

2014

CANFOR AND CANFOR PULP SUSTAINABILITY REPORT EXECUTIVE SUMMARY





PULP AND PAPER

In 2014, Canfor's pulp and paper operations produced 935,000,000 kwh of electricity. Enough to power 107,000 homes for one year.

An aerial photograph of a dense evergreen forest, likely a spruce or fir forest, with a white circle in the center containing the word LUMBER.

LUMBER

In 2014 Canfor's lumber operations
planted 66 million trees.

EXECUTIVE SUMMARY OF THE 2014 CANFOR AND CANFOR PULP SUSTAINABILITY REPORT

Canfor and Canfor Pulp have posted a 2014 Sustainability Report to the comprehensive Global Reporting Initiative Guidelines at www.canfor.com/sustainability-report that demonstrates our common commitment to transparency and sustainability. This summary offers highlights from the full sustainability report.

While Canfor and Canfor Pulp remain separate companies, Canfor holds a 50.5% interest in Canfor Pulp, and management activities are being integrated to increase efficiency through a shared services model and leverage purchasing power.

The core values of both companies are safety, quality, sustainability 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.

KEY STATISTICS - CANFOR AND CANFOR PULP



PLANTED **65.9 MILLION SEEDLINGS** IN 2014



0 HIGH SIGNIFICANCE INCIDENTS OF REPORTABLE NON-COMPLIANCES IN FORESTRY OPERATIONS

0.33 MODERATE SIGNIFICANCE INCIDENTS OF NON-COMPLIANCE PER MILLION CUBIC METRES OF HARVEST VOLUME

2.33 LOW SIGNIFICANCE INCIDENTS OF NON-COMPLIANCE PER MILLION CUBIC METRES OF HARVEST VOLUME

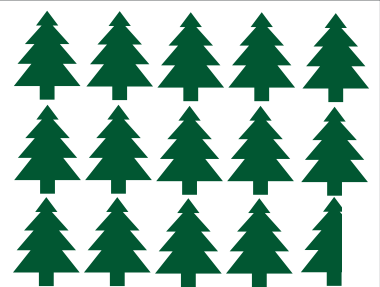


100% OF CANFOR PULP MILLS ARE REGISTERED TO THE **FSC STANDARD** OF CHAIN-OF-CUSTODY CERTIFICATION UP TO **800,000 TONNES** OF PEFC-CERTIFIED PULP



PRODUCTS CERTIFIED TO ALL MAJOR CERTIFICATION STANDARDS (CSA, FSC, SFI)

98.7 % OF FORESTLANDS CERTIFIED



15.6 MILLION CUBIC METRES ANNUAL HARVESTING RIGHTS



5,313 TOTAL WORKFORCE

2.07 MEDICAL INCIDENT RATE

\$318,510 CHARITABLE DONATIONS

\$66,000 IN SCHOLARSHIPS AND BURSARIES

\$234.3M INVESTED IN MILLS



\$3.3 billion in sales (Canfor);

\$980.5 million in sales (Canfor Pulp)

\$221.8 million net income (Canfor);

\$89.5 million net income (Canfor Pulp)

5.6 BILLION BOARD FEET ANNUAL PRODUCTION CAPACITY
1.46 MILLION TONNES PULP AND PAPER

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Message from Canfor CEO Don Kayne

At Canfor and Canfor Pulp, our business objectives are anchored by our core values of safety, quality, sustainability and profitability.

Sustainability is part of everything we do – from planning woodlands operations to delivering products to customers around the world. We have detailed approaches to deliver our forest management activities sustainably, and an open door policy so we can seek input from stakeholders and address their interests. We invest in our facilities to improve efficiency, work tirelessly to promote safety across our operations, and give back to the communities where we operate. In 2014, we planted 65.9 million seedlings, and maintained third-party certification on 98.7% of our forest tenures. Canfor Pulp generated 935,000 MWh of renewable energy in 2014, and our Green Energy facility in Grande Prairie, Alberta, generated 110,000 MWh of renewable electricity.

Canfor is an integrated company, which means we can maximize the value of our fibre. In 2014, we came close to 100% utilization, and announced plans to build two pellet plants in northern British Columbia that will bring us even closer to this goal. We also moved closer to our goal of energy self-sufficiency at Canfor Pulp by installing a new turbine generator at our Intercontinental Mill, scheduled to come on line early in 2015.

We engage with First Nations across our operations so we can protect areas of cultural importance and build mutually beneficial relationships. In 2014, we signed agreements that define our working relationship with the Ktunaxa Nation Council (KNC) whose traditional territory is home to our operations in the East Kootenay region. The importance of maintaining close economic relationships with First Nations in our operating areas was reinforced by a 2014 decision by the Supreme Court of Canada decision to grant aboriginal title and rights to the Tsilhqot'in Nation for lands in British Columbia's central interior. We are confident this will open up further joint opportunities.

We value the contributions of our Canadian Standards Association (CSA) Public Advisory Groups to identify and address local interests. The reassessment report for Forest Stewardship Council® (FSC®) certification of our East Kootenays operations says we made good use of our proprietary Creating Opportunities for Public Involvement database to notify those who may be affected by our operations, and were responsive when we received comments.

Canfor Pulp made significant investments in our Prince George mills to reduce particulate discharge, and the results are in line with the Prince George Air Improvement Roundtable's goal for reduced emissions from all sources by 2016. We created an interactive kiosk so city residents can access real-time air quality data and see the improvements for themselves.

We took steps in 2014 to strengthen our service to customers. This included launching a global sales and transportation system so they have real-time supply chain information. Canfor Pulp began Fibre United, a sales and marketing cooperative agreement with UPM Pulp, to provide an expanded product mix and enhance our reputation for offering premium reinforcing pulp products in key markets. Through our unique Temap program, Canfor Pulp customers can optimize the use of our fibres to reduce costs and improve performance.

Our company continues to grow. In 2014, we announced plans to acquire the operations of Balfour Lumber Company, Beadles Lumber Company and Southern Lumber Company, Inc. in the Southern United States, and finalized the purchase of Scotch Gulf Lumber of Alabama. All six facilities are in areas with a sustainable supply of quality southern yellow pine fibre.

All of the companies that make up Canfor are coming together under a One Canfor vision, with a common brand and identity and a firm commitment to sustainability. They all support the communities where they operate through local purchasing and by being active participants and supporters of community activities.

We signed on early as a community sponsor when Prince George was awarded the 2015 Canada Winter Games, and supported the event by building and staffing the Canfor House hospitality centre, and by purchasing tickets so students from across northern British Columbia could experience the event. More than 500 students joined us in Prince George to watch the Games and learn more about the career opportunities at Canfor and Canfor Pulp.

Recruitment will remain a high priority, and we welcomed the fact we were once again recognized as one of British Columbia's top employers for, among other things, our support of a work-life balance, our commitment to growth from within, our competitive benefits and compensation, and our retirement planning initiatives.

Our safety record improved in 2014 – our medical incident rate was 2.07, close to our goal of 2.0. Safety is important to me personally, and I am proud that our employees continue to make us an industry leader.

