



Canfor Pulp Products Inc.

Annual Information Form

**Information in this Annual Information Form
is as at February 22, 2018 unless otherwise indicated.**

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FORWARD LOOKING INFORMATION

This Annual Information Form contains forward looking statements, which are statements that address circumstances, events or developments that the Company expects or anticipates may occur in the future. These forward looking statements reflect management's current expectation and belief regarding such developments, circumstances or events and are based on assumptions, including assumptions with regard to economic and general business conditions in Canada as well in the United States and other factors management believes are appropriate in the circumstances. Such forward looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what their impact will be on the Company. Actual outcomes and results will depend on a number of factors which could cause actual results, performance or developments to differ materially from those expressed or implied by such forward looking statements in this Annual Information Form, including the "Risks and Uncertainties" described in the Company's Management's Discussion and Analysis for the year ended December 31, 2017 and incorporated by reference herein. Accordingly, readers should exercise caution in relying upon forward looking statements which reflect management's estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these statements to reflect subsequent events or changes in circumstances, except as required by applicable securities laws.

CURRENCY

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

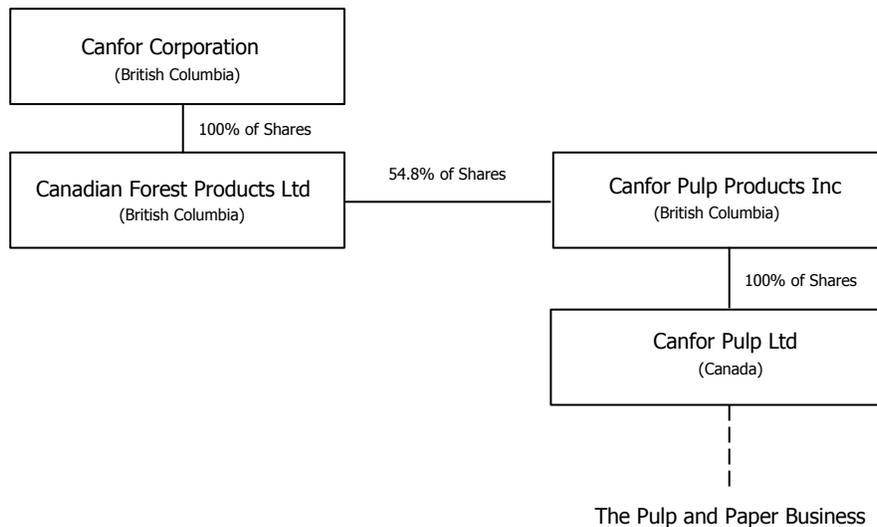
INCORPORATION

Canfor Pulp Products Inc. (the "Company") was incorporated on March 12, 2010 under the *Business Corporations Act* (British Columbia). The Common Shares of the Company are listed and traded on The Toronto Stock Exchange ("TSX").

The principal and head office of the Company is located at 230 - 1700 West 75th Avenue, Vancouver, British Columbia. The registered office of the Company is located at 100 - 1700 West 75th Avenue, Vancouver, British Columbia. In this Annual Information Form, Canfor Pulp Products Inc. is referred to as the "Company" and, unless otherwise indicated by the context, "CPPI" refers to the Company and its subsidiaries as described under "Corporate Structure" below.

CORPORATE STRUCTURE

The following chart shows, on a simplified basis, as at December 31, 2017, the inter-corporate relationships among the Company and its material subsidiaries (including jurisdiction of incorporation of the various entities) and its majority shareholder, Canfor Corporation ("Canfor") and Canfor's wholly owned subsidiary, Canadian Forest Products Ltd. ("CFP").



BUSINESS OF CPPI

CPPI is a leading global supplier of pulp and paper products with operations based in the central interior of British Columbia. The Company is one of Canada's largest producers of Northern Bleached Softwood Kraft ("NBSK") pulp for sale on the open market, based on production capacity of existing facilities. The Prince George paper machine is the largest producer of its types of bleached high performance kraft paper in North America.

CPPI owns and operates the Northwood pulp mill, the Intercontinental pulp mill, the Prince George pulp and paper mill, and the Taylor pulp mill (together, the "Mills") with annual capacity to produce for sale to the market approximately 1.1 million tonnes of northern softwood market kraft pulp (84% of which is bleached to become NBSK pulp), 220,000 tonnes of Bleached Chemi-Thermo Mechanical Pulp ("BCTMP"), and 140,000 tonnes of bleached and unbleached kraft paper. The capacity and production figures set out in this Annual Information Form are presented as at December 31, 2017. In addition, CPPI generates power at all of its NBSK pulp mills and has long-term agreements with BC Hydro for electrical load displacement and the sale of power.

General Development

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

- Preserving its low-cost operating position;
- Maintaining the premium quality of its products;
- Growing its green energy business;
- Developing an enterprise-wide culture of safety, innovation and engagement; and
- Capitalizing on attractive growth opportunities.

In support of these strategies, the Company, during the past three financial years, has made investments of approximately \$215 million at its pulp and paper operations, including significant investments in the Company's green energy business.

Significant Events

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

Union Agreements

In June 2017, the Company ratified new four-year collective agreements with the UNIFOR and the PPWC (Public and Private Workers of Canada). Both agreements are set to expire on April 30, 2021.

Northwood and Taylor Mill Energy Projects

On July 26, 2017, the Company announced plans to undertake capital projects at its Northwood and Taylor pulp mills. The Northwood project will install a new 32 megawatt condensing turbo-generator for an estimated cost of \$65 million. The Taylor project will upgrade the refining line for an estimated cost of \$40 million. The Taylor project will be partially funded through BC Hydro's conservation program incentives. These projects will yield a significant improvement in overall mill energy efficiency and result in reduced fuel consumption. The sustaining benefits of the projects will also include reductions in mill water use, steam use per tonne of pulp and natural gas consumption.

Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into biofuels and biochemicals and allow the Company to further optimize pulp production capacity. Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER"), an Australian energy technology development company. This agreement follows a successful program of preliminary trials conducted on feedstock from the Company at Licella's pilot plants located in New South Wales, Australia, in which wood residue streams from CPPI's kraft process were successfully converted into a stable biocrude oil. In conjunction with the joint venture agreement, CPPI provided a convertible credit facility in the principal amount of \$3.5 million (as at December 31, 2017) to IER which matures on June 21, 2019.

In March 2017, the Canadian Federal Government through its Sustainable Development Technology Canada program announced the funding over several years of approximately \$13.2 million, contingent on future spending, to enable the Licella Pulp Joint Venture to further develop and demonstrate a technology that will convert biomass into biofuels and biochemicals.

Purchase of Taylor Pulp Mill

On January 30, 2015, CPPI completed the purchase of the BCTMP Taylor pulp mill from Canfor for cash proceeds of \$12.6 million, including working capital. The purchase also included a long-term fibre supply agreement under which Canfor will supply fibre to the Taylor pulp mill at prices that approximate fair market value. In addition to the cash proceeds, Canfor may also receive additional contingent consideration over a three year period ending January 31, 2018, based on the Taylor pulp mill's annual adjusted operating income before amortization. No contingent consideration was paid over this period. The Taylor pulp mill is located in Taylor, British Columbia and has an annual production capacity of 220,000 tonnes of BCTMP.

Normal Course Issuer Bids

On March 7, 2017, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,332,038 Common Shares or approximately 5% of its issued and outstanding Common Shares as of March 1, 2017. The renewed normal course issuer bid is set to expire on March 6, 2018. In 2017, CPPI purchased 1,448,109 Common Shares for \$17.8 million. As a result of the share repurchases in 2017, Canfor's interest in CPPI increased from 53.6% at December 31, 2016 to 54.8% at December 31, 2017.

During 2016, CPPI purchased 2,252,504 Common Shares for \$24.4 million. As a result of the share repurchases in 2016, Canfor's interest in CPPI increased from 51.9% at December 31, 2015 to 53.6% at December 31, 2016.

During 2015, CPPI purchased 1,877,951 Common Shares for \$25.6 million. As a result of the share purchases in 2015, Canfor's interest in CPPI increased from 50.5% at December 31, 2014 to 51.9% at December 31, 2015.

Trends, Events, Risks and Uncertainties

For additional information regarding changes to CPPI's business expected in 2018, and known trends, commitments, events or uncertainties, see CPPI's "2017 Management's Discussion and Analysis" in particular the "Outlook" and "Risks and Uncertainties" sections thereof, which are incorporated by reference herein.

Business Segments

CPPI's business is in two reportable segments, "Pulp" and "Paper". The Pulp segment includes the Company's four pulp mills: the Northwood pulp mill; the Intercontinental pulp mill; pulp produced at the Prince George pulp and paper mill; and, from February 1, 2015 onwards, the Taylor pulp mill. The Paper segment includes kraft paper produced at the Prince George pulp and paper mill.

The Northwood pulp mill is a two-line pulp mill with annual production capacity of approximately 600,000 tonnes of NBSK pulp, making it the largest NBSK pulp facility in North America. Northwood's pulp is used to make a variety of products including printing and writing paper, tissue and specialty papers and products and is primarily delivered to customers in North America and Asia.

The Intercontinental pulp mill is a single-line pulp mill with annual production capacity of approximately 320,000 tonnes of NBSK pulp. Intercontinental's pulp is used to make substantially the same product as that from Northwood, and is delivered to the same markets.

The Prince George pulp and paper mill is an integrated two-line pulp and paper mill with an annual production capacity of approximately 150,000 tonnes of kraft pulp and approximately 140,000 tonnes of kraft paper. The Prince George pulp and paper mill supplies markets in North America, Europe and Asia, as well as its internal paper making facilities. The paper mill supplies primarily North American and European markets, with a wide range of both bleached and unbleached kraft paper grades.

The Taylor pulp mill is a BCTMP mill located in Taylor, British Columbia with an annual production capacity of 220,000 tonnes of BCTMP. The Taylor pulp mill supplies markets in North America and Asia.

The following table sets out, by business segment, CPPI's total sales revenues for the last two years. Further details can be found in the Company's annual financial statements:

	Years ended	
	December 31,	
	2017	2016
	(Millions of dollars)	
Pulp.....	\$1,024.5	\$924.2
Paper.....	173.0	176.1
Other.....	<u>0.4</u>	<u>1.6</u>
Total sales	<u>\$1,197.9</u>	<u>\$1,101.9</u>

The following table indicates the percentage composition of CPPI's consolidated sales revenues by market for the last two years. Further details can be found in the Company's annual financial statements:

	Years ended	
	December 31,	
	2017	2016
Canada	7%	7%
United States	24%	25%
Europe	4%	5%
Asia	59%	56%
Other	<u>6%</u>	<u>7%</u>
Total	<u>100%</u>	<u>100%</u>

FIBRE SUPPLY

General

When running at full capacity, the Mills' ongoing annual fibre requirements are approximately 2.6 million oven-dried metric tonnes ("ODTs") of wood chips and 400,000 ODTs of hog fuel. The availability of wood chips for purchase and processing in the northern interior of British Columbia is influenced significantly by the timber supply in the Prince George, Mackenzie, and Peace River timber supply areas and by the operating rates of sawmills within the geographic area of fibre supply for the Mills.

