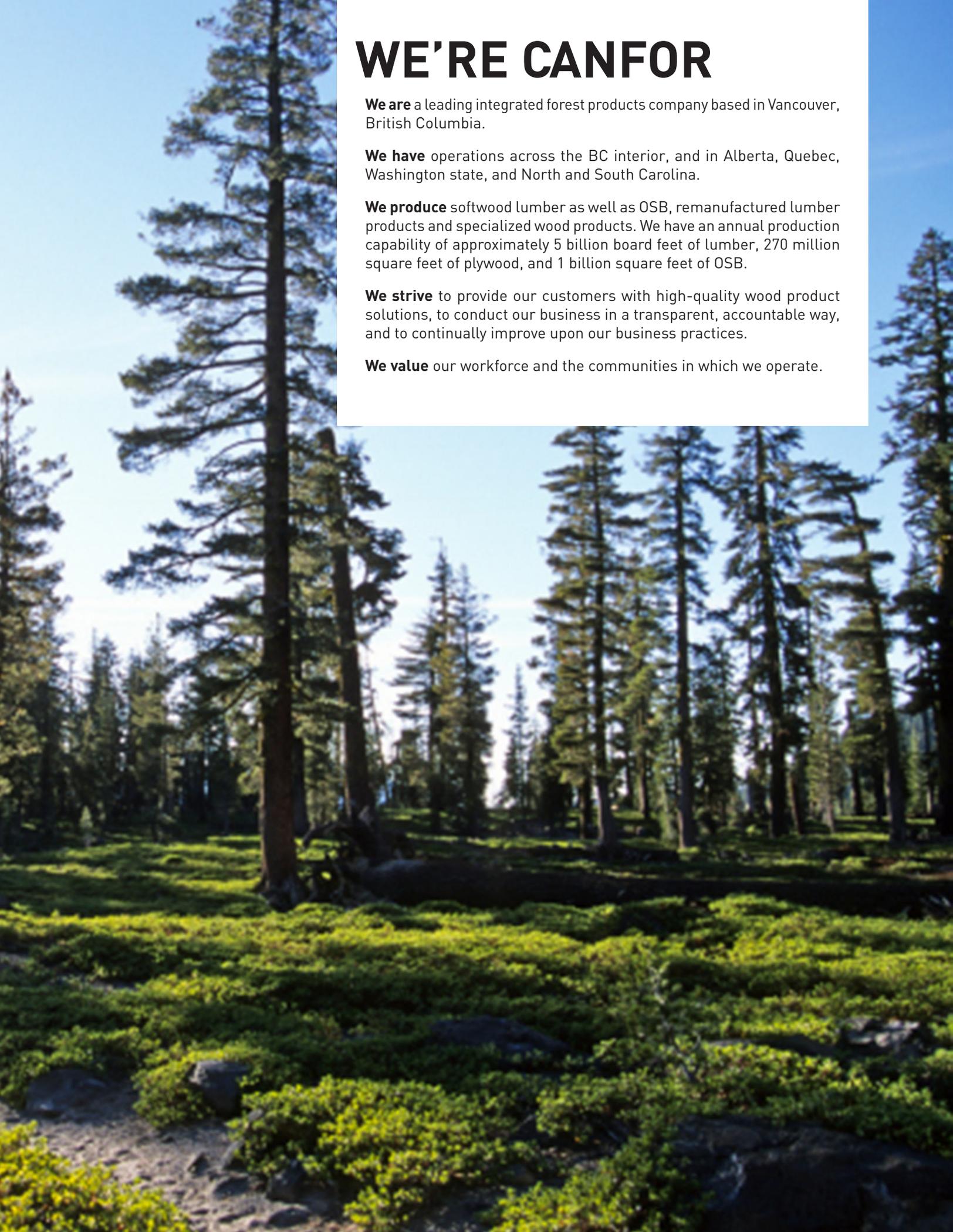




CANFOR CORPORATION
SUSTAINABILITY REPORT 2010



WE'RE CANFOR

We are a leading integrated forest products company based in Vancouver, British Columbia.

We have operations across the BC interior, and in Alberta, Quebec, Washington state, and North and South Carolina.

We produce softwood lumber as well as OSB, remanufactured lumber products and specialized wood products. We have an annual production capability of approximately 5 billion board feet of lumber, 270 million square feet of plywood, and 1 billion square feet of OSB.