Canfor continues to benefit from the fact that more people recognize wood as a renewable material that improves the environmental performance of all types of construction. I am a member of the binational Softwood Lumber Board that promotes the benefits and uses of softwood lumber products. Its leadership is opening up new opportunities for wood, and advancing renewability and sustainability in construction.

The most sustainable forest products are from companies like Canfor and Canfor Pulp that make the effort to meet the highest environmental, economic and social standards. On behalf of everyone at Canfor and Canfor Pulp, I want to thank the many individuals and organizations who work with us to advance our sustainability goals.



Don Kayne

Chief Executive Officer,
Canfor Corporation and Canfor Pulp

Message from Canfor Pulp President Brett Robinson

I always welcome the opportunity to report on Canfor Pulp's sustainability activities. Canfor Pulp delivers the highest value products to customers and the greatest benefits to communities, and we do this in a way that has the least environmental impact possible.

We meet the highest standards for sustainability. We give preference to suppliers who provide third-party certified fibre, we exceed Canada's strict environmental regulations, and we meet the requirements of international policies aimed at reducing illegal harvesting. Our focus on innovation is unrivalled, and we are one of the largest single producers of bioenergy in North America.

Canfor Pulp was among the first companies in North America to meet independent third-party certification standards. Today 78% of our fibre comes from certified sources, and our mills are chain-of-custody certified to the Programme for the Endorsement of Forest Certification and the Forest Stewardship Council® (FSC®). All of our products meet FSC's controlled wood requirements.

We meet international requirements such as the EU Timber Regulation and the US Lacey Act that are aimed at tackling illegal harvesting, and our mills go beyond Canada's world-leading regulations that protect water and air quality. Our customers in countries around the world can be confident our products are made with fibre from legal and sustainable sources.

Canfor Pulp has access to some of the highest-quality fibre in the world. It comes from tree species in British Columbia's interior that thrive in the extreme climate. They develop long, slender and thin-walled cellulose fibres with high tensile strength – ideal for high-quality products. Roughly half of the wood we receive is used for high-quality premium reinforcement pulp. We look forward to bringing our Mihari project on line at each of our manufacturing operations to deliver an unparalleled on-line quality management system to monitor pulp properties and support continuous improvement in the pulp quality we produce.

We produce premium products, and are always watching for opportunities to secure greater economic and environmental value. By improving our manufacturing processes, we have helped our customers reduce their energy consumption and achieve higher tensile strengths so they can use less fibre while maintaining paper strength and runnability. Through Canfor Pulp Innovation, we work with world-class researchers to develop next-generation products.

In 2014, Canfor Pulp generated 935,000 MWh of clean renewable energy. We recently replaced two turbine generators at our Northwood Mill, and in 2014 we installed a new 32-MW unit at our Intercontinental Mill. Our renewable energy business has steadily grown for the past several years and continues to deliver attractive financial returns while at the same time moving us ever closer to our goal of self-sufficiency.

For more than five years, Canfor Pulp has been investing in capital projects that have helped us improve our environmental performance and energy efficiency – some funded in part with credits through the Canadian government's Pulp and Paper Green Transformation Program. We also have long-term

agreements with BC Hydro under its Integrated Power Offer, which encourages pulp and paper producers to invest in energy efficiency and biomass power generation.

In 2014, we invested \$58 million in upgrades to keep our mills competitive and efficient – and expect a similar pace of investment over the next three years. We made the investments needed to improve air emissions from our three Prince George mills, and to meet the Prince George Air Improvement Roundtable's goal for reduced emissions by 2016. We helped set up an interactive air quality kiosk in 2014 so Prince George residents can access real-time air quality data and see how it is improving.

Canfor Pulp and our employees are active participants in community activities in Prince George, where three of our mills are located. When the city hosted the Canada Winter Games in February 2015, I welcomed the opportunity to be executive chair of the Host Society, and was proud that hundreds of our employees volunteered at the event.

It was a special honour to work alongside the Lheidli T'enneh First Nation, the first Official Host First Nation in the history of the Games. For three years, Canfor Pulp has supported the work of the Lheidli T'enneh First Nation Fisheries Program, which is monitoring the endangered white sturgeon to better understand its habitat needs. In 2014, we renewed our support of this important initiative for two more years.

The Canada Winter Games also gave us an opportunity to invite high school students from our operating communities across northern British Columbia to come to Prince George so they could enjoy Games events and learn more about our wide range of career opportunities. The students saw for themselves what makes Canfor Pulp a preferred employer. Our culture of safety, innovation and engagement helps us attract new employees, and our promote-from-within culture gives them exceptional opportunities for career advancement.

At Canfor Pulp, we maintain our leadership by understanding and meeting the many elements that make up sustainability.



Brett Robinson

President, Canfor Pulp



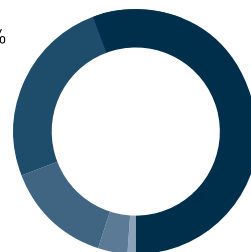
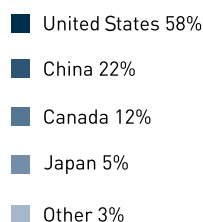
Markets and Market Development

Canfor and Canfor Pulp sell lumber, pulp and paper products in markets throughout North America and overseas through sales offices in Vancouver; Myrtle Beach, SC; Mobile, AL; Tokyo, Japan; Shanghai, China; and Seoul, South Korea. We service other markets in Asia and Europe through relationships with sales agents and a cooperative agreement with UPM Pulp.

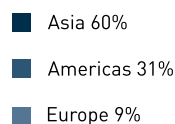
We understand our customers' products and operations so we can contribute to their success. Canfor Pulp partners with internationally recognized experts to deliver training on refiner fundamentals, and to support tissue customer optimization studies. We provide secure product delivery by co-ordinating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

In 2014, we were named vendor of the year by 84 Lumber, one of the largest building materials companies in the United States.

CANFOR LUMBER SALES VOLUMES BY MARKET 2014



CANFOR PULP SALES VOLUMES BY MARKET 2014



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.

We are proud of the history, traditions and connections of all the companies that make up Canfor – most going back generations. While we continue to reinforce and develop our One Canfor vision with one common brand and identity, we respect local expertise and traditions.

