CANFOR PULP PRODUCTS INC.

Third Quarter Report

For the three and nine months ended September 30, 2013

To Our Shareholders

Canfor Pulp Products Inc. reported net income of $9.1 million, or $0.13 per share, for the third quarter of 2013, compared to net income of $7.6 million, or $0.11 per share, for the second quarter of 2013 and a net loss of $5.0 million, or $0.07 per share, for the third quarter of 2012. For the nine months ended September 30, 2013, the Company's net income was $27.6 million, or $0.39 per share compared to $8.0 million, or $0.06 per share for the nine months ended September 30, 2012.

The net income for the third quarter of 2013 included various items affecting comparability with prior periods, which had an overall net positive impact on the Company's results of $3.5 million, or $0.05 per share. After adjusting for such items, the Company's adjusted net income for the third quarter of 2013 was $5.6 million, or $0.08 per share, down $9.8 million, or $0.14 per share, from an adjusted net income of $15.4 million, or $0.22 per share, for the second quarter of 2013. CPPI's adjusted net loss for the third quarter of 2012 was $8.5 million, or $0.12 per share.

The Company reported operating income of $11.3 million for the third quarter of 2013, down $8.2 million from operating income of $19.5 million reported for the second quarter of 2013, with lower production and shipment volumes slightly offset by improved Northern Bleached Softwood Kraft ("NBSK") pulp sales realizations.

The following table summarizes selected financial information for the Company for the comparative periods[1]:

(millions of Canadian dollars, except per share amounts)	**Q3 2013**	Q2 2013	**YTD 2013**	Q3 2012	YTD 2012
Sales	**$ 196.1**	$ 227.6	**$ 641.2**	$ 177.7	$ 608.5
Operating income (loss)	**$ 11.3**	$ 19.5	**$ 49.8**	$ (8.3)	$ 13.5
Net income (loss)	**$ 9.1**	$ 7.6	**$ 27.6**	$ (5.0)	$ 8.0
Net income (loss) per share, basic and diluted	**$ 0.13**	$ 0.11	**$ 0.39**	$ (0.07)	$ 0.06
Adjusted net income (loss)	**$ 5.6**	$ 15.4	**$ 33.4**	$ (8.5)	$ 0.4
Adjusted net income (loss) per share, basic and diluted	**$ 0.08**	$ 0.22	**$ 0.47**	$ (0.12)	$ 0.01

Results in the third quarter of 2013 reflected relatively steady global softwood pulp markets despite the seasonally slower summer period. Global softwood pulp producer inventory levels were balanced during the quarter, decreasing to 27 days' supply in September 2013, from 28 days in June 2013. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range. Average NBSK pulp list prices were relatively stable in all regions during the third quarter, with list prices to North America and Europe moving up US$10 per tonne, to US$947 per tonne and US$867 per tonne, respectively. The NBSK pulp price to China declined US$15 per tonne, averaging US$685 per tonne in the quarter, but demand from China gathered momentum through the quarter with the September price settling at US$695 per tonne. Third quarter sales realizations showed a modest increase, mostly as a result of a 1% weakening of the Canadian dollar against the US dollar.

The Company's pulp shipments and production levels in the third quarter were impacted by a scheduled major maintenance outage at the Northwood Pulp Mill and lower overall operating rates. The outage at the Northwood Pulp Mill included upgrades to the recovery boiler, and impacted production by 32,000 tonnes in the current quarter, in addition to the impact of 12,000 tonnes in the prior quarter. The Company's operational performance was also impacted by severe thunderstorms in the Prince George region, which resulted in power interruptions and the shutdown of all operations, impacting production by 10,000 tonnes. Pulp unit manufacturing costs for the current quarter increased marginally from the previous quarter, largely reflecting the lower production levels as well as higher fibre costs, partially offset by the timing of maintenance spending, lower chemical costs and seasonally lower energy costs.

The Company's paper segment results were down $1.2 million from the previous quarter, which was primarily the result of reduced shipments and higher unit manufacturing costs, the latter reflecting higher slush pulp costs and the impact of lower pulp production levels.

The Company ended the quarter with cash and cash equivalents of $28.7 million and net debt to capitalization of 17.1%.

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits.* Further details can be found in the Company's unaudited interim consolidated financial statements.

NBSK pulp markets are projected to improve modestly in the fourth quarter of 2013. Producer inventories are balanced with steady demand and solid order files through the first half of the fourth quarter. For the month of October, the Company has announced an increase in the NBSK pulp list price of US$20 per tonne in all regions and an additional price increase of US$20 per tonne for all regions effective November 1st. A risk of price weakness continues to exist from further hardwood pulp capacity projected to come online in early 2014. A scheduled maintenance outage at the Prince George Pulp Mill was completed in early October 2013 and resulted in reduced market pulp production of approximately 4,000 tonnes.

On October 29, 2013, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of October 30, 2013, payable on November 19, 2013, to the shareholders of record on November 12, 2013.

