

CORPORATE GOVERNANCE MANUAL



CANFOR CORPORATION

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CANFOR CORPORATION

Governance Principles

The following principles have been approved by the board of directors (the "Board") and, along with the Terms of Reference and Meeting Procedures of the Board committees, provide the framework for the governance of Canfor Corporation (the "Company"). The Board recognizes that there is an on-going and energetic debate about corporate governance and it will review these principles and other aspects of the Company's governance annually or more often if deemed necessary.

1. Role of Board and Management

The Company's business is conducted by its officers and employees under the direction of the Chief Executive Officer and the oversight of the Board, to enhance the long-term value of the Company for its shareholders. The Board is elected by the shareholders to oversee management and to assure that the long-term interests of the shareholders are being served. Both the Board and management recognize that the long-term interests of shareholders are advanced by responsibly addressing the concerns of other stakeholders and interested parties including employees, customers, suppliers, communities and other affected local groups including First Nations communities, government officials and the public at large.

2. Functions of Board

The Board has at least five scheduled meetings a year. Four meetings are devoted to reviewing and discussing reports by management on the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. One meeting is devoted to strategic planning. Directors are expected to attend all scheduled Board and committee meetings unless excused by the Chairman of the Board or the Chair of the relevant committee. In recognition of its responsibility for the stewardship of the Company, the Board has adopted the written Terms of Reference attached to this Manual. As set out in the Terms of Reference, in addition to its general oversight of management, the Board performs a number of specific functions, including:

- (a) selecting, appointing, and removing the Chief Executive Officer and other senior management;
- (b) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer and the other senior management and that senior management creates a culture of integrity throughout the Company, its subsidiaries and affiliates, and in its relationships with customers, suppliers and other stakeholders;

- (c) monitoring, reviewing and approving the training and development programs for, and the compensation of, senior management (including the Chief Executive Officer);
- (d) succession planning for the Chief Executive Officer and other senior management;
- (e) adopting a strategic planning process which shall include at least one meeting of the Board devoted to strategic planning, and approving a strategic plan which takes into account, among other things, the opportunities and risks of the Company's business;
- (f) reviewing, approving and monitoring fundamental financial and business strategies, major corporate actions and capital expenditures;
- (g) the identification and assessment of the principal risks facing the Company's business and the review of options for their mitigation and the implementation of appropriate systems to manage these risks;
- (h) ensuring processes are in place for maintaining the integrity of the Company's, internal control and management information systems, and financial statements;
- (i) developing the Company's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the Company and which shall be set out in this Corporate Governance Manual, as amended from time to time;
- (j) developing, reviewing, adopting and enforcing the policies and practices of the Company with respect to the environment, health and safety;
- (k) developing, reviewing and, as necessary, amending the Company's communication policy (the "Corporate Disclosure Policy");
- (l) adopting a code of business conduct and ethics governing the behaviour of the Company's directors, officers and employees (the "Code of Conduct"), monitoring compliance with the Code of Conduct, and granting any waivers under it;
- (m) establishing minimum shareholding requirements for directors and officers; and

- (n) appointing/electing the Chairman of the Board of Directors and appointing/electing the Chair and members of each Committee of the Board.

3. Qualifications

Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the shareholders. They must also have an inquisitive and objective perspective, practical wisdom and mature judgment. The intention is to have a Board representing diverse experience at policy-making levels in business, government, education and technology, and in other areas that are relevant to the Company's activities and objectives.

Directors must be willing to devote sufficient time and resources to carry out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. Directors are expected to maintain at least a minimum shareholding interest in the Company meeting requirements established from time to time by the Board in order to appropriately align the interests of the directors with those of the Company's shareholders. Directors are expected to avoid other commitments which could materially interfere with their ability to carry out their duties and responsibilities and should offer their resignation in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities, which could adversely affect their ability to do so.

There are no arbitrary limits on the term of a directors' service and directors should not expect to be renominated annually. The Board self-evaluation process described below will be an important determinant for Board tenure.

4. Independence of Directors

The Board will at all times be comprised of a significant majority of "Independent Directors" (as defined below). At least three-quarters (3/4) of the directors must be Independent Directors, while recognizing that directors who do not qualify as Independent Directors may also make valuable contributions to the Board and to the Company by reason of their experience, wisdom and knowledge of the Company.

The Chair of the Board must be an Independent Director. If the Chair of the Board is not an Independent Director, the Chair of the Governance Committee (as defined below) will act as "Lead Director".

To be considered an Independent Director, in addition to any other requirements of applicable securities legislation or applicable stock exchange rules, the director:

- (a) must not be a current member of management of the Company or any of its subsidiaries or affiliates;
- (b) must be free from any interest and any business, family or other relationship which could, in the view of the Board, reasonably be expected to interfere with the exercise of a director's independent judgment or ability to act with a view to the best interests of the Company, provided that a director's shareholdings in the Company alone will not necessarily interfere with the exercise of a directors independent judgment;
- (c) must not currently be, and has not in the last three years been, a partner, officer, or employee of, or a material service provider to, the Company or any of its subsidiaries or affiliates; and
- (d) must not be a partner, director, officer, employee or significant shareholder of an entity that has a material business relationship with the Company or any of its subsidiaries or affiliates.

Where the Company has a shareholder with the direct or indirect power to direct or to cause the direction of management of the Company (whether through the ownership of the Company's voting securities or otherwise), such shareholder will be treated as an "affiliated entity". A director of the Company who is both a director and an employee, or an executive officer, of an affiliated entity will not be considered to be an Independent Director.

The determination as to whether a shareholder of the Company is an "affiliated entity" will be made by those directors who have satisfied the test for being an Independent Director and are not the shareholder, or executive officers, or directors and employees, of the shareholder about which the determination is to be made.

