	4	0	0	0	4
Other³⁰	33	18	51	195	20	215	266
	931	378	1309	4155	318	4473	5782

Remuneration

Canfor and Canfor Pulp have 4,473 employees who are paid on an hourly basis, most in mill production positions, and 1,309 in salaried positions. The hourly employees include 4,155 men and 318 women; the salaried positions include 931 men and 378 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 \$24 and \$26 an hour—roughly two-and-a-half times the minimum wage (\$10.25 an hour in British Columbia; \$9.75 in Alberta). Canfor also offers competitive benefits and pension packages.

(30) Includes long-term disability, advanced retirement and salary continuance employees.



Health and Safety

Safety is our single highest priority, and we take pride in the fact that our employees consistently keep us a safety leader in our sector. Canfor and Canfor Pulp have safety policies that affirm every employee's right to refuse unsafe work, and encourage all employees 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.^{31 32}

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 woodlands contractors are SAFE-company certified by the BC Forest Safety Council.³³

In 2013, our medical incident rate (MIR) was 2.28 across the company, approaching our target to achieve a rate of 2.0 or lower but behind our 2012 performance of 2.15. Our Canadian solid wood operations and Canfor Pulp both had a higher MIR in 2013 than 2012, and several initiatives have been undertaken to ensure that safety remains top of mind for all employees. Canfor Southern Pine made significant improvements to their safety performance in 2013, with an MIR of 1.80, compared to 2.30 in 2012.

In 2013, our President's Safety Awards winners were:

	LOWEST OVERALL LOWEST MIR FOR THE YEAR	MIR FOR THE PREVIOUS 3 YEARS
Sawmill	<i>Fort St. John</i> with a MIR in 2013 of 1.16	<i>Graham</i> with a 3 year MIR average of 1.08
Woodlands and Trucking	<i>New South Express</i> had the lowest MIR for 2013 of 1.08	

Canfor Green Energy achieved an MIR of zero for the second consecutive year, and our Marion Division also achieved a zero MIR in 2013.

In September, the Alberta Forest Products Association and Alberta Human Services presented our Grande Prairie Mill with an award for outstanding achievement for health and safety for 2010-2012 in the sawmill and planer sector for companies with more than 300,000 hours worked.

Wellness Days at our Prince George pulp mills make an important contribution toward the wellness of our staff. Vendors offer information and products related to health, wellness, safety, and recreation, and attendees can have their blood pressure, glucose and cholesterol checked.

In 2013, we raised awareness of safety expectations among our contractors and their employees. The 2012 Forest Stewardship Council audit required that we demonstrate that our safety program was being implemented by all employees, including contractors and their employees. The 2013 audit report stated that a safety program has been developed and implemented for all forest workers, and quotes a WorksSafeBC official as saying he believes there is heightened awareness.

[31] Canfor Pulp Occupational Health & Safety Policy Statement October 2012 www.canforpulp.com/company/safety/policy.asp

[32] Canfor's Safety Policy May 2011 www.canfor.com/documents/policy/Canfor%20Safety%20Policy_2011.pdf

[33] BC Safety Council www.bcforestsafes.org



Combustible Dust Response

Prior to 2012, there had never been a significant explosion at a British Columbia sawmill. On January 20, 2012 Babine Forest Products experienced a catastrophic explosion in which two men lost their lives and 22 other employees were injured, some with severe burns. On April 24, 2012, Lakeland Mills suffered a similar destructive explosion. There, two men died and 20 others were seriously injured.

In the aftermath of these previously unprecedented events, the B.C. forest industry undertook a significant, collaborative response to understand the nature of the dangers posed by wood dust in sawmills, particularly dust associated with mountain pine beetle-killed timber, and to ensure that nothing like what happened at Babine and Lakeland could ever occur at another mill in North America again.

Canfor is a member of the BC Forest Products Manufacturers Advisory Group, which received the BC Safety Authority's Lieutenant Governor Safety Award for Excellence in Systems Safety for its response to the issue of combustible wood dust.³⁴ It acknowledges the outstanding collaborative efforts taken in response to the two tragic sawmill explosions in 2012.

At Canfor, we are committed to continuously improving our management of combustible dust and ignition sources at all of our facilities, and our actions to date have included:

- ▶ significantly reducing combustible dust levels and improving our controls on ignition sources in our facilities;
- ▶ developing and implementing a company-wide program to assess and control combustible dust hazards, regularly audit dust levels, and train all employees and contractors on the risks posed by combustible dust;
- ▶ investing \$12 million for capital improvements where needed to address dust accumulations and ignition sources;

- ▶ working with other industry companies to develop a third-party auditable combustible dust management standard; and
- ▶ collaborating with government agencies (Fire Inspection and Prevention Initiative) and other industry companies on the development of innovative combustible dust education and training materials for the B.C. wood products industry.