Ronald L. Cliff
Co - Chairman

Don B. Kayne
Chief Executive Officer

Michael J. Korenberg
Co - Chairman

Canfor Pulp Products Inc.
Third Quarter 2013
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended September 30, 2013 relative to the quarters ended June 30, 2013 and September 30, 2012, and the financial position of the Company at September 30, 2013. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2013 and 2012, as well as the 2012 annual MD&A and the 2012 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2012 (available at www.canforpulp.com). The financial information in this interim 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. Operating income before amortization is not a generally accepted earnings measure 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 this measure, CPPI's operating income before amortization may not be directly comparable with similarly titled measures used by other companies. A reconciliation of operating income before amortization to operating income (loss) reported in accordance with IFRS is included in this MD&A.

Factors that could impact future operations are also discussed. These factors may be influenced by both 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 October 29, 2013.

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.

CPPI SHARE EXCHANGE

On March 2, 2012, Canadian Forest Products Ltd. ("Canfor") acquired 35,776,483 common shares of Canfor Pulp Products, Inc. ("CPPI") in exchange for its 35,776,483 Class B Exchangeable LP Units of Canfor Pulp Limited Partnership ("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. 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. For the quarter ended March 31, 2012 and all subsequent quarters, the results of CPPI include the results of the Partnership.

THIRD QUARTER 2013 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of Canadian dollars, except per share amounts)	**Q3 2013**	Q2 2013	**YTD 2013**	Q3 2012	YTD 2012
Operating income (loss) by segment:					
Pulp	**$ 8.3**	$ 15.4	**$ 39.1**	$ (8.5)	$ 12.2
Paper	**$ 5.9**	$ 7.1	**$ 18.9**	$ 5.0	$ 12.5
Unallocated	**$ (2.9)**	$ (3.0)	**$ (8.2)**	$ (4.8)	$ (11.2)
Total operating income (loss)	**$ 11.3**	$ 19.5	**$ 49.8**	$ (8.3)	$ 13.5
Add: Amortization	**$ 16.5**	$ 19.0	**$ 54.4**	$ 15.2	$ 47.1
Total operating income before amortization	**$ 27.8**	$ 38.5	**$ 104.2**	$ 6.9	$ 60.6
Add (deduct):					
Working capital movements	**$ (10.1)**	$ 5.5	**$ (11.8)**	$ (5.2)	$ 9.8
Defined benefit pension plan contributions	**$ (2.3)**	$ (2.5)	**$ (7.6)**	$ (2.5)	$ (7.7)
Other operating cash flows, net	**$ (0.5)**	$ 3.1	**$ 3.0**	$ 2.2	$ (0.6)
Cash from operating activities	**$ 14.9**	$ 44.6	**$ 87.8**	$ 1.4	$ 62.1
Add (deduct):					
Distributions / dividends paid	**$ (3.5)**	$ (3.6)	**$ (10.7)**	$ (3.6)	$ (19.2)
Finance expenses paid	**$ (0.2)**	$ (3.8)	**$ (4.2)**	$ (0.2)	$ (4.0)
Share purchase	**$ (1.4)**	$ (1.0)	**$ (2.4)**	$ -	$ -
Capital additions, net[2]	**$ (26.5)**	$ (7.9)	**$ (41.3)**	$ (19.9)	$ (55.3)
Acquisition of CPPI cash on exchange	**$ -**	$ -	**$ -**	$ -	$ 6.8
Other, net	**$ 0.5**	$ 0.1	**$ 0.7**	$ -	$ 0.2
Change in cash / operating loans	**$ (16.2)**	$ 28.4	**$ 29.9**	$ (22.3)	$ (9.4)
Average exchange rate (US$ per C$1.00)[3]	**$ 0.963**	$ 0.977	**$ 0.977**	$ 1.005	$ 0.998

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.
[2] Additions to property, plant and equipment are shown net of amounts received under Government funding initiatives.
[3] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)[1]

After-tax impact, net of non-controlling interests[4] (millions of Canadian dollars, except per share amounts)		Q3 2013		Q2 2013		YTD 2013		Q3 2012		YTD 2012
Net Income (Loss)[4]	**$**	**9.1**	$	7.6	**$**	**27.6**	$	(5.0)	$	3.7
Foreign exchange (gain) loss on long-term debt	**$**	**(2.0)**	$	3.4	**$**	**3.4**	$	(3.4)	$	(3.3)
(Gain) loss on derivative financial instruments	**$**	**(1.5)**	$	2.0	**$**	**-**	$	(1.4)	$	(1.3)
Change in substantively enacted tax rate	**$**	**-**	$	2.4	**$**	**2.4**	$	-	$	-
Restructuring charges for management changes	**$**	**-**	$	-	**$**	**-**	$	1.3	$	1.3
Net impact of above items	**$**	**(3.5)**	$	7.8	**$**	**5.8**	$	(3.5)	$	(3.3)
Adjusted Net Income (Loss)[4]	**$**	**5.6**	$	15.4	**$**	**33.4**	$	(8.5)	$	0.4
Net Income (Loss) per share (EPS), as reported[4]	**$**	**0.13**	$	0.11	**$**	**0.39**	$	(0.07)	$	0.06
Net impact of above items per share	**$**	**(0.05)**	$	0.11	**$**	**0.08**	$	(0.05)	$	(0.05)
Adjusted Net Income (Loss) per share[4]	**$**	**0.08**	$	0.22	**$**	**0.47**	$	(0.12)	$	0.01