On an annual basis, each director will disclose and the Board will review, all relationships between each director and the Company, as well as all other commercial, charitable, industrial, banking, consulting, legal, accounting and familial relationships of each director, to assess whether each director meets the test for being an Independent Director. In circumstances where a director has a business, family or other relationship with the Company or any of its subsidiaries or affiliates, or a relationship with an entity which is a service provider to the Company or any of its subsidiaries or affiliates, the determination of whether that relationship is one which could reasonably be expected to interfere with the directors' independent judgment [and ability to act in the best interests of the Company,] and therefore whether the director would be an Independent Director, shall be made by

the directors who have satisfied the test for being an Independent Director. The determination of whether a director is an Independent Director will be disclosed annually in the Company's information circular, prior to the director standing for re-election to the Board.

The Company will not make any personal loans or extensions of credit to directors or employees, other than loans to employees for relocation purposes. No director or member of his or her immediate family may provide personal services for compensation to the Company, except with the prior approval of the Governance Committee.

5. Size of Board and Selection Process

The directors are elected each year by the shareholders at the annual general meeting of shareholders. Shareholders may propose nominees for consideration by the Governance Committee by submitting the names and supporting information to the Chairman of the Board. The Board proposes a slate of nominees to the shareholders for election to the Board and the number of directors on the Board, in each case based on the reports and recommendations of the Governance Committee (as defined below). Between annual shareholder meetings, the Board may appoint additional directors, as the law permits, to serve until the next annual meeting.

6. Position Descriptions

The Board will develop and approve position descriptions for the Chair of the Board and the chair of each of its committees.

Together with the Compensation Committee (as defined below) and the Chief Executive Officer, the Board will develop and approve a clear position description for the Chief Executive Officer, which delineates management's responsibilities, as well as the goals and objectives the Chief Executive Officer is responsible for meeting.

7. Board Committees

The Board has established the following committees to assist the Board in discharging its responsibilities: (i) an audit committee (the "Audit Committee"); (ii) a corporate governance committee (the "Governance Committee"); (iii) a management resources and compensation committee (the "Compensation Committee"); (iv) an environmental, health and safety committee (the "EH&S Committee"); and (v) a capital projects committee (the "Capital Projects Committee"). Details of these committees are disclosed in the Company's information circular sent to shareholders prior to each annual general meeting. The Chairs report the highlights of their meetings to the full Board following each meeting of the respective committees.

8. Independence of Committee Members

In addition to the requirement that three-quarters (3/4) of the directors must be Independent Directors, all members of the Audit Committee, the Governance Committee and the Compensation Committee must be Independent Directors and at least three quarters (3/4) of the members of all other committees must be Independent Directors. In addition, no member of the Audit Committee may receive, directly or indirectly, any consulting, advisory or other fee or remuneration from the Company or any of its subsidiaries or affiliates, other than their compensation as a director.

9. Meetings of Independent Directors

At the end of every regularly-scheduled Board or Committee meeting, the Chairman of the Board or the Chair of the Committee, as the case may be, will excuse senior management present (including any directors who are also members of management). The remainder of the meeting will be devoted to issues which any director may wish to raise in the absence of senior management the and non-Independent Directors. The Board and/or any Committee may also meet without senior management present and/or the non-Independent Directors at such other times as may be determined by the Chairman of the Board or the Chair of the Committee, as the case may be.

10. Self-Evaluation

As described more fully in the terms of reference of the Governance Committee, that Committee will conduct an regular self-evaluation of the effectiveness of the Board as a whole, the committees of the Board, the contribution of individual directors and the effectiveness of the Chairman of the Board and the Chair of each Committee—, including the Board and Committee Terms of Reference and the expected skills and competencies of each individual director. At the end of each year, each director will be requested to provide his or her assessment of the effectiveness of the Board and the Committees on which he or she serves as well as an assessment of the contribution of each of the other directors. The individual assessments will be organized and summarized by an independent corporate governance expert, on behalf of and at the direction of the Chair of the Governance Committee, for discussion with the Chairman and the Board early in the following year.

The compliance of the Company's system of corporate governance with applicable corporate and securities legislation and applicable stock exchange rules and the operation of the Company's system of corporate governance will be disclosed annually in the Company's information circular.

11. Setting Board Agenda

The Board shall be responsible for its agenda. The Chief Executive Officer having canvassed the directors for potential agenda items will propose the agenda to the Chairman of the Board who shall review and approve the agenda. The Chairman of the Board, after consulting with the Chief Executive Officer, shall determine the nature and extent of information that shall be provided to the directors before each scheduled Board meeting. During regularly scheduled meetings of the Board, directors are urged to make suggestions for agenda items, or additional pre-meeting materials for subsequent regularly scheduled meetings of the Board. The Board meeting materials shall be distributed to the Board in a timely manner to allow the board a reasonable opportunity to review and consider the information before the meeting.

12. Ethics and Conflicts of Interest

The Board expects all directors, as well as the Company's officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising the Code of Conduct. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the Chief Executive Officer and the Chairman of the Board. If a significant conflict exists and cannot be resolved, the director should resign. All directors will excuse themselves from any discussion or decision affecting their personal, business or professional interests. The Board, through the Governance Committee, shall resolve any conflict of interest question involving the Chief Executive Officer, the Chief Financial Officer or any Executive or Vice-President, and the Company's General Counsel shall resolve any conflict of interest issue involving any other officer or employee of the Company.

13. Reporting of Concerns

In addition to the reporting procedures contemplated by the Code of Conduct, anyone who has a concern about the Company's conduct, or about the Company's accounting, internal accounting controls or auditing matters, may communicate that concern directly to the Chair of the Audit Committee, who will raise the concern for review by the Audit Committee or, if appropriate, forward the concern to any other Committee Chair for review by the appropriate committee. The status of all outstanding concerns will be reported to the Board on a quarterly basis or at the next scheduled Board meeting, if earlier. The relevant committee may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to it. The Code of Conduct prohibits any director, officer or employee from retaliating or taking any adverse action against anyone for raising or helping to resolve an integrity concern.