We strive to provide our customers with high-quality wood product solutions, to conduct our business in a transparent, accountable way, and to continually improve upon our business practices.

We value our workforce and the communities in which we operate.

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**IN 2010, WE
REPLANTED
23,750
HECTARES
OF FOREST**

**THAT'S
30 MILLION
TREES.**

A MESSAGE FROM THE VICE PRESIDENT, FORESTRY AND ENVIRONMENT

At Canfor, we have a great story of sustainability to share, and this year we hope to share more of it with you than we have in the past. Bringing you a more detailed look at our efforts in the areas of health and safety, forestry operations, manufacturing and community involvement, we hope you'll see that we view sustainability as something that extends beyond the environment, into the homes of our employees and throughout the global community as well.

As always, safety remains our number one priority. The safety of our employees is paramount and every year we examine our safety program and identify specific areas where we can improve. In 2010, we focused on risk assessment and hazard awareness. Our efforts resulted in an improvement to our injury rate and further solidified our position as the safest forestry company in Canada.

We continued to practice sustainable forest management in our forest tenures in 2010. By planting more than double the number of trees we harvested – 30 million trees – and ensuring that at least 90% survive, we are making sure the forests under our care will continue to benefit the environment in the years to come, while maintaining a sustainable business.

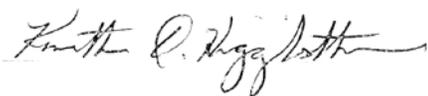
2010 also saw Canfor join in the creation of the Canadian Boreal Forest Agreement. This historic accord between a group of Canadian forest products companies, Environmental Non-Governmental Organizations and the Forest Products Association of Canada is a groundbreaking achievement in conservation and resource management. I encourage you to read more about the Agreement and its goals in this document.

On the manufacturing side, we continued our strategy to reduce our carbon footprint by installing bark-fired heat energy systems that replace natural gas use. This means we are utilizing close to 100% of wood residues generated during the lumber manufacturing process, and also reducing our carbon footprint.

I should take this opportunity to thank the communities where we operate for their support throughout the prolonged downturn, from which we are only now beginning to emerge. In 2010, Canfor saw four consecutive quarters of profit for the first time since 2006. There are still many challenges that we must overcome and some of our operations remain indefinitely closed, however, we remain committed to the communities in which we operate.

Canfor continued to make strategic donations in the communities where we operate, focusing on youth and education, community enhancement, forestry and environment, amateur sports and health and wellness. Our employees specifically deserve credit for their generosity, donating more than \$245,000 to the United Way. This amounts to a \$48,000 increase over the 2009 fundraising campaign.

This sustainability report continues a long-standing tradition of transparency at Canfor. We continue to voluntarily share any compliance issues we have encountered throughout the year, confident that the matters were remedied promptly and actions were taken to ensure they do not happen in the future.



Ken Higginbotham
VP, Forestry and Environment





HEALTH & SAFETY REPORT

“Safety Comes First at Canfor.”

Our philosophy can be found proudly displayed on the walls of our operations across North America. It reminds us that our top priority is the well-being of our employees. Our bottom line is not just about financial capital—it’s about the health of our workforce first and foremost. This concept is ingrained in our corporate culture. Our success stems from our efforts to continually strive to improve our programs and develop best practices by studying other industrial safety programs and sharing information and ideas throughout our organization.

In 2010, we developed a risk assessment workshop whose aim was to heighten the hazard awareness of our employees. We trained safety representatives in each division who delivered the workshop to employees. By consistently highlighting the importance of risk assessment and hazard awareness in the workplace, we ensure that our workforce continues to be the safest in the industry.

Further improving the safety of our employees depends on effective communication, and that is one of the things we do best. Canfor holds weekly conference calls between the safety leaders of each division to discuss challenges and solutions and exchange ideas.

Our commitment to leading the industry in health and safety is reflected in our low injury rate. We continued to have the lowest injury rate in the Canadian forest industry this year, with a rate of 0.62 company-wide. Our injury rate is less than one third the average of the forest products industry.

A construction worker wearing a green hard hat, safety glasses, and a high-visibility orange safety vest over a green jacket stands in a workshop. The worker is positioned on the right side of the frame, looking towards the left. The workshop is filled with stacks of light-colored wooden beams in the foreground and middle ground. In the background, there are various pieces of industrial equipment, including what appears to be a large metal structure and a control panel. The lighting is somewhat dim, with a bright light source visible in the upper right corner, possibly a lamp. The overall scene conveys a sense of industrial activity and safety.