[4] 2012 amounts exclude the impact of non-controlling interest in the Partnership. Amounts are attributable to controlling interest in the Partnership.

The Company reported operating income of $11.3 million for the third quarter of 2013, down $8.2 million from operating income of $19.5 million reported for the second quarter of 2013, with lower production and shipment volumes slightly offset by improved Northern Bleached Softwood Kraft ("NBSK") pulp sales realizations.

Results in the third quarter of 2013 reflected relatively steady global softwood pulp markets despite the seasonally slower summer period. Global softwood pulp producer inventory levels were balanced during the quarter, decreasing to 27 days' supply in September 2013, from 28 days in June 2013. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range. Average NBSK pulp list prices were relatively stable in all regions during the third quarter, with list prices to North America and Europe moving up US$10 per tonne, to US$947 per tonne and US$867 per tonne, respectively. The NBSK pulp price to China declined US$15 per tonne averaging US$685 per tonne in the quarter, but demand from China gathered momentum through the quarter with the September price settling at US$695 per tonne. Third quarter sales realizations showed a modest increase, mostly as a result of a 1% weakening of the Canadian dollar against the US dollar.

The Company's pulp shipments and production levels in the third quarter were impacted by a scheduled major maintenance outage at the Northwood Pulp Mill and lower overall operating rates. The outage at the Northwood Pulp Mill included upgrades to the recovery boiler, and impacted production by 32,000 tonnes in the current quarter, in addition to the impact of 12,000 tonnes in the prior quarter. The Company's operational performance was also impacted by severe thunderstorms in the Prince George region, which resulted in power interruptions and the shutdown of all operations, impacting production by 10,000 tonnes. Pulp unit manufacturing costs for the current quarter increased marginally from the previous quarter, largely reflecting the lower production levels as well as higher fibre costs, partially offset by the timing of maintenance spending, lower chemical costs and seasonally lower energy costs.

The Company's paper segment results were down $1.2 million from the previous quarter, which was primarily the result of reduced shipments and higher unit manufacturing costs, the latter reflecting higher slush pulp costs and the impact of lower pulp production levels.

Compared to the third quarter of 2012, operating income improved by $19.6 million, principally due to higher pulp segment earnings. Improved pulp segment results principally reflected higher sales realizations, and to a lesser degree, a 4% weaker Canadian dollar, partially offset by increased volumes to lower-margin regions. Pulp unit manufacturing costs were in line with the third quarter of 2012, as higher fibre costs were offset by a reduction in operating expenses.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp[5]

(millions of Canadian dollars unless otherwise noted)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Sales	**$ 158.0**	$ 187.7	**$ 526.1**	$ 144.8	$ 506.8
Operating income before amortization	**$ 23.8**	$ 33.4	**$ 90.5**	$ 5.8	$ 56.4
Operating income (loss)	**$ 8.3**	$ 15.4	**$ 39.1**	$ (8.5)	$ 12.2
Average pulp price delivered to U.S. – US$[6]	**$ 947**	$ 937	**$ 927**	$ 853	$ 874
Average price in Cdn$	**$ 983**	$ 959	**$ 949**	$ 849	$ 876
Production – pulp (000 mt)	**220.6**	250.0	**735.1**	220.6	695.2
Shipments – pulp (000 mt)	**212.2**	255.0	**725.1**	214.4	715.2
Marketed on behalf of Canfor	**55.3**	52.8	**158.4**	54.5	163.6

[5] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.
[6] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

Operating income for the pulp segment was $8.3 million for the third quarter of 2013, down $7.1 million from the previous quarter and up $16.8 million from the third quarter of 2012. Compared to the previous quarter, results for the pulp segment reflected lower production and shipment volumes, partially mitigated by a modest improvement in sales realizations resulting mostly from a weakening of the Canadian dollar against the US dollar. Results in the current quarter were impacted by a scheduled maintenance outage at the Northwood Pulp Mill and lower overall operating rates, which contributed to the lower production volumes and increased unit manufacturing costs.