14. Compensation of Directors

The Compensation Committee shall have the responsibility for recommending to the Board compensation and benefits for directors. In discharging this duty, the committee shall be guided by three goals: compensation should fairly pay directors for work required in a company of the Company's size and scope; compensation should align directors' interests with the long-term interests of shareholders; and the structure of the compensation should be simple, transparent and easy for shareholders to understand. As a general rule, those directors who are officers or employees of the Company or any of its subsidiaries or affiliates will not receive any additional compensation for acting as a director.

15. Annual Compensation Review of Senior Management

All equity-based compensation plans shall be approved by the Board based on the recommendations of the Compensation Committee. The Board shall also be responsible for approving, based on the recommendations of the Compensation Committee, the salary, bonus and other incentive and equity compensation of the Chief Executive Officer. The Compensation Committee shall approve, based on the recommendations of the Chief Executive Officer and taking into account the equity-based compensation approved by the Board, the salary and bonus for all senior management.

16. Access to Senior Management

Outside directors may contact senior management of the Company at any time without the presence of the Chief Executive Officer or an Executive or Group Vice-President.

17. Access to Independent Advisors

The Board and its committees shall have the right at any time to retain independent outside financial, legal or other advisors, at the Company's expense.

18. Director Orientation and Education

The Governance Committee shall be responsible for designing an orientation program for new directors and reviewing the efficacy of the orientation program annually. The orientation program shall provide for the Chairman of the Board to be responsible for conducting, overseeing and implementing the orientation of new directors and shall provide that each new director receives a personal briefing by senior management on the Company's business, its strategic plans, its financial statements, and its key policies and practices (including the role of the Board, its committees and its directors) and receives background briefings about, and on-site visits to, various operations of the Company. The Governance Committee shall be

responsible for designing, and the Chairman of the Board shall be responsible for providing, an ongoing director education program, under which all directors shall periodically receive materials or briefing sessions on subjects that would assist them in discharging their duties as directors and ensure their knowledge and understanding of the Company's business remains current.

Audit Committee: Terms of Reference

1. Purpose

The Audit Committee is appointed by the Board 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 Services department while providing an open avenue of communication between the external auditors, the internal auditors, risk manager, 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 director of the Internal Audit department, the risk manager 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 manager of the Internal Audit department ("the Internal Auditor"), the Risk Management Committee ("Risk Committee") 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.
 - Obtain assurance from both management, Internal Auditor and the Risk Committee regarding the adequacy of risk management processes.
 - Review with management, the Risk Committee, 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, Risk Committee and/or Internal Auditor together with management's responses thereto.
- The Company's compliance or adherence to debt covenants, terms or conditions.

(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, Risk Manager, 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) Review any non-audit services that have been rendered by the external auditor.
 - (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.
- (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.

(f) **Finance**

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

(ii) the Company's annual financing plan and any amendments thereto from time to time;

(iii) any proposed financings;

(iv) 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:

(i) 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.

(ii) 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.

(iii) Make inquiries of management, as well as the Risk Manager, external auditors and Internal Auditor, to ensure that all material legal matters have been brought to the attention of the Audit Committee.

(iv) 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.

- (v) 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.

(b) **Pension Funds**

Be responsible for supervising the management and operation of the Company's pension plans including:

- (i) reviewing and, as necessary, revising the investment policies and practices in respect of the funds contributed to the Company's pension plans;
- (ii) from time to time approving the appointment of the manager of the pension funds;
- (iii) reviewing the performance of the manager, including reports from the Chairman of the Company's Pension Fund Committee concerning fund performance; and
- (iv) reviewing actuarial reports in respect of the Company's pension obligations so as to determine the level of unfunded liabilities, if any.

(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.

Corporate Governance Committee: Terms of Reference

1. Purpose

The purpose of the Governance Committee is to monitor the effectiveness of the Board and the governance of the Board, including the size, structure and membership of the Board and its committees. In the event the Chairman of the Board is not an Independent Director, then the Chair of the Governance Committee will also act as “Lead Director” to ensure that appropriate structures and procedures are in place to allow the Board to function independently of management.

The Governance Committee has the authority to access such officers and employees of the Company, and conduct any investigation, as may be appropriate and has the authority to retain, at the Company's expense, special legal and other consultants or experts it deems necessary in the performance of its duties.

2. Governance Committee Composition and Meetings

All of the members of the Governance Committee must be Independent Directors and will be appointed and removed by the Board (or on the expiry of their terms as directors, if earlier). The Chairman of the Board shall be an ex-officio member of the Governance Committee.

A Chair shall be appointed by the Board annually from among the members of the Governance Committee who are Independent Directors.

The Governance Committee shall schedule regular meetings and shall meet at least twice in each year.

The Chief Executive Officer will be given notice of all meetings and will normally be entitled to attend, other than in cases where the Governance Committee wishes to meet in-camera. Other executives of the Corporation will attend at the request of the Governance Committee.

3. Duties and Responsibilities

The Governance Committee shall have the following duties and responsibilities and, to the extent necessary to carry out such duties and responsibilities, is delegated the powers of the Board to:

(a) Monitor Corporate Governance Issues

Corporate governance issues to be monitored include the formation of committees of the Board and the nomination of directors. In fulfilling this responsibility, the Governance Committee will:

- (i) advise the Chairman of the Board and the Board on matters of corporate governance;
- (ii) conduct, on an annual basis, an assessment of the size and effectiveness of the Board, the committees of the Board, and the individual directors, and report on such assessments to the Chairman of the Board and the Board. This review will include consideration of which competencies and skills the Board should possess, including consideration of the competencies, skills and personalities of the directors individually and as a group;
- (iii) recommend to the Board for approval the composition and membership of the committees of the Board and their terms of reference;
- (iv) consider and approve, where appropriate, requests by individual directors to engage the services of outside experts and advisors at the expense of the Company, so long as the Chief Executive Officer is advised of such engagement, unless advising the Chief Executive Officer would be inappropriate in the circumstances;
- (v) at the request of the Board, consider any other matters which will assist the Board to meet its responsibilities regarding corporate governance matters, including adherence to any governance guidelines established by securities regulatory authorities, the TSX or other regulatory body; and
- (vi) keep abreast of emerging issues in corporate governance practise and regulations and make recommendations to the Board with respect to corporate governance matters.

