2013

Canfor Pulp Products Inc.

annual report

Canfor Pulp

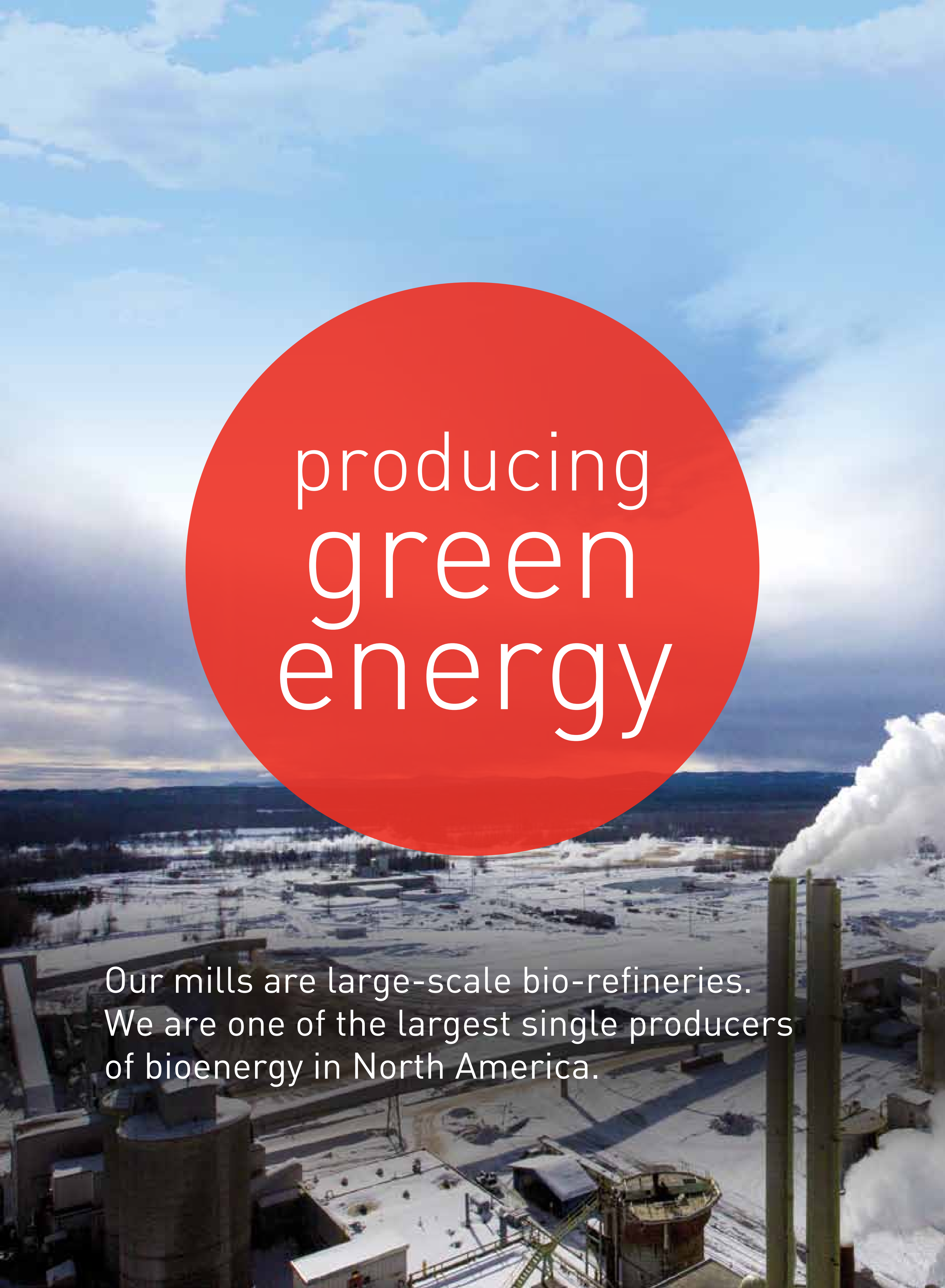

quality
products
reliable supplier

Excellent fibre sources and targeted capital investments

make us a world leader in supplying premium pulp and specialty papers.

more value less impact

We are improving yield while reducing environmental impact. Thanks to award-winning environmental performance, we use less water, generate less waste, and have reduced greenhouse gas and air emissions.



producing green energy

Our mills are large-scale bio-refineries. We are one of the largest single producers of bioenergy in North America.

innovation focus, unmatched

We support cutting-edge collaborative research that improves our products and performance. We are a top quartile NBSK producer in North America.

Message to Shareholders

Canfor Pulp Products Inc. continues to pursue activities that maintain our industry leadership by helping us reduce costs, secure our premium product quality, grow our green energy business and capitalize on attractive growth opportunities.

In the last three years, we have invested $307 million in capital improvements at our pulp and paper operations. This includes upgrades of two turbo-generators at Northwood Pulp Mill that were completed on time and on budget in December, increasing the mill's energy efficiency and incremental green power generation.

In October, we commissioned a new precipitator at Prince George Pulp Mill to substantially reduce particulate emissions while increasing power production capacity. The equipment is performing better than expected, and the mill broke production records in 2013.

In November, we entered into a strategic sales and marketing cooperation agreement with the European forest products company UPM-Kymmene Corporation. On January 1st, 2014, we began to co-market each other's products in North America, Asia and Europe. Customers have reacted positively to the agreement, which will give them a wider product offering; a more flexible, secure supply; and better technical support.

Canfor Pulp continues to focus on creating more value with less impact, reducing at-source particulate matter, odour and fossil fuel use while producing more green power and more pulp.

Our efforts to improve air quality in Prince George earned us the Pulp and Paper Association of Canada's prestigious Environmental Strategy of the Year Award, and were welcomed by residents, air quality groups and regulators. An independent research study found that our investment in air quality improvement projects has led to a significant drop in the percentage of time odour is detectable. We began work in 2013 on an interactive air quality kiosk at Prince George's Exploration Place science centre so residents can see for themselves how the city's air quality is improving. The kiosk, which opened in February 2014, uses a touch screen to access real-time air quality data.

In 2013, Canfor increased its ownership of Canfor Pulp to 50.4% from 50.2% by purchasing common shares, and Michael Korenberg was named co-chair of the Canfor Pulp and Canfor Boards of Directors. We continue to look for ways to integrate our operations with Canfor so both companies can benefit from synergies and purchasing power, and see tremendous benefits from a one-Canfor approach to making the most of our valuable fibre resource.

Global softwood pulp markets improved steadily through 2013. Demand supported modest increases, with benchmark North American NBSK pulp list prices averaging US$941 a tonne, up 8% from 2012. List prices to all regions ended 2013 at their highest levels in two years although the price gains were partly eroded by increased upward pressure on discounts.

In 2014, we will continue to look for opportunities to increase production and improve profitability to strengthen our top quartile global position as a low-cost producer. We will continue our efforts to attract, retain and grow our next generation workforce, and transfer valuable knowledge to emerging future leaders. And we continue to explore product innovations and technologies related to bioenergy and biofuels, and to support research and development in the areas of fibre analysis, manufacturing processes, quality control and new product development.

I would like to thank our board members for their advice and guidance, thank all Canfor Pulp employees for their many contributions, and especially thank all of our shareholders and investors for their continued support.

Brett Robinson
President

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Financial Highlights

	2013	2012
Sales and income (millions of Canadian dollars)		
Sales	$ 886.8	$ 810.4
Operating income	$ 73.8	$ 25.6
Net income	$ 41.8	$ 13.4
Net income attributable to equity shareholders of the Company	$ 41.8	$ 9.1
Per common share (Canadian dollars)		
Net income attributable to equity shareholders of the Company	$ 0.59	$ 0.14
Book value	$ 6.17	$ 5.42
Share price		
High	$ 12.00	$ 15.19
Low	$ 8.02	$ 7.60
Close – December 31	$ 10.27	$ 10.22
Financial position (millions of Canadian dollars)		
Working capital	$ 101.0	$ 22.8
Total assets	$ 768.6	$ 758.0
Net debt	$ 47.1	$ 110.6
Common shareholders' equity	$ 438.0	$ 386.6
Additional information[1]		
Return on invested capital - consolidated	12.1%	4.0%
Return on common shareholders' equity	10.1%	2.2%
Ratio of current assets to current liabilities	1.8:1	1.1:1
Ratio of net debt to capitalization	10%	22%
Operating income before amortization (millions of Canadian dollars)	$ 143.7	$ 92.7
Operating income before amortization margin	16.2%	11.4%
Capital expenditures (millions of Canadian dollars)	$ 62.3	$ 88.7

(1) See Definitions of Selected Financial Terms on page 60.
(2) Certain 2012 amounts have been restated due to the adoption of IAS 19, *Employee Benefits*.

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the year ended December 31, 2013 relative to the year ended December 31, 2012, and the financial position of the Company at December 31, 2013. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2013 and 2012. The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by weighted average number of shares outstanding during the period). Operating Income before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to operating income (loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A.

Factors that could impact future operations are also discussed. These factors may be influenced by known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by CPPI.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at February 5, 2014.

FORWARD LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

COMPANY OVERVIEW

CPPI is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its subsidiary entities. The Company's operations consist of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

CPPI is the successor to Canfor Pulp Income Fund ("the Fund") following the completion of the conversion of the Fund from an income trust to a corporate structure by court approved plan of arrangement under the Business Corporations Act (British Columbia) ("the BCBCA") on January 1, 2011 ("the Conversion"). The Conversion involved the exchange, on a one-for-one basis, of all outstanding Fund Units for common shares of CPPI. Upon completion of the Conversion and the subsequent winding up of the Fund and the Canfor Pulp Trust ("the Trust") the unitholders of the Fund became the sole shareholders of CPPI and CPPI became the direct holder of the 49.8% interest in Canfor Pulp Limited Partnership ("the Partnership").

On March 2, 2012, Canadian Forest Products Ltd. ("Canfor") acquired 35,776,483 common shares of CPPI in exchange for its 35,776,483 Class B Exchangeable LP Units of the Partnership and 35,776,483 common shares of Canfor Pulp Holding Inc. ("the General Partner"), pursuant to the terms of an Exchange Agreement made as of January 1, 2011 among Canfor, CPPI, the General Partner and the Partnership ("the Exchange"). As a result of the Exchange, CPPI's interest in both the Partnership and the General Partner increased from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI, immediately following the Exchange.

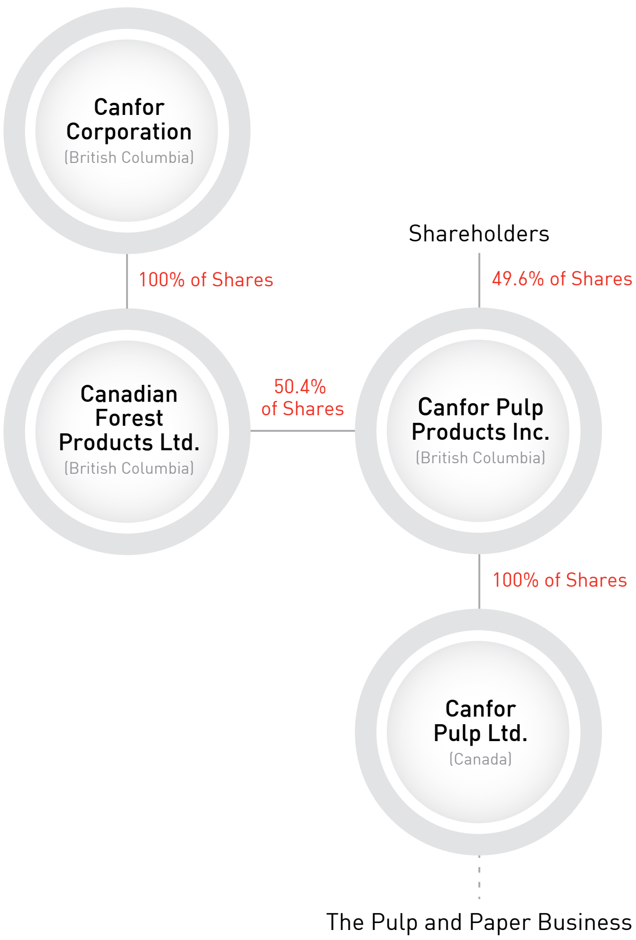
On December 27, 2013, the Partnership was wound up and all of the net assets were transferred to Canfor Pulp Holding Inc. Subsequent to the transfer, Canfor Pulp Holding Inc. was renamed Canfor Pulp Ltd.

At December 31, 2013, Canfor held a 50.4% interest in CPPI, an increase of 0.2% from December 31, 2012 as a result of share purchases in 2013 under a Normal Course Issuer Bid. Further discussion of the Normal Course Issuer Bid is provided in "Financial Requirements and Liquidity".

CPPI employs approximately 1,146 people in its wholly owned subsidiaries and jointly owned operations.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively the Company) as at December 31, 2013.

SIMPLIFIED OWNERSHIP STRUCTURE



PULP

The Company owns and operates three mills with annual capacity to produce 1.1 million tonnes of northern softwood market kraft pulp, 90% of which is bleached to become northern bleach softwood kraft ("NBSK") pulp and approximately 140,000 tonnes of kraft paper.

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

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

The Prince George Pulp and Paper Mill is an integrated two line pulp and paper mill with an annual market pulp production capacity of approximately 145,000 tonnes. The Prince George Pulp and Paper Mill supplies pulp markets in North America, Europe, Asia, and its internal paper making facilities.

PAPER

CPPI's paper machine, located at the Prince George Pulp and Paper Mill, has an annual production capacity of approximately 140,000 tonnes of kraft paper. The Prince George Pulp and Paper Mill produces high performance papers, high porous bleached and unbleached kraft papers and specialty papers. The paper mill supplies primarily North American and European markets.

BUSINESS STRATEGY

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

- Preserving its low-cost operating position,
- Maintaining the premium quality of its products,
- Growing the green energy business,
- Developing an enterprise-wide culture of safety, innovation and engagement where CPPI is recognized as the preferred employer in its operating regions, and
- Capitalizing on attractive growth opportunities.

OVERVIEW OF 2013

Global softwood pulp markets improved steadily through 2013 with increased demand from mature markets, specifically Europe and North America and stable demand from China. Annual softwood demand increased 2% in 2013 compared to 2012 and global softwood inventories held by producers declined through the year largely as a result of the stronger demand. The demand supported modest increases in NBSK list prices, with the benchmark North American pulp list price up 8% from 2012, although the gain was partly eroded by increased upward pressure on discounts.

Reflecting the modest improvement in market conditions, as well as higher shipments, operating results for the pulp segment were up from the previous year. Unit manufacturing costs were relatively flat compared to 2012 as the impact of higher production volumes and reduced maintenance spending was offset by higher fibre and energy costs. The Company was confronted with various operational challenges during the year but saw an improvement in its operating rates as it closed the year.

The Company's paper segment also posted improved results as higher shipments and paper sales realizations were offset in part by higher slush pulp prices.

Over the past few years, significant capital projects and extended maintenance outages have been completed, largely targeted at renewal of aging recovery boilers. With the completion of this renewal initiative the Company's facilities are well positioned to have reduced maintenance and regulatory requirements over the next few years which will result in shorter planned outages.

The Company's continued focus on growth in green energy was highlighted in 2013 by the completion and commencement of several capital projects focused on upgrades to Cogeneration assets targeting electrical load displacement and the sale of incremental power generation. The Company has secured agreements with a BC energy company for all of the above projects, which provide for commitments related to electrical load displacement and the sale of incremental power generation under energy purchase agreements.

The Company continued to preserve its strong financial position, ending the year with cash and cash equivalents of $14 million and a net debt to capitalization of 9.7% and $107 million available under its operating loans. In 2013, the Company repaid its US$110 million 6.41% term debt and completed a 5-year $50 million floating interest rate term debt financing, repayable in November 2018 with no penalty for early repayment.

A review of the more significant developments in 2013 follows.

MARKETS AND PRICING

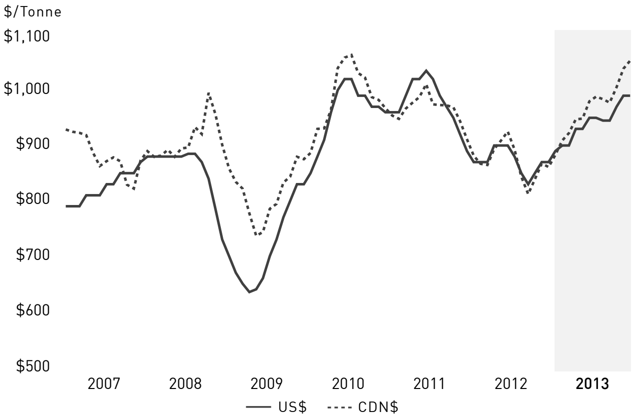
(i) PULP – STEADY GLOBAL DEMAND AND TIGHTENING PRODUCER INVENTORY LEVELS SUPPORT MODEST PRICE INCREASES THROUGH 2013

Global softwood pulp markets improved gradually through 2013 driven by increased demand from mature markets, specifically Europe and North America, while demand from China was relatively flat year-over-year. Global softwood inventories held by producers declined through the year driven by the aforementioned stronger demand coupled with steady supply. Annual softwood demand increased 2% in 2013, compared to 2012.