Improved results for the pulp segment compared to the third quarter of 2012 principally reflected improved sales realizations, resulting from an 11% increase in pulp list prices and to a lesser extent, a 4% weaker Canadian dollar. Partially offsetting these favourable impacts were increased volume to lower-margin regions, principally China, and upward pressure on discounts in North American markets. Unit manufacturing costs were in line with the same period in 2012, as higher fibre costs, resulting mainly from increased sawmill residual chips prices (linked to NBSK market pulp sales realizations), were offset by a reduction in chemical and labour costs, the latter reflecting one-time costs of $3.2 million recorded in the third quarter of 2012 associated with new five year collective labour agreements. Shipment and production volumes for the third quarter of 2013 were in line with the comparable period of the prior year.

Markets

Global softwood pulp markets held up relatively well through the seasonally slow summer period with stable pricing and demand through the quarter. Global softwood pulp producer inventory levels were balanced during the quarter, decreasing to 27 days' supply in September 2013, from 28 days in June 2013[7]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood sulphate pulp increased 2% for the first nine months of 2013[8] compared to the same period in 2012. The improvement in softwood pulp shipments was primarily driven by increased demand from North America and Europe, partially offset by reduced demand from China earlier in the quarter. Looking ahead, global softwood pulp markets are projected to improve modestly in the fourth quarter of 2013 with steady demand and balanced producer inventory levels.

[7] 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.
[8] As reported by Pulp and Paper Products Council ("PPPC") statistics.

Sales

The Company's pulp shipments in the third quarter of 2013 were 212,200 tonnes, a decrease of 42,800 tonnes, or 17%, from the previous quarter, mostly due to lower production volumes. Compared to the third quarter of 2012, shipments were down slightly however, for both periods, shipments were well below historical levels, due largely to the extended maintenance outages in the third quarters of both 2013 and 2012.

Average NBSK pulp list prices were relatively stable in all regions during the third quarter. North American and European NBSK pulp list prices were both up US$10 per tonne, with the list price to North America averaging US$947 per tonne while the list price to Europe averaged US$867 per tonne in the quarter. The North American market continued to experience upward pressure on discounts. The NBSK pulp price to China declined US$15 per tonne averaging US$685 per tonne in the quarter, but demand from China gathered momentum through the quarter with the September price settling at US$695 per tonne. Current quarter sales realizations showed a modest increase, mostly as a result of a 1% weakening of the Canadian dollar against the US dollar.

Compared to the third quarter of 2012, pulp sales realizations were higher, with an 11% gain in the average NBSK pulp list price to North America and a 4% weaker Canadian dollar, more than offsetting increased volume to lower-margin regions, principally China, and higher discounts in North American markets. The North American average NBSK pulp list price increased US$94 per tonne and the list price to Europe increased US$90 per tonne. The NBSK pulp list price to China increased US$55 per tonne.

Operations

Pulp production in the current quarter was 220,600 tonnes, a decrease of 29,400 tonnes, or 12%, from the previous quarter, and was unchanged when compared to the third quarter of 2012.

The reduced production in the current quarter reflected completion of the scheduled major maintenance outage at the Northwood Pulp Mill and lower overall operating rates compared to both comparable periods. The outage at the Northwood Pulp Mill included upgrades to the recovery boiler, and impacted production by 32,000 tonnes in the current quarter, in addition to the impact of 12,000 tonnes in the prior quarter. The Company's operational performance in the current quarter was also impacted by severe thunderstorms in the Prince George region which resulted in power interruptions and related shutdown of all operations, impacting production by 10,000 tonnes. In the third quarter of 2012, production levels included an extended scheduled outage for maintenance and capital upgrades at the Company's Prince George Pulp Mill.

Pulp unit manufacturing costs experienced a marginal increase from the previous quarter, largely reflecting the impact of lower production levels and higher fibre costs, partially offset by the timing of maintenance spending, lower chemical costs and seasonally lower energy costs. Fibre costs increased moderately compared to the previous quarter, reflecting higher-cost sawmill residual chips, where prices are linked to NBSK pulp sales realizations, and increased whole log chip costs mainly related to pressure on stumpage rates.

Compared to the third quarter of 2012, unit manufacturing costs were largely unchanged, primarily reflecting the impact of reduced chemical costs and lower labour costs, offset by higher fibre costs. The higher labour costs in the third quarter of 2012 reflected one-time costs of $3.2 million associated with payments made upon ratification of the new five year collective labour agreements. Fibre costs saw a moderate increase, reflecting increased prices for sawmill residual chips (linked to NBSK market pulp sales realizations) coupled with increased prices for higher-cost whole log chips.

Paper

Selected Financial Information and Statistics – Paper[9]

(millions of Canadian dollars unless otherwise noted)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Sales	**$ 38.1**	$ 39.7	**$ 113.9**	$ 32.8	$ 100.9
Operating income before amortization	**$ 6.9**	$ 8.0	**$ 21.8**	$ 5.9	$ 15.3
Operating income	**$ 5.9**	$ 7.1	**$ 18.9**	$ 5.0	$ 12.5
Production – paper (000 mt)	**33.8**	35.3	**103.9**	31.9	94.8
Shipments – paper (000 mt)	**35.5**	37.2	**107.7**	30.6	97.0

[9] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.