Canfor co-chairs the CEO Task Force, a collaboration that includes the CEOs of BC's 12 largest sawmill companies and the Chair of the United Steelworkers Wood Council. Representing 55 sawmills and approximately 75 per cent of BC's total lumber production, the CEO Task Force catalyzed the industry's response to combustible dust, beginning from risk assessment and third-party research to developing the auditable combustible dust management standard which will be applied in all CEO Task Force companies during 2014.^{35 36 37 38}

A standardized approach to wood dust and to the management of ignition sources is now in place in all Canfor mills, with employees at all levels involved in wood dust management and training programs. Potential ignition sources such as lights and electrical equipment have been contained; dust sources have been enclosed. Extraction systems have been installed, and resources have been assigned to the task of cleaning up any dust that escapes. Continued work will be ongoing during 2014.

Employees are also kept regularly up to date on any developments in wood dust management through crew talks, safety kaizen meetings and the company newsletter. Since 2012, any significant new information on dust management is discussed in a company-wide conference call, led by the CEO.

Investing in Our People

Canfor and Canfor Pulp understand that our strength comes from our skilled and dedicated employees, and we work hard to support their ongoing professional development. Through our succession planning and training programs, we offer a promote-from-within culture that gives our employees exceptional opportunities for career advancement.

In 2013, Canfor was recognized as one of BC's Top Employers for our skills development and employee engagement programs, and our commitment to helping employees balance work and personal life. Canada's top 100 Employers is an annual competition to recognize the best places to work in the country—and BC's Top Employers identifies exceptional workplaces in B.C.³⁹

[34] Lieutenant Governor Safety Awards 2013 www.safetyauthority.ca/events/lieutenant-governor%E2%80%99s-awards

[35] www.cofi.org/pdf/dust_march_2014_update.pdf

[36] www.cofi.org/wp-content/uploads/2013/12/SPONSORED-CONTENT-Evolution-of-an-Industry-BC-Prince-George-Citizen.pdf

[37] www.cofi.org/wp-content/uploads/2013/12/SPONSORED-CONTENT-Tackling-sawmill-dust-together-BC-Prince-George-Citizen.pdf

[38] www.cofi.org/wp-content/uploads/2013/12/SPONSORED-CONTENT-Before-Babine-and-After-Babine-BC-Prince-George-Citizen.pdf

[39] Canada's Top 100 Employers. BC's top employers. www.canadastop100.com/bc/

Collective Agreements

About 60% of the employees working in Canfor's lumber operations are covered by collective agreements with United Steelworkers (USW), Pulp, Paper and Woodworkers of Canada (PPWC) and Communications, Energy and Paperworkers Union of Canada (CEP). In December 2013, we reached an agreement

with the USW covering affecting 14 operations in British Columbia and about 2,130 employees. It expires on July 1, 2018.

About 75% of the hourly employees of Canfor Pulp are covered by collective agreements with CEP and PPWC, which were ratified in 2012 and expire on April 30, 2017.

Employee and Family Assistance Program

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.



GRAHAM MILL CREATES OPPORTUNITIES

When our Graham, NC, sawmill began an extended work week of five 12-hour shifts in September to meet market demands, we trained 16 new workers to operate key machines so experienced operators can handle relief on multiple machines. This created opportunities for existing hourly employees to take on more responsible positions, and has led to greater depth of trained operators at the major machine centres.





participating
in our
communities and
civil society

Youth and Education/Recruitment

To promote the tremendous opportunities ahead for the forest sector, we are involved in activities to attract new employees and encourage students to pursue disciplines related to the company's core business. Our executives and other company representatives meet regularly with students from post-secondary institutions to discuss the many career options available with Canfor and Canfor Pulp.

In 2013, Canfor and Canfor Pulp participated in nine career fairs in Edmonton, Prince George, Kamloops, Cranbrook and Burnaby, and our local representatives participated in many regional events. We will continue to represent our industry and our companies at recruitment events in 2014, including the Premier's B.C. Natural Resources Forum, held in Prince George in January to explore the unprecedented resource opportunities in northern British Columbia.

In 2013, we provided \$41,622.63 through our scholarship and bursary programs. This is in addition to the nearly \$35,000 in Canfor-endowed scholarships that support students each year. We also refreshed the programs to make sure they are fair and consistent, and focus on areas where we face the greatest skills shortage. Our scholarship programs support forestry, wood products manufacturing and engineering studies, as well as studies leading to millwright, electrician, power engineer, instrument technician, welder and heavy-duty mechanic designations.

In 2013, we awarded 23 scholarships to high school students from our operating communities, and created two new

scholarship programs—the Bentley-Prentice scholarships for children of Canfor employees and the New Relationship Trust Foundation scholarship for aboriginal students from Canfor operating areas. We also have post-secondary scholarships administered through universities and technical institutes in British Columbia and Alberta.

Our Prince George, Polar and Isle Pierre sawmills provided work experiences for 16 students as part of the College of New Caledonia's Career Technical Centre. Through the Centre, Grade 11 and 12 students receive a one-year credit toward the apprenticeship in their chosen field using a combination of college classroom time and work experience. Trades include industrial mechanic, heavy duty/commercial transport mechanical repair, welder C level, and natural resources and environmental technology.