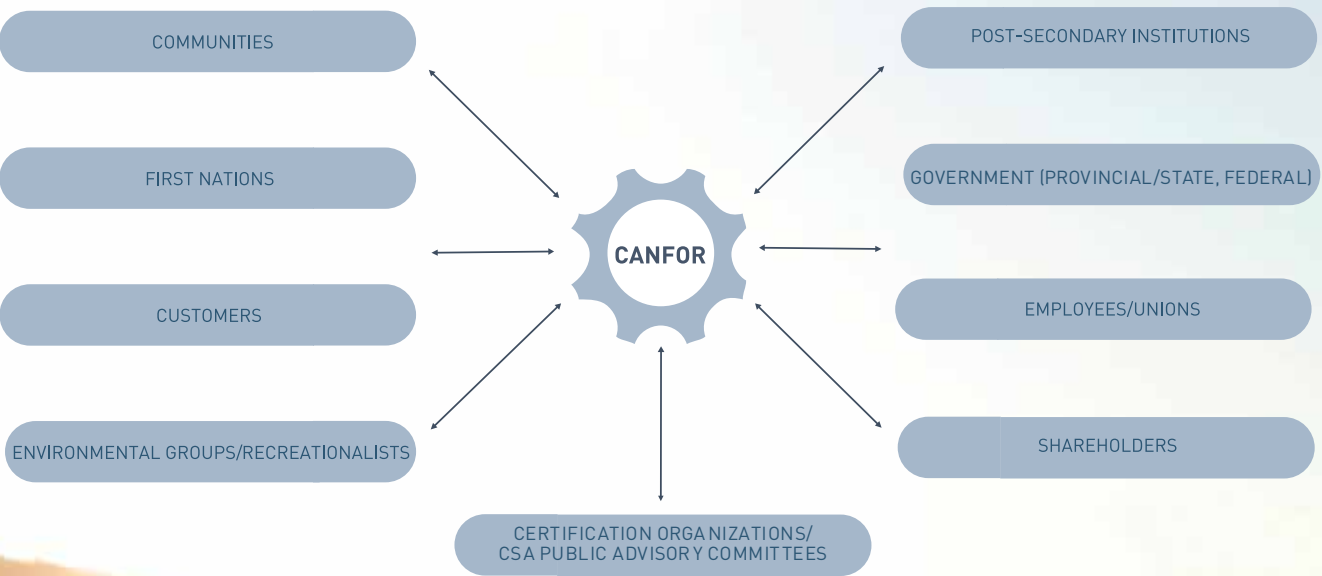
In-house teams are working hard to develop an operating model that is fully aligned and integrated right through the supply chain.



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. 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. Our major stakeholder groups are provided below.

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.



CANFOR AND CANFOR PULP'S OPEN DOOR POLICY ENSURES WE CONSIDER THE INTERESTS OF KEY STAKEHOLDERS IN ALL OF OUR OPERATIONS.

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

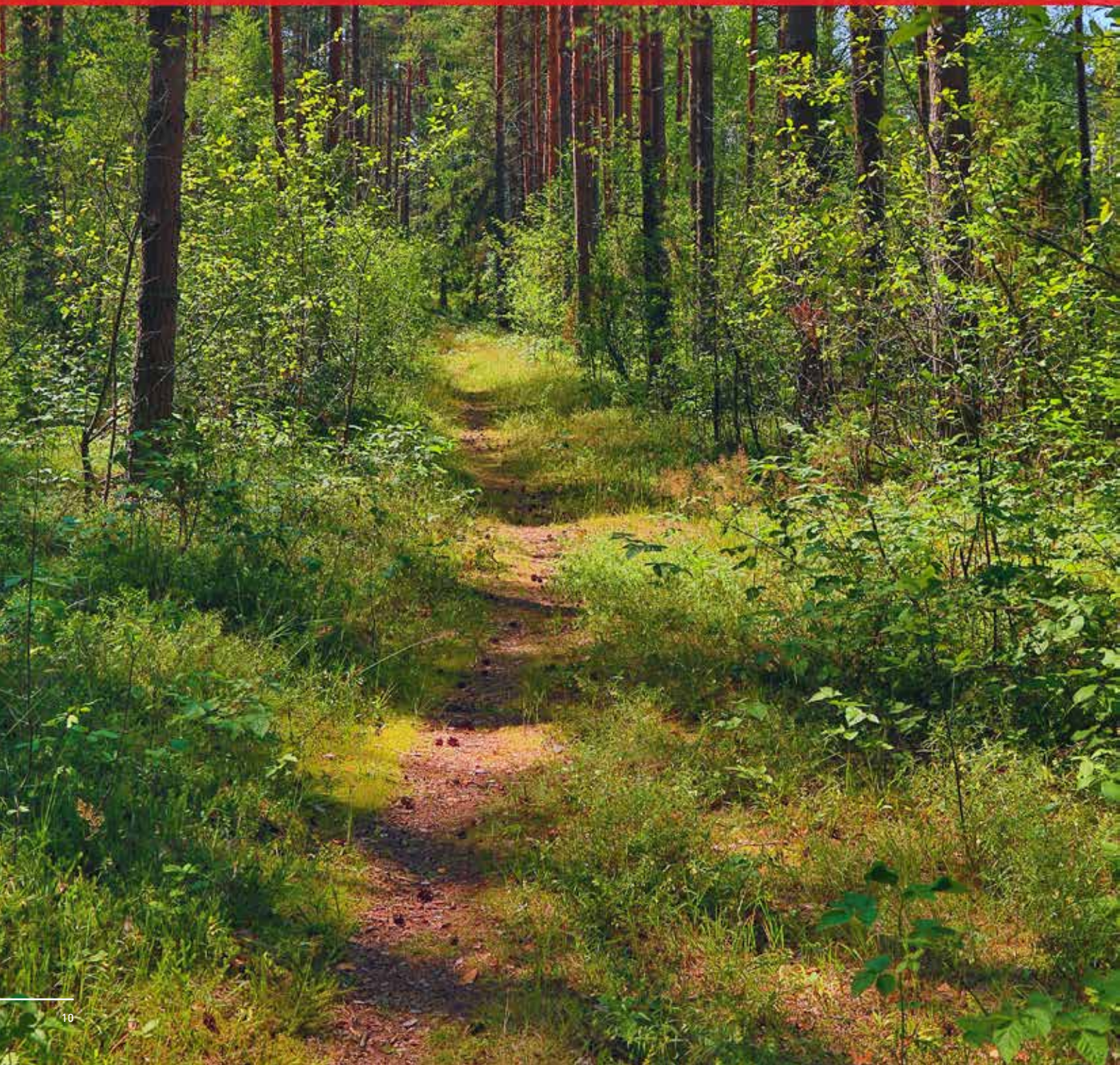
Environment - Sustainable Forest Management

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.

Customers can be confident our products come from well-managed forest. All of our mills have chain-of-custody certification, and 98.7% of our woodlands operations meet third-party forest certification.



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 Policy and Sustainable Forest Management Commitments are developed and maintained by senior executives, approved by the President and CEO and reviewed by the Board of Directors.

Canfor's Corporate Environmental Management Committee, provides high-level oversight and due diligence, and advises the Board of Directors about our manufacturing facility environmental and sustainable forest management performance, and the Board of Directors' joint Environmental, Health and Safety Committee reviews and makes recommendations to the board about

environmental, health and safety issues, and relevant policies.

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 toward achieving them, and make sure staff have the necessary training to meet them.

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 and therefore our forest divisions must adhere to the province's *Forest and Range Practices Act*, which includes the involvement and consideration of 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, and provide an opportunity for public consultation.

British Columbia and Alberta monitor compliance through planned and random audits of forest operations and field inspections to ensure forest laws are being followed.