The benchmark North American list price for NBSK pulp averaged US$941 per tonne[1] for 2013, up US$69, or 8%, from the prior year. Increases of US$51 per tonne and US$33 per tonne were seen for Europe and China, respectively. North American NBSK pulp list prices ended the year at US$990 per tonne, up US$120, or 14% from the end of 2012. List prices to all regions ended the year at their highest levels over the last two years, although increased upward pressure on discounts, particularly in North America, eroded some of these list price gains.

The following charts show the NBSK price movements in 2013 (Chart 1) and the global pulp inventory levels (Chart 2), and highlights the gradual rise in list prices through the year, as well as an overall decline in year-over-year inventories, fueled in part by increased demand as discussed above.

CHART 1 – NBSK PULP LIST PRICE DELIVERED TO U.S. – IN US AND CANADIAN DOLLARS



Source: Resource Information Systems Inc.

Note: Canadian price is calculated as the US price multiplied by the average monthly exchange rates per the Bank of Canada.

(1) Resource Information Systems, Inc.

CHART 2 – WORLD SOFTWOOD PULP INVENTORIES

Source: Pulp and Paper Products Council

Towards the end of 2013, CPPI entered into a strategic sales and marketing cooperation agreement with UPM-Kymmene Corporation. Beginning January 1, 2014, CPPI's sales network will represent and co-market UPM Pulp products in North America and Japan whereas UPM's Pulp sales network will represent and co-market CPPI's products in Europe and China. Customers will benefit from a broader product and technical offering.

(ii) PAPER - KRAFT PAPER MARKETS IMPROVE MODESTLY IN 2013

Kraft paper markets improved in 2013, in part reflecting increased demand from North America and Europe. The Paper Shipping Sack Manufacturer's Association (PSSMA) reported total U.S. sack shipments in 2013 were 1.8% higher than the prior year, the first annual increase since 2010. Contributing to the improved markets was strong demand for bleached Kraft paper, with the American Forest and Paper Association reporting a 6% increase in bleached Kraft paper shipments to the U.S. compared to 2012.

CAPITAL AND OPERATIONS REVIEW

(i) COMPLETION OF RENEWAL INITIATIVE ALLOWING COMPANY TO CAPITALIZE ON HIGH RETURN ENERGY PROJECTS

The Company's significant capital investment over the past few years, including completion of upgrades to the Northwood recovery boiler in 2013, has contributed to a renewed asset base which allows for continued focus on operational excellence and future growth in green energy.

Several green energy projects were completed or commenced in 2013 including completion of a new precipitator at the Prince George Pulp Mill, substantial completion of upgrades to turbines at the Northwood Mill with the project targeted for commissioning by the end of the first quarter of 2014, and commencement of upgrades to the Intercontinental Mill turbine which are targeted for completion by the end of 2014. The Company has secured agreements with a BC energy company for all of these projects, which provide for commitments to electrical load displacement and the sale of incremental power generation under energy purchase agreements. These green energy projects further support the Company's strategy to grow the green energy business.

(ii) OPERATIONAL PERFORMANCE IMPROVING HEADING INTO 2014, AFTER YEAR OF DISRUPTION FROM MAJOR SCHEDULED AND UNSCHEDULED OUTAGES

Several operational challenges were faced through 2013 as management renewed its focus on operations coming out of a prolonged period of asset renewal highlighted by significant capital and maintenance projects. Increased production in 2013 resulted principally from an increase in operating days primarily reflecting the impact of a recovery boiler failure at the Northwood Pulp Mill in the prior year. Overall operating rates were down slightly in 2013 in part due to ramp-up challenges related to capital projects coupled with the impact of severe thunderstorms and related power outages at all facilities. However, after several quarters of such challenges, operating rates showed signs of improvement heading into 2014. Scheduled maintenance outages were completed at all facilities in 2013 including an outage at the Northwood Mill that was extended to complete upgrades to the recovery boiler.

INTEGRATION WITH CANFOR

In mid-2012, the Company and Canfor announced leadership changes focused on integration and greater alignment in several key business areas including transportation and logistics, fibre management and procurement, and finance and administration. The companies have substantially completed the integration and both companies have seen the continued benefits, with total annual cost savings of approximately $12 million realized equally between the two entities in 2013, well in excess of initial estimates.

OVERVIEW OF CONSOLIDATED RESULTS – 2013 COMPARED TO 2012

SELECTED FINANCIAL INFORMATION AND STATISTICS[2]

(millions of Canadian dollars, except for per share amounts)	2013	2012
Sales	$ 886.8	$ 810.4
Operating income before amortization	$ 143.7	$ 92.7
Operating income	$ 73.8	$ 25.6
Foreign exchange gain (loss) on long-term debt	$ (7.3)	$ 2.4
Gain (loss) on derivative financial instruments[3]	$ (0.1)	$ 1.7
Net income	$ 41.8	$ 13.4
Net income per share, basic and diluted	$ 0.59	$ 0.14
ROIC – Consolidated[4]	12.1%	4.0%
Average exchange rate (US$/CDN$)[5]	$ 0.971	$ 1.001

(2) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.
(3) Includes gains (losses) from foreign exchange, crude oil, pulp futures and interest rate swap derivatives (see "Unallocated and Other Items" section for more details).
(4) Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
(5) Source – Bank of Canada (average noon rate for the period).

(millions of Canadian dollars)	2013	2012
Operating income (loss) by segment:		
Pulp	$ 63.2	$ 20.0
Paper	$ 22.7	$ 19.5
Unallocated	$ (12.1)	$ (13.9)
Total operating income	$ 73.8	$ 25.6
Add: Amortization	$ 69.9	$ 67.1
Total operating income before amortization	$ 143.7	$ 92.7
Add (deduct):		
Working capital movements	$ 16.1	$ 12.2
Defined benefit pension plan contributions	$ (10.1)	$ (10.1)
Other operating cash flows, net	$ 7.2	$ (6.9)
Cash from operating activities	$ 156.9	$ 87.9
Add (deduct):		
Drawdown of long-term debt	$ 50.0	$ -
Repayment of long-term debt	$ (116.6)	$ -
Dividends paid	$ (14.2)	$ (19.2)
Finance expenses paid	$ (9.1)	$ (8.1)
Capital additions, net[6]	$ (61.2)	$ (66.8)
Share purchases	$ (2.4)	$ -
Acquisition of CPPI cash on exchange	$ -	$ 6.8
Other, net	$ 0.7	$ 0.2
Change in cash / operating loans	$ 4.1	$ 0.8

(6) Additions to property, plant and equipment are shown net of amounts received under Government funding initiatives.

ANALYSIS OF SPECIFIC ITEMS AFFECTING COMPARABILITY OF NET INCOME[2]

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	2013	2012
Net Income[7]	$ 41.8	$ 9.1
Foreign exchange (gain) loss on long-term debt	$ 6.4	$ (2.2)
(Gain) loss on derivative financial instruments	$ 0.1	$ (1.2)
Change in substantively enacted tax rate	$ 2.4	$ -
Net gain on post retirement and pension plan amendments	$ -	$ (4.0)
Restructuring charges for management changes	$ -	$ 1.3
Net impact of above items	$ 8.9	$ (6.1)
Adjusted Net Income[7]	$ 50.7	$ 3.0
Net Income per share, as reported[7]	$ 0.59	$ 0.14
Net impact of above items per share	$ 0.12	$ (0.09)
Adjusted Net Income per share[7]	$ 0.71	$ 0.05

(7) 2012 amounts exclude the impact of non-controlling interest in the Partnership. Amounts are attributable to controlling interest in the Partnership.

The Company recorded net income of $41.8 million, or $0.59 per share, for the year ended December 31, 2013, up $32.7 million, or $0.45 per share, from $9.1 million, or $0.14 per share, reported for the year ended December 31, 2012.

Reported operating income for 2013 was $73.8 million, up $48.2 million from operating income of $25.6 million for 2012. The increase in 2013 results were driven by significantly higher earnings from the pulp segment principally as a result of higher NBSK pulp sales realizations and reduced unscheduled outages in 2013. Results in 2012 were impacted by an unscheduled outage at the Northwood Pulp Mill, resulting in lower production and shipment volumes. The paper segment also experienced a slight increase in earnings in 2013 mainly attributable to higher shipments and paper sales realizations, partially offset in part by higher slush pulp prices. Operating income for the previous year included one-time costs of $3.2 million associated with the new five year collective labour agreements, restructuring charges for integration related senior management changes of $1.7 million, and an accounting gain of $5.3 million reflecting amendments to the Company's salaried post retirement benefit plans in the fourth quarter of 2012.

A more detailed review of the Company's operational performance and results is provided in "Operating Results by Business Segment – 2013 compared to 2012", which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2013 COMPARED TO 2012

The following discussion of CPPI's operating results relates to the operating segments and the non-segmented items as per the Segmented Information note in the Company's consolidated financial statements.

CPPI's operations include the Pulp and Paper segments.

PULP

SELECTED FINANCIAL INFORMATION AND STATISTICS – PULP[8]

Summarized results for the Pulp segment for 2013 and 2012 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2013	2012
Sales	$ 738.4	$ 675.0
Operating income before amortization	$ 129.3	$ 83.2
Operating income	$ 63.2	$ 20.0
Capital expenditures	$ 61.2	$ 86.9
Average pulp price delivered to U.S. - US$[9]	$ 941	$ 872
Average pulp price in Cdn$	$ 969	$ 871
Production – pulp (000 mt)	981.2	955.7
Shipments – pulp (000 mt)	998.4	961.8
Marketed on behalf of Canfor (000 mt)	214.6	214.8

(8) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

(9) Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc., - "RISI").

OVERVIEW

The Pulp segment reported operating income of $63.2 million for 2013, up $43.2 million from $20.0 million in 2012. Results in the current year were significantly impacted by improved market pulp prices, and higher shipment and production volumes, while results in 2012 were impacted by lower sales realizations, lower shipment volumes and the impact of the Northwood unscheduled outage. Unit manufacturing costs were broadly in line with the previous year as a result of higher production volumes and lower maintenance expenditures offset by higher fibre and energy costs. Also included in the previous year's pulp segment results were one-time costs of $3.2 million associated with new five year collective labour agreements and an accounting gain of $4.3 million related to the post retirement plan adjustments.

NBSK pulp list prices saw solid gains from the prior year, with list prices to North America up US$69 to US$941 per tonne. Increased discounts, particularly on sales to the U.S., eroded some of these gains. Shipments in 2013 also reflected increased volumes to China, offset by reduced volumes to the U.S. Sales realizations were also positively impacted by the 3% weaker Canadian dollar compared to the previous year.

MARKETS

Global softwood pulp markets improved steadily through 2013 driven by increased demand from mature markets, specifically Europe and North America, while demand from China was relatively flat year-over-year. Global softwood inventories held by producers declined through the year driven by the aforementioned demand and steady supply.

Pulp and Paper Products Council ("PPPC") statistics reported an increase in shipments of bleached softwood kraft pulp of 2% in 2013, with increased shipments to North America and Europe.

At the end of December 2013, World 20[10] producers of bleached softwood pulp inventories were at 27 days of supply. By comparison, December 2012 inventories were at 29 days of supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

(10) World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

SALES

The Company's pulp shipments in 2013 were 998,000 tonnes, up approximately 37,000 tonnes, or 4%, from the prior year. The increased sales largely reflected higher production volumes and higher shipments into China, partially offset by reduced volume into the U.S.

As mentioned, NBSK pulp list prices experienced solid gains in all regions in 2013. North American NBSK pulp list prices averaged US$941 per tonne in 2013, up US$69, or 8%, from US$872 per tonne. North American NBSK pulp list prices ended the year at US$990 per tonne, up US$120, or 14%, from the end of 2012. NBSK pulp average list prices also increased in other regions with the Northern Europe benchmark price up over US$50 per tonne and China pricing up US$33 per tonne. The upward pressure on discounts in North American markets and shift in the regional sales mix partially offset the favourable impacts from the improved NBSK US dollar list prices and the 3% weaker Canadian dollar.

OPERATIONS

Pulp production was 981,000 tonnes in 2013, up 26,000 tonnes, or 3%, compared to the prior year. The increase in production was mainly attributable to reduced unscheduled outages in 2013. 2013 results were impacted by outages at the Northwood and Intercontinental Pulp Mills, with the outages resulting in reductions in overall production of approximately 44,000 tonnes and 6,000 tonnes, respectively. In comparison, 2012 production was impacted by the scheduled outages at the Prince George and Intercontinental Mills and unscheduled outages at the Northwood Mill, which totalled 75,000 tonnes.

Unit manufacturing costs were broadly in line with the prior year with the favourable impact of higher production volumes and lower maintenance spending offset by higher fibre costs (mostly related to higher-cost sawmill residual chips, where prices are linked to NBSK sales realizations) and higher energy costs as well as a slight increase in the proportion of higher-cost whole log chips (18% of total consumption in 2013 compared to 17% in 2012). Unit manufacturing costs in 2012 were also impacted by one-time costs of $3.2 million associated with new five year collective labour agreements.

PAPER

SELECTED FINANCIAL INFORMATION AND STATISTICS – PAPER[11]

Summarized results for the Paper segment for 2013 and 2012 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2013	2012
Sales	$ 147.1	$ 134.6
Operating income before amortization	$ 26.4	$ 23.3
Operating income	$ 22.7	$ 19.5
Capital expenditures	$ 0.9	$ 1.1
Production – paper (000 mt)	134.7	130.2
Shipments – paper (000 mt)	138.8	129.0

(11) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

OVERVIEW

Operating income for the paper segment was $22.7 million for 2013, up $3.2 million from 2012. The improvement was primarily attributable to higher shipments and sales realizations, offset in part by higher slush pulp prices, reflecting higher market pulp prices.

MARKETS

Kraft paper markets improved in 2013, in part reflecting increased demand from North America and Europe. The Paper Shipping Sack Manufacturer's Association (PSSMA) reported total U.S. sack shipments in 2013 were 1.8% higher than the prior year, the first annual increase since 2010. Contributing to the improved markets was strong demand for bleached Kraft paper, with the American Forest and Paper Association reporting a 6% increase in bleached Kraft paper shipments to the U.S. compared to 2012.

The Company's prime bleached paper shipments in 2013 were 78%, a 2% improvement from 2012.

SALES

The Company's paper shipments in 2013 were 139,000 tonnes, an increase of 10,000 tonnes, or 8%, from 2012. Unit sales realizations for paper products were up slightly from 2013, principally reflecting the 3% weaker Canadian dollar. A decline in prices to North America was offset by slight improvements in prices to the export markets coupled with higher sales volumes to Europe.

OPERATIONS

Paper production in 2013 was 135,000 tonnes, up 5,000 tonnes, or 3%, from 2012, primarily due to higher overall operating rates. Both years included a scheduled maintenance outage of the Company's paper machine. Paper unit manufacturing costs showed a modest increase compared to 2012, with higher slush pulp costs more than offsetting the impact of higher production levels, lower operating costs and energy costs.

UNALLOCATED AND OTHER ITEMS

SELECTED FINANCIAL INFORMATION[12]

(millions of Canadian dollars)		2013		2012
Corporate costs	$	(12.1)	$	(13.9)
Finance expense, net	$	(11.8)	$	(13.2)
Foreign exchange gain (loss) on long-term debt	$	(7.3)	$	2.4
Gain (loss) on derivative financial instruments	$	(0.1)	$	1.7
Other income (expense), net	$	5.2	$	(1.2)

(12) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

CORPORATE COSTS

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $12.1 million in 2013, down $1.8 million from 2012. The decrease was principally due to costs in 2012 associated with integration related changes in senior management in the third quarter of 2012, coupled with realized savings from the integration with Canfor in 2013, partly offset by higher incentive based compensation. 2012's corporate costs also included a portion of the aforementioned accounting gain related to amendments to the Company's salaried post retirement benefit plans.

FINANCE INCOME AND EXPENSE

Net finance expense for 2013 was $11.8 million, down $1.4 million from 2012. The decrease reflected lower debt balances in 2013 as well as a lower accretion expense for the Company's asset retirement obligations due to higher discount rates during the year, partially offset by costs associated with the new $50.0 million term debt in the fourth quarter of 2013. 2012 finance expense included costs associated with the new operating loan facility entered into in the fourth quarter of 2012. Included in finance expense for both periods is the expense related to the Company's retirement benefit obligations, with total interest expense of $4.1 million in 2013 compared to $4.5 million in 2012. The Company's net finance expense for the 2012 periods has been restated for adoption of amended IAS 19, *Employee Benefits*, as further discussed in the "Changes in Accounting Policies" section later in this document.