(b) Recommend to the Board the size of the Board

From time to time, the Governance Committee will report to the Board on the size of the Board and profile of Board members in terms of experience, expertise, age, geographical representation and such other areas as the Governance Committee deems relevant to the current and future needs of the Company, as well as the ability of each nominee to devote sufficient time and resources to his or her duties as a member of the Board.

(c) Recommend to the Board the nominees for election to the Board

As required, the Governance Committee will:

- (i) seek out or recommend to the Board qualified nominees for appointment, election or re election to the Board;
- (ii) with the assistance of management, design a process and materials for the orientation and education of new Board members to be conducted by the Chairman of the Board, and provide continuing education materials to continuing Board members where appropriate; and
- (iii) review from time to time any policies with respect to service of directors.

(d) Assess responsibilities of management

The Governance Committee will undertake a periodic assessment of the relationship between the Board and senior management including, in particular, the relationship between the Chairman and the Chief Executive Officer. The Committee Chair will consult with both individuals in carrying out this review and will advise the Board of his findings.

(e) Resolve Conflicts

The Governance Committee will review and resolve any conflict of interest question involving any director or any of the Chief Executive Officer, the Chief Financial Officer or any Executive or Group Vice-President.

(f) Code of Conduct Compliance

To provide assurance of compliance with the Company's Code of Conduct, the Governance Committee shall:

- (i) ensure that an appropriate Code of Conduct is formalized in writing and that all directors, officers and employees are aware of it; and
- (ii) review the Company's monitoring of compliance with the Company's Code of Conduct.

Management Resources and Compensation Committee: Terms of Reference

1. Purpose

The overall purpose of the Compensation Committee is to make recommendations to the Board with respect to compensation policies, including base and performance compensation policies and pension and other benefit policies and human resources policies. The Compensation Committee is also responsible for supervising the implementation of the compensation and human resource policies approved by the Board, including the annual compensation levels of all non-union employees within the approved compensation policies.

The Compensation Committee has the authority to access such officers and employees of the Company, and conduct any investigation, as may be appropriate and has the authority to retain, at the Company's expense, special legal and other consultants or experts it deems necessary in the performance of its duties.

2. Compensation Committee Composition and Meetings

All members of the Compensation Committee must be Independent Directors and will be appointed and removed by the Board (or the expiry of their terms as directors, if earlier).

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

The Compensation Committee shall schedule regular meetings and shall meet at least twice in each year.

The Chief Executive Officer of the Company shall be available at Compensation Committee meetings, if deemed appropriate by the Chair of the Compensation Committee, to advise the Compensation Committee.

3. Duties and Responsibilities

The Compensation Committee shall have the following duties and responsibilities and, to the extent necessary to carry out such duties and responsibilities, is delegated the powers of the Board:

- (a) To recommend to the Board human resources and compensation policies, guidelines, and pay and performance systems for application to the Company, its subsidiaries and affiliates.

- (b) To ensure that the Company has in place programs and policies to attract and retain high calibre executives who will successfully lead the organization in their respective areas of responsibility.
- (c) To ensure that the Company has in place programs to develop management of the highest calibre and a process to provide for the orderly succession of management.
- (d) To develop a position description for, and corporate goals and objectives relevant to, the Chief Executive Officer and ensure that policy guidelines and systems are in place to provide for a comprehensive review and evaluation of the performance of the Chief Executive Officer.
- (e) To recommend to the Board the annual salary, bonus and pension and other benefits, direct and indirect, of the Chief Executive Officer and certain other named executives based on its review and evaluation.
- (f) To approve the compensation for all other senior management of the Company, its subsidiaries and affiliates and the annual compensation policies and budgets for all non-union employees, after considering the recommendations of the Chief Executive Officer, all within the human resources and compensation policies, guidelines, and pay and performance systems approved by the Board.
- (g) To ensure that the Company implements and administers human resources and compensation policies approved by the Board concerning:
 - (i) executive compensation, executive employment contracts, stock option plans, or other incentive or equity plans; and
 - (ii) proposed personnel changes involving officers reporting to the Chief Executive Officer or other senior officers of the Company.
- (h) To review from time to time, as and when required, the adequacy and type of the Company's pension benefit arrangements and to approve, where appropriate, pension plan modifications.
- (i) To review from time to time with the Chief Executive Officer the Company's broad policies on compensation for all employees and overall labour relations strategy for organized employees of the Company.

- (j) To receive periodic updates on labour relations initiatives and issues in the Company.
- (k) To review periodically the adequacy and form of the compensation of the directors and to ensure that the compensation realistically reflects the responsibilities and risks involved in being an effective director and to report and make recommendations to the Board accordingly.
- (l) To provide annually a report of the Compensation Committee for inclusion in the Company's information circular and to review executive compensation disclosure before the Company publicly discloses this information.

Environmental, Health and Safety Committee: Terms of Reference

1. Purpose

The overall purpose of the EH&S Committee is to develop, review and make recommendations to the Board of senior management of the Company, as appropriate or as required on matters related to the Company's Environmental, Health and Safety policies and practices and to monitor compliance with government regulations and with the Company's commitment to excellence on these issues.