Through a partnership with the University of Northern British Columbia, our staff taught a Forest Operations and Management course where students gain an understanding of operational practices in harvest planning and implementation and learn about the overall supply chain flow.⁴⁰

We believe referrals from existing employees are a great way to recruit people who will fit into our culture. Through our *Employee Referral Policy*, we offer a bonus to staff who recommend a candidate—\$250 if the new employee completes three months of continuous employment, and another \$250 after six months.

[40] www.unbc.ca/releases/11139/unbc-and-canfor-partner-unique-forestry-course



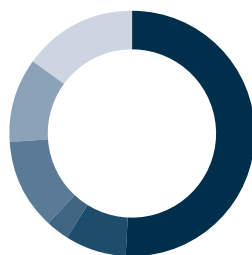
Contributions to Communities and Local Economies

Canfor and Canfor Pulp are active members of the communities where we operate. We provide jobs and other economic benefits, and we support events and organizations that reflect our business goals or provide broad local value.

In 2013, Canfor Pulp directly contributed more than \$600 million to British Columbia's economy through employee pay cheques, property taxes and goods and services purchased. This supports important services such as health care and education.

CANFOR PULP: BREAKDOWN OF GOODS AND SERVICES PURCHASED IN BC

- Fibre \$237 million
- Marketing/distribution \$37 million
- Taxes/Government \$13 million
- Chemicals \$56 million
- Other Services \$52 million
- Other Materials/Supplies \$73 million



In 2013, Canfor spent more than \$50 million on mechanical repairs and operating supplies including \$9.2 million for safety and industrial equipment. We paid \$34 million for fuel and lubes; \$9.2 million for electricity and \$1.4 million for natural gas.

We often support companies that are locally owned and operated when we buy supplies and services. In the Kootenay Region, one of our preferred hotels is the St. Eugene Resort, owned and operated by a partnership of three area First Nations. In 2012/13, a total of 95.7% of Prince George region's forest operations spending went to suppliers and contractors in the North Central Interior.

In 2012, 89% (over a five-year rolling average) of Canfor Alberta's forest operations spending went to local contractors. This was higher than the previous year because of increased log/haul contract rates and the purchase of Canfor Green Energy.

Through our Corporate Sponsorship and Donation Program, we support activities of all sizes—from the BC Children's Hospital Foundation's Miracle Weekend and the United Way to local dry grads. We also watch for opportunities to strengthen relationships with First Nations communities in our operating areas by sponsoring a variety of activities.

We are the largest public sector employer in Prince George, B.C., and in 2013, we brought back the July 1 fireworks to the city to mark our 75th anniversary—the response was so positive we agreed to sponsor the event for the next five years. And when the Canada Winter Games come to Prince George in 2015, we will be front and centre as a top sponsor. Under our sponsorship agreement, we will buy a large number of event tickets and most will be used to bring high-school students to high-profile events such as hockey games and snowboarding. We are also working with the University of Northern British Columbia and College of New Caledonia so the students will be able to participate in educational programs about careers in the forest sector.

In 2013, Canfor and Canfor Pulp contributed almost \$750,000 for charitable donations, sponsorships, bursaries and research to our operating communities, including:

- ▶ \$14,000 for dry grad activities involving more than 3,000 students in Alberta and British Columbia;
- ▶ \$13,500 for local food banks; and
- ▶ \$100 to the campaigns of the first 25 employees who sent us a photo of their Movember mustaches, raising funds and awareness for men's health.

We gave away 7,000 seedlings donated by PRT Nursery at our annual Canada Day Tree Giveaway in Prince George; supported free men's health clinics organized by the Rotary Club of Prince George, and encouraged male employees to protect their health by signing up; and were the platinum sponsor of the 9th Work Drug Free Conference in Prince George in April 11, sponsored by the non-profit BC Council on Substance Abuse.

In addition to company support, many of our employees raise funds for local charities including:

- ▶ \$263,664 for United Way activities in British Columbia and Alberta—the company contributed \$50,000 bringing the total to \$313,664;
- ▶ \$29,516 for United Way activities in USA—the company contributed \$6,500 bring the total to \$36,016;
- ▶ \$10,000 for cancer research and prevention through their involvement in the Prince George Relay for Life in May;
- ▶ helping Prince George Variety Children's Radiothon set a new record by raising more than \$67,000; and
- ▶ raising funds for the BC Children's Hospital Foundation through Jersey Days and Jeans Days.

Trade Association and Other Memberships

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 British Columbia Business Council, the Vancouver Board of Trade, and numerous chambers of commerce across our operating communities. In 2013, Canfor CEO Don Kayne was also named to the binational Softwood Lumber Board.

Don Kayne is chairman of the board of FPAC, which 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 British Columbia Business Council was established in 1966 and represents in a policy and advocacy role 250 major enterprises doing business in British Columbia. 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.