FOREIGN EXCHANGE GAIN (LOSS) ON TRANSLATION OF LONG-TERM DEBT

The Canadian dollar ended 2013 well below par compared to the US dollar, and down more than 6 cents, or 7%, from a year earlier. As a result, the Company recorded a foreign exchange translation loss on its US dollar denominated debt of $7.3 million in 2013 (2012 – gain of $2.4 million). The Company repaid all of its outstanding US dollar denominated debt in the fourth quarter of 2013.

GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, energy costs and interest rates.

For 2013, the Company recorded a net loss of $0.1 million related to its derivative financial instruments, principally reflecting unrealized losses on the Company's interest rate swaps and to a lesser extent unrealized losses on pulp futures as a result of strong NBSK prices at December 31, 2013. The losses associated with the interest rate swaps and pulp futures were partly offset by realized and unrealized gains on foreign exchange collars and forward contracts as well as realized gains on crude oil collars. The following table summarizes the amounts of the various components for the comparable periods. Additional information on the derivative financial instruments in place at year end can be found in the "Financial Requirements and Liquidity" section, later in this document.

Gain (Loss) on Derivative Financial Instruments:

(millions of Canadian dollars)		2013		2012
Foreign exchange collars and forward contracts	$	0.1	$	1.7
Crude oil collars	$	0.1	$	-
Interest rate swaps	$	(0.2)	$	-
Pulp futures	$	(0.1)	$	-
	$	(0.1)	$	1.7

OTHER INCOME AND EXPENSE, NET

Other income, net for 2013 of $5.2 million included favourable exchange movements on US dollar denominated cash, receivables and payables, compared to a loss on foreign exchange in the prior year of $1.2 million.

INCOME TAX EXPENSE

The Company recorded an income tax expense of $18.0 million in 2013 with an overall effective tax rate of 30.0%. The most significant factor accounting for the 2013 tax rate differing from the Canadian statutory tax rate of 25.75% is the impact of the change in the substantively enacted tax rate on future income tax liabilities offset by other tax savings initiatives.

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows[13]:

(millions of Canadian dollars)	2013	2012
Net income before income taxes	$ 59.8	$ 15.3
Income tax expense at statutory rate 2013 – 25.75% (2012 – 25.0%)[14]	$ (15.4)	$ (3.8)
Add (deduct):		
Permanent difference from capital gains and other non-deductible items	(1.0)	0.2
Entities with different tax rates and other tax adjustments	0.8	(0.1)
Change in substantively enacted tax rate	(2.4)	-
Permanent difference – exchange transaction	-	0.9
Tax included in equity – exchange transaction	-	0.9
Income tax expense	$ (18.0)	$ (1.9)

(13) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.
(14) Effective April 1, 2013, the British Columbia Provincial Government increased corporate tax rate from 10% to 11%.

OTHER COMPREHENSIVE INCOME (LOSS)

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income. For 2013, an after-tax amount of $26.2 million was credited to other comprehensive income, which comprised gains on the defined benefit post-employment compensation plans and other non-pension post-employment benefits. The gain related the defined benefit post-employment compensation plans principally due to the return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation offset in part by adjustments to mortality rate assumptions. The gain related to the other non-pension post-employment benefits principally reflects a higher discount rate used to value the post-employment obligation and favourable experience adjustments offset in part by adjustments to mortality rate assumptions. In 2012, the after-tax charge was $11.3 million, primarily reflecting a lower discount rate over that year offset in part by a slightly higher rate of return on plan assets. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at December 31, 2013 and 2012[15]:

(millions of Canadian dollars, except for ratios)	2013	2012
Cash and cash equivalents	$ 13.5	$ -
Operating working capital	87.5	133.4
Cheques issued in excess of cash on hand	-	(1.2)
Current portion of long-term debt	-	(109.4)
Net working capital	101.0	22.8
Property, plant and equipment	528.1	530.8
Retirement benefit surplus	8.2	-
Other long-term assets	2.3	0.4
Net assets	$ 639.6	$ 554.0
Long-term debt	$ 50.0	$ -
Retirement benefit obligations	75.8	103.9
Long-term provisions	3.0	3.6
Deferred income taxes, net	72.8	59.9
Total equity	438.0	386.6
	$ 639.6	$ 554.0
Ratio of current assets to current liabilities	1.8 : 1	1.1 : 1
Net debt to total capitalization	9.7%	22.2%

(15) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

The ratio of current assets to current liabilities at the end of 2013 was 1.8:1, compared to 1.1:1 at the end of 2012. The improvement was principally the result of the classification of the Company's long-term debt as current at the end of 2012, which was subsequently repaid in November 2013. See further discussion in "Financial Requirements and Liquidity" section.

The Company's net debt to total capitalization was 9.7% at December 31, 2013 (December 31, 2012: 22.2%). The decrease is explained principally by higher cash balances at the end of 2013 and the repayment of the Company's US$110 million term debt in the fourth quarter of 2013, net of the $50.0 million term debt, coupled with a higher total equity balance at year end.

CHANGES IN FINANCIAL POSITION

At the end of 2013, CPPI had $13.5 million of cash and cash equivalents.

(millions of Canadian dollars)	2013	2012
Cash generated from (used in)		
Operating activities	$ 156.9	$ 87.9
Financing activities	(81.8)	(27.3)
Investing activities	(60.4)	(59.8)
Increase in cash and cash equivalents	$ 14.7	$ 0.8

The changes in the components of these cash flows during 2013 are discussed in the following sections.

OPERATING ACTIVITIES

For the 2013 year, CPPI generated cash from operations of $156.9 million, up $69.0 million from cash generated of $87.9 million in the previous year. The increase in 2013 related substantially to an increase in cash earnings in the pulp segment.

FINANCING ACTIVITIES

Financing activities in 2013 used cash of $81.8 million, $54.5 million higher than the $27.3 million used in 2012. 2013 cash used for financing activities included repayment of the Company's US$110 million 6.41% interest rate debt. The Company in 2013 also issued new $50 million term debt in the form of floating interest rate term loan, with maturity date of November 5, 2018, which is being used to finance its high-returning energy projects at the Northwood and Intercontinental Mills. At December 31, 2013, CPPI had $10.6 million outstanding on its operating loan facility. Financing cash flows also included dividend payments of $14.2 million, down $5.0 million from the previous year. Cash used for financing activities also included $2.4 million for the purchase of 262,449 CPPI common shares under the Company's Normal Course Issuer Bid (see further discussion of the shares purchased under a Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section).

INVESTING ACTIVITIES

Net cash used for investing activities in 2013 was $60.4 million, compared to $59.8 million used in 2012. Property, plant and equipment additions in 2013 totaled $62.3 million which included the Northwood Pulp Mill turbine upgrades. Upgrades to the turbines were substantially completed in the fourth quarter of 2013 and the project is targeted for commissioning by the end of the first quarter of 2014.

FINANCIAL REQUIREMENTS AND LIQUIDITY

OPERATING LOANS

In late 2013, the Company extended the maturity of its $110.0 million principal operating loan facility to January 31, 2018, with all other terms on the operating loan facility remaining unchanged. In the fourth quarter of 2013, the Company replaced its facility for energy-related letters of credit with a new $20.0 million facility maturing on June 30, 2015.

At December 31, 2013, the Company had $130.0 million of unsecured operating loan facilities, $10.6 million drawn on its operating loans, and an additional $12.2 million reserved for several standby letters of credit, leaving $107.2 million of available undrawn operating loans.

DEBT COVENANTS

CPPI has certain financial covenants on its debt obligations that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on total shareholders' equity. The net debt to total capitalization is calculated by dividing total debt, less cash and cash equivalents, by shareholders' equity plus total debt less cash and cash equivalents.

In circumstances when net debt to total capitalization exceeds a threshold, CPPI is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. CPPI is not currently subject to this test.

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

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was in compliance with all its debt covenants for the year ended December 31, 2013.

NORMAL COURSE ISSUER BID

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 3,563,489 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid is set to expire on March 4, 2014. In 2013, CPPI purchased 262,449 common shares for $2.4 million. As a result of the share purchases during the year, Canfor's interest in CPPI increased from 50.2% at December 31, 2012 to 50.4% at December 31, 2013.

2014 PROJECTED CAPITAL SPENDING AND DEBT REPAYMENTS

Based on its current outlook for 2014, assuming no deterioration in market conditions during the year, the Company anticipates that it may invest approximately $55 million in capital projects, which will consist primarily of various improvement projects as well as maintenance of business expenditures. There are no scheduled debt payments in 2014. CPPI has sufficient liquidity in its cash reserves and operating loans to finance its planned capital expenditures as required during 2014.

DERIVATIVE FINANCIAL INSTRUMENTS

As at December 31, 2013, the Company had the following derivatives:

a. Foreign exchange collars of US$90.0 million. The contracts in place at the end of 2013 were as follows:

	2013	
	Notional Amount	Exchange Rates
US dollar collars	(millions of US dollars)	(protection/topside, per dollar)
0 – 12 months	$ 90.0	$ 1.04 / $ 1.11

b. CPPI partly uses Western Texas Intermediate ("WTI") oil contracts as proxy to hedge its diesel purchases. At 2013 year end, the Company has no outstanding WTI oil collars outstanding.

c. Futures contracts for the sale of pulp with a total notional amount of 12,000 tonnes. There were unrealized losses of $0.1 million at year end on these contracts.

	2013	
	Notional Amount	Average Rate
Pulp	(Tonnes)	(US dollars per Tonnes)
Futures sales contracts		
0 – 12 months	12,000	$ 945.00

d. CPPI uses interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2013, the Company had $105.0 million in interest rate swaps with fixed interest rates from 2.12% to 2.70% and maturities between 2014 and 2017.

COMMITMENTS

The following table summarizes CPPI's financial contractual obligations at December 31, 2013 for each of the next five years and thereafter:

(millions of Canadian dollars)	2014	2015	2016	2017	2018	Thereafter	Total
Long-term debt obligations	$ -	$ -	$ -	$ -	$ 50.0	$ -	$ 50.0
Operating leases	$ 1.7	$ 0.7	$ 0.2	$ 0.1	$ -	$ -	$ 2.7
	$ 1.7	$ 0.7	$ 0.2	$ 0.1	$ 50.0	$ -	$ 52.7

Other contractual obligations not included in the table above or highlighted previously are:

- The Company has entered into three separate energy agreements with a BC energy company and electricity transmission provider (the "Energy Agreements") for all three of the Company's mills, with commencement dates ranging from 2006 through 2013. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the Company's pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2013 the Company had posted $12.2 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.
- Contractual commitments totaling $4.0 million, principally related to the construction of capital assets, mostly related to the turbine project at the Intercontinental Pulp Mill.
- The Company's asset retirement obligations represent estimated undiscounted future payments of $7.2 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 5 to 38 years which have been discounted at risk free rates ranging from 1.9% to 3.2%. The estimated discounted value is $2.7 million and the amount is included in other long-term provisions.
- Obligations to pay pension and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2013 was $67.6 million. As at December 31, 2013, CPPI estimated that it would make contribution payments of $6.9 million to its defined benefit plans in 2014.
- Purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on similar terms as those accorded to unrelated third parties, except where noted otherwise. The Company's Fibre Supply Agreement with Canfor was renewed effective November 1, 2013. The current pricing under the agreement expires September 1, 2016 and may be amended as necessary to ensure that it is reflective of market conditions.

The Company purchased wood chips and hog fuel from Canfor sawmills in the amount of $126.1 million in 2013.

Canfor provides certain business and administrative services to the Company under a services agreement. Total value of the services provided by Canfor in 2013 was $8.7 million.

The Company provides certain business and administrative services to Canfor under an incidental services agreement. Total value of the services provided to Canfor in 2013 was $2.5 million.

The Company markets bleached chemi-thermo mechanical pulp production from Canfor's Taylor Pulp Mill ("Taylor") for which it earned commissions totaling $2.0 million in 2013. The Company also purchased chemi-thermo mechanical pulp from Taylor for resale totaling $0.2 million in 2013. The Company sold NBSK pulp to Taylor for packaging use totaling $3.0 million in 2013.

At December 31, the following amounts were included in the balance sheet of the Company:

(millions of Canadian dollars)	As at December 31, 2013
Balance Sheet	
Included in accounts payable and accrued liabilities:	
Canfor	$ 18.9
Included in trade accounts receivable:	
Products marketed for Canfor	$ 9.0

Additional details on related party transactions are contained in note 16 to CPPI's 2013 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION[16]

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales and income								
(millions of Canadian dollars)								
Sales	$ 245.6	$ 196.1	$ 227.6	$ 217.5	$ 201.9	$ 177.7	$ 210.8	$ 220.0
Operating income before amortization	$ 39.5	$ 27.8	$ 38.5	$ 37.9	$ 32.1	$ 6.9	$ 25.0	$ 28.7
Operating income (loss)	$ 24.0	$ 11.3	$ 19.5	$ 19.0	$ 12.1	$ (8.3)	$ 10.3	$ 11.5
Net income (loss)	$ 14.2	$ 9.1	$ 7.6	$ 10.9	$ 5.4	$ (5.0)	$ 3.0	$ 10.0
Per common share (dollars)								
Net income (loss) – basic and diluted	$ 0.20	$ 0.13	$ 0.11	$ 0.15	$ 0.08	$ (0.07)	$ 0.04	$ 0.12
Statistics								
Pulp shipments (000 mt)	273.3	212.2	255.0	257.9	246.6	214.4	230.2	270.6
Paper shipments (000 mt)	31.3	35.5	37.2	35.0	32.0	30.6	36.8	29.6
Average exchange rate – US$/CDN$	$ 0.953	$ 0.963	$ 0.977	$ 0.991	$ 1.009	$ 1.005	$ 0.990	$ 0.999
Average NBSK pulp list price delivered to U.S. (US$)	$ 983	$ 947	$ 937	$ 897	$ 863	$ 853	$ 900	$ 870

(16) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income, net income and operating income before amortization are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical and energy prices; level of spending and timing of maintenance downtime; and production curtailments. Net income is also impacted by fluctuations in Canadian dollar exchange rates, the revaluation to the period end rate of US dollar denominated working capital balances and long-term debt, and revaluation of outstanding natural gas swaps and US dollar forward contracts.

	2013				2012			
(millions of Canadian dollars)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating income (loss) by segment:								
Pulp	$ 24.1	$ 8.3	$ 15.4	$ 15.4	$ 7.8	$ (8.5)	$ 8.5	$ 12.2
Paper	$ 3.8	$ 5.9	$ 7.1	$ 5.9	$ 7.0	$ 5.0	$ 4.8	$ 2.7
Unallocated	$ (3.9)	$ (2.9)	$ (3.0)	$ (2.3)	$ (2.7)	$ (4.8)	$ (3.0)	$ (3.4)
Total operating income (loss)	$ 24.0	$ 11.3	$ 19.5	$ 19.0	$ 12.1	$ (8.3)	$ 10.3	$ 11.5
Add: Amortization	$ 15.5	$ 16.5	$ 19.0	$ 18.9	$ 20.0	$ 15.2	$ 14.7	$ 17.2
Total operating income before amortization	$ 39.5	$ 27.8	$ 38.5	$ 37.9	$ 32.1	$ 6.9	$ 25.0	$ 28.7
Add (deduct):								
Working capital movements	$ 27.9	$ (10.1)	$ 5.5	$ (7.2)	$ 2.4	$ (5.2)	$ 0.6	$ 14.4
Defined benefit pension plan contributions	$ (2.5)	$ (2.3)	$ (2.5)	$ (2.8)	$ (2.4)	$ (2.5)	$ (2.6)	$ (2.6)
Other operating cash flows, net[17]	$ 4.2	$ (0.5)	$ 3.1	$ 0.4	$ (6.3)	$ 2.2	$ (3.8)	$ 1.0
Cash from operating activities	$ 69.1	$ 14.9	$ 44.6	$ 28.3	$ 25.8	$ 1.4	$ 19.2	$ 41.5
Add (deduct):								
Drawdown of long-term debt	$ 50.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Repayment of long-term debt	$ (116.6)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Distributions/dividends paid	$ (3.5)	$ (3.5)	$ (3.6)	$ (3.6)	$ -	$ (3.6)	$ (7.8)	$ (7.8)
Finance expenses paid	$ (4.9)	$ (0.2)	$ (3.8)	$ (0.2)	$ (4.1)	$ (0.2)	$ (3.6)	$ (0.2)
Capital additions, net[18]	$ (19.9)	$ (26.5)	$ (7.9)	$ (6.9)	$ (11.5)	$ (19.9)	$ (16.8)	$ (18.6)
Share purchases	$ -	$ (1.4)	$ (1.0)	$ -	$ -	$ -	$ -	$ -
Acquisition of CPPI cash on exchange	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6.8
Other, net	$ -	$ 0.5	$ 0.1	$ 0.1	$ -	$ -	$ 0.1	$ 0.1
Change in cash / operating loans	$ (25.8)	$ (16.2)	$ 28.4	$ 17.7	$ 10.2	$ (22.3)	$ (8.9)	$ 21.8

(17) Further information on operating cash flows can be found in the Company's annual consolidated financial statements.
(18) Additions to property, plant and equipment are shown net of amounts received under Government funding initiatives.