The EH&S Committee has the authority to access such officers and employees of the Company, and conduct any investigation, as may be appropriate and has the authority to retain, at the Company's expense, special legal and other consultants or experts it deems necessary in the performance of its duties.

2. EH&S Committee Composition and Meetings

At least three-quarters (3/4) of the members of the EH&S Committee must be Independent Directors.

A Chair shall be appointed by the Board annually from among the members of the EH&S Committee who are Independent Directors.

The EH&S Committee shall schedule regular meetings and shall meet at least twice in each year. At least one meeting per year shall be held at one of the Company's operations.

3. Duties and Responsibilities

The EH&S Committee shall have the following duties and responsibilities and, to the extent necessary to carry out such duties and responsibilities, is delegated the powers of the Board:

- (a) To review and make recommendations to the Board concerning the following:
 - (i) the impact on the Company, its directors and officers, of any significant environmental, health and safety laws and regulations, such laws, regulations, related responsibilities and other ancillary matters being hereafter referred to as "E. H.& S. Issues" and any recommendations as to policies arising from their assessment of said impact;

- (ii) the compliance with policy statements and implementations standards adopted from time to time by the Company on E. H.& S. Issues;
 - (iii) the Company's environmental disaster response plan for each operation and degree of readiness;
 - (iv) management programs and standards addressing health of employees and the public and the safety of the workplace; and
 - (v) the development of policies and initiatives in the area of environment, health and safety.
- (b) To report to the Board from time to time, but not less than once per year on the following:
- (i) the effectiveness of the Company's response to E. H.& S. Issues, including compliance with statutory and regulatory requirements;
 - (ii) the implementation and compliance with policy statements adopted on E. H.& S. Issues;
 - (iii) risk management associated with E. H.& S. Issues;
 - (iv) the overall efforts of the Company to maintain priority status for the protection of the environment and for the health and safety of its employees and the public;
 - (v) any charges or actions relating to E. H.& S. Issues initiated against the Company, its directors, officers, employees or agents and the resolution of the same; and
 - (vi) any other material matter brought to the attention of the EH&S Committee during the course of the year.

Pension Committee: Terms of Reference

1. Purpose

The Pension Committee is appointed by the Board to assist the Board in overseeing the administration, financial reporting and investment activities of all pension plans for employees of the Company and any successor plans (collectively the “Plans”) and the related trust funds (the “Funds”).

The Pension Committee is responsible for reporting to the Board in respect of the actuarial soundness of the Plans, the administrative aspects of the Plans, investment policy, the performance of the investment Funds and compliance with government legislation.

The Pension Committee may, from time to time, recommend to the Board changes to the Plans and their administration.

2. Pension Committee Composition and Meetings

All members of the Pension Committee must be Independent Directors.

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

The Pension Committee will meet as determined by the Committee Chairman and otherwise as necessary. The Chair shall prepare and/or approve an agenda in advance of each meeting.

All directors of the Company, including management directors, may attend meetings of the Pension Committee provided, however, that no director is entitled to vote at such meetings and is not counted as part of the quorum for the Pension Committee if he or she is not a member of the Pension Committee.

The Pension Committee should hold an in-camera session without management present, including management directors, as a regular feature of each regularly scheduled Pension Committee meeting.

The Pension Committee has the authority to access such officers and employees of the Company and conduct any investigation as may be appropriate and has the authority to retain, at the Company’s expense, special legal, investment, actuarial or other consultants or experts it deems necessary in the performance of its duties.

3. Duties and Responsibilities

The Pension Committee shall have the following duties and responsibilities to be performed by the Committee on behalf of and for the Board in respect of each Plan. These delegated

duties and responsibilities are subject to exceptions and limitations in certain instances where the Plan documents concerned provide that certain duties and responsibilities are assigned to various parties other than the Board or the Company.

(a) **Plan Management**

- (i) The Pension Committee will ensure adequate management controls and processes are in place for administration, financial reporting and investment activities relating to the Plans.
- (ii) The Pension Committee will annually review which administrative processes it will oversee.

(b) **Appointments**

The Pension Committee may make the following appointments for each Plan, subject to exceptions where the appointment authority is assigned to another party pursuant to Plan documents:

- (i) actuary;
- (ii) auditor;
- (iii) custodian and/or trustee; and
- (iv) investment counsel.

(c) **Actuarial Studies**

The Pension Committee will ensure actuarial valuation studies are completed no less frequently than required by applicable legislation.

The Pension Committee will receive the report submitted by the actuary. The report will contain:

- (i) assumptions used by the actuary in the valuation;
- (ii) calculations leading to an unfunded or overfunded liability, if any;
- (iii) recommendations for corporate funding; and
- (iv) such other calculations, recommendations and information as required by applicable legislation or by the Company.

The Pension Committee will review on an annual basis the unfunded liability for retiree benefits and monitor future liability for post-retirement benefits.

(d) **Investment**

The Pension Committee will review and approve the statement of investment beliefs and principles and the investment policies and procedures for each Plan, which will be reviewed annually, and amended if necessary. The investment policies and procedures will include:

- (i) investment objectives;
- (ii) determination of policy on asset mix guidelines and establishment of benchmarks;
- (iii) investment constraints for each asset class;
- (iv) performance objectives;
- (v) policy on use of derivatives;
- (vi) valuation, reporting and monitoring requirements;
- (vii) strategic investment plans for the Funds; and
- (viii) such other matters as the Pension Committee requires or agrees to be included.

The Pension Committee will review, on a regular basis, the investment performance of the Funds and the investment managers, and their compliance with the investment policies and procedures and applicable legislative constraints and a comparison of pension plan investment results with other pension plans.

(e) **Financial Reporting**

The Pension Committee will review and approve the annual audited financial statements of each Plan. The Committee will approve the annual budget for the Plans and monitor results against such budgets.