Complying with International Regulations

Illegal logging is a critical international issue that undermines good forest governance. Canfor Pulp provides customers with the information they need to meet international policies including:

The *European Union Timber Regulation (EUTR)*, which prohibits illegally harvested forest products from being placed on the market in EU member countries.

The US *Lacey Act*, which requires that importers must declare the species, country of origin and other relevant information.

Australia's *Illegal Logging Prohibition Act 2012*, which requires that importers submit a declaration to minimize the risk of illegally logged timber in their supply chains.



Independent Certification and Chain of Custody

Canfor is one of the few primary lumber manufacturers to offer products 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 (PEFC).

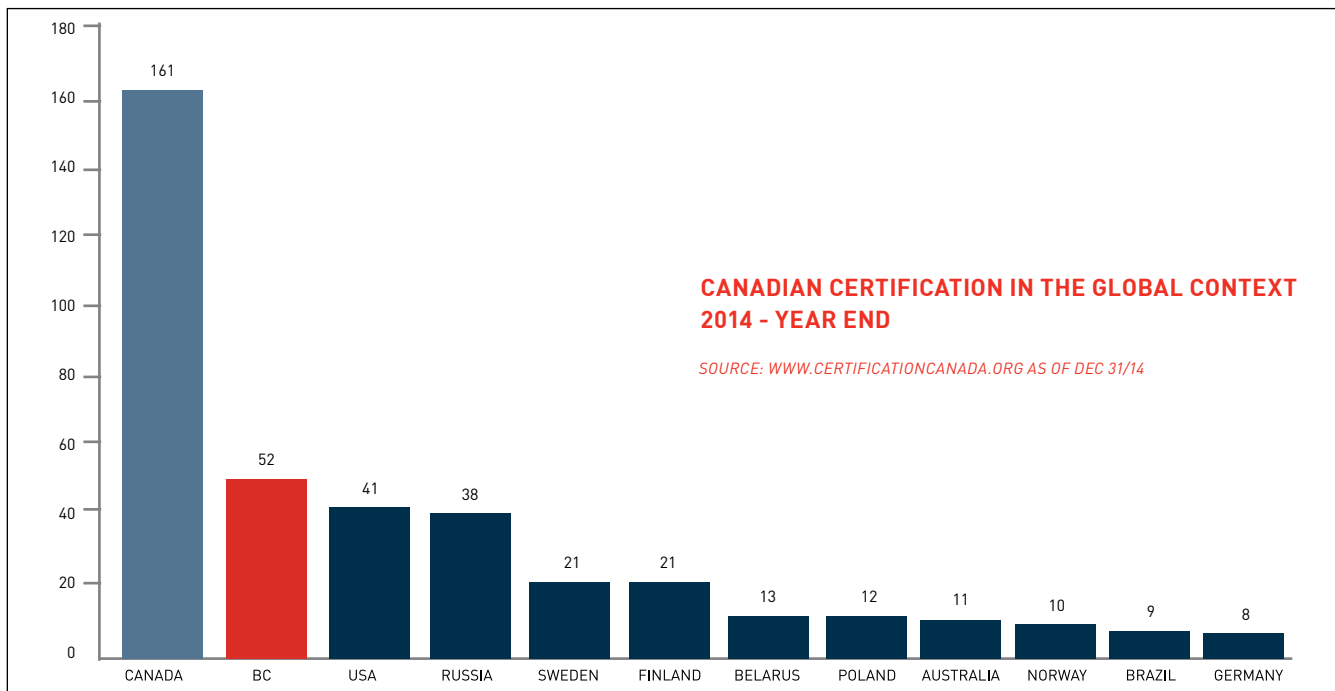
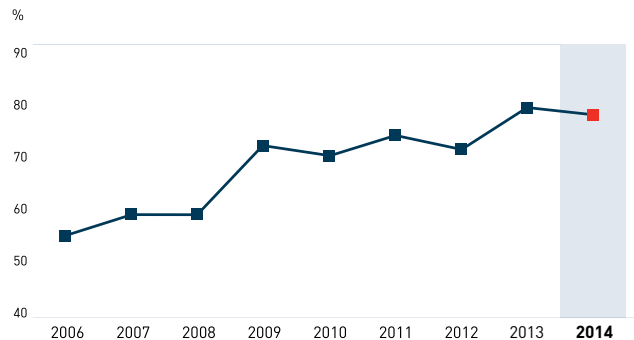
Canfor also actively contributes to the development of forest certification standards.

In total, 98.7% of Canfor's woodlands operations are certified to the CSA, SFI or FSC standards for sustainable forest management. Recent statistics show Canada and the United States are leaders in forest certification globally, which highlights the commitment to sustainability of North American forest managers.

Canfor Pulp gives preference to suppliers that offer third-party certified fibre, and 78% of our fibre is from third-party certified sources covered by a complete chain of custody.

Canfor and Canfor Pulp carry chain-of-custody certification on our facilities so customers can be confident they are buying products from well-managed forests. All Canfor Pulp fibre sources have been subject to a chain-of-custody audit to FSC Standards. We can also provide customers with FSC or PEFC-certified pulp. Both FSC and PEFC require that we have in place audited risk assessments for all our fibre sources.

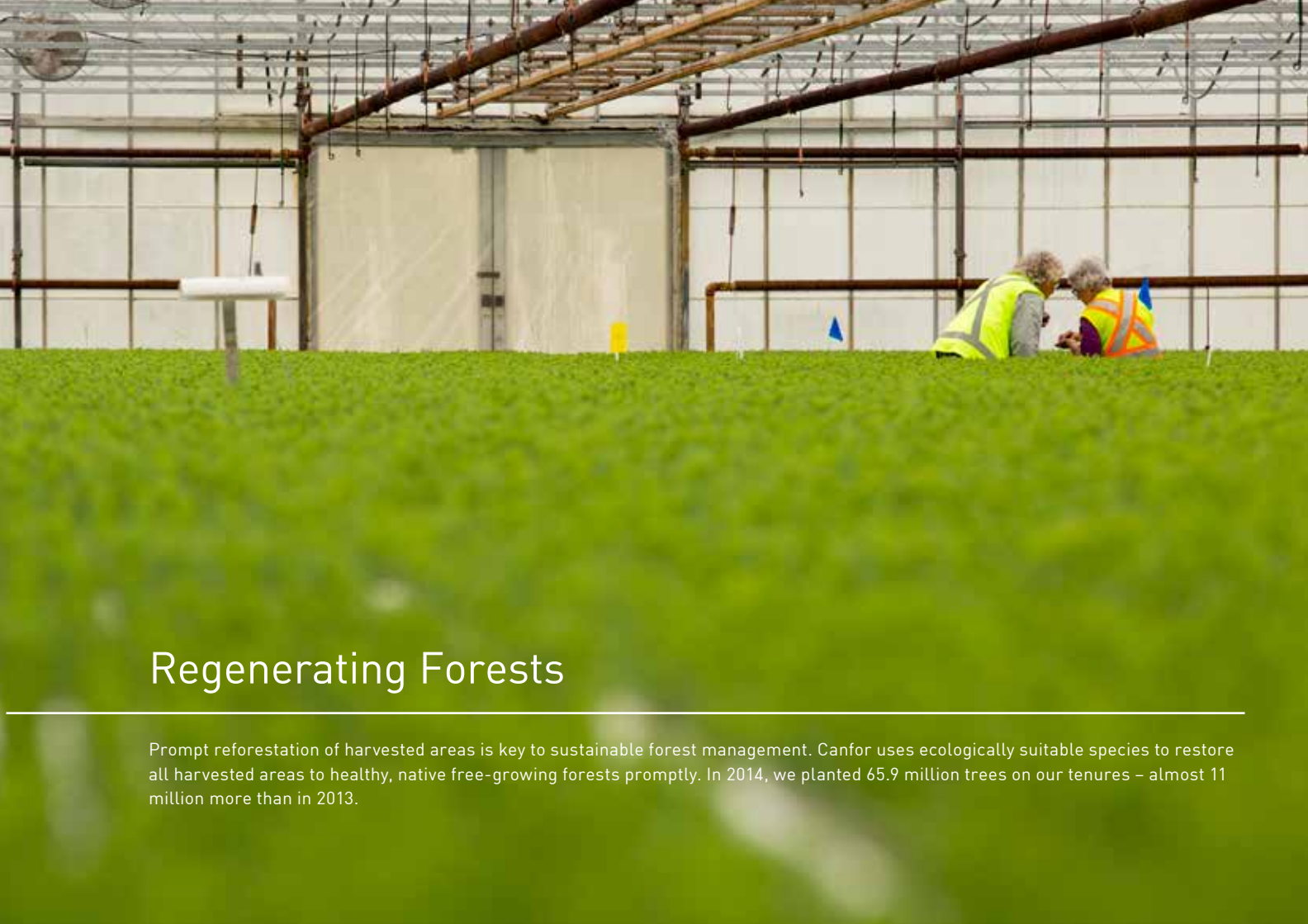
CANFOR PULP CERTIFIED FIBRE PERCENTAGE 2014 (PEFC AND FSC)