THREE-YEAR COMPARATIVE REVIEW[19]

(millions of Canadian dollars, except per share amounts)	2013	2012	2011[20]
Sales	$ 886.8	$ 810.4	$ 941.0
Net income	$ 41.8	$ 13.4	$ 138.6
Total assets	$ 768.6	$ 758.0	$ 791.2
Total long-term financial liabilities	$ 50.0	$ -	$ 111.9
Net income (loss) per share, basic and diluted	$ 0.59	$ 0.14	$ 1.94
Dividends/distributions declared per share/unit[21]	$ 0.20	$ 0.52	$ 2.10

(19) Certain 2012 amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

(20) Amounts represent the balances and results for Canfor Pulp Limited Partnership, as a result of the accounting treatment of the acquisition of Canfor Pulp Limited Partnership as described in the Company's annual consolidated financial statements.

(21) Included in 2012 CPPI dividends declared per share was a $0.22 per share dividend declared in May 2012 which was paid to non-Canfor shareholders as Canfor had waived its right to receive the dividend as part of the exchange, 2011 amounts represent Canfor Pulp Limited Partnership distributions declared per Partnership unit.

QUARTER ENDED DECEMBER 31, 2013 VS. QUARTER ENDED DECEMBER 31, 2012

OVERVIEW OF OPERATING RESULTS

The Company recorded operating income of $24.0 million and net income of $14.2 million for the fourth quarter of 2013, compared to operating income of $12.1 million and net income of $5.4 million for the fourth quarter of 2012. The net income per share was $0.20 for the fourth quarter of 2013, compared to $0.08 per share in the fourth quarter of 2012.

An overview of the results by business segment for the fourth quarter of 2013 compared to the last quarter of 2012 follows.

PULP

SELECTED FINANCIAL INFORMATION AND STATISTICS – PULP[22]

Summarized results for the Pulp segment for the fourth quarter of 2013 and 2012 were as follows:

(millions of Canadian dollars, unless otherwise noted)	Q4 2013	Q4 2012
Sales	$ 212.3	$ 168.2
Operating income before amortization	$ 38.8	$ 26.8
Operating income	$ 24.1	$ 7.8
Average pulp price delivered to U.S. – US$[23]	$ 983	$ 863
Average price in Cdn$	$ 1,032	$ 855
Production – pulp (000 mt)	246.1	260.5
Shipments – pulp (000 mt)	273.3	246.6
Marketed on behalf of Canfor	56.2	51.2

(22) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

(23) Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

OVERVIEW

Operating income for the pulp segment was $24.1 million for the fourth quarter of 2013, up $16.3 million from the fourth quarter of 2012.

Improved results for the pulp segment compared to the fourth quarter of 2012 principally reflected higher sales realizations, resulting from a 14% increase in pulp list prices, a 6% weaker Canadian dollar and higher shipments in the current quarter, the latter driven by higher shipments to China, partially offset by reduced volume into the U.S. This shift in the regional sales mix as well as upward pressure on discounts in North American markets partially offset the improved NBSK list prices and favourable exchange rates. Unit manufacturing costs increased modestly quarter-over-quarter, as a result of higher sawmill residual chip fibre costs (linked to NBSK market pulp sales realizations), and lower production levels, offset in part by reduced chemical and maintenance spend. The fourth quarter of 2012 results included an accounting gain of $4.3 million related to post retirement plan adjustments.

MARKETS

Global softwood pulp markets strengthened in the fourth quarter of 2013, with increased demand and solid increases in list prices through the quarter. Global softwood pulp producer inventory levels were balanced during the quarter, at 27 days' supply in December 2013, in line with September 2013[24]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp increased 2% in 2013 compared to 2012[25]. The increase in softwood pulp shipments in the year was primarily due to increased shipments to North America and Europe, while shipments to China were relatively flat. Global shipments to China were up 11% in the fourth quarter of 2013 compared to the same period in 2012[25].

(24) World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the PPPC.

(25) As reported by Pulp and Paper Products Council ("PPPC") statistics.

SALES

The Company's pulp shipments in the fourth quarter of 2013 were 273,000 tonnes, an increase of 27,000 tonnes, or 11%, due largely to increased shipments to China, partially offset by reduced volumes to the U.S. Compared to the fourth quarter of 2012, higher pulp sales realizations resulted from significant improvements in average pulp prices in all regions and the 6% weakening of the Canadian dollar. The North American NBSK list pulp price increased US$120 per tonne, or 14%. List prices to Europe and China experienced similar increases, up 12% and 11%, respectively, compared to the fourth quarter of 2012. The improved NBSK list prices more than offset the impact of increased volume to lower-margin regions, principally China, and the impact of increased discounts in North American markets in 2013.

OPERATIONS

Pulp production in the current quarter was 246,000 tonnes, a decrease of 14,000 tonnes, or 6%, compared to the fourth quarter of 2012. The current quarter included a scheduled maintenance outage at the Prince George Pulp Mill which resulted in reduced market pulp production of 4,000 tonnes. Compared to the fourth quarter of 2012, production levels reflected lower overall operating rates.

Compared to the fourth quarter of 2012, unit manufacturing costs increased modestly, primarily driven by higher fibre costs, lower production levels and higher energy costs, offset in part by reduced chemical costs and reduced maintenance spending. The higher fibre costs in the current quarter resulted from market-related increases in prices for sawmill residual chips coupled with increased prices for higher-cost whole log chips, in part related to pressure on stumpage rates.

PAPER

SELECTED FINANCIAL INFORMATION AND STATISTICS – PAPER[26]

Summarized results for the Paper segment for the fourth quarter of 2013 and 2012 were as follows:

(millions of Canadian dollars, unless otherwise noted)	Q4 2013	Q4 2012
Sales	$ 33.2	$ 33.7
Operating income before amortization	$ 4.6	$ 8.0
Operating income	$ 3.8	$ 7.0
Production – paper (000 mt)	30.8	35.4
Shipments – paper (000 mt)	31.1	32.0

(26) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

OVERVIEW

Operating income for the paper segment was $3.8 million for the fourth quarter of 2013, down $3.2 million from the fourth quarter of 2012. The decrease in earnings compared to the fourth quarter of 2012 was largely attributable to higher costs for slush pulp and lower production volumes which were partly offset by higher unit sales realizations. The fourth quarter of 2013 included a scheduled maintenance outage of the Prince George Kraft paper machine.

MARKETS

Global Kraft paper markets remained stable through the fourth quarter as order files remained steady in both North America and Europe. The Paper Shipping Manufacturers' Association reported strong operating rates for the U.S. of 83% in the fourth quarter of 2013, compared to 76% in the same period in 2012.

SALES

The Company's paper shipments in the fourth quarter of 2013 were 31,000 tonnes, down 900 tonnes, or 3%, from the fourth quarter of 2012, principally reflecting lower production levels. Prime bleached shipments, which attract higher prices, were up 2% from the fourth quarter of 2012.

Unit sales realizations for paper products were up slightly compared to the fourth quarter of 2012. Sales realizations in the current quarter benefited from the weaker Canadian dollar relative to the same period in the previous year.

OPERATIONS

Paper production in the fourth quarter of 2013 was 31,000 tonnes, down 4,600 tonnes, or 13%, from the fourth quarter of 2012. The decreased production principally related to a scheduled maintenance outage at the Company's Kraft paper machine in October 2013. Unit manufacturing costs in the current quarter showed a larger increase compared to the fourth quarter of 2012, with higher costs for slush pulp, principally attributable to an uplift in market pulp prices, coupled with the impact of the scheduled maintenance outage.

UNALLOCATED AND OTHER ITEMS[27]

(millions of Canadian dollars)	Q4 2013	Q4 2012
Corporate costs	$ (3.9)	$ (2.7)
Finance expense, net	$ (3.2)	$ (3.7)
Foreign exchange gain (loss) on long-term debt	$ (3.4)	$ (1.3)
Gain (loss) on derivative financial instruments	$ (0.1)	$ (0.1)
Other income (expense), net	$ 2.2	$ 0.3

(27) Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the "Changes in Accounting Policy" section in this document.

Corporate costs were $3.9 million for the fourth quarter of 2013, up $1.2 million from the fourth quarter of 2012. The increase in costs in the current quarter were attributable to several factors including costs associated with the wind-up of Canfor Pulp Limited Partnership at the end of the current year and year end incentive compensation adjustments. The fourth quarter of 2012 also included an accounting gain of $0.5 million due to amendments to the Company's salaried post retirement benefit plans.

Net finance expense for the fourth quarter of 2013 was $3.2 million, down slightly from the same quarter in the prior year. The finance expense for each period principally represents interest expense on long-term debt and stand-by fees for the Company's operating lines, as well as the finance expense relating to the Company's defined benefit post-retirement benefit plans.

The Company recorded a foreign exchange translation loss on its US dollar denominated debt of $3.4 million for the fourth quarter of 2013, as a result of a weaker Canadian dollar against the US dollar through the fourth quarter of 2013. In the fourth quarter of 2012, the Company showed a loss of $1.3 million due to a weakening of the Canadian dollar against the US dollar at the respective quarter ends.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, pulp prices, energy costs and interest rates. For the fourth quarter of 2013, the Company recorded a net loss of $0.1 million related to derivative financial instruments, primarily reflecting realized and unrealized losses on pulp futures as a result of strong NBSK prices at the end of the quarter coupled with realized losses on crude oil collars.

The following table summarizes the gains (losses) on derivative financial instruments for the comparable periods:

(millions of Canadian dollars)	Q4 2013	Q4 2012
Foreign exchange collars and forward contracts	$ 0.1	$ (0.2)
Crude oil collars	$ (0.1)	$ 0.1
Pulp futures	$ (0.1)	$ -
	$ (0.1)	$ (0.1)

SPECIFIC ITEMS AFFECTING COMPARABILITY

SPECIFIC ITEMS AFFECTING COMPARABILITY OF NET INCOME (LOSS)

Factors that impact the comparability of the quarters are noted below:

After-tax impact, net of non-controlling interests[28] (millions of Canadian dollars, except for per share amounts)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net Income (Loss), as reported[28]	$ 14.2	$ 9.1	$ 7.6	$ 10.9	$ 5.4	$ (5.0)	$ 3.0	$ 5.7
Foreign exchange (gain) loss on long-term debt	$ 3.0	$ (2.0)	$ 3.4	$ 2.0	$ 1.1	$ (3.4)	$ 1.9	$ (1.8)
(Gain) loss on derivative financial instruments	$ 0.1	$ (1.5)	$ 2.0	$ (0.5)	$ 0.1	$ (1.4)	$ 1.1	$ (1.0)
Change in substantively enacted tax rate	$ -	$ -	$ 2.4	$ -	$ -	$ -	$ -	$ -
Net gain on post retirement plan amendments	$ -	$ -	$ -	$ -	$ (4.0)	$ -	$ -	$ -
Restructuring charges for management changes	$ -	$ -	$ -	$ -	$ -	$ 1.3	$ -	$ -
Net impact of above items	$ 3.1	$ (3.5)	$ 7.8	$ 1.5	$ (2.8)	$ (3.5)	$ 3.0	$ (2.8)
Adjusted Net Income (Loss)[28]	$ 17.3	$ 5.6	$ 15.4	$ 12.4	$ 2.6	$ (8.5)	$ 6.0	$ 2.9
Net Income (Loss) per share (EPS), as reported[28]	$ 0.20	$ 0.13	$ 0.11	$ 0.15	$ 0.08	$ (0.07)	$ 0.04	$ 0.11
Net impact of above items per share	$ 0.04	$ (0.05)	$ 0.11	$ 0.02	$ (0.04)	$ (0.05)	$ 0.04	$ (0.04)
Adjusted Net Income (Loss) per share[28]	$ 0.24	$ 0.08	$ 0.22	$ 0.17	$ 0.04	$ (0.12)	$ 0.08	$ 0.07

(28) 2012 amounts exclude the impact of non-controlling interest in the Partnership. Amounts are attributable to controlling interest in the Partnership.

OUTLOOK

PULP MARKETS

For the month of January 2014, the Company announced an increase in the NBSK pulp list price of US$20 per tonne in North America with list prices to China and Europe remaining unchanged. There are no maintenance outages planned for the first quarter of 2014. NBSK pulp markets are projected to remain stable through the first quarter of 2014 and producer inventories are balanced with steady demand from North America and Europe. Demand from China is projected to soften before the end of the first quarter of 2014 following strong buying in the fourth quarter of 2013 and the traditional Chinese Lunar New Year's holiday in January 2014.

With significant new hardwood pulp capacity projected to come online in the coming months, there continues to be a risk that pulp prices may come under pressure in 2014.

Maintenance outages are currently planned at the Intercontinental and Prince George Mills in the second quarter of 2014 with a projected 15,000 tonnes of reduced production and at the Northwood Mill in the third quarter of 2014 with a projected 10,000 tonnes of reduced production.

PAPER MARKETS

Kraft paper order files are solid heading into 2014 in part reflecting customer restocking and also challenging weather conditions faced in the U.S. resulting in longer delivery times. Prices are projected to remain stable through the first quarter of 2014. New European capacity starting up in the second quarter of 2014 may put pressure on prices.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect CPPI's financial position. Unless otherwise indicated the critical accounting estimates discussed affect all of the Company's reportable segments.

EMPLOYEE FUTURE BENEFITS

CPPI has various defined benefit and defined contribution plans providing both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. CPPI also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other retirement benefit plans are accrued in accordance with the requirements of IFRS.

CPPI uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increase, mortality assumptions and the assumed health care cost trend rates. Management and the Board of Directors' Pension Committee evaluate these assumptions annually based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through Other Comprehensive Income (Loss).

The actuarial assumptions used in measuring CPPI's benefit plan provisions and benefit costs are as follows:

	December 31, 2013		December 31, 2012	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Discount rate	**4.80%**	**4.90%**	4.20%	4.40%
Rate of compensation increases	**3.00%**	**n/a**	3.00%	n/a
Future salary increases	**3.00%**	**n/a**	3.00%	n/a
Initial medical cost trend rate	**n/a**	**7.00%**	n/a	10.00%
Ultimate medical cost trend rate	**n/a**	**4.50%**	n/a	4.50%
Year ultimate rate is reached	**n/a**	**2021**	n/a	2029

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2013 is between 19.8 years and 23.0 years (2012 – 19.8 years and 22.0 years). As at December 31, 2013, the weighted average duration of the defined benefit obligation is 11.4 years (2012 – 11.2 years). The weighted average duration of the other benefit plans is 13.7 years (2012 – 15.9 years).

Assumed discount rates and medical cost trend rates have a significant effect on the accrued benefit obligation. A one percentage point change in these assumptions would have the following effects on the accrued benefit obligation for 2013:

(millions of Canadian dollars)	1% Increase	1% Decrease
Pension benefit plans		
Discount rate	$ (13.7)	$ 15.8
Other benefit plans		
Discount rate	$ (8.9)	$ 11.1
Initial medical cost trend rate	$ 7.9	$ 6.7

See "Financial Requirements and Liquidity" section for further discussion regarding the funding position of CPPI's pension plans.

ASSET RETIREMENT OBLIGATIONS

CPPI records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period when it is incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 5 to 38 years and have been discounted at risk-free rates ranging from 1.9% to 3.2%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

ASSET IMPAIRMENTS

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No impairments were recorded in 2013.

DEFERRED TAXES

In accordance with IFRS, CPPI recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. CPPI reevaluates its deferred income tax assets on a regular basis.

VALUATION OF FINISHED PRODUCT INVENTORIES

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates there is no requirement to write-down the Company's finished goods inventories, which are carried at cost at December 31, 2013.

CHANGES IN ACCOUNTING POLICY

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- The Company adopted amended IAS 19, *Employee Benefits*, which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset).

  The effect on the consolidated balance sheet as at December 31, 2012, as a result of the adoption of amended IAS 19, was a decrease in retirement benefit obligations of $1.2 million and an increase in deferred tax liability of $0.3 million.

  The effect on the consolidated income statement for the year ended December 31, 2012 was an increase in finance expense of $1.4 million, a decrease in manufacturing and product cost of $1.0 million and a decrease in net income of $0.3 million due to the adoption of amended IAS 19. The effect on the consolidated statement of other comprehensive income (loss) for the year ended December 31, 2012 was a decrease in defined benefit plan actuarial losses of $1.2 million (after tax).
- The Company also adopted IFRS 10, *Consolidated Financial Statements*, IFRS 13, *Fair Value Measurement*, IFRS 11, *Joint Arrangements* and IAS 1, *Presentation of Financial Statements*, effective January 1, 2013. These Standards did not result in material impacts on the amounts recorded in the financial statements of CPPI.