The Softwood Lumber Board is an industry body comprising leaders in the Canadian and American softwood lumber business, and it administers the funds collected from the U.S. Department of Agriculture check-off program for lumber. These funds are used to promote the use of wood in construction, and generally grow demand for wood as a sustainable, safe and preferable construction material.

Political Contributions

In 2013, Canfor made political donations totalling \$145,800 to support activities and individuals representing the two major political parties in British Columbia—the BC Liberal Party and the BC New Democratic Party.

Our award-winning entry in the 2013 Playhouse Challenge—the Sam + Pam playhouse—was installed at Lions Club Legion Park in Chetwynd. Our team included designer Mcfarlane Biggar, builder Kindred Construction, and BID Group which bought the house with a generous donation to the BC Children’s Hospital Child Health BC.

Two Canfor employees received a plaque from the Tabor Mountain Recreation Society east of Prince George to recognize our support. Planning Manager Peter Baird and Forestry Supervisor Sara Cotter worked with the Society and the B.C. government to help develop legal objectives to establish more than 400 kilometres of recreation trails and 27 staging areas on Tabor Mountain. We also donated culverts to help with trail improvements.







performance
against 2013
targets

Performance Against 2013 Targets— Canfor

FORESTRY TARGETS

- ▶ **Objective:** Reduce the number of incidents of harvesting activity not consistent with plan by 35%.
- ▶ **Performance:** This target was not met, although we did reduce the number of incidents by 29%. Total number of incidents of harvesting activity not consistent with plan in 2013 was 10.

- ▶ **Objective:** Reduce the number of incidents where herbicide is applied outside of a treatment area by 20%.
- ▶ **Performance:** This target was not met, although we did reduce the number of incidents by 15%. Total number of herbicide incidents outside treatment area in 2013 was 16.

- ▶ **Objective:** Reduce the number of occurrences of sedimentation and/or disruption of water flow by 40%.
- ▶ **Performance:** This target was achieved. Total number of occurrences in 2013 was three.

MANUFACTURING AUDITS

- ▶ **Objective:** Conduct internal environmental audits at six manufacturing facilities.
- ▶ **Performance:** Audits were conducted at five facilities; the sixth was not completed because the facility was in the process of being sold.

ENERGY EFFICIENCY

- ▶ **Objective:** 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.
- ▶ **Performance:** We communicated our energy use reduction plan, and are tracking progress on a facility basis. In 2013, we launched compressor and lighting projects with incentives from BC Hydro Power Smart that will reduce energy consumption by an estimated 2,300 MWh a year.

SAFETY GOALS

- ▶ **Objective:** Maintain a company-wide MIR of 2.0 or lower.
- ▶ **Performance:** This target was not achieved. Company-wide MIR for 2013 was 2.28.

COMMUNITY GOALS

- ▶ **Objective:** Establish new scholarship programs to encourage youth, First Nations to pursue careers in forestry-related disciplines.
- ▶ **Performance:** Established the New Relationship Trust Foundation scholarship for aboriginal students from Canfor operating areas, administered by the Foundation.

- ▶ **Objective:** Host public events commemorating Canfor's 75th Anniversary in our operating communities.
- ▶ **Performance:** Held anniversary celebration events in all in all operating communities and key markets.

- ▶ **Objective:** Meet with mayor of each Canfor community.
- ▶ **Performance:** This target was achieved.



Performance Against 2013 Targets— Canfor Pulp

- ▶ **Objective:** Stabilize and optimize investments and processes to become more eco-efficient.
- ▶ **Performance:** This goal was achieved with a significant reduction being achieved in the total energy required per tonne of pulp produced.
- ▶ **Objective:** Address shortage of skilled labour and strengthen retention and recruitment.
- ▶ **Performance:** Our co-operation with the College of New Caledonia on an apprenticeship program was fully implemented. In partnership with the college and local high schools, we also implemented a new program to allow Grade 7 students to develop shop skills appropriate if they consider careers in the trades after graduation.
- ▶ **Objective:** Work closely with customers to help them make legal supply chain decisions.
- ▶ **Performance:** Created a document summarizing the requirements of the EU Timber Regulation and a template providing the necessary data. These documents proved popular with our European customers, and were used by Asian customers exporting paper products into Europe.
- ▶ **Objective:** Encourage woodlot owners to pursue Forest Stewardship Council certification.
- ▶ **Performance:** This goal was achieved with the first of our candidates successfully achieving FSC certification on his small woodlot.
- ▶ **Objective:** Pursue integration with Canfor.
- ▶ **Performance:** This year's sustainability report is the latest step towards this integration.







looking
ahead to
2014



Canfor:

Objectives and Targets for 2014

FORESTRY AND MANUFACTURING TARGETS

- ▶ Reduce the number of incidents of harvesting activity not consistent with plan by 10%.
- ▶ Maintain the current ratio of sedimentation incidents.
- ▶ Reduce the number of incidents where herbicide is applied outside of a treatment area by 25%.
- ▶ Reduce the number of forestry fuel management incidents by 20%.
- ▶ Establish plans at solid wood facilities to manage historical and ongoing accumulations of log yard woody debris.
- ▶ Reduce landfill quantities at solid wood facilities by separating logyard debris into reusable rock, bark and soil.