Overview

Operating income for the paper segment was $5.9 million for the third quarter of 2013, down $1.2 million from the previous quarter and relatively unchanged from the third quarter of 2012. The decrease in earnings in relation to the prior period resulted primarily from lower production and shipments, and slightly higher unit manufacturing costs, offset in part by higher unit sales realizations.

Compared to the third quarter of 2012, higher shipments and unit sales realizations were offset by higher unit manufacturing costs primarily resulting from increased slush pulp costs.

Markets

Global Kraft paper markets were balanced through the third quarter of 2013. North American demand improved towards the end of the third quarter with strong order files and operating rates. As a result, prices remained relatively stable through the quarter.

Sales

The Company's paper shipments in the third quarter of 2013 were 35,500 tonnes, a decrease of 1,700 tonnes, or 5%, from the previous quarter and up 4,900 tonnes, or 16%, from the third quarter of 2012. Prime bleached shipments, which attract higher prices, were in line with the previous quarter and down 4% from the third quarter of 2012.

Unit sales realizations for paper products improved slightly from both comparable periods, mainly due to the weaker Canadian dollar. The benefit of the weaker Canadian dollar compared to the third quarter of 2012 was offset in part by the reduced prime bleached product shipments.

Operations

Paper production in the third quarter of 2013 was 33,800 tonnes, a decrease of 1,500 from the previous quarter, reflecting reduced operating rates in the current period; however, overall operating rates were improved compared to the same period in 2012, contributing to an increase in paper production of 1,900 tonnes, or 6%.

Paper unit manufacturing costs increased slightly from the previous quarter largely reflecting the impact of higher market pulp prices on slush pulp costs and the impact of lower production volumes on unit costs, partially offset by a reduction in maintenance costs.

Compared to the third quarter of 2012, unit manufacturing costs showed a moderate increase, as higher costs for slush pulp, principally reflecting higher market pulp prices, more than offset a reduction in operating costs and higher production levels.

Unallocated Items

Selected Financial Information[10]

(millions of Canadian dollars)		Q3 2013		Q2 2013		YTD 2013		Q3 2012		YTD 2012
Corporate costs	**$**	**(2.9)**	$	(3.0)	**$**	**(8.2)**	$	(4.8)	$	(11.2)
Finance expense, net	**$**	**(3.0)**	$	(2.5)	**$**	**(8.6)**	$	(3.2)	$	(9.5)
Foreign exchange gain (loss) on long-term debt	**$**	**2.3**	$	(3.9)	**$**	**(3.9)**	$	3.9	$	3.7
Gain (loss) on derivative financial instruments	**$**	**1.9**	$	(2.6)	**$**	**-**	$	1.9	$	1.8
Other income (expense), net	**$**	**(1.5)**	$	3.8	**$**	**3.0**	$	(1.5)	$	(1.5)

[10] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.

Corporate costs were $2.9 million for the third quarter of 2013, in line with the previous quarter and down $1.9 million from the third quarter of 2012. The decrease from the comparative period in the prior year was principally related to senior management changes in the third quarter of 2012.

Net finance expense for the third quarter of 2013 was $3.0 million, up slightly from the second quarter and in line with the same quarter in the prior year. The increase from the second quarter was principally due to an adjustment to accretion expense on the asset retirement obligations recorded in the previous quarter. 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 gain on its US dollar denominated debt of $2.3 million for the third quarter of 2013, as a result of a slightly stronger Canadian dollar against the US dollar at the close of the third quarter of 2013 compared to the end of the prior quarter, with the closing quarter end exchange rate rising by 2% over that period. In the second quarter of 2013, a weakening of the Canadian dollar at the quarter end close dates resulted in a translation loss of $3.9 million, while the third quarter of 2012 showed a gain of $3.9 million due to a strengthening 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, energy costs and interest rates. For the third quarter of 2013, the Company recorded a net gain of $1.9 million related to derivative financial instruments, primarily reflecting unrealized gains on the US dollar collars, related to the strengthening of the Canadian dollar at the close of the current quarter relative to the exchange rate at the close of the second quarter of 2013.

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

(millions of Canadian dollars)		Q3 2013		Q2 2013		YTD 2013		Q3 2012		YTD 2012
Foreign exchange collars and forward contracts	**$**	**2.0**	$	(2.7)	**$**	**-**	$	1.8	$	1.9
Crude oil collars	**$**	**0.1**	$	-	**$**	**0.2**	$	0.1	$	(0.1)
Interest rate swaps	**$**	**(0.2)**	$	0.1	**$**	**(0.2)**	$	-	$	-
	$	**1.9**	$	(2.6)	**$**	**-**	$	1.9	$	1.8

Other expense, net for the third quarter of 2013 of $1.5 million included unfavourable exchange movements on US dollar denominated cash, receivables and payables compared to favourable exchange movements of $3.8 million in the previous quarter and unfavourable exchange movements of $1.5 million in the third quarter of 2012.