FUTURE CHANGES IN ACCOUNTING POLICIES

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments*. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. IFRS 9 also replaces models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The required adoption date for IFRS 9 has been deferred and is not expected until January 1, 2017, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

RISKS AND UNCERTAINTIES

Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, raw materials, capital requirements, dependence on certain relationships, government regulations, public policy and labour disputes, and Native land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, CPPI does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.

CAPITAL REQUIREMENTS

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2013 were approximately $62.3 million. The Company anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

COMPETITIVE MARKETS

The Company's products are sold primarily in North America, Europe, and Asia. The markets for the Company's products are highly competitive on a global basis, with a number of major companies competing in each market with no company holding a dominant position. Competitive factors include quality of product, reliability of supply and customer service. The Company's competitive position is influenced by: the availability, quality, and cost of raw materials; energy and labour costs; free access to markets; currency exchange rates; plant efficiencies; and productivity in relation to its competitors.

CURRENCY EXCHANGE RISK

The Company's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US dollar, as prices for the Company's products are denominated in US dollars or linked to prices quoted in US dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the amount of revenue in Canadian dollar terms realized by the Company from sales made in US dollars, which in turn, reduces the Company's operating margin and the cash flow available.

CYCLICALITY OF PRODUCT PRICES

The Company's financial performance is dependent upon the selling prices of its pulp and paper products, which have fluctuated significantly in the past. The markets for these products are highly cyclical and may be characterized by (i) periods of excess product supply due to industry capacity additions, increased production and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Company's products are sold has a significant impact upon the demand, and therefore, the prices for pulp and paper. Prices of pulp, in particular, have historically been unpredictable.

DEPENDENCE ON CANFOR

Approximately 61% of the fibre currently used by the Company is derived from the Fibre Supply Agreement with Canfor. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

DEPENDENCE ON KEY CUSTOMERS

In 2013, the Company's top five customers accounted for approximately 27% of its pulp sales. The Company is therefore dependent on these customers. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

DIVIDENDS

CPPI paid quarterly dividends of $0.05 per share through 2013 and may, subject to market conditions, continue to pay a modest level of dividends through 2014. There is no assurance that the dividends will be maintained at this level and the market value of CPPI shares may fluctuate depending on the amount of dividends paid in the future. The board retains the discretion to change the policy at any time and reviews the policy on a quarterly basis.

EMPLOYEE FUTURE BENEFITS

The Company in participation with Canfor has several defined benefit plans, which provide pension benefits to certain salaried employees. Benefits are based on a combination of years of service and final average salary. Cash payments required to fund the pension plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan completed as of December 31, 2010. In 2014, this plan will undergo an actuarial valuation for funding purposes as of December 31, 2013.

The funded surplus (deficit) of each defined benefit plan is calculated as the difference between the fair market value of plan assets and an actuarial estimate of future liabilities. Any deficit in the registered plans determined following an actuarial valuation must be funded in accordance with regulatory requirements, normally over 5 or 15 years. Some of the unregistered plans are also partially funded.

Through its pension funding requirements, the Company through Canfor, is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities. The funding requirements may also change to the extent that other assumptions used are revised, such as inflation rates or mortality assumptions.

In 2012, following a review of the defined benefit plans, the Company made certain amendments to the salaried post retirement plans to mitigate some of the risks discussed above.

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $13.7 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $15.8 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

ENVIRONMENTAL LAWS, REGULATIONS AND COMPLIANCE

The Company is subject to a wide range of general and industry-specific laws and regulations relating to the protection of the environment, including those governing air emissions, wastewater discharges, the storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, and health and safety matters. These laws and regulations require the Company to comply with specific requirements as described in regulations. Regulations may also require the Company to obtain authorizations and comply with the authorization requirements of the appropriate governmental authorities which have considerable discretion over the terms and timing of said authorizations and permits.

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. The provision for these future environmental remediation expenditures was $2.7 million as of December 31, 2013. It is possible that the Company could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact the Company's financial condition or preclude the Company from making capital expenditures that would otherwise benefit the Company's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Company.

FINANCIAL RISK MANAGEMENT AND EARNINGS SENSITIVITIES

Demand for pulp and paper products are closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. CPPI competes in a global market and the majority of its products are sold in US dollars. Consequently, changes in foreign currency relative to the Canadian dollar can impact CPPI's revenues and earnings.

FINANCIAL RISK MANAGEMENT

CPPI is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market price risk.

The CPPI Risk Management Committee manages risk in accordance with a Board approved Risk Management Controls Policy. The policy sets out the responsibilities, reporting and counter party credit and communication requirements associated with all of the Company's risk management activity. Responsibility for overall philosophy, direction and approval is that of the Board of Directors.

(A) CREDIT RISK:

Credit risk is the risk of financial loss to CPPI if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents and accounts receivable. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date of three months or less.

CPPI utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 87% of the outstanding trade receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. At December 31, 2013, CPPI's trade receivable balance was $71.0 million. At December 31, 2013, approximately 96% of the trade accounts receivable balance was within CPPI's established credit terms.

(B) LIQUIDITY RISK:

Liquidity risk is the risk that CPPI will be unable to meet its financial obligations as they come due. CPPI manages liquidity risk through regular cash-flow forecasting in conjunction with an adequate committed operating loan facility.

At December 31, 2013, CPPI had $10.6 million drawn on its operating loans, accounts payable and accrued liabilities of $118.4 million, all of which are due within twelve months of the balance sheet date. At December 31, 2013, the Company had no current debt payment obligations.

(C) MARKET RISK:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, energy and commodity prices.

(i) Interest rate risk:

CPPI is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates and through its operating lease commitments.

CPPI uses interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates (See "Derivative Financial Instruments" section later in this document).

As noted earlier in this section (under "Employee Future Benefits"), CPPI is also exposed to interest rate risk in relation to the measurement of the Company's pension liabilities.

(ii) Currency risk:

CPPI is exposed to foreign exchange risk primarily related to the US dollar, as CPPI products are sold globally with prices primarily denominated in US dollars or linked to prices quoted in US dollars with certain expenditures transacted in US dollars. In addition, the Company holds financial assets and liabilities in US dollars. These primarily include US dollar bank accounts and investments and trade accounts receivable.

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses. The Company enters into US dollar forward sale contracts to reduce exposure to fluctuations in US exchange rates on US dollar denominated accounts receivable and accounts payable balances (See "Derivative Financial Instruments" section later in this document).

(iii) Commodity price risk:

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and natural gas prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability. The Company may periodically use derivative instruments to mitigate commodity price risk (See "Derivative Financial Instruments" section later in this document).

(iv) Energy price risk:

CPPI is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The majority of the exposure is hedged through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. In the case of diesel, CPPI uses WTI oil contracts to hedge its exposure. (See "Derivative Financial Instruments" section later in this document).

DERIVATIVE FINANCIAL INSTRUMENTS

Subject to risk management policies approved by its Board of Directors, CPPI, from time to time, uses derivative instruments, such as forward exchange contracts and option contracts to hedge future movements of exchange rates and futures and forward contracts to hedge pulp prices, commodity prices and energy costs. See section "Financial Requirements and Liquidity" for details of CPPI's derivative financial instruments outstanding at year end.

EARNINGS SENSITIVITIES

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2014 Business Plan forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US$10 change per tonne[29]	$ 7
Natural gas cost – $1 change per gigajoule	$ 4
Chip cost – $1 change per tonne	$ 3
Canadian dollar – US$0.01 change per Canadian dollar[30]	$ 8

(29) Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.

(30) Represents impact on operating income and excludes the impact on operating loans denominated in US$. Decrease of US$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

GOVERNMENTAL REGULATIONS

The Company is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities. If the Company is unable to extend or renew a material approval, license or permit required by such laws, or if there is a delay in renewing any material approval, license or permit, the Company's business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to unexpected expenditures or liabilities.

INCREASED PRODUCTION CAPACITY

The Company currently faces substantial competition in the pulp industry and may face increased competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Company's business, financial condition, results of operations and cash flows, and the Company may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

MAINTENANCE OBLIGATIONS AND FACILITY DISRUPTIONS

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products. The Company could experience a breakdown in any of its machines, or other important equipment, and from time to time, the Company schedules planned and incurs unplanned outages to conduct maintenance that cannot be performed safely or efficiently during operations. Such disruptions could cause significant loss of production, which could have a material adverse effect on the Company's business, financial condition and operating results.

NATIVE LAND CLAIMS

Much of the fibre used by the Company is sourced from areas where there are claims of Aboriginal rights and title. The courts have held that the Crown has an obligation to consult Aboriginal people, and accommodate their concerns, where there is a reasonable possibility that a Crown-authorized activity, such as a public forest tenure, may infringe asserted Aboriginal rights or title, even if those claims have not yet been proven. If the Crown has not consulted and accommodated Aboriginal people as required, the courts may quash a tenure or attach conditions to the exercise of harvesting rights under the tenure that may affect the quantity of fibre that can be harvested from such tenure.

RAW MATERIAL COSTS

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's Fibre Supply Agreement with Canfor contains a pricing formula that currently results in the Company paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current pricing under the agreement expires September 1, 2016, and may be amended as necessary to ensure it is reflective of market conditions. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the U.S. and other matters. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs.

TRANSPORTATION SERVICES

The Company relies on third parties for transportation of its products, as well as delivery of raw materials principally by railroad, trucks and ships. If any significant third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, the Company may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which may have a material adverse effect on its financial condition and operating results. In addition, if any of these significant third parties were to cease operations or cease doing business with the Company, the Company may be unable to replace them at a reasonable cost. Transportation services may also be impacted by seasonal factors, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on CPPI's financial condition and operating results.

WORK STOPPAGES

Any labour disruptions and any costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. The Company has collective agreements with the CEP (Communications, Energy and Paperworkers Union) and PPWC (Pulp, Paper and Woodworkers of Canada), with both agreements expiring on April 30, 2017. Any future inability to negotiate acceptable contracts could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers.

OUTSTANDING SHARE DATA

At February 5, 2014, there were 71,007,341 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ending December 31, 2013, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the year ended December 31, 2013 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2013, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2013 Annual Information Form, is available at www.sedar.com or at www.canforpulp.com.

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material.

Canfor Pulp Products Inc. maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of three Directors who are not employees of the Company. The Committee meets periodically throughout the year with management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, whose report follows.

February 5, 2014

Don B. Kayne
Chief Executive Officer

Alan Nicholl
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CANFOR PULP PRODUCTS INC.

We have audited the accompanying consolidated financial statements of Canfor Pulp Products Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of income, the consolidated statements of other comprehensive income (loss), the consolidated statements of changes in equity, and the consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canfor Pulp Products Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

February 5, 2014

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, British Columbia

Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
		(Note 4)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 13.5	$ -
Accounts receivable		
Trade	71.0	61.6
Other	10.3	22.8
Inventories (Note 5)	128.0	134.1
Prepaid expenses and other assets	7.2	8.3
Total current assets	230.0	226.8
Property, plant and equipment (Note 6)	528.1	530.8
Retirement benefit surplus (Note 10)	8.2	-
Other long-term assets	2.3	0.4
Total assets	$ 768.6	$ 758.0
LIABILITIES		
Current liabilities		
Cheques issued in excess of cash on hand	$ -	$ 1.2
Operating loans (Note 8)	10.6	-
Accounts payable and accrued liabilities (Note 7)	118.4	93.4
Current portion of long-term debt (Note 9)	-	109.4
Total current liabilities	129.0	204.0
Long-term debt (Note 9)	50.0	-
Retirement benefit obligations (Note 10)	75.8	103.9
Other long-term provisions	3.0	3.6
Deferred income taxes, net (Note 14)	72.8	59.9
Total liabilities	$ 330.6	$ 371.4
EQUITY		
Share capital (Note 12)	$ 523.4	$ 525.3
Retained earnings (deficit)	(85.4)	(138.7)
Total equity	$ 438.0	$ 386.6
Total liabilities and equity	$ 768.6	$ 758.0

Subsequent Event (Note 23)

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD

S.E. Bracken-Horrocks   R. Lane Cliff

Director, S.E. Bracken-Horrocks   Director, R.L. Cliff

Consolidated Statements of Income

Year ended December 31 (millions of Canadian dollars, except per share data)	2013	2012
		(Note 4)
Sales	$ 886.8	$ 810.4
Costs and expenses		
Manufacturing and product costs	595.1	575.0
Freight and other distribution costs	123.3	116.4
Amortization	69.9	67.1
Selling and administration costs	24.0	24.6
Restructuring and severance costs	0.7	1.7
	813.0	784.8
Operating income	73.8	25.6
Finance expense, net (Note 13)	(11.8)	(13.2)
Foreign exchange gain (loss) on long-term debt	(7.3)	2.4
Gain (loss) on derivative financial instruments (Note 21)	(0.1)	1.7
Other income (expense), net	5.2	(1.2)
Net income before income taxes	59.8	15.3
Income tax expense (Note 14)	(18.0)	(1.9)
Net income	$ 41.8	$ 13.4
Net income attributable to:		
Equity shareholders of the Company	$ 41.8	$ 9.1
Non-controlling interests (Note 22)	-	4.3
Net income	$ 41.8	$ 13.4
Net income per common share: (in dollars)		
Attributable to equity shareholders of the Company		
Basic and diluted (Note 12)	$ 0.59	$ 0.14

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Other Comprehensive Income (Loss) and Changes in Equity

Year ended December 31 (millions of Canadian dollars)	2013	2012
		(Note 4)
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)		
Net income	$ 41.8	$ 13.4
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gains (losses) (Note 10)	35.5	(15.0)
Income tax recovery (expense) on defined benefit plan actuarial losses (gains) (Note 14)	(9.3)	3.7
Other comprehensive income (loss), net of tax	26.2	(11.3)
Total comprehensive income	$ 68.0	$ 2.1
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	$ 68.0	$ (2.2)
Non-controlling interests (Note 22)	-	4.3
Total comprehensive income	$ 68.0	$ 2.1
		(Note 4)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY		
Share capital		
Balance at beginning of year	$ 525.3	$ 294.9
Share purchases (Note 12)	(1.9)	-
Exchange transaction (Note 22)	-	230.4
Balance at end of year (Note 12)	$ 523.4	$ 525.3
Retained earnings (deficit)		
Balance at beginning of year	$ (138.7)	$ (67.3)
Net income excluding amount attributable to non-controlling interests	41.8	9.1
Defined benefit plan actuarial gains (losses), net of tax	26.2	(11.3)
Dividends declared	(14.2)	(11.4)
Share purchases (Note 12)	(0.5)	-
Exchange transaction (Note 22)	-	(57.8)
Balance at end of year	$ (85.4)	$ (138.7)
Total equity attributable to equity holders of the Company	$ 438.0	$ 386.6
Non-controlling interests		
Balance at beginning of year	$ -	$ 226.1
Net income attributable to non-controlling interests	-	4.3
Exchange transaction (Note 22)	-	(230.4)
Balance at end of year	$ -	$ -
Total equity	$ 438.0	$ 386.6

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended December 31 (millions of Canadian dollars)	2013	2012
		(Note 4)
Cash generated from (used in):		
Operating activities		
Net income	$ 41.8	$ 13.4
Items not affecting cash:		
Amortization	69.9	67.1
Income tax expense	18.0	1.9
Foreign exchange gain (loss) on long-term debt	7.3	(2.4)
Changes in mark-to-market value of derivative financial instruments	0.2	0.4
Employee future benefits	5.1	(0.4)
Net finance expense	11.8	13.2
Other, net	(2.8)	0.3
Defined benefit pension plan contributions	(10.1)	(10.1)
Income taxes paid, net	(0.4)	(7.7)
	140.8	75.7
Net change in non-cash working capital (Note 15)	16.1	12.2
	156.9	87.9
Financing activities		
Change in operating bank loans	10.6	-
Proceeds from long-term debt (Note 9)	50.0	-
Repayment of long-term debt (Note 9)	(116.6)	-
Finance expenses paid	(9.1)	(8.1)
Dividends paid	(14.2)	(19.2)
Share purchases (Note 12)	(2.4)	-
Other, net	(0.1)	-
	(81.8)	(27.3)
Investing activities		
Additions to property, plant and equipment	(62.3)	(87.6)
Expenditures under Green Transformation Program	-	(1.1)
Reimbursements under Green Transformation Program	-	19.7
Other government grants received	1.1	2.2
Acquisition of CPPI cash on exchange (Note 22)	-	6.8
Other, net	0.8	0.2
	(60.4)	(59.8)
Increase in cash and cash equivalents*	14.7	0.8
Cash and cash equivalents at beginning of year*	(1.2)	(2.0)
Cash and cash equivalents at end of year*	$ 13.5	$ (1.2)

*Cash and cash equivalents include cash on hand less unpresented cheques.