Conserving Biodiversity

Canfor's detailed Sustainable Forest Management Plans for each of its operations include strategies for managing biodiversity at species, stand and landscape levels. A comprehensive species accounting system is in the process of being developed for all our BC operations by independent scientists so we can monitor priority species groups and take action if negative impacts appear to be occurring.

Our goal for 2015 – and an important component of our biodiversity strategy – is to develop and implement consistent habitat management strategies based on the best available science.



Regenerating Forests

Prompt reforestation of harvested areas is key to sustainable forest management. Canfor uses ecologically suitable species to restore all harvested areas to healthy, native free-growing forests promptly. In 2014, we planted 65.9 million trees on our tenures – almost 11 million more than in 2013.

Protecting Habitat

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

Our planning includes habitat protection for a wide range of species – such as mountain goats in the Vanderhoof area; Trumpeter swans in Grande Prairie; spotted bats and badgers in Vavenby; woodland and mountain caribou in a number of areas, and sturgeon in northern British Columbia.



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."

CARBON BUDGETING

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.

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.

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.

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

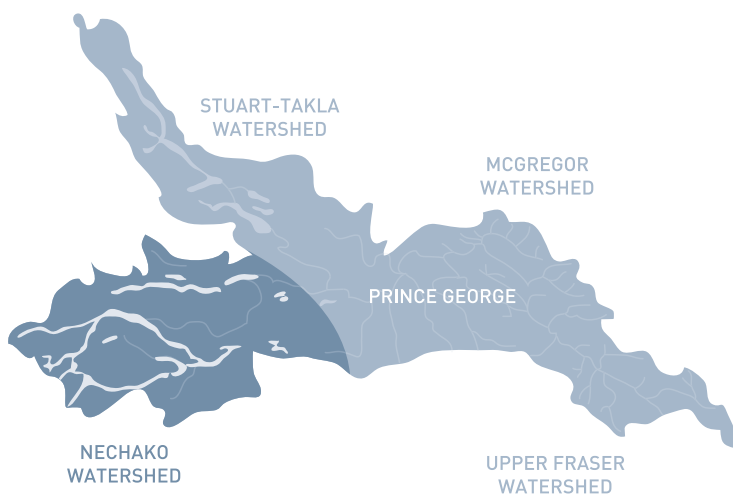
Mountain pine beetle has had significant impacts on forests in British Columbia and Alberta. We are actively working with government to slow the spread of the beetle in Alberta, and significantly shifting our harvest to stands that are infested or most susceptible to mountain pine beetle attack.

WATER RESOURCES

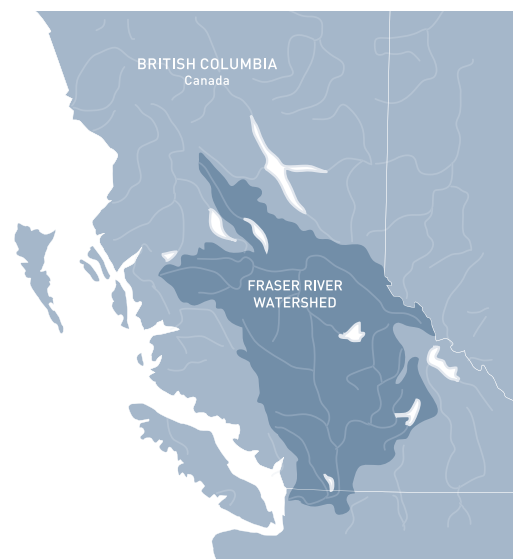
Pulp and paper mills are heavily dependent on water. British Columbia's climate has changed over the last 100 years, and we expect higher local temperatures and increased rainfall will lead to unbalanced conditions within local watersheds.

To best understand our impact on local water resources, Canfor is working with researchers at the University of British Columbia to understand how these flows may change.

WATER RESOURCES - UPPER FRASER REGION



WATER RESOURCES - BRITISH COLUMBIA





Engaging Stakeholders

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.

Our proprietary Creating Opportunities for Public Involvement (COPI) database supports our public communications by identifying who is responsible and measuring system performance.

Examples include consulting the public when planning operations in the Houston area, which involved over 100 meetings. Canfor also recently invested \$180 million in three significant air

quality improvements at our mills in Prince George resulting in a significant drop in the percentage of time odour is detectable. In 2014, we created an interactive air quality kiosk at Prince George's Exploration Place science centre so residents can access real-time air quality data, and see how the city's air quality is improving.

Working with First Nations



Our operations overlap with the traditional territory of more First Nations in British Columbia than any other licensee in the province. We are committed to supporting meaningful collaboration and transparent engagement of First Nations in our operations and in the forest sector. For example, in 2014 we signed agreements with the Ktunaxa Nation Council (KNC) that define our working relationship and are based on mutual respect and understanding.

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 benefits from local and traditional knowledge. This included commissioning archeological assessments at many of our operations in 2014 to identify areas that should be protected.

KATHRYN TENEESE, CHAIR OF THE KTUNAXA NATION COUNCIL, AND CANFOR PRESIDENT AND CEO DON KAYNE SIGNED AGREEMENTS IN 2014.