Other Comprehensive Income (Loss)

In the third quarter of 2013, the Company recorded an after-tax credit to the statements of other comprehensive income (loss) of $3.2 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The gain principally reflects the return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation. In the previous quarter, a credit of $6.8 million (after-tax) was recorded, while an after-tax charge of $4.3 million was recorded in the third quarter of 2012.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	Q3 2013	Q2 2013	YTD 2013	Q3 2012	YTD 2012
Increase (decrease) in cash and cash equivalents	**$ (16.2)**	$ 28.4	**$ 29.9**	$ (15.3)	$ (2.4)
Operating activities	**$ 14.9**	$ 44.6	**$ 87.8**	$ 1.4	$ 62.1
Financing activities	**$ (3.7)**	$ (7.4)	**$ (14.9)**	$ 3.2	$ (16.2)
Investing activities	**$ (27.4)**	$ (8.8)	**$ (43.0)**	$ (19.9)	$ (48.3)
Ratio of current assets to current liabilities			**1.2 : 1**		2.1 : 1
Net debt to capitalization			**17.1%**		23.8%
ROIC – Consolidated[11]	**1.5%**	3.6%	**8.1%**	(1.1)%	2.2%

[11] 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.

Changes in Financial Position

Cash generated from operating activities was $14.9 million in the third quarter of 2013, down $29.7 million from $44.6 million generated in the previous quarter, resulting from a decrease in operating earnings coupled with an increase in working capital. The decrease in cash generated from working capital movements for the most part reflected a seasonal increase in inventories, prepaid property tax and insurance payments, and a reduction in trade payable balances, principally related to payments in respect of maintenance outages and capital projects in the previous quarter. Partially offsetting these movements in working capital was a decrease in trade accounts receivable balances partly reflecting the lower sales volumes. Compared to the third quarter of 2012, cash generated from operating activities increased by $13.5 million, largely reflecting higher cash earnings in the current quarter, slightly offset by an increase in working capital balances.

Financing activities used cash of $3.7 million in the current quarter, compared to $7.4 million in the previous quarter and cash generated of $3.2 million in the third quarter of 2012. Financing cash flows in the current period primarily consisted of a $3.5 million dividend, in line with the payment made in both the comparative quarters. Finance payments in the current quarter were $0.2 million, in line with the same period in the comparative year. Finance payments in the second quarter of 2013 were $3.8 million principally relating to interest payments on the Company's debt. Financing cash flows in the third quarter of 2012 also included $7.0 million drawn on the Company's operating bank loans.

Cash used in investing activities of $27.4 million in the current quarter principally related to completion of the upgrades to the recovery boiler and continued preparation for the turbine upgrades at the Company's Northwood Pulp Mill planned for early 2014, as well as work performed on a power boiler precipitator at the Prince George Pulp Mill which was completed during the maintenance outage early in the fourth quarter of 2013. Additional capital cash expenditures related to scheduled maintenance outages in the current and previous quarter. Capital expenditures increased from the previous quarter and were in line with the same quarter in 2012. Cash used for investing activities in the current quarter also included share purchases of $1.4 million (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section).

Liquidity and Financial Requirements

At September 30, 2013, CPPI had cash of $28.7 million and an operating loan facility of $110.0 million which was unused, except for $11.1 million reserved for several standby letters of credit with BC Hydro. In addition, the Company has a separate facility with a maturity date of November 30, 2013, to cover a $7.5 million standby letter of credit issued to BC Hydro under a power generation agreement.

CPPI has US$110.0 million of senior debt that is scheduled for repayment on November 30, 2013, and the Company currently intends to repay this using a combination of cash on hand and its revolving operating loan facility. The senior debt is in the form of unsecured US dollar private placement notes and bears interest at 6.41%.

The Company remained in compliance with the covenants relating to its operating loans and long-term debt during the quarter, and expects to remain so for the foreseeable future.

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 may continue until March 4, 2014. During the third quarter of 2013, CPPI purchased 97,431 common shares for $0.9 million. Also during the third quarter of 2013, $0.5 million was paid for share purchases made late in the previous quarter. For the nine months ended September 30, 2013, CPPI purchased 262,449 common shares for $2.4 million. As a result of the share purchases during the quarter, Canfor's interest in CPPI increased to 50.4% by quarter end.

Dividends

On October 29, 2013, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of October 30, 2013, payable on November 19, 2013, to the shareholders of record on November 12, 2013.

OUTLOOK

Pulp

NBSK pulp markets are projected to improve modestly in the fourth quarter of 2013. Producer inventories are balanced with steady demand and solid order files through the first half of the fourth quarter. For the month of October, the Company has announced an increase in the NBSK pulp list price of US$20 per tonne in all regions and an additional price increase of US$20 per tonne for all regions effective November 1st. A risk of price weakness continues to exist from further hardwood pulp capacity projected to come online in early 2014. A scheduled maintenance outage at the Prince George Pulp Mill was completed in October 2013 and resulted in reduced market pulp production of approximately 4,000 tonnes.