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its subsidiaries (together referred to as "CPPI" or "the Company"). The Company's operations consist of two Northern Bleach Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

On March 2, 2012, Canadian Forest Products Ltd. ("Canfor") exchanged 35,776,483 Class B Exchangeable Limited Partnership Units ("the Exchange"), representing a 50.2% interest in Canfor Pulp Limited Partnership ("the Partnership"), for an equivalent number of CPPI shares pursuant to the terms of the exchange agreement dated January 1, 2011 between Canfor, CPPI, the Partnership and Canfor Pulp Holding Inc., the general partner of the Partnership ("the General Partner"). As a result of the Exchange, CPPI's interest in both the Partnership and the General Partner increased from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI (Note 22). At December 31, 2013, Canfor held a 50.4% interest in CPPI, an increase of 0.2% from December 31, 2012 as a result of share purchases in 2013 (Note 12).

On December 27, 2013, the Partnership was wound up and all of the net assets were transferred to Canfor Pulp Holding Inc. Subsequent to the transfer, Canfor Pulp Holding Inc. was renamed Canfor Pulp Ltd.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs" or "IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 5, 2014.

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items:

- Financial instruments classified as fair value through profit and loss are measured at fair value;
- Asset retirement obligations are measured at the discounted value of expected future cash flows; and
- The retirement benefit surplus and obligation related to the defined benefit pension plans is the net of the accrued benefit obligation and the fair value of the plan assets.

USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which cause actual results to differ from management estimates, and these differences could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 10 – Employee Future Benefits; and
- Note 11 – Asset Retirement Obligations.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied to the financial information presented.

BASIS OF CONSOLIDATION

Subsidiaries are entities controlled by the Company. Control exists when CPPI is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of three months or less from the date of acquisition, and are valued at cost, which approximates market value. Cash is presented net of unpresented cheques. When the amount of unpresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on amount, credit quality and term of the Company's deposits.

FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and advances, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through net income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at fair value through net income - An instrument is classified at fair value through net income if it is held for trading or is designated as such upon initial recognition. Financial instruments at fair value through net income are measured at fair value, and changes therein are recognized in the statements of income, with attributable transaction costs being recognized in net income when incurred.

Available-for-sale financial assets - Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to spread the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for CPPI are trade and other receivables, and cash and cash equivalents.

Other liabilities - All of CPPI's financial liabilities are measured at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS

CPPI uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, interest rate, commodity and energy price risk. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

CPPI's derivative financial instruments are not designated as hedges for accounting purposes. Consequently, such derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value (realized and unrealized) being recognized in the statements of income as 'Gain (loss) on derivative financial instruments'.

The fair value of the derivatives is determined with reference to period end market trading prices for derivatives with comparable characteristics.

INVENTORIES

Inventories include pulp, paper, wood chips, and materials and supplies. These are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment, including expenditure on major overhauls, are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly attributable to bringing assets to be used in the manner intended by management.

Expenditure on major overhauls, refits or repairs is capitalized where it enhances the life or performance of an asset above its originally assessed standard of performance. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to CPPI and its cost can be measured reliably. The carrying amount of the replaced component is removed.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The significant majority of CPPI's amortization expense for property, plant and equipment relates to manufacturing and product costs.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to CPPI's capital assets:

Buildings	10 to 50 years
Pulp and paper machinery and equipment	20 years
Mobile equipment	4 years
Office furniture and equipment	10 years
Major overhauls	1 to 2 years

GOVERNMENT ASSISTANCE

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

ASSET IMPAIRMENT

CPPI's property, plant and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating units or "CGU").

Non-financial assets, for which an impairment was recorded in a prior period are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

Financial assets are reviewed at each reporting date to determine whether there is evidence indicating they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on estimated future cash flows from that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in net income.

EMPLOYEE BENEFITS

DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense when they are earned.

For hourly employees covered by industry union defined contribution pension plans, the statements of income are charged with CPPI's contributions required under the collective agreements.

DEFINED BENEFIT PLANS

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. CPPI, in participation with Canfor, has defined benefit plans that provide both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. The Company also provides certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and obligation recognized in the balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation is calculated separately for each plan by estimating the amount of future benefit earned by employees in respect of their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate used to determine the present value of the obligation is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of CPPI's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method and a measurement date of December 31. The pension surplus or obligation is adjusted on a quarterly basis for any material changes in underlying assumptions.

CPPI recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the year in which they occur.

PROVISIONS

CPPI recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance cost. The main class of provision recognized by CPPI is as follows:

ASSET RETIREMENT OBLIGATIONS

CPPI recognizes a liability for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

REVENUE RECOGNITION

CPPI's revenues are derived from the sale of pulp, paper, energy and commissions. Revenue is measured at the fair value of the consideration received or receivable net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amounts of revenue can be measured reliably. Energy revenue is recognized when CPPI has met the terms and conditions under both the Electricity Purchase and Load Displacement Agreements.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by CPPI are reported as a component of freight and other distribution costs.

INCOME TAXES

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

CPPI recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's balance sheet, depending upon when the benefit is expected to be received.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of CPPI sales is denominated in foreign currencies, principally the US dollar. Transactions in foreign currencies are translated to the functional currencies of the respective entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations are translated to the Canadian dollar at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates at the transaction dates. Foreign exchange differences are recognized in other comprehensive income.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

4. CHANGES IN ACCOUNTING POLICY

The Company has adopted the following new and revised Standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- The Company adopted amended IAS 19, *Employee Benefits*, which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset).

  The effect on the consolidated balance sheet as at December 31, 2012, as a result of the adoption of amended IAS 19, was a decrease in retirement benefit obligations of $1.2 million and an increase in deferred tax liability of $0.3 million.

  The effect on the consolidated statements of income for the year ended December 31, 2012 was an increase in finance expense of $1.4 million, a decrease in manufacturing and product cost of $1.0 million and a decrease in net income of $0.3 million due to the adoption of amended IAS 19. The effect on the consolidated statements of other comprehensive income (loss) for the year ended December 31, 2012 was a decrease in defined benefit plan actuarial losses of $1.2 million (after tax).

- The Company also adopted IFRS 10, *Consolidated Financial Statements*, IFRS 13, *Fair Value Measurement*, IFRS 11, Joint Arrangements and IAS 1, *Presentation of Financial Statements*, effective January 1, 2013. These Standards did not result in material impacts on the amounts recorded in the financial statements of CPPI.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments*. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. IFRS 9 also replaces models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The required adoption date for IFRS 9 has been deferred and is not expected until January 1, 2017, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

5. INVENTORIES

(millions of Canadian dollars)	**As at December 31, 2013**	As at December 31, 2012
Pulp	**$ 52.8**	$ 59.4
Paper	**15.7**	18.2
Wood chips	**14.1**	10.9
Materials and supplies	**45.4**	45.6
	$ 128.0	$ 134.1

In 2013, costs of raw materials, consumables and changes in finished products recognized as manufacturing and product costs amounted to $321.8 million (2012 - $305.5 million).

6. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Land and improvements	Buildings, machinery and equipment	Asset retirement - landfill	Construction in progress	Major overhauls	Total
Cost						
Balance at January 1, 2012	$ 5.4	$ 1,384.6	$ 2.1	$ 14.8	$ 40.2	$ 1,447.1
Additions[1]	-	-	-	66.2	-	66.2
Disposals	-	(14.0)	-	-	(11.8)	(25.8)
Transfers	-	50.9	-	(65.0)	14.1	-
Balance at December 31, 2012	$ 5.4	$ 1,421.5	$ 2.1	$ 16.0	$ 42.5	$ 1,487.5
Additions[1]	-	-	-	67.6	-	67.6
Disposals	-	(8.2)	-	-	(33.4)	(41.6)
Transfers	-	44.7	-	(68.1)	23.4	-
Balance at December 31, 2013	$ 5.4	$ 1,458.0	$ 2.1	$ 15.5	$ 32.5	$ 1,513.5
Amortization						
Balance at January 1, 2012	$ -	$ (901.8)	$ (0.9)	$ -	$ (12.4)	$ (915.1)
Amortization for the year	-	(44.4)	-	-	(22.7)	(67.1)
Disposals	-	13.7	-	-	11.8	25.5
Balance at December 31, 2012	$ -	$ (932.5)	$ (0.9)	$ -	$ (23.3)	$ (956.7)
Amortization for the year	-	(48.9)	(0.1)	-	(20.9)	(69.9)
Disposals	-	7.9	-	-	33.3	41.2
Balance at December 31, 2013	$ -	$ (973.5)	$ (1.0)	$ -	$ (10.9)	$ (985.4)
Carrying amounts						
At January 1, 2012	$ 5.4	$ 482.8	$ 1.2	$ 14.8	$ 27.8	$ 532.0
At December 31, 2012	$ 5.4	$ 489.0	$ 1.2	$ 16.0	$ 19.2	$ 530.8
At December 31, 2013	**$ 5.4**	**$ 484.5**	**$ 1.1**	**$ 15.5**	**$ 21.6**	**$ 528.1**

(1) Net of capital expenditures financed by the federal government-funded Green Transformation Program and other government grants.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(millions of Canadian dollars)	**As at December 31, 2013**	As at December 31, 2012
Trade payables and accrued liabilities	**$ 58.0**	$ 42.5
Accrued payroll and related liabilities	**30.0**	32.7
Income tax payable	**8.7**	-
Other	**21.7**	18.2
	$ 118.4	$ 93.4

8. OPERATING LOANS

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Available Operating Loans:		
Operating loan facility	$ 110.0	$ 110.0
Facility for letters of credit related to energy agreements	20.0	7.5
Total operating loans	130.0	117.5
Drawn	(10.6)	-
Energy letters of credit	(12.2)	(9.2)
Total available operating loans	$ 107.2	$ 108.3

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of net debt to total capitalization and is based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. During 2013, the Company extended the maturity date of the operating loan facility from November 13, 2016 to January 31, 2018.

Also, during 2013, the Company replaced its facility for energy-related letters of credit with a new $20.0 million facility maturing on June 30, 2015. At December 31, 2013, $9.8 million of energy-related letters of credit were covered under the new facility.

As at December 31, 2013, the Company was in compliance with all covenants relating to its operating loans.

9. LONG-TERM DEBT

CPPI has the following long-term debt, all of which is unsecured:

SUMMARY OF LONG-TERM DEBT

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
US$110 million, interest at 6.41%, repaid November 29, 2013	$ -	$ 109.4
CAD$50 million, floating interest, repayable on November 5, 2018	50.0	-
Less: current portion	-	109.4
Long-term portion	$ 50.0	$ -

On November 5, 2013, CPPI completed a $50.0 million unsecured non-revolving term debt financing, which is repayable on November 5, 2018 with no penalty for early repayment. The interest rate on the new term debt is based on the lenders' Canadian prime rate, or bankers acceptance rate in the year of payment. On November 29, 2013, CPPI repaid its $116.6 million (US$110.0 million) 6.41% term debt.

As at December 31, 2013, the Company was in compliance with all covenants relating to the long-term debt.

FAIR VALUE OF TOTAL LONG-TERM DEBT

At December 31, 2013, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (2012 - $113.6 million).

10. EMPLOYEE FUTURE BENEFITS

Effective January 1, 2013, CPPI adopted amended IAS 19, *Employee Benefits*, and has restated the comparative period. For details related to the adoption of the new Standard refer to Note 4.

The Company, in participation with Canfor, has several funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and certain hourly employees. The defined benefit plans are based on years of service and final average salary. CPPI's other post-retirement benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for 2013 were $17.8 million (2012 – $18.1 million), consisting of cash contributed by CPPI to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans.

DEFINED BENEFIT PLANS

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

CPPI has one registered defined benefit plan for which an actuarial valuation is performed every three years. The plan will undergo an actuarial valuation for funding purposes as of December 31, 2013, which will be completed in 2014. Subsequent to the December 31, 2013 valuation, the next actuarial valuation for funding purposes is currently scheduled for December 31, 2016.

Information about CPPI's defined benefit plans, in aggregate, is as follows:

FAIR MARKET VALUE OF PLAN ASSETS

(millions of Canadian dollars)	2013 Pension Benefit Plans	2013 Other Benefit Plans	2012 Pension Benefit Plans	2012 Other Benefit Plans
Beginning of year	$ 87.3	$ -	$ 72.3	$ -
Interest income on plan assets	3.9	-	3.8	-
Return on plan assets greater than discount rate	8.5	-	5.1	-
CPPI contributions	8.3	1.6	8.3	1.6
Employee contributions	0.2	-	0.2	-
Benefit payments	(3.0)	(1.6)	(2.3)	(1.6)
Administrative expenses	(0.1)	-	(0.1)	-
End of year	$ 105.1	$ -	$ 87.3	$ -

Plan assets consist of the following:	As at December 31, 2013	As at December 31, 2012
Asset category	Percentage of Plan Assets	
Equity securities	60%	66%
Debt securities	35%	33%
Cash and cash equivalents	5%	1%
	100%	100%

ACCRUED BENEFIT OBLIGATIONS

(millions of Canadian dollars)	2013 Pension Benefit Plans	2013 Other Benefit Plans	2012 Pension Benefit Plans	2012 Other Benefit Plans
Beginning of year	$ 110.3	$ 79.9	$ 95.4	$ 70.9
Current service cost	3.2	2.0	3.5	1.5
Interest cost	4.6	3.4	4.6	3.7
Employee contributions	0.2	-	0.2	-
Benefit payments	(3.0)	(1.6)	(2.3)	(1.6)
Plan amendment	-	-	-	(5.3)
Actuarial loss (gain)	(7.7)	(19.3)	8.9	11.2
Other	-	(0.3)	-	(0.5)
End of year	$ 107.6	$ 64.1	$ 110.3	$ 79.9

Of the defined benefit plan obligation of $107.6 million (2012 - $110.3 million), $98.6 million (2012 - $100.8 million) relates to plans that are wholly or partly funded, $9.0 million (2012 - $9.5 million) relates to plans that are wholly unfunded. At December 31, 2013 the total obligation for the other benefit plans of $64.1 million (2012 - $79.9 million) is unfunded.

RECONCILIATION OF FUNDED STATUS OF BENEFIT PLANS TO AMOUNTS RECORDED IN THE FINANCIAL STATEMENTS

	December 31, 2013		December 31, 2012	
(millions of Canadian dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plans assets	$ 105.1	$ -	$ 87.3	$ -
Accrued benefit obligation	(107.6)	(64.1)	(110.3)	(79.9)
Funded status of plans – deficit	$ (2.5)	$ (64.1)	$ (23.0)	$ (79.9)
Other pension plans	(1.0)	-	(1.0)	-
Total accrued liability, net	$ (3.5)	$ (64.1)	$ (24.0)	$ (79.9)

The net accrued benefit liability is included in CPPI's balance sheet as follows:

	December 31, 2013		December 31, 2012	
(millions of Canadian dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Retirement benefit surplus	$ 8.2	$ -	$ -	$ -
Retirement benefit obligations	(11.7)	(64.1)	(24.0)	(79.9)
Total accrued benefit liability, net	$ (3.5)	$ (64.1)	$ (24.0)	$ (79.9)

At December 31, 2013, certain post-employment defined benefit pension plans are in a surplus position reflecting the return on plan assets, actuarial gains and employer contributions to the pension plans during 2013. The plans with a net retirement surplus have been classified as non-current assets on the balance sheet.

COMPONENTS OF PENSION COST

The following table shows the before tax impact on net income and other comprehensive income of the Company's pension and other defined benefit plans:

	2013		2012	
(millions of Canadian dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Recognized in net income				
Current service cost	$ 3.2	$ 2.0	$ 3.5	$ 1.5
Administration expense	0.1	-	0.1	-
Interest cost	0.7	3.4	0.8	3.7
Plan amendment gain	-	-	-	(5.3)
Other	0.2	(0.3)	0.2	(0.5)
Total included in net income	$ 4.2	$ 5.1	$ 4.6	$ (0.6)
Recognized in other comprehensive income				
Actuarial (gain) - experience	$ (0.2)	$ (11.8)	$ (0.2)	$ (0.7)
Actuarial loss – demographic	2.8	0.4	-	-
Actuarial loss (gain) – financial assumptions	(10.3)	(7.9)	9.1	11.9
Return on plan assets (greater) than discount rate	(8.5)	-	(5.1)	-
Total included in other comprehensive income	$ (16.2)	$ (19.3)	$ 3.8	$ 11.2

SIGNIFICANT ASSUMPTIONS

The actuarial assumptions used in measuring CPPI's benefit plan provisions and benefit costs are as follows:

	December 31, 2013		December 31, 2012	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Discount rate	**4.80%**	**4.90%**	4.20%	4.40%
Rate of compensation increases	**3.00%**	**n/a**	3.00%	n/a
Future salary increases	**3.00%**	**n/a**	3.00%	n/a
Initial medical cost trend rate	**n/a**	**7.00%**	n/a	10.00%
Ultimate medical cost trend rate	**n/a**	**4.50%**	n/a	4.50%
Year ultimate rate is reached	**n/a**	**2021**	n/a	2029

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2013 is between 19.8 years and 23.0 years (2012 – 19.8 years and 22.0 years). As at December 31, 2013, the weighted average duration of the defined benefit plan obligation is 11.4 years (2012 – 11.2 years). The weighted average duration of the other benefit plans is 13.7 years (2012 – 15.9 years).