Fibre Supply Agreements

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

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

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

Historically, CPPI has also competed successfully for residual chip volumes which cannot be supplied by CFP's sawmills and timber tenures.

The chip pricing under the above agreements with CFP expired on September 1, 2016. The Company and CFP agreed to extend the chip pricing formula under these agreements for one year, with the opportunity to extend for one additional year if both parties agree. Both parties have since agreed to an extension of the expiry date to September 1, 2018.

Other Fibre Supply Arrangements

The Mills currently have short and long-term chip supply agreements with approximately 22 different suppliers, other than CFP, which account for approximately 1.0 million ODTs on an annual basis. These agreements are for periods ranging between one and eighteen years, and each agreement permits the Mills to purchase wood chips available at a specified sawmill, subject to certain maximums. These agreements do not provide for minimum volumes, which protects the Mills from being required to purchase wood chips in excess of their requirements.

Pricing for wood chips purchased under these agreements is based on similar formulas as used in the Fibre Supply Agreement.

These fibre supply agreements, together with supplemental agreements by CPPI with third parties for the supply of wood chips and hog fuel, are expected to continue to satisfy all of the anticipated fibre requirements to operate the Mills at their current capacity levels of operation.

PULP

Approximately 84% of the NBSK market pulp production of the Mills is focused on bleached NBSK pulp in order to meet the demands of the Company's customers. The Prince George pulp and paper mill also produces speciality varieties of unbleached pulp.

The following table shows pulp sales for pulp produced by the Mills, excluding remarketed product, for the last two years, classified by sales region:

Market Pulp Sales by Geographic Region

	Years ended	
	December 31,	
	<u>2017</u>	<u>2016</u>
	(tonnes)	
Americas.....	328,502	319,767
Europe.....	51,234	59,417
Asia.....	<u>836,631</u>	<u>822,326</u>
Total sales	<u>1,216,367</u>	<u>1,201,510</u>

The following table shows the pulp production of the Mills for the last two years, classified according to the variety of pulp produced:

Market Pulp Production

<u>Product</u>	Years ended	
	December 31,	
	<u>2017</u>	<u>2016</u>
	(tonnes)	
Bleached – Northwood Pulp Mill	545,372	557,696
Bleached – Intercontinental Pulp Mill	293,457	295,923
Unbleached – Prince George Pulp Mill	154,878	145,492
BCTMP – Taylor Pulp Mill	<u>211,307</u>	<u>218,772</u>
Total production.....	<u>1,205,014</u>	<u>1,217,883</u>

PAPER

The Prince George kraft paper mill supplies primarily North American, Asian and European markets with a wide range of both bleached and unbleached kraft paper grades.

The following table shows sales of kraft paper produced by the Prince George mill for the last two years, classified by sales region:

Kraft Paper Sales by Geographic Region

	Years ended	
	December 31,	
	<u>2017</u>	<u>2016</u>
	(tonnes)	
Americas	109,993	109,246
Europe / Middle East	10,791	14,667
Asia	<u>18,187</u>	<u>18,620</u>
Total sales	<u>138,971</u>	<u>142,533</u>

The following table shows the kraft paper production of Prince George pulp and paper mill for each of the last two years, classified according to the variety of kraft paper produced:

Kraft Paper Production

<u>Product</u>	Years ended	
	December 31,	
	<u>2017</u>	<u>2016</u>
	(tonnes)	
Bleached.....	121,395	118,029
Unbleached.....	<u>16,652</u>	<u>17,770</u>
Total production	<u>138,047</u>	<u>135,799</u>

CPPI Markets and Distribution

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

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

In 2014, the Company entered into a strategic sales and marketing cooperation agreement with UPM where the Company's sales network represented and co-marketed UPM pulp products in North America, Japan and Korea whereas UPM's pulp sales network represented and co-marketed CPPI's products in Europe and China.

Premium 1 Papers, a sales and marketing partnership between CPPI and Canadian Kraft Paper Industries Limited ("CKPI"), is responsible for marketing all bleached and unbleached kraft paper products produced by the Company's Prince George kraft paper mill's operation and CKPI's unbleached kraft paper mill in The Pas, Manitoba. Premium 1 Papers currently employs 17 full time marketing professionals.

The Company uses various modes of surface transportation to distribute its pulp and kraft paper products. In the case of pulp, product is shipped from the mills by rail or truck, with each of the mills serviced by at least one dedicated rail spur. In the case of kraft paper, due to the smaller average order size, a much higher percentage is shipped by truck, with the balance shipped by rail. Products destined for overseas customers are generally transported by breakbulk cargo vessel for European customers and by either breakbulk or container cargo vessels for Asian customers.

For a detailed discussion of the markets for the Company's pulp and paper products, see the Company's "2017 Management's Discussion and Analysis", in particular, the "Pulp – Markets" and "Paper – Markets" and "Outlook – Pulp Markets" and "Outlook – Paper Markets" sections thereof, which are incorporated by reference herein.

HUMAN RESOURCES

As at December 31, 2017, the Company employed 1,279 people throughout the organization. Approximately 66% of these employees are hourly employees covered by collective agreements with the UNIFOR and the PPWC. Labour agreements with the UNIFOR and the PPWC covering the pulp and paper operations were successfully concluded and ratified in 2017 for a term of four years expiring on April 30, 2021.

ENVIRONMENT

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

CPPI is committed to the responsible stewardship of the environment throughout its operations. The Company meets this commitment by: ensuring that the suppliers of fibre to the Company practice forest management that recognizes ecological processes and diversity and integrated use of the forest; designing and operating its facilities to comply with legal requirements; setting environmental objectives and targets to improve environmental performance; and promoting environmental awareness throughout the Company's operations.