Paper

Kraft paper markets are projected to remain stable heading into the fourth quarter with healthy order files, which should allow prices to hold until the end of the year. A scheduled maintenance outage was completed at the Prince George Paper Mill in October 2013 resulting in approximately 3,000 tonnes of reduced paper production.

OUTSTANDING SHARES

At October 29, 2013, there were 71,007,341 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement obligations based upon 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 the Company's financial condition.

CHANGES IN ACCOUNTING POLICIES

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 three months ended September 30, 2012 was an increase in finance expense of $0.4 million and a decrease in the net income of $0.4 million. For nine months ended September 30, 2012 there was an increase in finance expense of $1.1 million and a decrease in net income of $1.0 million due to the adoption of amended IAS 19.

The effect on the consolidated statement of other comprehensive income (loss) for the three months ended September 30, 2012 was a decrease in defined benefit plan actuarial losses of $0.4 million (after tax). The effect for nine months ended September 30, 2012 was a decrease in defined benefit plan actuarial losses of $1.0 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,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

Further details of the new accounting Standard and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2012.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2013, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2012 annual statutory reports which are available on www.canforpulp.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION[12]

	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Sales and income (millions of Canadian dollars)								
Sales	**$ 196.1**	$ 227.6	$ 217.5	$ 201.9	$ 177.7	$ 210.8	$ 220.0	$ 212.7
Operating income before amortization	**$ 27.8**	$ 38.5	$ 37.9	$ 32.1	$ 6.9	$ 25.0	$ 28.7	$ 37.9
Operating income (loss)	**$ 11.3**	$ 19.5	$ 19.0	$ 12.1	$ (8.3)	$ 10.3	$ 11.5	$ 16.5
Net income (loss)	**$ 9.1**	$ 7.6	$ 10.9	$ 5.4	$ (5.0)	$ 3.0	$ 10.0	$ 15.8
Per common share (dollars)								
Net income (loss) – basic and diluted	**$ 0.13**	$ 0.11	$ 0.15	$ 0.08	$ (0.07)	$ 0.04	$ 0.12	$ 0.22
Statistics								
Pulp shipments (000 mt)	**212.2**	255.0	257.9	246.6	214.4	230.2	270.6	231.0
Paper shipments (000 mt)	**35.5**	37.2	35.0	32.0	30.6	36.8	29.6	30.2
Average exchange rate – US$/Cdn$	**$ 0.963**	$ 0.977	$ 0.991	$ 1.009	$ 1.005	$ 0.990	$ 0.999	$ 0.977
Average NBSK pulp list price delivered to U.S. (US$)	**$ 947**	$ 937	$ 897	$ 863	$ 853	$ 900	$ 870	$ 920

[12] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. 2011 amounts have not been restated. Further details can be found in the Company's unaudited interim consolidated financial statements.

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.

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2013**		As at December 31, 2012 (Note 1)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**28.7**	$	-
Accounts receivable - Trade (Note 10)		**66.7**		61.6
- Other		**9.3**		22.8
Inventories (Note 2)		**148.0**		134.1
Prepaid expenses and other assets		**11.4**		8.3
Total current assets		**264.1**		226.8
Property, plant and equipment		**524.8**		530.8
Other long-term assets		**3.2**		0.4
Total assets	**$**	**792.1**	$	758.0
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**-**	$	1.2
Accounts payable and accrued liabilities		**108.1**		93.4
Current portion of long-term debt (Note 3(b))		**113.3**		109.4
Total current liabilities		**221.4**		204.0
Retirement benefit obligations		**90.0**		103.9
Other long-term provisions		**3.3**		3.6
Deferred income taxes, net		**66.1**		59.9
Total liabilities	**$**	**380.8**	$	371.4
EQUITY				
Share capital	**$**	**523.4**	$	525.3
Retained earnings (deficit)		**(112.1)**		(138.7)
Total equity	**$**	**411.3**	$	386.6
Total liabilities and equity	**$**	**792.1**	$	758.0

Subsequent Event (Note 13)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"R.L. Cliff"