**OUR BOTTOM LINE IS
NOT JUST ABOUT
FINANCIAL CAPITAL—
IT'S ABOUT THE HEALTH
OF OUR WORKFORCE
FIRST AND FOREMOST.**



ENVIRONMENTAL POLICY

Canfor is committed to the responsible stewardship of the environment at every step of our operations. As a forestry company, our success is dependent upon the well-being of the forests we manage. In order to ensure the sustainability of our woodlands, we will:

- Comply with or exceed legal requirements
- Comply with other environmental requirements to which the company is committed
- Achieve and maintain sustainable forest management
- Set and review objectives and targets to prevent pollution and to continually improve our sustainable forest management and environmental performance
- Provide opportunities for interested parties to have input into our sustainable forest management planning activities
- Promote environmental awareness throughout our operations
- Conduct regular audits of our forest and environmental management systems
- Communicate our sustainable forest management and environmental performance to our Board of Directors, shareholders, employees, customers, and other interested parties.

An aerial photograph of a vast, dense forest of evergreen trees, likely spruce or fir, covering a large area. The trees are tightly packed, creating a textured, green canopy. The lighting is even, highlighting the natural beauty and scale of the forest.

**AS A FORESTRY
COMPANY, OUR
SUCCESS IS
DEPENDENT UPON
THE WELL-BEING
OF OUR
FORESTS.**



FORESTRY REPORT

At the heart of Canfor's forestry operations is its Forest Management System (FMS). The FMS is a systematic means of identifying, addressing, and managing environmental impacts and sustainable forest management commitments within Canfor's Woodlands operations.

The goal of the system is to maintain and enhance the long term health of forest ecosystems, for the benefit of all living things both locally and globally, while providing environmental, economic and social opportunities for the benefit of both present and future generations.

SUSTAINABLE FOREST MANAGEMENT CERTIFICATION

Canfor continues to be a leader in sustainable forest management certification. Practices in the forest that we manage are covered by our FMS, which is independently certified to the latest version of the International Organization for Standardization (ISO) Environmental Management System (EMS) standard CAN/CSA-ISO 14001:2004. The ISO EMS standard offers guidelines for the implementation, maintenance and continual improvement of our environmental management systems

In addition to EMS certification, 96.7% of our allowable annual cut under forest tenures is independently certified to the Canadian Standards Association (CSA) standard for Sustainable Forest

Management (CAN.CSA-Z809-02). The CSA Sustainable Forest Management standard requires high levels of public input and detailed, science-based plans to monitor and, if necessary, improve upon such sustainability markers as biological diversity and the conservation of soil and water resources. The standard also requires us to improve our sustainability outcomes every year.

As of 2010, Canfor has 16 facilities certified to the Programme for the Endorsement of Forest Certification Schemes (PEFC): Chain of Custody of Forest Based Products—Requirements Standard. PEFC certification gives our customers the confidence that Canfor products come from certified forests. By adhering to the Chain of Custody, Canfor commits to tracking every piece of lumber that comes from our mills from the forest of origin and through every step of the manufacturing process.

REFORESTATION

Wood products are the very definition of a renewable resource. While forests naturally regenerate, Canfor is active in replanting and tending our forest tenures. We plant more than double the number of trees we harvest. In 2010, we replanted 23,750 hectares of harvested area in BC and Alberta alone – that's 30 million trees, with a survival rate of more than 90%.

When harvesting, planting, or building roads to access timber, we aim to promote such forest values as diversity, wildlife habitat and soil resiliency by creating detailed plans on the specific environment of the planting area and the types of trees that are particularly well suited to its characteristics. Planning for a harvest and subsequent reforestation can take three or more years to complete.

WILDLIFE AND HABITAT MANAGEMENT

In 2010, Canfor continued to implement conservation plans for species at risk and to collaborate with provincial governments, First Nations, local and regional authorities, environmental groups and other stakeholders to improve our practices. Some of the initiatives and new developments that we're especially proud of include:

Canadian Boreal Forest Agreement: In May 2010, Canfor signed a historic accord, the Canadian Boreal Forest Agreement (CBFA). This agreement is a collaboration between 21 Forest Products Companies, including Canfor; 9 Environmental Non Government Organizations (ENGO's) and the Forest Products Association of Canada (FPAC).