Programs and Standards

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

During 2017, CPPI obtained 87% of its fibre supply from forest districts that had been certified to either the Canadian Standards Association Sustainable Forest Management Standard (CAN/CSA-Z809) or the Sustainable Forestry Initiative (SFI®). All of the pulp the Company produced in 2017 was eligible for sale as Controlled Wood under the Forest Stewardship Council (FSC) certification standard.

The Company's Prince George pulp and paper and Intercontinental pulp mills have an EMS that is certified under ISO 14001. They were among the first mills in North America to achieve ISO 14001 registrations in early 1998. The Northwood pulp mill achieved ISO 14001 registration in June 2001. These mills have all been successful in retaining registration following audits by the registrar to these standards.

The Mills are actively engaged in the local airshed management program in Prince George, including areas of ambient monitoring and research. Staff serving on air quality committees work to ensure that future airshed plans are guided by sound science.

Carbon and GHG Regulation and Policy

In November 2009, the British Columbia Ministry of Environment released the greenhouse gas ("GHG") reporting regulations under the *Greenhouse Gas Reduction Act*, requiring any facilities emitting more than 10,000 tonnes of carbon dioxide to report 2010 emissions in 2011. In 2012, all of the Mills registered and reported GHG emissions under the British Columbia GHG reporting regulation. GHG emission reporting has been required federally and in Alberta for several years.

In recent years, CPPI has made progress in growing the renewable energy generation from its three mills in Prince George. A new 32 MW turbine generator was installed at the Intercontinental pulp mill in 2015 to bring the total installed generating capacity in Prince George to 150 megawatts. This renewable energy investment has enabled all three NBSK pulp mills to use self-generated electricity for their operations and provided British Columbia with additional renewable energy for its communities.

During 2017, the Mills were able to continue their program of seeking to lower emissions of GHGs. The Company is committed to continue to reduce its dependence on fossil fuels and continues to invest in projects that yield a variety of environmental benefits. These improvements include increasing renewable electricity generation, reductions in odour and particulate emissions, and reduced fossil fuel and water consumption.

During 2017, the Company's operations were in substantial compliance with all material environmental requirements, except for minor incidents, which have not had, nor are they expected to have, a material effect on the Company or its operations. For additional information regarding CPPI's environmental initiatives, see the Company's "2017 Management's Discussion and Analysis", in particular, the section entitled "Environmental Laws, Regulations and Compliance", which is incorporated by reference herein.

COMPETITIVE POSITION

The pulp industry is highly competitive, with a substantial number of competitors having extensive manufacturing expertise and sales and distribution organizations, some of which are larger than CPPI's, but none of which are considered to be dominant. The principal competitive factors in the pulp market are price, quality, volume, availability, reliability of supply, financial viability, and customer service.

The Company's main product line for its kraft paper business is high performance, bleached paper. The Company's main competitors in its sale of kraft paper products are several European producers.

RESEARCH AND DEVELOPMENT

The Company conducts and is committed to research and development in the areas of fibre analysis, manufacturing processes, quality control and new product development. The Company maintains an in-house innovations centre. Canfor Pulp Innovation ("CPI") delivers a diversified program in 4 strategic areas: cost reduction, NBSK strength and quality, specialty paper, and new products. CPI delivers solutions and intellectual property through active partnerships and contracts with best available global research and innovation providers.

DIRECTORS AND OFFICERS

Directors

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

<u>Name and Municipality, Province and Country of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
John Baird ⁽³⁾⁽⁴⁾⁽⁵⁾ Toronto, ON Canada	<p>Former Canadian Foreign Minister, Senior Advisor to various enterprises and a former Senior Cabinet Minister in the Government of Canada.</p> <p>Background: Mr. Baird spent three terms as a Member of Parliament in the House of Commons, most recently as Minister of Foreign Affairs (2011-2015). Previously, Mr. Baird held a variety of government posts including President of the Treasury Board (2006-2007), Minister of the Environment (2007-2008 and 2010-2011), Minister of Transport, Infrastructure and Communities (2008-2010), and Leader of the Government in the House of Commons (2010-2011). Prior to entering federal politics, Mr. Baird spent ten years in the Ontario Legislature. From 1995-2005 he served as Minister of Community and Social Services, Minister of Energy, and Government House Leader.</p> <p>Currently, Mr. Baird serves as a Senior Business Advisor with Bennett Jones LLP, a premier Canadian law firm. In addition, Mr. Baird sits on the advisory board of Barrick Gold Corp., the corporate boards of Canadian Pacific, Canfor Pulp Products Inc., the FWD Group and PineBridge Investments, is a Global Strategic Advisor to Hatch Ltd, a Canadian global multidisciplinary management, engineering and development consultancy, and is a Senior Advisor at Eurasia Group, a global political risk consultancy.</p> <p>Mr. Baird also volunteers his time with Community Living Ontario, an organization that supports individuals with developmental disabilities, the Prince's Charities, the charitable office of His Royal Highness The Prince of Wales, and is a board member of the Friends of Israel Initiative. He holds an Honours Bachelor of Arts in Political Studies from Queen's University at Kingston.</p>	2016

**Name and Municipality,
Province and Country of
Residence**

Peter Bentley, O.C., O.B.C.,
LL.D. ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾
Vancouver, BC
Canada

Principal Occupation and Background

Chairman Emeritus of the Board of Directors of Canfor.