ENERGY EFFICIENCY

- ▶ Continue implementing our energy use reduction plan for solid wood facilities, including a 10% reduction in electricity use per unit of sawmill production over 2013 and 2014.

SAFETY GOALS

- ▶ Achieve a company-wide medical incident rate of 2.0 or lower.

COMMUNITY GOALS

- ▶ Implement programs to support safe, alcohol-free graduation celebrations ("dry grad") at high schools across our operating areas.
- ▶ Establish high school scholarships for forestry and trades related studies in all of our operating communities.
- ▶ Preparation for high school program in association with the 2015 Canada Winter Games for our north central B.C. communities.
- ▶ Continued participation in summer events to engage with our communities.

Canfor Pulp:

Objectives and Targets for 2014

CERTIFIED PRODUCTS

- ▶ Work with two or more local woodlot owners encouraging them to consider adopting FSC certification and supplying fibre to Canfor Pulp.
- ▶ Achieve an overall certified fibre supply level of 82% in 2014.

ENVIRONMENTAL

- ▶ Identify specific opportunities to reduce the water consumption per unit of pulp production at each mill.

ENERGY EFFICIENCY

- ▶ Reduce the level of fossil fuel use in our total energy mix to below 10%.

SAFETY

- ▶ Meet the company-wide medical incident rate level of 2.0 or lower.

COMMUNITY

- ▶ Continue to work with local educational establishments in the development of skilled trades people.
- ▶ Implement a program of skills development and training for existing employees to address the demographic challenge currently underway.



GRI content index

		Reported	Location
GENERAL			
STRATEGY AND ANALYSIS			
G4-1	Statement from the most senior decision-maker of the organization.	•	SR: CEO Message (p 20); Canfor Pulp President Message (p 21)
G4-2	Provide a description of key impacts, risks and opportunities.	•	AR: ¹ Overview of 2013 (p 20-25); Risks and Uncertainties (p 45-49)
ORGANIZATIONAL PROFILE			
G4-3	Name of the organization.	•	SR: Profile: Canfor Corp. (p 22)
G4-4	Primary brands, products, and services.	•	SR: Profile: Canfor Corp. (p 22-23) AR: Company Overview (p 18-19) AIF: ² Business of Canfor (p 3)
G4-5	Location of organization's headquarters.	•	SR: Profile: Canfor Corp. (p 22) AR: Company Overview (p 18)
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	•	SR: Profile: Canfor Corp. (p 22-23) AR: Company Overview (p 18-19)
G4-7	Nature of ownership and legal form.	•	AIF: Incorporations/ Corporate Structure (p 2)
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	•	SR: Markets and Market Development (p 24-25) AR: Company Overview (p 18-19)
G4-9	Scale of the reporting organization.	•	SR: Profile: Canfor Corp. (p 22) AR: Company Overview (p 19)
G4-10	Total employees by employment type, employment contract and gender.	•	SR: Workforce (p 66)
G4-11	Percentages of total employees covered by collective bargaining agreements.	•	SR: Collective Agreements (p 69)
G4-12	Description of organization's supply chain	•	SR: Legal Source of Fibre (p 33); Independent Certification (p 34-35); Chain-of-Custody Certification (p 36) AIF: Wood Fibre Supply (p 11-12); CPPI Production Facilities (p 14)
G4-13	Any significant changes during the reporting period regarding the organization's size, structure, ownership or supply chain.	•	SR: Company Changes (p 49 & 55) AR: Company Overview (p 18-19); Solid Wood Operations (p 23-25); Canfor and CPPI Integration (p 25); AIF: Other Significant Events (p 4-5)
COMMITMENTS TO EXTERNAL INITIATIVES			
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	•	SR: Legal Source of Fibre (p 33); Independent Certification (p 34); Conserving Biodiversity (p 38); Protecting Habitat (p 38); Responding to Climate Change (p 40); Canadian Boreal Forest Agreement (p 44); AR: Continued Focus on Strong Operational Performance (p 23-24); AIF: Environment (p 16-17)