Canadian Boreal Forest Agreement

Canfor and Canfor Pulp remain 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 agreement commits signatories to achieving strategic goals that address both environmental and economic sustainability in the 72 million hectares of boreal forest across Canada.

The CBFA commissioned a study to understand the barriers and opportunities to developing and implementing world-leading forestry practices – one of its key goals. The

resulting status report, released in August 2014, showed that resource stewardship can be improved in an ecosystem-based management approach where industries integrate their activities and share information.

Our staff are active in all 6 national work groups and in the Alberta and British Columbia regional working group.



Manufacturing

Quality products. Quality service. In the last five years, we've invested more than \$800 million to keep our mills efficient and competitive.

Capital Investments - Canfor

In April, we announced \$30 million of capital investments to improve infrastructure, productivity and cost performance at our Polar sawmill in Bear Lake, BC. We invested \$11 million in a biomass-fired thermal energy system at our Elko Sawmill and in the conversion of our lumber dry kilns from natural gas to biomass-generated thermal heat. We are also investing \$58 million in pellet plants at two of our mill sites in northern British Columbia – Chetwynd and Fort St. John – in partnership with Pacific BioEnergy. When these plants start up in fall 2015 and early 2016, they will contribute to our sustainable value proposition by enhancing our utilization of sawmill residuals.

Capital Investments - Canfor Pulp

Canfor Pulp invested \$58 million for capital improvements at its pulp and paper operations in 2014, and is committed to sustaining this level of investment for the next three years to deliver the top environmental and economic performance, and maximize long-term benefits.

Air - Canfor Pulp

Our significant capital investment of over \$180 million improved air emissions from our three Prince George mills, and delivered a 40% reduction in particulate discharge. This 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 2014, Canfor Pulp continued to support 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 through access to real-time air quality data.


Innovation - Canfor Pulp

We are unique among many NBSK suppliers in that we maintain the Canfor Pulp Innovation (CPI) research centre. CPI 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.

Our Mihari Initiative supports our customers' need for more detailed knowledge about the raw materials and their

performance, thus helping their production of increasingly sophisticated end products.

Our unique TEMAP program brings together the resources of the Internet, our Canfor Pulp innovation staff and our innovation R&D program to deliver unparalleled customer support. Customers are able to optimize their use of our fibres to reduce costs while improving mill performance and product quality.



Canfor Pulp has always enjoyed a fibre advantage. Our pulp is produced from native tree species in British Columbia's interior, mainly white spruce, lodgepole pine and sub-alpine fir. These species thrive in the extreme climate and naturally develop long, slender and thin-walled cellulose fibres with high tensile strength. This makes them especially valuable for high-quality, lightweight printing papers, premium tissue, thin specialty papers, packaging and laminates. Roughly half, by weight, of the wood we receive is converted into high-quality premium reinforcement pulp (PRP).

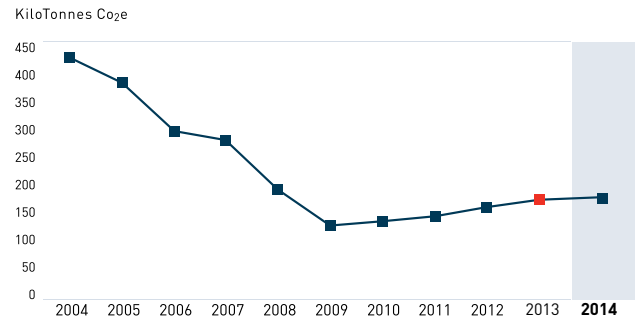
Carbon Footprint - Canfor and Canfor Pulp

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

When our pellet plants at Chetwynd and Fort St. John reach full capacity in fall 2015 and early 2016, they will have a combined annual production capacity of 175,000 tonnes of wood pellets, and the Chetwynd project will displace 21,000 MWh of electricity consumption every year for 20 years.

The Elko biomass-fired thermal energy system, which started up in October 2014, will eliminate most of the natural gas usage at Elko and generate 10,000 to 12,000 t CO₂e greenhouse gas emission reductions. Canfor and Canfor Pulp both sell carbon offset credits into the BC offset market, and Canfor sells credits into the Alberta carbon offset market.

Canfor Pulp's recent investment in biomass boiler upgrades at its Northwood facility reduced greenhouse gas emissions by 67,000 tonnes CO₂e in 2014.



GREENHOUSE GAS EMISSIONS INCREASED marginally AS THEY INCLUDE A FULL YEAR OF OPERATION OF OUR ELKO SAWMILL.



Energy

Canfor Pulp is one of North America's largest producers of bioenergy and our sawmills use wood residues to power and heat our operations, reducing our carbon footprint.



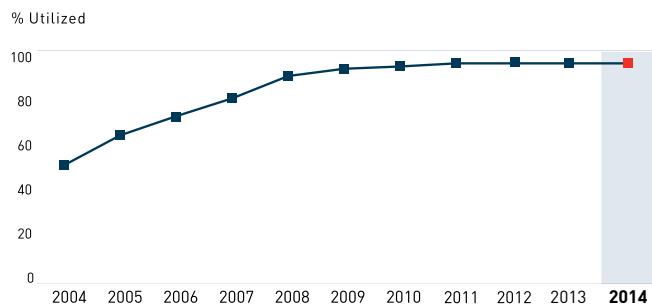
Energy Management - Canfor

To date, our energy management activities are saving 10,400 MWh/year – enough energy to power 730 homes each year. These savings primarily come from high-efficiency lighting and compressed air projects. We announced a partnership with Pacific BioEnergy in 2014 to develop pellet plants in Chetwynd and Fort St. John. The Chetwynd plant will include an organic rankine cycle (ORC) generator as part of the process, co-funded by BC Hydro under its Load Displacement program. The ORC component will generate an estimated 21,000 MWh/year of electricity, or enough energy to power 1,470 homes and make the Chetwynd pellet plant self-sufficient in renewable heat and electricity.

Our energy savings to date have primarily come through capital projects co-funded by BC Hydro, and through the installation of high-efficiency equipment. We are also on the leading edge of innovation, working with BC Hydro on market transformation projects.

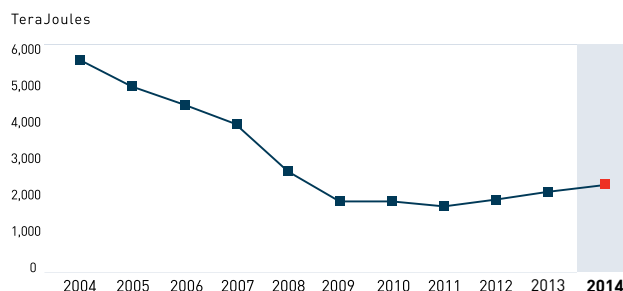
CANFOR WOOD RESIDUE UTILIZATION

WE ARE CLOSE TO 100% UTILIZATION, AND COMPLETION OF THE CHETWYND AND FORT ST. JOHN PELLET PLANTS WILL BRING US EVEN CLOSER.