Background: Mr. Bentley was appointed to the Board of the Company on April 24, 2012. Mr. Bentley served as a Director of the general partner (the "General Partner") of Canfor Pulp Limited Partnership from April 28, 2006 to April 23, 2012. Mr. Bentley has served on the Board of Canfor since 1966. Mr. Bentley is Chairman Emeritus of the Board of Directors of Canfor. After working in various positions with Canfor, Mr. Bentley became Executive Vice-President in 1970, President in 1975, and Chairman and Chief Executive Officer ("CEO") in 1985, a position he held until April 24, 1995. Mr. Bentley was reappointed to the position of President and CEO of Canfor on July 25, 1997 and relinquished the position of President and CEO of Canfor on January 1, 1998. Mr. Bentley is Chairman and a Director of Sierra Mountain Minerals Inc. and a member of the Board of the Canadian Institute for Advanced Research, a member of the Advisory Board of BuildDirect.com and a Trustee and Chair Emeritus of the Vancouver General Hospital and University of British Columbia Hospital Foundation. He also served for many years as a director of Bank of Montreal and Shell Canada Ltd. Mr. Bentley was Chancellor of the University of Northern British Columbia until May 2007. Mr. Bentley holds Honorary Doctorate of Laws degrees from the University of British Columbia and the University of Northern British Columbia.

**Director
Since**

2006

Stan Bracken-Horrocks, FCPA,
FCA ⁽¹⁾⁽³⁾⁽⁵⁾
Kelowna, BC
Canada

Former partner at PricewaterhouseCoopers LLP.

Background: Mr. Bracken-Horrocks has been a Director of the Company since 2010 and served as a Trustee of the Canfor Pulp Income Fund (the "Fund") from 2006 until 2011. Mr. Bracken-Horrocks served as a Director of the Board of the General Partner from 2006 to 2012. Mr. Bracken-Horrocks is a retired partner of PricewaterhouseCoopers LLP and held various leadership positions during his career with PricewaterhouseCoopers LLP, including Global Leader of its Forest and Paper Industry practice. As a member of the Canadian Institute of Chartered Accountants, Mr. Bracken-Horrocks served as a member of the Board of Governors and a member of the Accounting Standards Committee and, as a member of the Institute of Chartered Accountants of British Columbia, he served as a member of council, Vice-President and President. Mr. Bracken-Horrocks is a former Director and Chairman of the Audit Committee of the Business Development Bank of Canada.

2006

<u>Name and Municipality, Province and Country of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
Barbara Hislop ⁽¹⁾⁽³⁾⁽⁴⁾ Vancouver, BC Canada	<p>President of the European Regional Council and former President of Variety – The Children’s Charity International</p> <p>Background: Ms. Hislop is an award-winning senior executive and an active community leader. Ms. Hislop was Vice President of Operations at Canfor from 1977 until 2004. After 28 years at Canfor, Ms. Hislop became President and CEO of Genus Resources Management Technologies Inc. from 2002 until 2005 and was then the Executive Director of Variety – The Children’s Charity of BC from 2006 until 2012. Ms. Hislop recently completed a two-year term as President of Variety – The Children’s Charity International and is currently the President of the European Regional Council. Ms. Hislop is a graduate of the Institute of Corporate Directors Governance Program in Canada and has sat on several Boards including Bank of Canada, Hudson’s Bay and Canfor.</p>	2017
Donald Kayne Tsawwassen, BC Canada	<p>President and Chief Executive Officer, Canfor Corporation and Chief Executive Officer, CPPI</p> <p>Background: Mr. Kayne was appointed President and Chief Executive Officer of Canfor Corporation on May 5, 2011. He was additionally appointed Chief Executive Officer of CPPI on September 30, 2012.</p> <p>Mr. Kayne has spent his entire career at Canfor, starting out as a regional sales representative in 1979. Prior to being appointed CEO, Don spent 10 years as Canfor’s Vice President of Sales and Marketing, and is one of the lead architects of the market for British Columbia lumber in China.</p> <p>Mr. Kayne is currently a Director of both Canfor Corporation and CPPI. He is also a Director and Past Chairman of the Forest Products Association of Canada and a Director of the Council of Forest Industries, Alberta Forest Products Association and the BC Lumber Trade Council. In 2014, Don was appointed to the bi-national Softwood Lumber Board and currently serves as Vice Chairman and Chairman of the Programs Committee. He is also a Director of Cameco, one of the world’s largest uranium producers and Chairman of the charitable organization Educating Girls of Rural China Foundation, which works to transform the lives of women and communities in rural areas of western China by providing access to education.</p>	2017
Michael Korenberg West Vancouver, BC Canada	<p>Chairman of The Wreath Group.</p> <p>Background: Mr. Korenberg is a Director of Canfor and CPPI. Mr. Korenberg is also a Director of HSBC Bank Canada, Kruger Products LP and its associated company, KP Tissue Inc. (which he chairs), and Westshore Terminals Investment Corporation. He serves as Vice Chair of the Board of Governors of the University of British Columbia (“UBC”), as an Advisory Board member of the Heart & Stroke Foundation of British Columbia and the Yukon, and is a member of the Law Societies of Ontario and British Columbia, and is a member of the Dean’s Advisory Committee for the Centre for Business Law at UBC. Mr. Korenberg has advised the Company of his intention not to stand for re-election as a Director at the Annual General Meeting.</p>	2011

<u>Name and Municipality, Province and Country of Residence</u>	<u>Principal Occupation and Background</u>	<u>Director Since</u>
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Conrad Pinette ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾
Vancouver, BC
Canada

Chairman of the Board of Directors of the Company and former owner and President, Pinette & Therrien Mills Ltd.