The signatories to this agreement wish to demonstrate leadership in developing and implementing a globally significant model for conservation and resource management in Canada's Boreal forest in a manner that sets the stage for joint action in relation to both boreal forest conservation and forest sector competitiveness.

There is much work yet to be done to achieve the goals and objectives that are the underpinning of this agreement, but significant progress is being made.

The Goals of the CBFA:

1. World-leading boreal “on-the-ground” sustainable forest management practices based on the principles of ecosystem based management, active adaptive management, and third party verification of sustainable practices.
2. The completion of a network of protected areas that, taken as a whole, represents the diversity of ecosystems within the boreal region and serves to provide ecological benchmarks.
3. The recovery of species at risk within the boreal forest including species such as Woodland Caribou.
4. Reducing greenhouse gas emissions along the full life cycle from forest to end of product life.
5. Improved prosperity of the Canadian forest sector and the communities that depend on it.
6. Recognition by the marketplace (e.g., customers, investors, consumers) of the CBFA and its implementation, in ways that demonstrably benefit FPAC Members and their products from the boreal forest.

Canfor is actively involved in Regional and National Working groups as well as the Agreement Steering Committee and various task teams all working towards the successful implementation of the 6 Goals of the CBFA.

Mountain Pine Beetle: The Mountain Pine Beetle is an insect that lays its eggs beneath the bark of lodgepole pine. As larvae feed beneath the bark, they may kill the tree. If the number of pine beetles is significant enough, they can kill wide swathes of forest in a short time frame.

Canfor, like many other Canadian forest products companies, has seen the negative effects of the mountain pine beetle on our forest tenures. However, we are making a concerted effort to harvest and use pine trees damaged or killed by these beetles.

At our woodland operations in Grande Prairie, AB, Canfor is following an aggressive plan to slow the progress of the pine beetle. Part of this plan involves harvesting pine stands that are most susceptible to pine beetle attack, or that have already been infested. In 2010, approximately 70% of the volume delivered to the Grande Prairie mill was pine.

In British Columbia, Canfor has been harvesting pine beetle infested forests for a decade, and through replanting, we are replacing dead forests with new, vibrant forests for future generations.

Foothills Landscape Management Forum: In 2005, Canfor became a founding member of a group whose goal was to minimize the negative impact of the forestry, oil, and gas sectors on the forests of west central Alberta. The Foothills Landscape Management Forum (FLMF), as it is now known, is pioneering the concept of Integrated Landscape Management. Integrated Landscape Management is a way of minimizing the impacts that commercial activity has on the forest by coordinating with other companies (across industries) province-wide to share roads and other access in the forest. Members of



**IN BRITISH COLUMBIA,
CANFOR HAS BEEN
HARVESTING PINE
BEETLE INFESTED
FORESTS FOR
A DECADE.**

**OUR FORESTS
ARE PLAYGROUNDS**





the FLMF not only share roads that already exist, we coordinate long-term road planning and work together to restore unnecessary access roads to their natural state. This group initiative also provides for learning opportunities and data sharing with our industry partners.

ROAD PLANNING

Canfor uses logging roads to access the working forest. However, poorly planned and constructed roads can create soil erosion and displacement, if not planned and implemented properly. Canfor's planning process weighs costs and benefits, as well as potential environmental damage, to ensure that the road is located in the most environmentally appropriate location.

RECREATION

Since Canfor operates on public land, all of our tenures are open to the public for recreational purposes. Our forests are playgrounds for all kinds of different recreational activities. Opportunities for rock climbing, mountain biking, camping, and hiking are scattered across our forest tenures. In fact, 60% of recreational activity on Crown land in British Columbia does not happen in designated parks, but in forest tenures. Canfor recognizes that the forest is more than a source of revenue for our company. We confer regularly with the public and try to integrate their concerns into our operational plans. The forest encompasses many values, and outdoor recreation is one of the many that we consider when planning our commercial activities.

COMPLIANCE WITH REGULATION

Canfor is committed to maintaining a transparent system for environmental reporting, including compliance reporting. During 2010, Canfor's forestry operations harvested approximately 8.5 million m³ and experienced only five non compliance incidents on the company's forest tenures:

- Inadequate deactivation leading to siltation issues
- Two minor trespass occurrences
- One fire incident on an active harvest block
- Not meeting silviculture obligations in a Timber Supply Area (i.e. not meeting free-to-grow and regeneration dates)

In each case, the company took the necessary actions to mitigate any environmental consequences and corrective actions and minimize any potential for similar issues arising in the future.