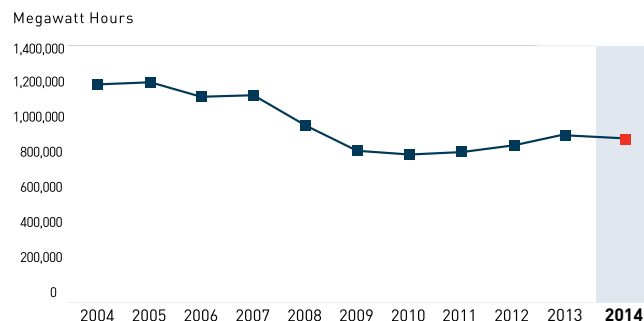
CANFOR NATURAL GAS USE

NATURAL GAS WAS UP SLIGHTLY DUE TO INCLUSION OF A FULL YEAR OF OPERATION OF OUR ELKO SAWMILL.



CANFOR ELECTRICITY PURCHASES

ELECTRICITY PURCHASES DROPPED SLIGHTLY BECAUSE OF THE SALE OF THE MILL IN DAAQUAM, QUEBEC, AND IMPLEMENTATION OF A NUMBER OF ENERGY CONSERVATION MEASURES.



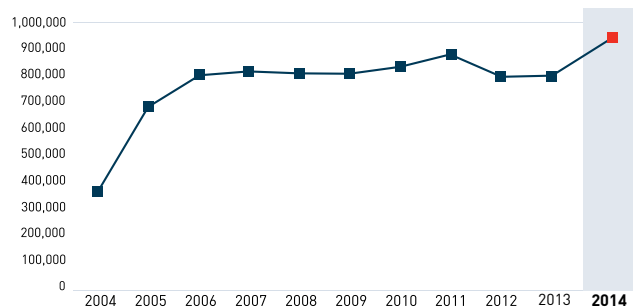
Energy Management - Canfor Pulp

Canfor Pulp made great strides in 2014 toward our goal to becoming energy self-sufficient. We are one of the largest single producers of bioenergy in North America. In 2013, we replaced two turbine generators (37 MW and 32 MW) at the Northwood Mill, and in 2014 we installed a new 32 MW unit at the Intercon Mill, which is scheduled to come on line in the first quarter of 2015. Our modern kraft pulp mills operate as a large-scale biorefinery that efficiently manufacture premium pulp while minimizing waste and ecological impact. The steam required for manufacturing pulp and renewable power generation are generated in the biomass boilers.

In 2014, Canfor Pulp continued to deliver renewable power through long-term agreements with BC Hydro under their Integrated Power Offer that encourages pulp and paper producers to invest in energy efficiency and biomass power

generation. Canfor Pulp generated 935,000 MWh of renewable energy in 2014.

RENEWABLE ELECTRICITY GENERATION (MWh)



Employees and Communities

A great place to work. Our benefits and focus on growth from within earned us a spot as one of British Columbia's Top Employers.



Employees

WORKFORCE AND REMUNERATION

Canfor and Canfor Pulp have 4,096 hourly employees and 1,217 employees in salaried positions. Entry-level employees working for Canfor earn substantially more than the minimum wage – roughly two-and-a-half times the minimum wage in British Columbia and Alberta. Our competitive benefits and compensation earned us recognition as one of BC's top employers for 2015.

HEALTH & 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's Safety Policy and Canfor Pulp's Occupational Health & Safety Policy Statement 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.

Our medical incident rate (MIR) in 2014 improved to 2.07 – close to our target of 2.0 or lower. In 2013, it was 2.28 across the company.

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. We were once again recognized as one of BC's top employers for our support of a work-life balance, our commitment to growth from within, our competitive benefits and compensation, and our retirement planning support.



Communities

Canfor is a respected member of every community where we operate. At the end of the day, we want our neighbours to feel the community is stronger because Canfor is part of it.

YOUTH AND EDUCATION/RECRUITMENT

In 2014, we appointed Tracey Arnish as our Senior Vice-President, People and Culture, to lead the overall talent strategy for Canfor and Canfor Pulp, and support human resources teams.

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. In 2014, this included participation in 12 job fairs and sponsorship of the 2015 Canada Winter Games in Prince George.

Canfor Pulp provided co-op, intern and summer positions for students to gain work experience, and a number of our forestry and mill staff volunteer for forestry education programs.

In 2014, Canfor provided \$66,000 through our scholarship and bursary programs and awarded scholarships to high school students from our operating communities. We are also proud to support aboriginal students in our operating areas through the Canfor bursary, part of the New Relationship Trust Foundation's Scholarship and Bursary Award Program.

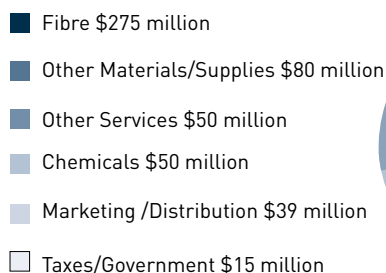
CONTRIBUTIONS TO COMMUNITIES AND LOCAL ECONOMIES

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 2014, Canfor Pulp directly contributed more than \$668 million to British Columbia's economy through employee pay cheques, property taxes and goods and services purchased. We also make sure local businesses benefit from spending related to our woodlands operations.

Through our Corporate Sponsorship and Donation Program, we support activities of all sizes including those that strengthen relationships with First Nations communities in our operating areas. In 2014, Canfor and Canfor Pulp contributed more than \$318,000 for charitable donations, sponsorships, and bursaries to our operating communities. We were also involved in a number of public education and awareness activities in 2014 including giving away 10,000 lodgepole pine seedlings donated by PRT Nursery and 600 spruce seedlings from our J.D. Little Nursery at our annual Canada Day Tree Giveaway in Prince George. Every year, we also help 10 girls in rural China attend high school through a Vancouver-based organization called Educating Girls of Rural China.

CANFOR PULP: BREAKDOWN OF GOODS AND SERVICES PURCHASED IN BRITISH COLUMBIA



Performance Against 2014 Targets - Canfor

COMPLIANCE INFORMATION IS AVAILABLE IN THE FULL VERSION OF OUR SUSTAINABILITY REPORT.

FORESTRY TARGETS

OBJECTIVE	PERFORMANCE
▶ Reduce the number of incidents of harvesting activity not consistent with plan by 10%.	▶ Target achieved. The number of incidents dropped to seven in 2014 from 10 in 2013. The target was nine.
▶ Maintain the current ratio of sedimentation incidents.	▶ Target not achieved. The number of occurrences increased to five in 2014 from three in 2013, largely due to the fact that our operations in British Columbia are shifting to areas with higher stream densities and, therefore, a higher exposure to risk.
▶ Reduce the number of incidents where herbicide is applied outside of a treatment area by 25%.	▶ Target achieved. The number of incidents met the target of 12 in 2014, down from 16 in 2013.
▶ Reduce the number of forestry fuel management incidents by 20%.	▶ Target not achieved. The number of incidents reported in 2014 was 11, exceeding the target of 10.
▶ Establish plans at solid wood facilities to manage historical and ongoing accumulation of log yard woody debris.	▶ We made some progress by starting construction of wood pellet plants at two sites, and continue to evaluate sustainable solutions for several other sites.
▶ Reduce landfill quantities at solid wood facilities by separating log yard debris into reusable rock, bark and soil.	▶ We conducted a three-week trial of partial screening at one sawmill site. We separated oversized rock and woody debris from mineral matter and fines, and used water to separate intermediate size rocks and bark. However, the units tested lacked the scale and throughput to make the process economic.