(f) **Plan Administration**

The Pension Committee will, at least once every year, review the administrative aspects of the Plans not affecting pension benefits, including reviewing and approving recommendations of management, if any, in the following areas:

- (i) changes to the overall plan design;
- (ii) changes to plan policies;
- (iii) mergers with other plans;
- (iv) reciprocal transfer arrangements; and

(v) plan insurance coverage.

(g) **Legislative Compliance**

The Pension Committee will monitor compliance by the Plans with applicable legislation on a regular basis.

(h) **Other Duties**

(i) The Pension Committee will review at least once annually, and evaluate the adequacy of these Terms of Reference and the Committee's performance, and report its evaluation and any recommendations for change to the Corporate Governance Committee.

(ii) The Pension Committee will have such other duties and responsibilities as delegated to it and review such other matters as are from time to time referred to it by the Board.

4. Accountability

The Pension Committee in addition to its report to the Board as soon as practicable following every Pension Committee meeting, will also submit an annual report which will contain audited financial statements and a summary of investment performance for each Plan.

Capital Expenditure Committee: Terms of Reference

1. Purpose

The Capital Expenditure Committee is appointed by the Board to assist the Board in the review and recommendation of expenditures for capital projects that are in excess of the management limit, but within the authority of the Committee, as set by the Board from time to time. Subject to any change by the Board, the Committee will review and consider expenditures of \$5 million or higher. The Committee will have the authority to approve any expenditure between \$5 million and \$25 million. Any project approval in excess of \$25 million must be subject to the approval of the Board. In addition, it will review any lesser expenditures referred to it by the Board or the Chief Executive Officer.

2. Capital Expenditure Committee Composition and Meetings

All members of the Capital Expenditure Committee must be Independent Directors and the CEO shall be an ex-officio member of the Committee.

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

The Capital Expenditure Committee will meet as necessary. The Chair shall prepare and/or approve an agenda in advance of each meeting.

All directors of the Company, including management directors, may attend meetings of the Capital Expenditure Committee provided, however, that no director is entitled to vote at such meetings and is not counted as part of the quorum for the Capital Expenditure Committee if he or she is not a member of the Capital Expenditure Committee.

The Capital Expenditure Committee may hold in-camera sessions without management present, including management directors, at any Committee meeting.

The Capital Expenditure Committee has the authority to access such officers and employees of the Company and conduct any investigation as may be appropriate and has the authority to retain, at the Company's expense, special legal, financial, engineering or other consultants or experts it deems necessary in the performance of its duties.

3. Duties and Responsibilities

The Capital Expenditure Committee shall have the following duties and responsibilities to be performed by the Committee on behalf of and for the Board in respect of capital expenditures:

- (a) to review and assess project risk and ensure that an appropriate risk assessment analysis is implemented in the Company's approval for expenditure (AFE) process;
- (b) to review and assess the minimum hurdle rates and/or discounts rates established by the Company for assessment of capital projects;
- (c) to review and assess AFEs as submitted by the Company including a consideration of the proposed economic benefits of the project, the strategic value to the Company and the ability of the Company to conclude the project;
- (d) to review and assess the underlying economic assumptions used in the Company's assessment of capital projects.
- (e) to review and assess asset divestitures.

4. Other Duties

- (i) The Capital Expenditure Committee will review at least once annually, and evaluate the adequacy of these Terms of Reference and the Committee's performance, and report its evaluation and any recommendations for change to the Corporate Governance Committee.
- (ii) The Capital Expenditure Committee will have such other duties and responsibilities as delegated to it and review such other matters as are from time to time referred to it by the Board.
- (iii) The Capital Expenditure Committee will provide regular reports to the Board with respect to its duties and responsibilities hereunder including any projects considered by the Committee.

Committee Appointment and Meeting Procedures

All Committees shall operate under the following procedures and practices:

1. Appointment

- (a) Each Committee shall be comprised of at least three directors.
- (b) The members of each Committee shall be appointed by the Board at the first meeting of the Board following each Annual General Meeting. A director shall cease to be a member of any Committees of which he or she is a member upon ceasing to be a director of the Company and may be removed or replaced at any other time at the discretion of the Board. Each member shall hold office until the earlier of the close of the Annual General Meeting of the Company following the member's appointment or until the member resigns, is replaced or is removed by the Board.
- (c) The Corporate Secretary of the Company shall be the Secretary to each Committee and the Chairman of the meeting shall be the Secretary for in-camera sessions.

2. Calling and Notice of Meetings

- (a) In addition to the regularly scheduled meetings of a Committee scheduled by the Chair of the Committee, the Chair of a Committee or any two other members of a Committee may call a meeting of the Committee at any time.
- (b) Not less than 5 business days prior to any Committee meeting, the Secretary shall circulate notice of the meeting to each member of the Committee, together with the agenda for the meeting as well as any materials to be discussed or reviewed at the meeting. Advance notice of any meeting may be waived by a majority of the members of the Committee.

3. Meeting Procedures

- (a) If all members consent, one or more members of a Committee may participate in a meeting by means of such telephonic, electronic or other communication facilities as will permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by such means is deemed to be present at that meeting.

- (b) A quorum for a meeting of a Committee shall consist of a simple majority of the members of the Committee.
- (c) Questions arising at any meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes, the Chair shall have a second casting vote.
- (d) The Secretary (or person acting as such) shall keep regular minutes of a Committee's business at meetings of the Committee and cause them to be recorded in books kept for that purpose.
- (e) A Committee may, as it sees fit, from time to time to invite such other directors, officers and employees of the Company to attend any meeting of the Committee and assist in the discussion and consideration of the business of the Committee. The Secretary shall provide notice of such meeting to any such director, officer or employee and request their attendance at the meeting.

Code of Conduct

Purpose: The purpose of this Code of Conduct is to define the standards and values which the Company expects its personnel to follow in their dealings with stakeholders. It is designed to help the Company's personnel make the right business decisions, consistent with the Company's corporate values of integrity, trust, openness and respect for people and to behave in a manner that reflects the Company's high ethical standards.