Canfor forestry operations also had one minor diesel fuel and oil spill near a small stream, resulting from a logging truck accident. The spill was contained, properly cleaned up and promptly reported to the appropriate government agencies.

Canfor's external 2010 surveillance audit indicated seven minor non-conformities across the entire multi-site EMS and SFM certification. Action plans developed by Canfor to address the issues have been reviewed and approved by the external auditor.



MANUFACTURING REPORT

IMPROVING OUR PERFORMANCE

Canfor strives to continuously improve the environmental sustainability of our manufacturing processes. We pay close attention to energy efficiency, air and water quality, waste volumes, and greenhouse gas emissions in order to ensure that our sawmills and pulp mills operate according to high standards.

CARBON RESPONSIBILITY

We are committed to reducing our carbon footprint. Often, by eliminating energy inefficiencies we can improve our mills and the environment. One of Canfor's strengths is the use of virtually all of the fibre we harvest—this means that the portion of the trees we harvest that is not converted into finished lumber goes to a variety of value-added uses including providing heat and power to our mills, reducing fossil fuel usage and purchased electricity needs.

FPAC CARBON NEUTRAL INITIATIVE

As an active participant in the FPAC Sustainability Initiative, Canfor is committed to act in a manner that is environmentally responsible, socially desirable, and economically viable. As a participant in this initiative, Canfor integrates these principles in our business practices and contributes to sustainable development through continuous improvement.

The industry has set a number of targets for itself as part of this initiative, including carbon neutrality without the purchase of carbon offset credits. Canfor (and other industry partners) are committed to be carbon neutral by 2015. This pledge is a first for the forest industry.

To meet the 2015 target for the carbon neutral initiative, FPAC members will seek to minimize their carbon footprint by reducing direct and indirect emissions, increasing carbon storage potential of our forests and products, and increasing avoided emissions. Specifically, efforts focus on:

- Becoming energy self-sufficient: switching from fossil fuels to renewable energy sources
- Adopting new, more energy-efficient technologies
- Increasing diversion of used products from landfills
- Increasing the use of landfill capping systems in order to prevent methane leaks
- Increasing cogeneration opportunities
- Identifying opportunities to maintain and enhance carbon storage in forests through landscape planning and sustainable forest management practices
- Maximizing recycling of paper and wood products.

CARBON OFFSET TRANSACTIONS

Not only has Canfor been implementing projects that reduce our carbon footprint, the projects can also generate carbon emission offset credits. As a result, we have been active in the emerging carbon market in Alberta and B.C.

Grande Prairie Sawmill: In 2010, Canfor negotiated the sale of approximately 80,000 tonnes of carbon offset credits with an Alberta energy company, representing 3 years (2009–2012) of emission credits from the Grande Prairie Sawmill Biomass Energy Project. The Biomass Energy Project is a 22 MWe combined heat and power (CHP) project located adjacent to our Grande Prairie Sawmill that commenced operation in 2005. Canfor supplies wood residuals to the power plant and purchases renewable heat and power for our Grande Prairie sawmill operation.

ENERGY SYSTEMS

Bark-fired, heat energy systems use wood residuals from the manufacturing process to provide mill heat and dry lumber. By creating energy from the by-products of lumber processing, the new systems reduce reliance on natural gas, decrease greenhouse gas emissions, improve air quality and reduce costs.

Fort St. John Sawmill: In May 2009, Canfor started up an energy system at our Fort St. John sawmill, displacing the natural gas previously purchased to dry lumber. In 2010, Canfor sold approximately 12,600 tonnes of carbon offset credits, representing just over one year's operation of the \$13.5 million bark-fired heat energy system.

Mackenzie Sawmill: In 2009/10, Canfor invested \$15 million in an energy system for our sawmill in Mackenzie that started up in May 2010.

Prince George Sawmill: In mid-2010, we broke ground on a similar energy system at our Prince George sawmill. This will be the third heat energy system that we've installed in the last two years.

Offset credits should arise from the Mackenzie and Prince George sawmill projects in the future.

COMPLIANCE REPORT

Canfor is committed to transparency in our manufacturing reporting and includes compliance reporting as part of this process. The following is an inventory of compliance issues for Canfor's wholly-owned manufacturing operations, for 2010 (reported in accordance with government reporting criteria).