SENSITIVITY ANALYSIS

Assumed discount rates and medical cost trend rates have a significant effect on the accrued benefit obligation. A one percentage point change in these assumptions would have the following effects on the accrued benefit obligation for 2013:

(millions of Canadian dollars)	1% Increase	1% Decrease
Pension benefit plans		
Discount rate	$ (13.7)	$ 15.8
Other benefit plans		
Discount rate	$ (8.9)	$ 11.1
Initial medical cost trend rate	$ 7.9	$ (6.7)

As at December 31, 2013, CPPI's estimated that it will make contribution payments of $6.9 million to its defined benefit plans in 2014 based on the last actuarial valuation for funding purposes. CPPI's largest pension plan will undergo an actuarial valuation for funding purposes as at December 31, 2013 in 2014.

DEFINED CONTRIBUTION AND OTHER PLANS

The total expense recognized in 2013 for CPPI's defined contribution plans was $1.2 million (2012 - $1.2 million).

CPPI contributes to a pulp industry pension plan providing pension benefits. This plan is accounted for as a defined contribution plan. Contributions to this plan, not included in the expense for defined contribution plans above, amounted to $6.7 million in 2013 (2012 - $6.7 million).

EMPLOYEE FUTURE BENEFIT PLAN AMENDMENTS

During 2012, the Company amended the salaried post retirement benefit plans for certain employees and retirees. The amendments reduced the Company's retirement benefit obligation by $5.3 million (before tax) which resulted in recognition of a corresponding gain of $5.3 million (before tax).

OTHER

CPPI's total employee benefits expense includes salaries and wages, future employee benefits and terminations as applicable. The total benefits expense in 2013 was $142.0 million (2012 - $149.0 million).

11. ASSET RETIREMENT OBLIGATIONS

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2013 and 2012:

(millions of Canadian dollars)	**2013**	2012
Asset retirement obligations at beginning of year	**$ 3.3**	$ 3.1
Accretion expense	**0.1**	0.2
Changes in estimates	**(0.7)**	-
Asset retirement obligations at end of year	**$ 2.7**	$ 3.3

CPPI's asset retirement obligations represent estimated undiscounted future payments of $7.2 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 5 to 38 years and have been discounted at risk-free rates ranging from 1.9% to 3.2% (2012 – 1.6% to 2.4%). The $0.7 million changes in estimates associated with the asset retirement obligation principally reflects a higher discount rate used in valuation of the obligation.

CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded.

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in other long-term provisions on the balance sheet.

12. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares, no par value

ISSUED AND FULLY PAID

	2013		2012	
(millions of Canadian dollars, except number of shares)	Number of Shares	Amount	Number of Shares	Amount
Common shares at beginning of year	71,269,790	$ 525.3	35,776,483	$ 294.9
Shares purchased	(262,449)	(1.9)	-	-
Exchange transaction (Note 22)	-	-	35,493,307	230.4
Common shares at end of year	71,007,341	$ 523.4	71,269,790	$ 525.3

The holders of common shares are entitled to vote at all meetings of shareholders of the Company and are entitled to receive dividends when declared.

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2013 was 71,149,822 (2012 – 65,257,263), and reflected shares repurchased under the Company's Normal Course Issuer Bid (see below).

NORMAL COURSE ISSUER BID

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 3,563,489 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid is set to expire on March 4, 2014. In 2013, CPPI purchased 262,449 common shares for $2.4 million, of which $1.9 million was charged to share capital and $0.5 million was charged to retained earnings. As a result of the share purchases, Canfor's interest in CPPI increased from 50.2% at December 31, 2012 to 50.4% at December 31, 2013.

13. FINANCE EXPENSE, NET

(millions of Canadian dollars)	2013	2012
Finance expense	$ (12.2)	$ (13.4)
Less: Interest income	0.4	0.2
Finance expense, net	$ (11.8)	$ (13.2)

For the year ended December 31, 2013, finance expense, net related substantially to interest expense on term debt, net interest expense on retirement benefit obligations, and accretion expense related to the Company's asset retirement obligations. Included in finance expense, net in 2013 was $4.1 million related to retirement benefit obligations (2012 - $4.5 million) and $6.6 million related to term debt (2012 - $7.0 million).

14. INCOME TAXES

Income tax expense for the year ended December 31, 2012 includes current tax expense on income subsequent to the Exchange on March 2, 2012. Prior to the Exchange, taxes were minimal reflecting the non-taxable status of the Partnership (Note 22).

The components of income tax expense are as follows:

(millions of Canadian dollars)	2013	2012
Current	$ (14.4)	$ (1.4)
Deferred	(3.6)	(0.5)
Income tax expense	$ (18.0)	$ (1.9)

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

(millions of Canadian dollars)	2013	2012
Income tax expense at statutory rate 2013 - 25.75% (2012 - 25.0%)[1]	$ (15.4)	$ (3.8)
Add (deduct):		
Permanent difference from capital gains and other non deductible items	(1.0)	0.2
Entities with different income tax rates and other tax adjustments	0.8	(0.1)
Change in substantively enacted tax rate[1]	(2.4)	-
Permanent difference – exchange transaction	-	0.9
Tax included in equity – exchange transaction	-	0.9
Income tax expense	$ (18.0)	$ (1.9)

(1) Effective April 1, 2013, the British Columbia Provincial Government increased the corporate tax rate from 10% to 11%.

In addition to the amounts recorded to net income, a tax expense of $9.3 million was recorded to other comprehensive income for the year ended December 31, 2013 (2012 – recovery of $3.7 million) in relation to actuarial gains/losses on defined benefit employee compensation plans.

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Deferred income tax assets		
Loss carry forwards	$ 5.6	$ -
Retirement benefit obligations	17.4	25.7
Other	1.3	1.6
	$ 24.3	$ 27.3
Deferred income tax liabilities		
Depreciable capital assets	$ (96.6)	$ (84.9)
Unrealized foreign exchange gains on debt	-	(2.0)
Other	(0.5)	(0.3)
	(97.1)	(87.2)
Total deferred income taxes, net	$ (72.8)	$ (59.9)

Of the amounts included in the table, $5.9 million of the deferred tax assets are forecast to be recovered within twelve months of the balance sheet date (2012 - $0.5 million deferred tax asset, $2.0 million deferred tax liability).

15. NET CHANGE IN NON-CASH WORKING CAPITAL

(millions of Canadian dollars)	2013	2012
Accounts receivable	$ (0.3)	$ 10.9
Inventories	6.1	7.4
Prepaid expenses and other assets	2.7	(2.5)
Accounts payable and accrued liabilities	7.6	(3.6)
Net decrease in non-cash working capital	$ 16.1	$ 12.2

16. RELATED PARTY TRANSACTIONS

The Company depends on Canfor to provide approximately 61% (2012 - 59%) of its fibre supply as well as to provide certain key business and administrative services as described below. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The Company's Fibre Supply Agreement with Canfor was renewed effective November 1, 2013. The current pricing under the agreement expires September 1, 2016 and may be amended as necessary to ensure that it is reflective of market conditions.

CPPI undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on similar terms as those accorded to unrelated third parties, except where noted otherwise.

The Company purchased wood chips and hog fuel from Canfor sawmills in the amount of $126.1 million in 2013 (2012 - $108.1 million).

Canfor provides certain business and administrative services to CPPI under a services agreement. The total value of the services provided by Canfor in 2013 was $8.7 million (2012 - $3.7 million). These amounts are included in manufacturing and product costs and selling and administration costs.

CPPI provides certain business and administrative services to Canfor under an incidental services agreement. Total value of the services provided to Canfor in 2013 was $2.5 million (2012 - $2.3 million). These amounts are included as a cost recovery in manufacturing and product costs and selling and administration costs.

The Company markets bleached chemi-thermo mechanical pulp production from Canfor's Taylor Pulp Mill ("Taylor") for which it earned commissions totaling $2.0 million in 2013 (2012 - $1.9 million), included in sales. The Company also purchased bleached chemi-thermo mechanical pulp from Taylor for resale totaling $0.2 million in 2013 (2012 – $0.3 million). The Company sold NBSK pulp to Taylor for packaging use totaling $3.0 million in 2013 (2012 – $3.0 million).

In 2012, CPPI purchased $2.6 million wood chips from Lakeland Mills Ltd., in which Canfor has a 33.3% interest.

At December 31, the following amounts were included in the balance sheet of the Company:

(millions of Canadian dollars)	**As at December 31, 2013**	As at December 31, 2012
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**$ 18.9**	$ 12.9
Included in trade and other accounts receivable:		
Products marketed for Canfor	**$ 9.0**	$ 4.4
Canfor[1]	**-**	3.0

(1) Market rate of interest is charged on all amounts receivable from Canfor.

KEY MANAGEMENT PERSONNEL

Key management includes members of the Board of Directors and the Senior Executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)	**2013**	2012
Short-term benefits	**$ 3.9**	$ 5.1
Post-employment benefits	**0.3**	0.5
Restructuring costs	**-**	1.7
	$ 4.2	$ 7.3

Short-term benefits for most members of the Board of Directors include an annual retainer as well as attendance fees.

OTHER RELATED PARTIES

During the year, CPPI made contributions to certain post-employment benefit plans for the benefit of CPPI employees. Note 10 Employee Future Benefits contains further details.

17. SEGMENT INFORMATION

The Company has two reportable segments which operate as separate business units and represent separate product lines.

Sales between pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment.

Information regarding the operations of each reportable segment is included in the table below. The accounting policies of the reportable segments are the same as described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities but rather are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)		Pulp	Paper	Unallocated	Elimination Adjustment		Total
Year ended December 31, 2013							
Sales to external customers	$	738.4	147.1	1.3	-	$	886.8
Sales to other segments	$	76.2	-	-	(76.2)	$	-
Operating income (loss)	$	63.2	22.7	(12.1)	-	$	73.8
Amortization	$	66.1	3.7	0.1	-	$	69.9
Capital expenditures[1]	$	61.2	0.9	0.2	-	$	62.3
Identifiable assets	$	674.9	56.7	37.0	-	$	768.6
Year ended December 31, 2012							
Sales to external customers	$	675.0	134.6	0.8	-	$	810.4
Sales to other segments	$	67.2	-	-	(67.2)	$	-
Operating income (loss)	$	20.0	19.5	(13.9)	-	$	25.6
Amortization	$	63.2	3.8	0.1	-	$	67.1
Capital expenditures[1]	$	86.9	1.1	0.7	-	$	88.7
Identifiable assets	$	670.9	64.6	22.5	-	$	758.0

(1) Capital expenditures represent cash paid for capital assets during the period and include capital expenditures financed by the federal government-funded Green Transformation Program and other government grants.

GEOGRAPHIC INFORMATION

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, revenue is based on the geographical location of customers.

(millions of Canadian dollars)		2013		2012
Sales by location of customer				
Canada	$	41.3	$	51.9
United States		238.3		253.4
Europe		106.9		92.8
Asia		464.5		374.9
Other		35.8		37.4
	$	886.8	$	810.4

18. INSURANCE CLAIM RECEIVABLE

During the second quarter of 2012, an incident at the Northwood Pulp Mill resulted in an unscheduled shutdown and subsequent repairs of the recovery boiler. In the second quarter of 2012, the Company filed insurance claims for property damage and business interruption. The claims were accepted and settled during the fourth quarter of 2013 for $6.6 million in property damage and business interruption of $9.1 million less a deductible of $5.0 million. At December 31, 2013 the total receivable amount of $0.8 million is included in other accounts receivable.

19. COMMITMENTS

At the end of the year, CPPI had contractual commitments for the construction of capital assets for $4.0 million (2012 - $9.9 million). These commitments are expected to be settled over the following year.

CPPI has committed to operating leases for property, plant and equipment. As at December 31, 2013 and 2012, the future minimum lease payments under these operating leases were as follows:

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Within one year	$ 1.7	$ 2.0
Between one and five years	1.0	2.0
Total	$ 2.7	$ 4.0

During the year ended December 31, 2013, $2.9 million (2012 - $3.0 million) was recognized as an expense in the income statement in respect to operating leases.

In addition to the above commitments, the Company has operational agreements with minimum usage requirements. No issues were identified with meeting these obligations.

ENERGY AGREEMENTS

The Company has entered into three separate energy agreements with a BC energy company and electricity transmission provider (the "Energy Agreements") for all three of the Company's mills, with commencement dates ranging from 2006 through 2013. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the Company's pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2013 CPPI had posted $12.2 million of standby letters of credit (2012 - $9.2 million) under these agreements, and had no repayment obligations under the terms of any of these agreements.

20. FINANCIAL RISK AND CAPITAL MANAGEMENT

FINANCIAL RISK MANAGEMENT

CPPI is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

The CPPI Risk Management Committee manages risk in accordance with a Board approved Risk Management Controls Policy. The policy sets out the responsibilities, reporting and counter party credit and communication requirements associated with all of the Company's risk management activity. Responsibility for overall philosophy, direction and approval is that of the Board of Directors.

CREDIT RISK:

Credit risk is the risk of financial loss to CPPI if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, and accounts receivable. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date of three months or less. The cash and cash equivalents balance at December 31, 2013 is $13.5 million (2012 – nil).

CPPI utilizes credit insurance to manage the risk associated with trade receivables. As at December 31, 2013, approximately 87% (2012 - 83%) of the outstanding trade receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade receivable balance at December 31, 2013 was $71.0 million (2012 - $61.6 million). At December 31, 2013, approximately 96% (2012 – 95%) of the trade accounts receivable balance was within CPPI's established credit terms.

LIQUIDITY RISK:

Liquidity risk is the risk that CPPI will be unable to meet its financial obligations as they come due. The Company manages liquidity risk through regular cash-flow forecasting in conjunction with an adequate committed operating loan facility.

At December 31, 2013, CPPI had $10.6 million (2012 – nil) drawn on its operating loans, accounts payable and accrued liabilities of $118.4 million (2012 - $93.4 million), all of which are due within twelve months of the balance sheet date. As at December 31, 2013, the Company had no current debt payment obligations (2012 - $109.4 million).

MARKET RISK:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, commodity and energy prices.

(i) INTEREST RATE RISK:

CPPI is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates.

CPPI utilizes interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. At December 31, 2013, CPPI had $105.0 million in fixed interest rate swaps (2012 – $105.0 million) with interest rates ranging from 2.12% to 2.70% with maturities between 2014 and 2017.

(ii) CURRENCY RISK:

CPPI is exposed to foreign exchange risk primarily related to the US dollar, as CPPI products are sold globally with prices primarily denominated in US dollars or linked to prices quoted in US dollars with certain expenditures transacted in US dollars. In addition, the Company holds financial assets and liabilities in US dollars. These primarily include US dollar bank accounts, investments, and trade accounts.

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $0.7 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable).

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses. A portion of the remaining exposure is covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars.

CPPI had the following foreign exchange derivatives at December 31, 2013 and 2012:

	As at December 31, 2013		As at December 31, 2012	
	Notional Amount	Exchange Rates	Notional Amount	Exchange Rates
US Dollar Collars	(millions of US dollars)	(protection/ topside per dollar)	(millions of US dollars)	(protection/ topside per dollar)
0-12 months	$ 90.0	$ 1.04/1.11	-	-
US Dollar Forwards	(millions of US dollars)	(range of rates, per dollar)	(millions of US dollars)	(range of rates, per dollar)
0-12 months	-	-	$ 2.5	$ 0.99

(iii) COMMODITY PRICE RISK:

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and natural gas prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability.

From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. Under the Price Risk Management Controls Policy up to 5% of pulp sales may be sold in this way.

CPPI had the following pulp futures contracts at December 31, 2013 and 2012:

	As at December 31, 2013		As at December 31, 2012	
	Notional Amount	Average Rate	Notional Amount	Average Rate
Pulp	(tonnes)	(US dollars per tonne)	(tonnes)	(US dollars per tonne)
Future Sales Contracts				
0-12 months	**12,000**	**$945.00**	-	-

A decrease (increase) in the futures market price of pulp of US$10 per tonne would result in a pre-tax gain (loss) of approximately $0.1 million in relation to the pulp futures held at year end.

(iv) ENERGY PRICE RISK:

CPPI is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The exposure is hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. In the case of diesel, CPPI uses Western Texas Intermediate oil ("WTI") contracts to hedge its exposure.

As at December 31, 2013, the Company had no outstanding WTI oil collars outstanding. As at December 31, 2012, the Company had 48.0 thousand barrels of WTI oil collars with weighted average protection of $84.60 per barrel and topside of $97.50 per barrel.

CAPITAL MANAGEMENT

CPPI's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure, that ensure adequate liquidity to maintain and develop the business through the commodity price cycle.