Application: This Code of Conduct applies to all personnel ("Canfor Personnel") of Canfor Corporation and each of its subsidiaries (the "Company"), consisting of every director of the Company ("Directors"), every officer of the Company, the full list of whom are included in the Company's annual report ("Officers") and every other employee of the Company ("Employees").

General: This Code of Conduct is designed to:

- promote ethical and legal conduct by all Canfor Personnel
- ensure all Canfor Personnel act prudently, diligently, honestly and with integrity
- ensure compliance by all Canfor Personnel with all applicable domestic and foreign laws
- ensure conflicts arising between the personal interests or activities of Canfor Personnel and their duties to the Company are disclosed and acknowledged and that appropriate methods dealing with any such conflicts are provided for
- ensure Canfor Personnel use the Company's property and opportunities in an appropriate fashion and not for personal benefit

Obeying the Law: The Company operates within a complex framework of Canadian federal, provincial and municipal laws, as well as the laws and regulations of other countries in which it does business. In addition, due to the nature of its operations, the Company's operations are particularly affected by

environmental laws and regulations.

All Canfor Personnel are expected to comply with applicable laws and regulations of Canada and any other country where the Company carries on business. No Director, Officer or Employee, no matter what position or title he or she holds, is ever expected to commit or condone an illegal act, or to instruct other Canfor Personnel to do so on behalf of the Company.

Respecting Others: (a) Canfor Personnel

All Canfor Personnel are expected to make decisions regarding the hiring and promotion of other Canfor Personnel on the basis of merit and in accordance with applicable human rights legislation and the relevant provisions of the Company's collective agreements.

The Company believes all Canfor Personnel have the right to pursue their careers at the Company free from harassment and free from discrimination based on any ground prohibited by law, including race, colour, ancestry, place of origin, political belief, religion, marital status, family status, physical or mental disability, sex, sexual orientation or age. The Company has developed a specific Harassment and Discrimination Policy which all Canfor Personnel are expected to follow.

The Company believes all Canfor Personnel are entitled to a safe and healthful working environment. The Company has developed a specific Occupational Health and Safety Policy Statement entitled "Safety Comes First at Canfor" which all Canfor Personnel are expected to follow to ensure that a safe and healthful working environment is provided for all Canfor Personnel and all others required to provide services at the Company's worksites.

The Company has developed other specific policies which address employee rights. Canfor Personnel should be familiar with these policies, which are available through the Human Resources Department.

(b) Customers and Suppliers

Relationships with customers and suppliers are critical to the continuing success of the Company. In dealings with customers and suppliers, all Canfor Personnel must conduct themselves with honesty, integrity and respect. All Canfor Personnel must ensure the confidentiality of all customer and supplier information unless disclosure is required by law or authorized by the customer or supplier.

(c) Communities

The Company wishes to be a valued and respected member of the communities in which it operates. In dealings with communities, including First Nations communities, or any community leaders, all Canfor Personnel must act in accordance with applicable law and in an environmentally responsible manner. The Company has developed a specific Environmental Policy which all Canfor Personnel are expected to follow.

Conflicts of Interest:

A conflict of interest arises when a Director, Officer or Employee must choose between the Company's best interests and their personal interests, including any transactions or agreements by the Company in which he or she has an interest (material or otherwise). Any situation where the judgment of a Director, Officer or Employee may be compromised, where he or she shows undue favouritism to any party or where he or she receives a benefit of some kind, is potentially a conflict of interest. All Canfor Personnel must strive to avoid situations that create a conflict, create the appearance of a conflict, or have the potential to create a conflict. If any of these situations occur, Canfor Personnel are responsible for disclosing and, where appropriate, taking action to remedy the conflict of interest.

Situations that can potentially give rise to a conflict of interest are numerous.

- Canfor Personnel should not have any direct personal interest in a transaction to which the Company is a party, unless fully disclosed to the responsible Group

Vice-President and the Company's General Counsel, and approved by the responsible Group Vice-President.

- Canfor Personnel should not use their position with the Company to solicit or conduct business for personal benefit or gain.
- Canfor Personnel should not accept gifts or benefits from customers, suppliers, business associates or companies who do or wish to do business with the Company, other than modest or token non-monetary gifts.
- Canfor Personnel must not inappropriately use their position for personal benefit, for the benefit of other Canfor Personnel with whom they are direct relatives or with whom they permanently reside, or to the detriment of other Canfor Personnel.

The Company has developed a specific Ethics and Conflict of Interest Policy which all Canfor Personnel are expected to follow.

Improper Payments:

It is strictly prohibited for the Company or any Canfor Personnel to make payments or to confer any other benefit on a public official in any country in order to obtain a business advantage. Such conduct is a criminal offence in Canada, the United States and certain other countries where the Company carries on business.

More specifically, it is strictly prohibited for the Company or any Canfor Personnel to give or offer a public official or candidate for public office a gift, loan, reward, advantage or benefit of any kind:

- in exchange for an act or omission by the official in connection with the performance of the official's duties or functions; or
- to induce the official to use his or her position to influence any acts or decisions of the domestic or foreign government body for which the official performs duties or functions.

It is also strictly prohibited for the Company or any Canfor Personnel to condone any such giving or offering by another person who may be viewed as representing the Company (i.e. a business representative or agent, or a joint venture or other business partner).

If an attempt is made by a public official (or by another person on behalf of a public official) to solicit or extort a benefit of any kind, it must not be complied with and should immediately be reported in full detail to the Company's General Counsel.