		Reported	Location
G4-15	Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or which it endorses.	•	SR: Independent Certification (p 34-35); Chain-of-Custody Certification (p 36); Canadian Boreal Forest Agreement (p 44) AIF: Research and Development (p 17)
G4-16	Memberships in associations (such as industry associations) and national or international advocacy organizations.	•	SR: Trade Association and Other Memberships (p 74)
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	All entities included in the organization's consolidated financial statements or equivalent documents.	•	AR: Overview of Consolidated Results—2013 Compared to 2012 (p 26-36)
G4-18	Process for defining the report content and aspect boundaries.	•	SR: Report Introduction (p 1)
G4-19	All material aspects identified in the process for defining report content.	•	SR: Report Introduction (p 1); Identifying Stakeholders and Key Indicators (p 26)
G4-20	For each material aspect, report whether it is material within the organization or any specific limitations.	•	SR: Report Introduction (p 1); Identifying Stakeholders and Key Indicators (p 26); throughout reported indicators
G4-21	For each material aspect, report whether it is material within the organization or any specific limitations.	•	SR: Report Introduction (p 1); Identifying Stakeholders and Key Indicators (p 26); throughout reported indicators
G4-22	Effect of restatements of information in previous reports, and reasons for such restatements.	•	SR: Report Introduction (p 1); Company Changes (p 47 & 53)
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries.	•	SR: Report Introduction (p 1); CEO Message (p 20); Canfor Pulp President Message (p 21)
STAKEHOLDER ENGAGEMENT			
G4-24	List of stakeholder groups engaged by the organization.	•	SR: Identifying Stakeholders and Key Indicators (p 26)
G4-25	Basis for identification and selection of stakeholders with whom to engage.	•	SR: Identifying Stakeholders and Key Indicators (p 26); Engaging Stakeholders (p 42-44)
G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	•	SR: Identifying Stakeholders and Key Indicators (p 26); Engaging Stakeholders (p 42-44)
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organization has responded.	•	SR: Identifying Stakeholders and Key Indicators (p 26); Engaging Stakeholders (p 42-44); SFM Plans ³ track responses to specific stakeholder interests and concerns

		Reported	Location
REPORT PROFILE			
G4-28	Reporting period (such as fiscal or calendar year) for information provide.	•	SR: Report Introduction (p 1)
G4-29	Date of most recent previous report (if any).	•	SR: Report Introduction (p 1)
G4-30	Reporting cycle (such as annual, biennial).	•	SR: Report Introduction (p 1)
G4-31	Contact point for questions regarding the report or its content.	•	Canfor Communications ⁴
GRI CONTENT INDEX			
G4-32	GRI Content Index for the “in accordance” option the organization has chosen.	•	SR: GRI Content Index (this document)
ASSURANCE			
G4-33	The organization’s policy and current practice with regard to seeking external assurance for this report.		External assurance has not been sought for this report.
GOVERNANCE			
G4-34	Governance structure of the organization, including committees of the highest governance body responsible for decision-making on economic, environmental and social impacts.	•	AIF: Directors and Officers (p 18-22) SR: Environment and Forestry Commitments (p 31-32) TOR ⁵
G4-35	Process for delegating authority for economic, environmental and social topics from highest governance body to senior executives and other employees.	•	TOR
G4-38	Composition of highest governance body and its committees.	•	AIF: Directors and Officers (p 18-22)
G4-39	Indicate whether Chair of the highest governance body is also an executive officer.	•	AIF: Officers (p 21)
G4-40	Nomination and selection processes for highest governance body and its committees, and criteria used for nominating and selecting members.	•	TOR
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed.	•	TOR
HIGHEST GOVERNANCE BODY’S ROLE IN SETTING PURPOSE, VALUES AND STRATEGY			
G4-42	Highest governance body’s and senior executives’ roles in development, approval, and updating of the organization’s purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	•	TOR: Strategy (p 4)
G4-43	Measures taken to develop and enhance the highest governance body’s collective knowledge of economic, environmental and social topics.	•	TOR: Orientation/Education (p 5)

		Reported	Location
G4-44	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, whether it is independent, and actions taken in response to the evaluation.	•	TOR: Board Performance (p 5)
HIGHEST GOVERNANCE BODY'S ROLE IN RISK MANAGEMENT			
G4-46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	•	TOR: Risk Management (p 5)
HIGHEST GOVERNANCE BODY'S ROLE IN EVALUATING ECONOMIC, ENVIRONMENTAL AND SOCIAL PERFORMANCE			
G4-49	Report the process for communicating critical concerns to the highest governance body.	•	TOR; SR: Environment and Forestry Commitments (p 31)
G4-50	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.		Not reported
ETHICS AND INTEGRITY			
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	•	Canfor Code of Conduct AIF Corporate Governance (p 18); Canfor Pulp Code of Conduct ⁶
MANAGEMENT APPROACH			
G4-DMA	Report why the Aspect is material and impacts that make it material, and how the organization manages and evaluates the material Aspect or its impacts.	•	SR: Report Introduction (p 1); Identifying Stakeholders and Key Indicators (p 26); throughout reported indicators
ECONOMIC			
ECONOMIC PERFORMANCE			
G4-EC1	Direct economic value generated and distributed on an accruals basis including the basic components for the organization's global operations.	•	AR: Financial Highlights (p 17); Operating Results by Business Segment —2013 Compared to 2012 (p 15-22) SR: Key Statistics (p 27)
G4-EC2	Risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue or expenditure.	•	SR: Responding to Climate Change (p 40-41) AR: Impacts of Mountain Pine Beetle (p 24-25)
G4-EC3	Coverage of organization's defined benefit plan obligations.	•	AR: Employee Future Benefits (p 43)
G4-EC4	Total monetary value of financial assistance received by the organization from governments during the reporting period.	•	None