AIR

At one wood products operation, the beehive burner was found to be out of compliance due to excess opacity and the poor condition of the burner. The same burner was out of compliance with its operating temperature requirements for 5 and 4 operating days on separate occasions due to damper issues. A warning letter was issued by the Ministry of Environment for the two occasions of burner non-compliance.



**CANFOR IS COMMITTED
TO AUDITING ALL OF
IT'S MANUFACTURING
OPERATIONS
EVERY 3 YEARS**

EFFLUENT

One mill did not submit their annual report documenting oil water separator sampling.

LANDFILL

One operation deposited volumes to their landfill in excess of the annual permitted limit.

SPILLS

Canfor manufacturing operations had 2 reportable spills in 2010. All were contained, cleaned up and preventive actions taken. One was a spill of gasoline due to a loose connection between a gas tank and pump. The second was a hydraulic oil spill from a broken hose on a loader.

IMPROVING OUR PERFORMANCE

CANFOR GREENHOUSE GAS EMISSIONS

Canfor's greenhouse gas emissions (GHG's) were less in 2010 than prior years. This was largely due to reduced natural gas usage at Northwood Pulp from operational improvements.

The restart of the Chetwynd sawmill, which currently uses natural gas for lumber drying, partially offset GHG emission reductions resulting from a full year's operation of the Fort St. John bark-fired energy system. Startup of the Mackenzie mill bark-fired energy system in May 2010, has substantially reduced Mackenzie GHG emissions from prior levels.

Canfor will be installing bark-fired energy systems at our Chetwynd and Plateau mills in 2011/12, which will further reduce natural gas usage and GHG emissions.

PERFORMANCE AGAINST OBJECTIVES AND TARGETS FOR 2010

AUDITS

Target (2010): We will conduct corporate environmental audits of five wood products facilities.

Performance: Environmental audits of four facilities were conducted, with the fifth cancelled due to permanent closure of the mill.

GREENHOUSE GASES

Target (2010): We will update our company greenhouse gas strategy in 2010.

Performance: An updated GHG strategy was developed and presented to the Environmental Health & Safety Committee of the Canfor Board of Directors.

OBJECTIVES AND TARGETS FOR 2011

AUDITS

We will conduct corporate environmental audits of one pulp mill, our joint venture OSB plant and four sawmills.

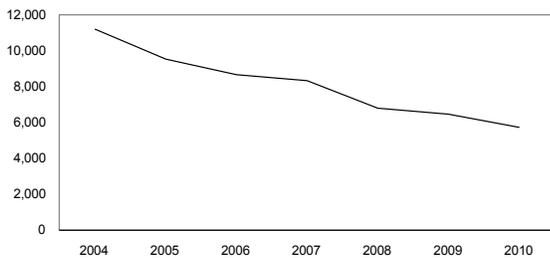
CARBON FOOTPRINT

In 2011, we will conduct a carbon footprint evaluation of our activities from the forest to end of product life.

BEEHIVE BURNER PHASE OUT

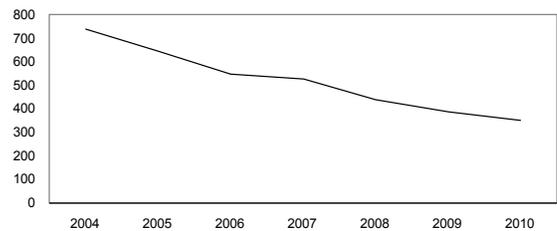
We will eliminate our last operating beehive burner.

CANFOR NATURAL GAS USE - TJ



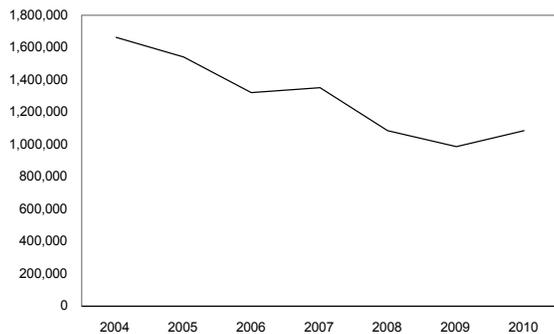
Natural gas use was less in 2010 due to reduced usage at Northwood Pulp, and a full year's operation of the Fort St. John energy system.