2012

Background: Mr. Pinette is also a Director and Chairman of the Board of Directors of Canfor. Mr. Pinette's work in the Canadian forest industry began 40 years ago as an owner and President of a family lumber business, Pinette & Therrien Mills Ltd. Mr. Pinette has also served as Executive Vice President, Tolko Industries Ltd. (2005), Executive Vice President, Riverside Forest Products Limited (2004) and served as President and Chief Operating Officer of Lignum Limited from January 1990 to April 2004. Mr. Pinette is the former Chairman of Finning International Inc. and a former Director of Gold Canyon Resources Inc., TimberWest Forest Corp, Northgate Minerals Corporation, A&W Revenue Royalties Income Fund, Finning International Inc. and the British Columbia Business Council. Mr. Pinette is currently a member of the Vancouver General Hospital and University of British Columbia Prostate Advisory Board.

William Stinson ⁽¹⁾⁽²⁾⁽⁴⁾⁽⁵⁾
Vancouver, BC
Canada

Canada Chairman and CEO of Westshore Terminals Investment Corporation

2009

Background: Mr. Stinson was appointed to the Board of the Company on April 24, 2012. Mr. Stinson served as a Director of the General Partner from February 17, 2009 to April 23, 2012. Mr. Stinson is a member of the Board of Canfor. Mr. Stinson spent the majority of his business career with Canadian Pacific Ltd. retiring as Chairman and CEO in 1996 after 11 years in that position. He has served on a wide variety of boards and has held the positions of Chairman of Sun Life Financial, Chairman of the Executive Committee of United Dominion Industries and Lead Director of CHC Helicopter Corporation.

Notes:

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

The term of office of each Director expires on the date of the next Annual General Meeting of the Company to be held on April 25, 2018.

Officers

The names and municipality, province and country of residence of the executive officers of the Company and the offices held by them as at February 22, 2018 are as follows:

<u>Name</u>	<u>Municipality of Residence</u>	<u>Office</u>
Conrad Pinette	Vancouver, BC, Canada	Chairman
Donald Kayne	Tsawwassen, BC, Canada	Chief Executive Officer
Brett Robinson	Tsawwassen, BC, Canada	President
Alan Nicholl	West Vancouver, BC, Canada	Chief Financial Officer
David Calabrigo, Q.C.	Vancouver, BC, Canada	Corporate Secretary
Martin Pudlas	Prince George, BC, Canada	Vice President, Operations
Peter Hart	Vancouver, BC, Canada	Vice President, Pulp and Paper Sales and Marketing

All of the above Directors and Officers have had the same or similar principal occupations with the organizations indicated for the last five years except that: Mr. Calabrigo was a Director of the Company from April 2012 to April 2016 and the General Partner; Mr. Pinette was a Director of the Company from April 2012 to April 2017; prior to July 21, 2015 Mr. Hart was General Manager, Global Pulp and Paper Sales for Canfor Pulp and Paper Sales Ltd.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Company, no Director or Executive Officer of the Company, or any of their associates, has or had any material interest, directly or indirectly, in any transaction of the Company within the three most recently completed financial years of the Company that has materially affected or will materially affect the Company.

CONFLICTS OF INTEREST

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

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of the Company consists of an unlimited number of Common Shares (the "CPPI Shares"). At December 31, 2017, based on trade date, there were 65,251,259 CPPI Shares issued and outstanding. As of the date of this Annual Information Form, based on trade date, there are 65,250,759 CPPI Shares issued and outstanding.

Holders of CPPI Shares are entitled to one vote per share at meetings of shareholders of CPPI, to receive dividends if, as and when declared by the Board of directors of CPPI and to receive pro rata the remaining property and assets of CPPI upon its dissolution or winding-up, subject to the rights of shares having priority over the CPPI Shares.

DIVIDENDS

This section describes the dividend policies and amounts declared pursuant thereto, if any, of CPPI and its subsidiaries.

Provisions contained in CPPI's long-term borrowing agreements limit the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

The declaration and payment of dividends is subject to the discretion of the Company's Board of Directors and may change from time to time. The Board reviews the issuance of dividends on a quarterly basis.

The table below sets out the dividends declared by CPPI from January 1, 2015 until December 31, 2017:

<u>Quarter</u>	<u>Declaration Date</u>	<u>Record Date</u>	<u>Amount per Share</u> \$	<u>Date Paid</u>
4 th Quarter, 2014	February 4, 2015	February 17, 2015	0.0625	February 24, 2015
1 st Quarter, 2015	April 28, 2015	May 11, 2015	0.0625	May 19, 2015
2 nd Quarter, 2015	July 21, 2015	August 3, 2015	1.1875	August 10, 2015
3 rd Quarter, 2015	October 28, 2015	November 10, 2015	0.0625	November 17, 2015
4 th Quarter, 2015	February 17, 2016	March 1, 2016	0.0625	March 8, 2016
1 st Quarter, 2016	April 26, 2016	May 10, 2016	0.0625	May 17, 2016
2 nd Quarter, 2016	July 26, 2016	August 9, 2016	0.0625	August 16, 2016
3 rd Quarter, 2016	October 26, 2016	November 8, 2016	0.0625	November 15, 2016
4 th Quarter, 2016	February 8, 2017	February 21, 2017	0.0625	February 28, 2017
1 st Quarter, 2017	April 25, 2017	May 8, 2017	0.0625	May 15, 2017
2 nd Quarter, 2017	July 25, 2017	August 7, 2017	0.0625	August 14, 2017
3 rd Quarter, 2017	October 20, 2017	November 2, 2017	0.0625	November 9, 2017

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

At February 22, 2018, the Directors and Executive Officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 976,011 Common Shares representing 1.50% of the outstanding Common Shares.