		Reported	Location
MARKET PRESENCE			
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	•	SR: Remuneration (p 66)
G4-EC6	Percentage of senior management at significant locations of operation that are hired from the local community.	•	SR: Strong Local Roots (p 25)
INDIRECT ECONOMIC IMPACTS			
G4-EC7	Extent of development of significant infrastructure investments and services supported, and current or expected impacts on communities and local economies.	•	SR: Contributions to Communities and Local Economies (p 73)
G4-EC9	Percentage of the procurement budget used for significant locations of operation spent on suppliers local to that operation (such as percentage of products and services purchased locally).	•	SR: Contributions to Communities and Local Economies (p 73)
ENVIRONMENTAL			
MATERIALS			
G4-EN1	Total weight or volume of materials that are used to produce and package the organization's primary products and services during the reporting period, by non-renewable materials used and renewable materials used.	•	AIF: Wood Fibre Supply (p 11-12)
G4-EN2	Percentage of recycled input materials used to manufacture the organization's primary products and services.	•	None, Canfor is a primary forest products manufacturer. Canfor Pulp manufacturers product from residuals generated in the manufacturing process, but these are not post-consumer recycled inputs.
ENERGY			
G4-EN3	Total fuel consumption from non-renewable and renewable sources, total energy consumed and sold.	•	SR: Energy Management (p 61-63)
G4-EN4	Total energy consumptions outside the organization.	N/A	
G4-EN6	Reduction in energy consumption achieved as a direct result of conservation and efficiency initiatives.	•	SR: Energy Management (p 61-63)
WATER			
G4-EN8	Total volume of water withdrawn from surface water, groundwater, rainwater, waste water from another organization, municipal or other water utilities.	•	SR: Water Resources (p 56)

		Reported	Location
BIODIVERSITY			
G4-EN11	Operational sites owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	•	SR: Conserving Biodiversity (p 38); Canfor does not hold tenures within protected areas
G4-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 38); Sustainable Forest Management Plans
G4-EN13	Habitats protected and restored.	•	SR: Protecting Habitat (p 38)
G4-EN14	Total 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 38)
EMISSIONS			
G4-EN15	Direct greenhouse gas emissions.	•	SR: Carbon Footprint (p 50)
G4-EN16	Indirect greenhouse gas emissions.		Not reported
G4-EN19	Reduction of greenhouse gas emissions.	•	SR: Carbon Footprint (p 50); Canfor Pulp Air (p 55)
G4-EN21	NOX, SOX and other significant air emissions.	•	Canfor Pulp Customer Information Bulletin
EFFLUENTS AND WASTE			
G4-EN22	Total water discharge by quality and destination.	•	SR: Water Resources (p 56)
G4-EN24	Total number and volume of significant spills.	•	SR: Compliance—Manufacturing (p 51); Compliance—Canfor Pulp (p 57)
G4-EN26	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff.	•	SR: Water Resources (p 56)
COMPLIANCE			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	•	SR: Compliance—Manufacturing (p 51); Compliance—Canfor Pulp (p 57)
OVERALL			
G4-EN31	Total environmental protection expenditures and investments by type.		Data on this indicator not available
SUPPLIER ENVIRONMENTAL ASSESSMENT			
G4-E N32	Percentage of new suppliers that were screened using environmental criteria.	•	100% for forestry operations
ENVIRONMENTAL GRIEVANCE MECHANISMS			
G4-EN34	Number of grievances about environmental impacts files, addressed and resolved through formal grievance mechanisms.	•	One—see FSC certification report ³