ENERGY EFFICIENCY

OBJECTIVE	PERFORMANCE
▶ 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.	▶ Target not achieved. Recovering markets led to longer operating hours, but we are making progress at all of our facilities.

SAFETY GOALS

OBJECTIVE	PERFORMANCE
▶ Achieve a company-wide medical incident rate of 2.0 or lower.	▶ Target not achieved. Company-wide MIR for 2014 was 2.07.

COMMUNITY GOALS

OBJECTIVE	PERFORMANCE
▶ Implement programs to support safe, alcohol-free graduation celebrations ("dry grad") at high schools across our operating areas.	▶ Target achieved. We donated more than \$12,000, supporting all the dry grad events at schools in our operating areas.
▶ Establish high school scholarships for forestry and trades related studies in all of our operating communities.	▶ Target not achieved. We have scholarships in place in all of our Canadian locations, and are establishing them in our US locations.
▶ Preparation for high school program in association with the 2015 Canada Winter Games for our north central BC communities.	▶ Target achieved. We hosted more than 500 students during the Games.
▶ Continued participation in summer events to engage with our communities.	▶ Target achieved. We held pancake breakfasts and BBQs in operating communities across British Columbia and Alberta.



Performance Against 2014 Targets - Canfor Pulp

COMPLIANCE INFORMATION IS AVAILABLE IN THE FULL VERSION OF OUR SUSTAINABILITY REPORT.

CERTIFIED PRODUCTS

OBJECTIVE	PERFORMANCE
<ul style="list-style-type: none">▶ Work with two or more local woodlot owners encouraging them to consider adopting FSC certification and supplying fibre to Canfor Pulp.	<ul style="list-style-type: none">▶ Target achieved. We increased deliveries of FSC-certified fibre to our mills, and are able to provide customers with FSC Mix Credit pulp.
<ul style="list-style-type: none">▶ Achieve an overall certified fibre supply level of 82% in 2014.	<ul style="list-style-type: none">▶ Target not achieved. The level of certified fibre was 78%, down from 80% in 2013 due to the closure of our Quesnel operation, and the impact of trading chips from other facilities.

ENVIRONMENTAL

OBJECTIVE	PERFORMANCE
<ul style="list-style-type: none">▶ Identify specific opportunities to reduce the water consumption per unit of pulp production at each mill.	<ul style="list-style-type: none">▶ Target achieved. We identified opportunities and are reviewing projects for capital planning.

ENERGY EFFICIENCY

OBJECTIVE	PERFORMANCE
<ul style="list-style-type: none">▶ Reduce the level of fossil fuel use in our total energy mix to below 10%.	<ul style="list-style-type: none">▶ Target achieved.

SAFETY GOALS

OBJECTIVE	PERFORMANCE
<ul style="list-style-type: none">▶ Meet the company-wide medical incident rate level of 2.0 or lower.	<ul style="list-style-type: none">▶ Target not achieved. Canfor Pulp MIR for 2014 was 2.43.

COMMUNITY

OBJECTIVE	PERFORMANCE
<ul style="list-style-type: none">▶ Continue to work with local educational establishments in the development of skilled tradespeople.	<ul style="list-style-type: none">▶ Target achieved. We continued our trade development program, with local education institutes. We also have 24 trades apprenticeships at our mills.
<ul style="list-style-type: none">▶ Implement a program of skills development and training for existing employees to address the demographic challenge currently underway.	<ul style="list-style-type: none">▶ Target achieved. We launched our skills development and training program, and have achieved excellent results. Employees have embraced our innovative training approaches.

OBJECTIVES AND TARGETS FOR 2015

Canfor

FORESTRY AND MANUFACTURING

- ▶ Reduce the number of harvest and road trespasses by 10%.
- ▶ Reduce the number of riparian management incidents by 10%.
- ▶ Reduce the number of occurrences of sedimentation and/or disruption of water flow in fish bearing streams by 10%.
- ▶ Reduce the number of incidents where herbicide is applied outside of a treatment area by 10%.
- ▶ Reduce the number of forestry fuel management incidents by 10%.
- ▶ Continue efforts to establish sustainable solutions to historical and ongoing wood residue accumulations of woody debris at our sawmill sites.
- ▶ Test a higher capacity log yard debris and screening system at one sawmill to reduce landfill quantities. If successful, implement it at other sawmills.

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 2015 and 2016.

SAFETY

- ▶ Achieve a company-wide medical incident rate of 2.0 or lower.
- ▶ Introduce a safety monitor program to communicate safety updates and other important information, and test it in several facilities.

COMMUNITY

- ▶ Expand partnerships with First Nations through activities coordinated through a company-wide First Nations Working Group.
- ▶ Host community events in all of our operating communities.
- ▶ Meet with mayor of each operating community.
- ▶ Establish high school scholarships for forestry and trades related studies in all of our operating communities.
- ▶ Support the 2015 Canada Winter Games for our north central BC communities, including a program for high school students.
- ▶ Continue to enhance the new skills development and training program to facilitate effective and safe performance of tasks.

Canfor Pulp

CERTIFIED PRODUCTS

- ▶ Incorporate the Taylor Mill into Canfor Pulp's Multi-site FSC Controlled Wood Chain-of-Custody Certification.
- ▶ Achieve an overall certified fibre supply level of 82%.

RENEWABLE ENERGY

- ▶ Identify thermal energy savings opportunities from pulp manufacturing to achieve a 5% reduction at our Northwood facility.
- ▶ Increase renewable energy generation to 1 million MWh.
- ▶ Start the new 32-MW turbine-generator at the Intercontinental mill in Q1.

ENVIRONMENTAL

- ▶ Reduce water consumption by 5% per unit of pulp produced at each mill.
- ▶ Identify specific opportunities to reduce solid waste through ash reduction in biomass boiler operations and fibre loss reductions in the pulping processes.

SAFETY

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

COMMUNITY

- ▶ Expand partnerships with First Nations through activities coordinated through a company-wide First Nations Working Group.
- ▶ Host community events in all of our operating communities.
- ▶ Meet with mayor of each operating community.
- ▶ Establish high school scholarships for forestry and trades related studies in all of our operating communities.
- ▶ Support the 2015 Canada Winter Games for our north central BC communities, including a program for high school students.
- ▶ Continue to enhance the new skills development and training program to facilitate effective and safe performance of tasks.

An aerial photograph of a dense evergreen forest, likely spruce or fir, with a white circle overlay in the center. The trees are tightly packed, creating a textured green canopy.

CANFOR.COM

To view the full sustainability report
please visit
canfor.com/sustainability-report