CPPI's capital is comprised of net debt and shareholders' equity:

(millions of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Total debt (including operating loans)	**$ 60.6**	$ 109.4
Cheques issued in excess of cash on hand	**-**	1.2
Less: Cash and cash equivalents	**13.5**	-
Net debt	**$ 47.1**	$ 110.6
Total equity	**438.0**	386.6
	$ 485.1	$ 497.2

The Company has certain financial covenants in its debt obligations that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on total shareholders' equity. The net debt to total capitalization is calculated by dividing total debt less cash and cash equivalents, by shareholders' equity plus total debt less cash and cash equivalents.

CPPI's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. CPPI was in compliance with all its debt covenants for the years ended December 31, 2013 and 2012.

There were no changes in the Company's approach to capital management in the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

21. FINANCIAL INSTRUMENTS

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

CPPI's cash and cash equivalents, accounts receivable, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition. The fair value of long-term debt is disclosed in Note 9.

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement*, requires classification of these items within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, energy costs and interest rates. At December 31, 2013, the fair value of derivative financial instruments was a net liability of $0.1 million (2012 – net asset of $0.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2013 and 2012:

(millions of Canadian dollars)	2013	2012
Foreign exchange collars and forward contracts	$ 0.1	$ 1.7
Crude oil collars	0.1	-
Interest rate swaps	(0.2)	-
Pulp futures	(0.1)	-
Gain (loss) on derivative financial instruments	$ (0.1)	$ 1.7

These financial instruments are classified as held for trading and as level 2 in the fair value hierarchy. There were no financial instrument transfers between fair value hierarchy levels during 2013 or 2012.

22. ACQUISITION OF INTEREST IN CANFOR PULP LIMITED PARTNERSHIP AND PARTNERSHIP WIND-UP

In the first quarter of 2012, as a result of the Exchange described in Note 1, CPPI increased its interest in both the Partnership and the General Partner from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI.

The transaction was accounted for as a reverse acquisition under IFRS, with Canfor's interest in the Pulp Business being the acquirer for accounting purposes and CPPI the acquiree for accounting purposes. The Pulp Business is continuing to operate under CPPI, the legal parent. The financial statements have been presented from the accounting perspective that Canfor's interest in the Pulp Business is the continuing entity after the exchange transaction as it gained control of the Company through a reverse transaction. Prior to March 2, 2012 49.8% of the Pulp Business was held by CPPI and reflected as non-controlling interest. Net income and comprehensive income attributable to CPPI's non-controlling interest in the Pulp business was $4.3 million for the year ended December 31, 2012. Canfor's interest in the Pulp Business was deemed to acquire CPPI on March 2, 2012 and the non-controlling interest was eliminated on that date.

On December 27, 2013, the Partnership was wound up and all of the net assets were transferred to Canfor Pulp Holding Inc. Subsequent to the transfer, Canfor Pulp Holding Inc. was renamed Canfor Pulp Ltd.

23. SUBSEQUENT EVENT

On February 5, 2014, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of February 5, 2014, payable on February 25, 2014, to shareholders of record on February 18, 2014.

Additional Information

Summary of Consolidated Production and Shipments

(unaudited)

PRODUCTION

2013	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	**264.5**	**250.0**	**220.6**	**246.1**	**981.2**
Kraft Paper – 000 mt	**34.8**	**35.3**	**33.8**	**30.8**	**134.7**

2012	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	261.7	212.9	220.6	260.5	955.7
Kraft Paper – 000 mt	32.9	30.0	31.9	35.4	130.2

SHIPMENTS

2013	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	**257.9**	**255.0**	**212.2**	**273.3**	**998.4**
Kraft Paper – 000 mt	**35.0**	**37.2**	**35.5**	**31.1**	**138.8**

2012	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	270.6	230.2	214.4	246.6	961.8
Kraft Paper – 000 mt	29.6	36.8	30.6	32.0	129.0

2013 Selected Quarterly Financial Information

(unaudited)		1st Qtr		2nd Qtr		3rd Qtr		4th Qtr		Year
Sales and income (millions of Canadian dollars)										
Sales	$	217.5	$	227.6	$	196.1	$	245.6	$	886.8
Manufacturing and product costs		143.3		151.7		135.1		165.0		595.1
Freight and other distribution costs		30.9		31.9		27.3		33.2		123.3
Amortization		18.9		19.0		16.5		15.5		69.9
Selling and administration costs		5.4		5.5		5.9		7.2		24.0
Restructuring, mill closure and severance costs		-		-		-		0.7		0.7
Operating income		19.0		19.5		11.3		24.0		73.8
Finance expense, net		(3.1)		(2.5)		(3.0)		(3.2)		(11.8)
Foreign exchange gain (loss) on long-term debt		(2.3)		(3.9)		2.3		(3.4)		(7.3)
Gain (loss) on derivative financial instruments		0.7		(2.6)		1.9		(0.1)		(0.1)
Other income (expense), net		0.7		3.8		(1.5)		2.2		5.2
Net income before income taxes		15.0		14.3		11.0		19.5		59.8
Income tax expense		(4.1)		(6.7)		(1.9)		(5.3)		(18.0)
Net income	$	10.9	$	7.6	$	9.1	$	14.2	$	41.8
Net income attributable to:										
Equity shareholders of the Company	$	10.9	$	7.6	$	9.1	$	14.2	$	41.8
Net income per common share: (Canadian dollars)										
Attributable to equity shareholders of the Company										
Basic and diluted	$	0.15	$	0.11	$	0.13	$	0.20	$	0.59
Cash generated from (used in) (millions of Canadian dollars)										
Operating activities	$	28.3	$	44.6	$	14.9	$	69.1	$	156.9
Financing activities										
Long-term debt		-		-		-		(66.6)		(66.6)
Dividend paid		(3.6)		(3.6)		(3.5)		(3.5)		(14.2)
Share purchases		-		(1.0)		(1.4)		-		(2.4)
Other		(0.2)		(3.8)		(0.2)		5.6		1.4
		(3.8)		(8.4)		(5.1)		(64.5)		(81.8)
Investing activities										
Property, plant, equipment		(6.9)		(8.6)		(26.8)		(20.0)		(62.3)
Other		0.1		0.8		0.8		0.2		1.9
		(6.8)		(7.8)		(26.0)		(19.8)		(60.4)
Increase (decrease) in cash and cash equivalents	$	17.7	$	28.4	$	(16.2)	$	(15.2)	$	14.7

Certain previously published figures have been reclassified to conform to the current presentation.

2012 Selected Quarterly Financial Information

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of Canadian dollars)					
Sales	$ 220.0	$ 210.8	$ 177.7	$ 201.9	$ 810.4
Manufacturing and product costs	153.1	149.8	136.9	135.2	575.0
Freight and other distribution costs	32.1	29.4	26.1	28.8	116.4
Amortization	17.2	14.7	15.2	20.0	67.1
Selling and administration costs	6.1	6.6	6.1	5.8	24.6
Restructuring, mill closure and severance costs	-	-	1.7	-	1.7
Operating income (loss)	11.5	10.3	(8.3)	12.1	25.6
Finance expense, net	(3.2)	(3.1)	(3.2)	(3.7)	(13.2)
Foreign exchange gain (loss) on long-term debt	2.0	(2.2)	3.9	(1.3)	2.4
Gain (loss) on derivative financial instruments	1.3	(1.4)	1.9	(0.1)	1.7
Other income (expense), net	(0.8)	0.8	(1.5)	0.3	(1.2)
Net income (loss) before income taxes	10.8	4.4	(7.2)	7.3	15.3
Income tax recovery (expense)	(0.8)	(1.4)	2.2	(1.9)	(1.9)
Net income (loss)	$ 10.0	$ 3.0	$ (5.0)	$ 5.4	$ 13.4
Net income (loss) attributable to:					
Equity shareholders of the Company	$ 5.7	$ 3.0	$ (5.0)	$ 5.4	$ 9.1
Non-controlling interests	4.3	-	-	-	4.3
	$ 10.0	$ 3.0	$ (5.0)	$ 5.4	$ 13.4
Net income (loss) per common share: (Canadian dollars)					
Attributable to equity shareholders of the Company					
Basic and diluted	$ 0.12	$ 0.04	$ (0.07)	$ 0.08	$ 0.14
Cash generated from (used in) (millions of Canadian dollars)					
Operating activities	$ 41.5	$ 19.2	$ 1.4	$ 25.8	$ 87.9
Financing activities					
Dividend / distributions paid	(7.8)	(7.8)	(3.6)	-	(19.2)
Other	(0.2)	(3.6)	6.8	(11.1)	(8.1)
	(8.0)	(11.4)	3.2	(11.1)	(27.3)
Investing activities					
Property, plant, equipment (net of Green Transformation Program proceeds)	(18.8)	(18.2)	(19.9)	(12.1)	(69.0)
Other	7.1	1.5	-	0.6	9.2
	(11.7)	(16.7)	(19.9)	(11.5)	(59.8)
Increase (decrease) in cash and cash equivalents	$ 21.8	$ (8.9)	$ (15.3)	$ 3.2	$ 0.8

Certain 2012 amounts have been restated due to the adoption of IAS 19, *Employee Benefits*. Further details can be found in the Company's audited 2013 Financial Statements.

Directors and Officers

DIRECTORS

The names, principal occupations and municipalities of residence of the Directors of the Company are as below.
For more information visit www.canforpulp.com

Peter J.G. Bentley, O.C., LL.D. (2)(3)(4)(5)
Chairman Emeritus
Canfor Corporation
Vancouver, British Columbia

Stan E. Bracken-Horrocks, FCA (1)(3)(5)
Retired Partner of
PricewatehouseCoopers, LLP
Kelowna, British Columbia

David M. Calabrigo, Q.C.
Senior Vice President, Corporate Development,
Legal Affairs and Human Resources/
Corporate Secretary of Canfor Corporation
Vancouver, British Columbia

Ronald L. Cliff, C.M., FCA (1)(3)
Chairman of the Board
Heathcliff Properties Ltd.
West Vancouver, British Columbia

Charles J. Jago, PhD, C.M., O.B.C. (2)(4)
Former President of University of
Northern British Columbia
Prince George, British Columbia

Michael J. Korenberg (1)(3)(5)
Deputy Chairman and Managing Director
The Jim Pattison Group
Chairman
Canfor Pulp Products Inc.
West Vancouver, British Columbia

Conrad A. Pinette (2)(4)(5)
Corporate Director
Vancouver, British Columbia

William W. Stinson (2)(4)(5)
Chairman and CEO
Westshore Terminals Investment Corp.
Vancouver, British Columbia

OFFICERS

The names and municipalities of residence of the officers of the Company and the offices held by each of them are as below.
For more information visit www.canforpulp.com

Michael J. Korenberg
Chairman
West Vancouver, British Columbia

Don B. Kayne
Chief Executive Officer
Tsawwassen, British Columbia

Brett Robinson
President
Tsawwassen, British Columbia

Alan R. Nicholl
Chief Financial Officer
West Vancouver, British Columbia

David M. Calabrigo, Q.C.
Corporate Secretary
Vancouver, British Columbia

Sean Curran
Vice President, Sales and Marketing
Tsawwassen, British Columbia

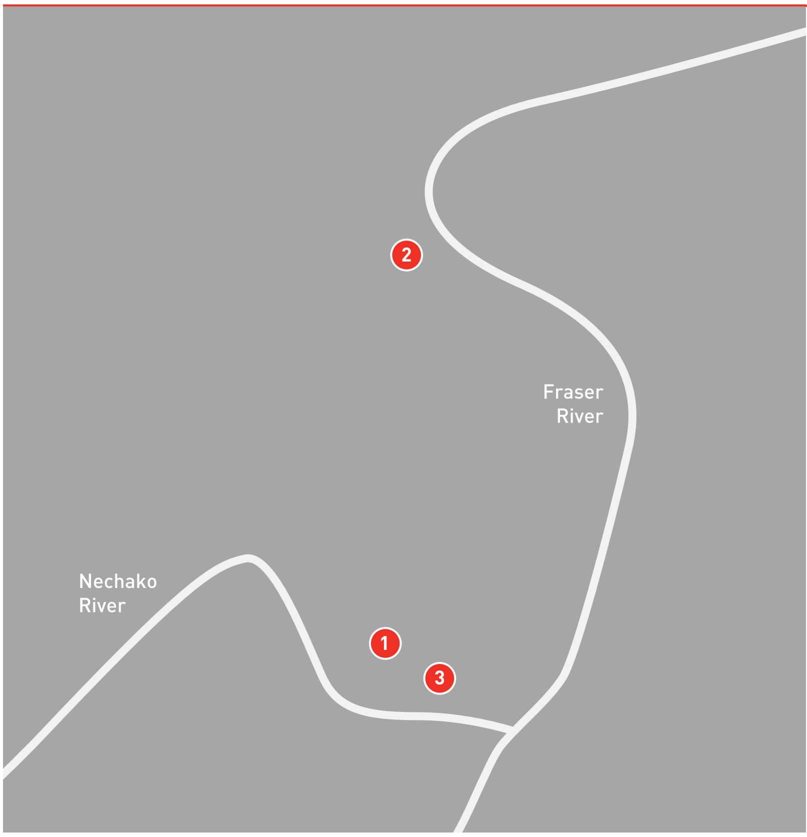
Martin Pudlas
Vice President, Operations
Prince George, British Columbia

(1) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.
(2) Member of the Joint Management Resources and Compensation Committee, which oversees human resources and compensation policies and ensures management development and succession programs are in place.
(3) Member of the Joint Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.
(4) Member of the Joint Environmental, Health and Safety Committee, which develops, reviews and makes recommendations on matters related to the Company's environmental, health and safety policies, and monitors compliance with those policies and with government regulations.
(5) Member of the Joint Capital Expenditure Committee, which reviews proposed capital expenditures.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

Map of Operations

PRINCE GEORGE



WESTERN CANADA

PULP & PAPER

Intercontinental Pulp Mill 1
Northwood Pulp Mill 2
Prince George Pulp and Paper Mill 3
Canfor Pulp Innovation 4

Canfor Pulp Innovation

Canfor Pulp Innovation (CPI) was established and charged with a "search and apply" mandate for technology which determined that we adopt an Open Innovation approach to Canfor Pulp's R&D investment. Located in a purpose built facility in Burnaby, CPI is unique in Canada, right-sized and ultra-responsive to Canfor Pulp's customers and mills.

CPI operates under 4 strategic themes; cost reduction, strength & quality, tissue, and new products. Delivering an annual program comprising of approximately twenty projects, CPI's Open Innovation delivery model comprises of 4 levels: CPI staff; contracted industry leading expertise; and partnerships and technical contracts.

Sponsored research with an international suite of collaborators is now delivering new opportunities from our growing intellectual property portfolio. CPI is delivering opportunities for continuous customer and mill improvements contributing to ensuring that Canfor Pulp remains a global quality and technology leader in NBSK.

Definitions and Information

MILL OPERATIONS

	2013 Production	Capacity
Pulp (000 tonnes)	981.2	1,065.0
Paper (000 tonnes)	134.7	140.0

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting
The Annual General Meeting of the shareholders of Canfor Pulp Products Inc. will be held at the Ramada Hotel Prince George, 444 George Street, Prince George, BC on Wednesday, April 30th, 2014 at 11:00 a.m.

Auditors
PricewaterhouseCoopers LLP
Vancouver, BC

Transfer Agent and Registrar
CST Trust Company Inc.
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax

Stock Listing
Toronto Stock Exchange
Symbol: CFX

Investor Contact
Patrick Elliott
Vice President & Treasurer,
Canfor Corporation
T: (604) 661-5441
F: (604) 661-5429
E: patrick.elliott@canfor.com

Rick Remesch
Corporate Controller
T: (604) 661-5221
F: (604) 648-1952
E: rick.remesch@canforpulp.com

Canfor Pulp Products Inc.
Head Office
#230 – 1700 West 75th Avenue, Vancouver, BC
V6P 6G2
T: (604) 661-5241
F: (604) 661-5226
E: info@canforpulp.com
www.canforpulp.com

Canfor Pulp Innovation
138 – 8610 Glenlyon Parkway, Burnaby, BC V5J 0B6
T: (604) 228-6710
F: (604) 228-6723

CPPI also produces an Annual Information Form. To obtain this publication or more information about the company, please contact Canfor Pulp Products Inc., Public Affairs or visit our website at http://www.canforpulp.com/investors/

Public Affairs Contact
Christine Kennedy
Vice President,
Brand & External Relations
T: (604) 661-5225
F: (604) 661-5219
E: christine.kennedy@canfor.com

DEFINITIONS OF SELECTED FINANCIAL TERMS

Book Value per Common Share is the shareholders' equity at the end of the year, divided by the number of common shares outstanding at the end of the year.

Net Debt is total debt less cash and cash equivalents and temporary investments.

Net Income (Loss) per Common Share is calculated as described in Note 12 to the Consolidated Financial Statements.

Return on Common Shareholders' Equity is equal to net income (loss) attributable to shareholders of the Company for the year, divided by the average total shareholders' equity during the year.

Return on Invested Capital is equal to operating income (loss), plus realized gains (losses) on derivatives and other income (expense), divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.

Working Capital is total current assets (including cash and cash equivalents) less total current liabilities.

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