CANFOR GREENHOUSE GAS EMISSIONS - kt



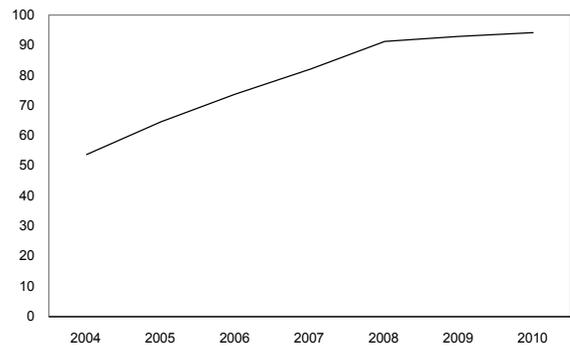
Canfor's greenhouse gas emissions declined in 2010 largely due to reduced CPLP emissions.

CANFOR ELECTRICITY PURCHASES - MWe



Electricity purchases increased in 2010 due to start up of idled mills and increased run-time for operating mills.

CANFOR WOOD RESIDUE UTILIZATION - %



Close to 100% of wood residues generated at our mills as a manufacturing by-product are utilized to produce renewable heat and power, wood pellets and other value-added products.



COMMUNITY

2010 produced a moderate market improvement for the forest industry, though U.S. housing starts remained low. However, Canfor continued to fulfill long-term philanthropic commitments and to maintain key partnerships.

Canfor's corporate giving focuses on the following areas:

- Youth & Education
- Community Enhancement
- Forestry and Environment
- Amateur Sports
- Health & Wellness

YOUTH AND EDUCATION

Canfor contributed approximately \$31,000 in 2010 for scholarships and bursaries. We believe that supporting education means stronger communities. Below are some of the institutions we supported:

- University of Northern British Columbia
- University of British Columbia
- College of New Caledonia
- Northern Lights College
- Northern Alberta Institute of Technology

COMMUNITY ENHANCEMENT

In 2010, Canfor and its employees worked together to run a very successful United Way campaign, with more than \$245,000 donated by employees. The Company also donated \$55,000 to the United Way, bringing the total to more than \$300,000.

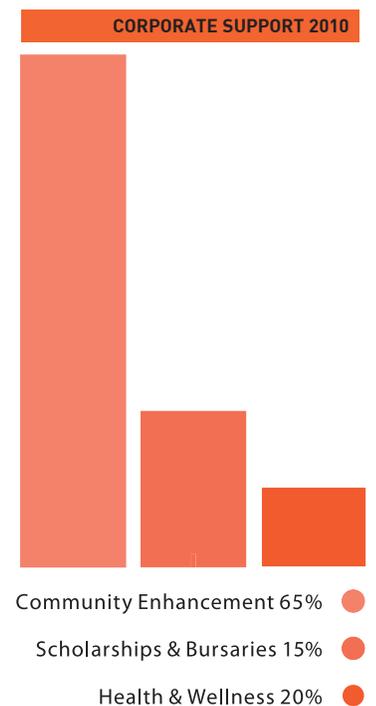
The United Way works to improve lives and build communities by engaging individuals and mobilizing collective action. Through our donations to the United Way, we see the return on our investment in many ways: successful kids, empowered families, engaged seniors and healthy citizens.

AMATEUR SPORTS

In 2010, Canfor made the fourth of five payments as part of its partnership with the University of Northern British Columbia in the construction of the Charles Jago Northern Sports Centre. When the final payment is made, Canfor will have donated \$250,000 to the Centre. The 145,150 square foot facility sits at the entrance of the UNBC campus, providing training opportunities for high-performance athletes and much needed rental space for minor sport groups. The facility also houses state-of-the-art fitness equipment available for public use through individual memberships.

HEALTH AND WELLNESS

In support of rural health services in Alberta and Eastern BC, Canfor made a donation of \$7,500 this year to STARS' Grande Prairie Base, for a total of \$30,000 donated in the last 4 years. STARS (Alberta Shock Trauma Air Rescue Society) is a not-for-profit organization that works to improve emergency and trauma health through patient care and transport, a 24-hr. medical emergency communications centre, healthcare worker education, and research. Their medical helicopter fleet makes timely, life-saving care a possibility for many rural or isolated areas across Alberta and Eastern BC. As 75% of the STARS budget comes from private and business donations, Canfor is pleased to help keep this essential service running at its best.





CANFOR CORPORATION

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