Confidential Information:

Canfor Personnel have access to corporate information which is sensitive or confidential. Information such as personnel records, payroll records, customer information, company strategies, financial and competitive information is all confidential. Release of such information is potentially harmful to the Company, Canfor Personnel, suppliers and customers. In some cases it is illegal. Canfor Personnel must use extreme care when dealing with confidential or sensitive information. Such information must not be released to anyone inside or outside of the Company who is not authorized or legally entitled to receive it.

The Company has developed a specific Corporate Disclosure Policy which all Canfor Personnel are expected to follow.

Insider Trading:

Trading of publicly listed securities or their derivatives on the basis of insider information is against the law and can result in significant fines and even jail sentences. The Company has developed a specific Share Trading Policy which all Canfor Personnel are expected to follow.

Integrity of Records and Internal Controls:

The integrity of the Company's records and financial reporting is critical to its on-going success. All assets, liabilities and transactions must be accurately and completely reported in the books and supported by necessary documentation. No asset, liability or transaction is to be concealed from management or the Company's internal or external auditors.

Use of the Company's funds or other assets for unlawful or improper purposes is prohibited. All transactions must be authorized and executed in accordance with the Company's

policies and the instructions of management. Appropriate accounting and financial policies, procedures, controls and audit processes must be maintained.

Canfor Personnel, regardless of their position in the organization, are expected to follow internal policies and procedures designed to protect the integrity of corporate data. This includes adherence to procedures related to security of computer systems.

Financial reports which are made available to the shareholders and the public are prepared in accordance with generally accepted accounting principles as well as applicable laws and regulations.

Canfor Personnel are encouraged to question and report to the Chair of Audit Committee transactions which appear to be contrary to established policies and procedures.

Commitment:

Canfor Personnel are expected to be committed to the Company and to dedicate all appropriate efforts to the Company, based on the nature of their position with the Company. Canfor Personnel are expected to avoid assuming additional obligations, such as taking a second job, running a business or serving as an officer or director of another organization, if those obligations would interfere with their ability to fully and effectively perform their duties with the Company.

Subject to the foregoing, Canfor Personnel may serve as a director of another significant organization, such as a public company or widely recognized non-profit organization, if:

- such service is consistent with, and does not interfere with, their duties to the Company
- such service does not give rise to a conflict of interest
- in the case of Directors, such directorship or other relationship has been reported to the Chairman of the Board
- in the case of Officers, such directorship or other relationship has been disclosed to, and approved by,

the Chief Executive Officer.

- in the case of the Chief Executive Officer, such directorship or other relationship has been disclosed to the Chairman and approved by the Board.

Preferential Treatment:

Canfor Personnel must not act in their official role to assist organizations or persons in their dealings with the Company if that may result in preferential treatment to that organization or person.

Public Comment:

Canfor Personnel should not engage in activity or speak publicly on matters where this could be perceived as an official act or representation of the Company, unless the act or representation is authorized in accordance with the Company's Corporate Disclosure Policy. All Canfor Personnel are expected to follow this Policy, which deals with public comment in greater detail.

Political Activities:

Canfor Personnel are free to participate in political activities. Political activities, however, must be clearly separated from activities related to employment or appointment. Canfor Personnel must not engage in political activities during working hours or use corporate facilities, equipment, or resources in support of these activities.

Canfor Personnel holding public office are expected to comply with all generally applicable laws relating to the avoidance of any conflict of interest.

Fraudulent Conduct:

Any act, omission or behaviour on the part of a Director, Officer or Employee undertaken with the intent to defraud, or mislead the Company, whether financially or otherwise, will be grounds for disciplinary action, which may include retention of amounts due, dismissal and prosecution. The Company has developed a specific policy entitled "Steps to be Taken When Theft or Fraud are Suspected" which all Canfor Personnel are expected to follow.

Compliance:

It is critical to the Company's success that Canfor Personnel conduct themselves ethically and legally in every aspect of their business activities. All Canfor Personnel are required to comply with this Code of Conduct. Directors, Officers and Employees in supervisory positions must assume a

responsibility for the actions and conduct of other Employees who report to them. Canfor Personnel can fulfill this responsibility through prudent management practices such as:

- leading by example and exhibiting high standards of ethical behaviour;
- ensuring this Code of Conduct is clearly communicated to all Canfor Personnel on a regular basis;
- appropriately investigating situations which may indicate a breach of this Code of Conduct; and
- dealing with known breaches of this Code of Conduct in an appropriate manner.

Violations of this Code of Conduct will result in the Company taking appropriate action, including possible discharge from employment. Canfor Personnel should also be aware that potential personal liability does not end with the Company. Depending on the circumstances, an individual may also face civil or criminal charges and penalties.

Reporting:

Any Director, Officer or Employee who believes a violation of this policy has occurred has an obligation to report the violation to an appropriate Company official. Possible violations should be reported to an appropriate supervisor in an Employee's work area. However, where an Employee is uncertain as to how a violation of this policy should be reported, or is not comfortable going to his or her supervisor, the Employee should consult, in confidence, with the Company's General Counsel or any Group Vice-President.

The Company will not take or allow any reprisal against an employee who, in good faith, reports a suspected violation of this policy. Any such reprisal will in itself be considered a very serious breach of this policy and subject to disciplinary action.

All reported violations will be investigated. Where an investigation determines that a violation has occurred,

appropriate action will be taken.

Officers must report all breaches of this policy, including incidents of theft or fraud, to the Vice-President, Human Resources and the Company's General Counsel.

Policy clarifications should be directed to the Company's General Counsel.

Conclusion:

All Canfor Personnel are bound by this Code of Conduct. The Company reserves the right to modify or amend this Code of Conduct, which shall become binding on all Canfor Personnel when communicated. This Code of Conduct does not constitute an exhaustive statement and is to be interpreted as a general guideline to give Canfor Personnel the basis of conduct considered by the Company to be unacceptable on the one hand, and reasonable, lawful and acceptable on the other hand, and to permit Canfor Personnel to advise those outside the Company of its official policy.