MARKETS FOR SECURITIES

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

TRADING PRICE AND VOLUME

The following table presents the high and low prices for CPPI's Shares and the trading volume of those shares on a monthly basis on the TSX for 2017:

<u>Month (2017)</u>	<u>High</u> \$	<u>Low</u> \$	<u>Average Daily Trading Volume</u> (Shares)
January	10.89	10.06	22,902
February	11.50	10.28	27,868
March	12.32	10.86	34,646
April	12.65	11.15	20,302
May	12.85	11.66	33,530
June	12.94	11.98	22,102
July	12.70	11.80	20,004
August	13.35	11.90	49,274
September	13.66	12.80	15,925
October	14.25	13.00	28,366
November	14.44	13.38	12,813
December	14.58	12.68	21,085

SECURITY

The Company's operating lines of credit and term indebtedness are unsecured.

MATERIAL CONTRACTS

The following is a list of the Company's material contracts:

1. The Company has entered into a credit agreement dated for reference November 4, 2013, as amended and restated July 31, 2015 and November 3, 2016, with HSBC Bank Canada and Canadian Imperial Bank of Commerce as co-lead agents. This credit agreement provides for an unsecured and committed \$110 million revolving term credit facility, and an additional \$50 million unsecured non-revolving term loan, both due January 31, 2020. Interest is payable on the loans at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio. The unsecured non-revolving term loan was repaid in full on December 29, 2017.
2. On July 1, 2006, Canfor and Canfor Pulp Limited Partnership (now CPPI) entered into a Partnership Services Agreement (the "Partnership Services Agreement") pursuant to which Canfor provides CPPI with certain specified services. The services provided by Canfor include corporate secretarial, financial, internal audit, maintenance, inventory, and purchasing systems, hourly payroll and time entry systems, production tracking systems and software and technology support. Canfor does not receive a fee for the provision of these services but receives a reimbursement for its direct and indirect costs and expenses. The Partnership Services Agreement is terminable, in whole or in part, at the election of CPPI or Canfor, upon 12 months' written notice.
3. The Company has a Fibre Supply Agreement with Canfor as described under "Fibre Supply – Fibre Supply Agreements".
4. The Company has entered into a BCTMP Fibre Agreement with CFP in conjunction with the purchase of the Taylor pulp mill as described under "Fibre Supply – Fibre Supply Agreements".

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES, SANCTIONS

To the knowledge of the Company, no Director or Executive Officer of the Company is at the date hereof or was within the 10 years of the date of this Annual Information Form, a Director, CEO or Chief Financial Officer of a company that, (i) while acting in that capacity, was subject to a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of 30 consecutive days; (ii) was subject to an event that resulted, after ceasing to act in such capacity, in a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of 30 consecutive days. To the knowledge of the Company, no Director or Executive Officer of the Company or a shareholder holding a sufficient number of securities of the Company to materially affect the control of the Company is at the date hereof, or has been within the 10 years before the date of this Annual Information Form, a Director or Executive Officer of a company that, while acting in that capacity, or within a year of ceasing to act in such capacity, became bankrupt, made a proposal under legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver or trustee appointed to hold its assets, other than Mr. Stinson who was previously a director of Grant Forest Products Inc. ("Grant"). On June 25, 2009, Grant obtained creditor protection from the Ontario Superior Court under the *Companies Creditors Arrangement Act* (Canada). Mr. Stinson ceased to be a director of Grant on June 30, 2010. To the knowledge of the Company, no Director or Executive Officer of the Company or a shareholder holding a sufficient number of securities of the Company to materially affect the control of the Company has, within the ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceeding, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal or regulatory proceedings to which the Company is or was a party, or to which any of the property of any of them is or was the subject of, during the Company's financial year ended December 31, 2017, where such claims exceed 10% of the current assets of the Company. In addition, there are no penalties or sanctions imposed against the Company by a court relating to Canadian securities legislation or by a securities regulatory authority during the Company's financial year ended December 31, 2017 or any other penalties or sanctions imposed by a court or regulatory body against any of them which would likely be considered important to a reasonable investor in making an investment decision, and none of them have entered into any settlement agreements with a court relating to Canadian securities legislation or by a securities regulatory authority during the Company's financial year ended December 31, 2017.

EXPERTS

KPMG LLP, Chartered Accountants, of Vancouver, British Columbia are the Company's auditors. KPMG LLP, Chartered Accountants, have reported that they are independent of the Company in accordance with the auditor's rules of professional conduct in British Columbia, Canada.

The Company will propose KPMG LLP for reappointment as the auditors of the Corporation on the expiry of its term of office at the Annual Meeting of Shareholders of the Corporation on April 25, 2018. No auditor's report prepared by the auditor in respect of the Corporation's financial statements relating to the relevant period contained any modified opinion and there have been no reportable events involving the Corporation and the auditor.

TRANSFER AGENT AND REGISTRAR

AST Trust Company (Canada) is the Company's transfer agent and registrar with registers of transfer in Vancouver and Toronto.

AUDIT COMMITTEE INFORMATION

Audit Committee Terms of Reference – See APPENDIX A

Composition of Audit Committee

The Audit Committee is composed entirely of independent Directors, all of whom are financially literate as defined in Multilateral Instrument 52-110. Mr. Bracken-Horrocks, the Chairman of the Committee, is a Fellow Chartered Professional Accountant (FCPA, FCA) and was a partner in a national accounting firm for over 20 years. Mr. Stinson was Chairman and CEO of Canadian Pacific Ltd. before retiring and has served on a wide variety of boards. Mrs. Hislop was the Executive Director of Variety – The Children's Charity of BC and is currently President of Variety – The Children's Charity International and has served on a wide variety of boards.

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

External Auditor Service Fees (By Category)

The aggregate fees billed by KPMG LLP, the auditor of the Company, for the last two years, was an aggregate of \$0.6 million. Fees listed below were for audit, tax, financial and other verification audit services.