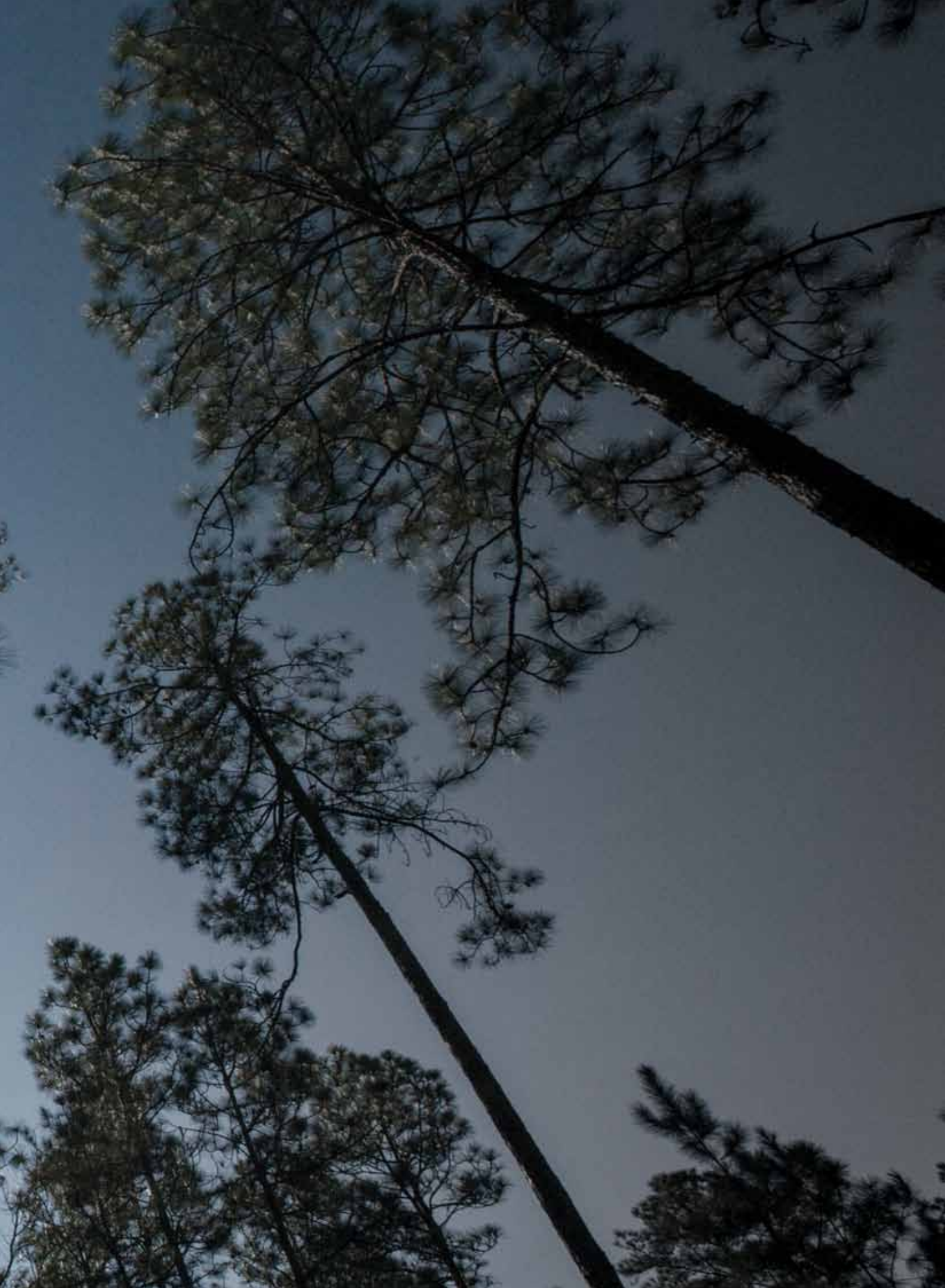
		Reported	Location
SOCIAL			
EMPLOYMENT			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region.		Not reported
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.		Not reported
LABOUR RELATIONS			
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	•	Follows Employment Standards Act and Collective Agreements
OCCUPATIONAL HEALTH AND SAFETY			
G4-LA5	Percentages 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 and Safety (p 67)
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender.	•	SR: Health and Safety (p 67)
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	N/A	
G4-LA8	Health and safety topics covered in formal agreements with trade unions.	•	SR: Health and Safety (p 67)
TRAINING AND EDUCATION			
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	•	SR: Investing in Our People (p 68)
HUMAN RIGHTS			
G4-HR4-12		N/A	Canfor and Canfor Pulp's operations conform to the human rights laws of the United States and Canada.
LOCAL COMMUNITIES			
G4-S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	•	SR: Participating in Our Communities and Civil Society (p 71-74)
G4-S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	N/A	

	Reported	Location
PUBLIC POLICY		
G4-S06	•	SR: Political Contributions (p 74)
COMPLIANCE		
G4-S08	•	AIF: Legal Proceedings and Regulatory Actions (p 25)

(1) 2013 Canfor Corporation Annual Report <http://www.canfor.com/investor-relations/reports/annual-reports>
(2) Annual Information Form www.canfor.com/docs/investor-relations/canfor_aif_2013_final.pdf?sfvrsn=2
(3) Sustainable Forest Management plans, reports and audit summaries www.canfor.com/responsibility/environmental/plans
(4) Canfor Communications; 100-1700 West 75th Avenue, Vancouver BC, Canada V6P 6G2 Telephone 604-661-5225
(5) Board of Directors Terms of Reference www.canfor.com/docs/news-2010/board_terms_of_reference_2006.pdf?sfvrsn=0
(5) Canfor Pulp Code of Conduct January 25, 2011 www.canforpulp.com/_resources/company/CPLP_Code_of_Conduct_rev_25Jan2011.pdf

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Management's Discussion and Analysis (MDA) 2013 www.canfor.com/docs/investor-relations/2013_mda_cfp_final.pdf?sfvrsn=2
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