External Auditor Service Fees (000s)	2017	2016
Audit Fees ⁽¹⁾	\$267	\$261
Audit-Related Fees ⁽²⁾	6	6
Tax Fees ⁽³⁾	-	-
All Other Fees ⁽⁴⁾	<u>21</u>	<u>29</u>
Total Fees	<u>\$294</u>	<u>\$296</u>

Notes:

- (1) For the audit of the Company's annual financial statements and services normally provided by the principal auditor in connection with the Company's statutory and regulatory filings.
- (2) For assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported in (1), including accounting consultations and various agreed upon procedures.
- (3) For tax compliance and tax consulting services.
- (4) Fees other than the fees reported in (1) to (3) included services related to chain of custody and greenhouse gas offset projects.

ADDITIONAL INFORMATION

Additional financial information regarding the Company is provided in the Company's "2017 Management's Discussion and Analysis" and "Consolidated Financial Statements" for the year ended December 31, 2017. Additional information, including Directors' and Officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions where applicable, and securities authorized for issuance under equity compensation plans, is contained in the Information Circular for the Annual General Meeting of the Company held on April 26, 2017 and in the Information Circular for the Annual General Meeting of the Company to be held on April 25, 2018.

The Company will provide upon request to the Corporate Secretary of the Company, 230 - 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2, copies of the above documents. These documents and additional information about the Company is also available on SEDAR at www.sedar.com. In addition, all documents identified in this Annual Information Form as being incorporated by reference herein are available on SEDAR at www.sedar.com.

APPENDIX A - AUDIT COMMITTEE TERMS OF REFERENCE

1. Purpose

The Audit Committee is appointed by the board of directors (the "Board") of Canfor Pulp Products Inc. (the "Company") to assist the Board in fulfilling its oversight responsibilities. The Audit Committee will:

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

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

2. Audit Committee Composition and Meetings

All members of the Audit Committee must be Independent Directors.

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

- (a) an understanding of financial statements and accounting principles used by the Company to prepare its financial statements;
- (b) the ability to assess the general application of such accounting principles in connection with accounting for estimates, accruals and reserves;
- (c) experience preparing, auditing, analyzing or evaluating financial statements, or experience supervising the preparation, audit, analysis or evaluation of financial statements, that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements;
- (d) an understanding of internal controls and procedures for financial reporting; and
- (e) an understanding of audit committee functions.

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

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

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

3. Primary Duties and Responsibilities

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

(a) Review and Reporting Procedures

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

(b) Internal Controls and Risk Management Processes

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

(c) Financial Reporting

In order to satisfy itself that the Company's annual financial statements are fairly presented in accordance with generally accepted accounting principles ("GAAP") and in a form sufficient for the Audit Committee's recommendation for approval by the Board, and that the financial information contained in the Company's financial statements, Annual Report to Shareholders, Annual Information Form and other financial

disclosure documents such as Management's Discussion and Analysis, is complete and accurate in all material respects, the Audit Committee shall:

(i) General

- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

(ii) Interim Financial Statements

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

(iii) Annual Financial Statements and Other Financial Information

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

- Review the annual financial disclosure contained in the Annual Information Form.

(iv) Prospectus and Information Circulars

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

(d) **External Audit**

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

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

- (i) Recommend to the Board the selection (retention or replacement) of the external auditors, considering independence and effectiveness, and approve the fees and other compensation to be paid to the external auditors. On an annual basis, the Audit Committee should review and discuss with the external auditors all significant relationships its accountants have with the Company to confirm their independence. If there is a recommendation to change auditors, review all the issues to change and the steps planned for an orderly transition.
- (ii) Review the external auditor's Audit Plan and engagement letter with management and the external auditors, including audit scope and approach.
- (iii) Meet with the external auditor and management in separate private sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.
- (iv) Pre-approve any non-audit services to be provided by the external auditor. The Audit Committee may delegate this responsibility to the Chair, provided that any pre-approval granted pursuant to such delegation must be detailed as to the service to be provided and must be reported to the full Audit Committee at its next scheduled meeting.
- (v) Review and assess the performance of the external auditor, including consideration of demonstrated external audit judgment and application and adherence to accounting policy and standards.
- (vi) Review the external auditor's policy on partner rotation.
- (vii) Review the Company's hiring policy with respect to partners, employees and former partners and employees of the Company's present or former external auditor.

(e) **Internal Audit**

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

- (i) Be advised of and concur with the appointment, replacement, reassignment or dismissal of the Internal Auditor and consider resource requirements.
- (ii) Review and approve Internal Audit Services Terms of Reference, including scope, organization structure and mandate.
- (iii) Confirm and assure the independence of the Internal Auditor.

- (iv) Review jointly with the Internal Auditor and the external auditor the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- (v) Review with management and the Internal Auditor the annual Audit Plan and monitor any changes required in the scope of the plan.
- (vi) Meet with the Internal Auditor and management in separate private sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.
- (vii) Review significant internal audit reports together with management's response and follow-up actions, including any problems or issues encountered in the course of an audit.
- (viii) Review and assess the performance of the Internal Auditor; and
- (ix) Ensure that the Internal Auditor reports directly to the Chair of the Audit Committee with a dotted line reporting responsibility to either the CEO or CFO of the Company.

(f) **Finance**

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

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

4. Other Duties

(a) **Legal and Regulatory Compliance**

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

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

- confidential, anonymous submission by employees regarding questionable accounting, auditing, or financial reporting and disclosure matters.

(b) **Pension Funds**

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

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

(c) **Officer Expenses**

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

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

(d) **Other Duties**

The Audit Committee will perform such other functions as assigned by law or regulation or as required by the Board.