Director, R.L. Cliff

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2013**	3 months ended September 30, 2012	9 months ended September 30, **2013**	9 months ended September 30, 2012
		(Note 1)		(Note 1)
Sales	**$ 196.1**	$ 177.7	**$ 641.2**	$ 608.5
Costs and expenses				
Manufacturing and product costs	**135.1**	136.9	**430.1**	439.8
Freight and other distribution costs	**27.3**	26.1	**90.1**	87.6
Amortization	**16.5**	15.2	**54.4**	47.1
Selling and administration costs	**5.9**	6.1	**16.8**	18.8
Restructuring and severance costs	**-**	1.7	**-**	1.7
	184.8	186.0	**591.4**	595.0
Operating income (loss)	**11.3**	(8.3)	**49.8**	13.5
Finance expense, net	**(3.0)**	(3.2)	**(8.6)**	(9.5)
Foreign exchange gain (loss) on long-term debt	**2.3**	3.9	**(3.9)**	3.7
Gain on derivative financial instruments (Note 5)	**1.9**	1.9	**-**	1.8
Other income (expense), net	**(1.5)**	(1.5)	**3.0**	(1.5)
Net income (loss) before income taxes	**11.0**	(7.2)	**40.3**	8.0
Income tax recovery (expense) (Note 6)	**(1.9)**	2.2	**(12.7)**	-
Net income (loss)	**$ 9.1**	$ (5.0)	**$ 27.6**	$ 8.0
Net income (loss) attributable to:				
Controlling interest in the Partnership	**$ 9.1**	$ (5.0)	**$ 27.6**	$ 3.7
Non-controlling interest in the Partnership (Note 11)	**-**	-	**-**	4.3
Net income (loss)	**$ 9.1**	$ (5.0)	**$ 27.6**	$ 8.0
Net income (loss) per common share: (in dollars)				
Attributable to controlling interest in the Partnership				
- Basic and diluted (Note 7)	**$ 0.13**	$ (0.07)	**$ 0.39**	$ 0.06

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2013	3 months ended September 30, 2012 (Note 1)	9 months ended September 30, 2013	9 months ended September 30, 2012 (Note 1)
Net income (loss)	**$ 9.1**	$ (5.0)	**$ 27.6**	$ 8.0
Other comprehensive income (loss)				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (losses) (Note 4)	**4.2**	(5.7)	**13.6**	(13.0)
Income tax recovery (expense) on defined benefit plan actuarial losses (gains) (Note 6)	**(1.0)**	1.4	**(3.4)**	3.2
Other comprehensive income (loss), net of tax	**3.2**	(4.3)	**10.2**	(9.8)
Total comprehensive income (loss)	**$ 12.3**	$ (9.3)	**$ 37.8**	$ (1.8)
Total comprehensive income (loss) attributable to:				
Controlling interest in the Partnership	**$ 12.3**	$ (9.3)	**$ 37.8**	$ (6.1)
Non-controlling interest in the Partnership (Note 11)	**-**	-	**-**	4.3
Total comprehensive income (loss)	**$ 12.3**	$ (9.3)	**$ 37.8**	$ (1.8)

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2013	3 months ended September 30, 2012 (Note 1)	9 months ended September 30, 2013	9 months ended September 30, 2012 (Note 1)
Share capital				
Balance at beginning of period	**$ 524.1**	$ 525.3	**$ 525.3**	$ 294.9
Share purchases (Note 7)	**(0.7)**	-	**(1.9)**	-
Exchange transaction (Note 11)	**-**	-	**-**	230.4
Balance at end of period	**$ 523.4**	$ 525.3	**$ 523.4**	$ 525.3
Retained earnings (deficit)				
Balance at beginning of period	**$ (120.7)**	$ (129.7)	**$ (138.7)**	$ (67.3)
Net income (loss) excluding amount attributable to non-controlling interests in the Partnership	**9.1**	(5.0)	**27.6**	3.7
Defined benefit plan actuarial gains (losses), net of tax	**3.2**	(4.3)	**10.2**	(9.8)
Dividends declared	**(3.5)**	(3.6)	**(10.7)**	(11.4)
Share purchases (Note 7)	**(0.2)**	-	**(0.5)**	-
Exchange transaction (Note 11)	**-**	-	**-**	(57.8)
Balance at end of period	**$ (112.1)**	$ (142.6)	**$ (112.1)**	$ (142.6)
Total equity attributable to equity holders of the Company	**$ 411.3**	$ 382.7	**$ 411.3**	$ 382.7
Non-controlling interests in the Partnership				
Balance at beginning of period	**$ -**	$ -	**$ -**	$ 226.1
Net income attributable to non-controlling interests in the Partnership	**-**	-	**-**	4.3
Exchange transaction (Note 11)	**-**	-	**-**	(230.4)
Balance at end of period	**$ -**	$ -	**$ -**	$ -
Total equity	**$ 411.3**	$ 382.7	**$ 411.3**	$ 382.7

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2013	2012 (Note 1)	9 months ended September 30, 2013	2012 (Note 1)
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ 9.1**	$ (5.0)	**$ 27.6**	$ 8.0
Items not affecting cash:				
Amortization	**16.5**	15.2	**54.4**	47.1
Income tax expense (recovery)	**1.9**	(2.2)	**12.7**	-
Foreign exchange gain (loss) on long-term debt	**(2.3)**	(3.9)	**3.9**	(3.7)
Changes in mark-to-market value of derivative financial instruments	**(1.9)**	0.6	**0.1**	0.6
Employee future benefits	**1.4**	1.5	**4.1**	4.3
Net finance expense	**3.0**	3.2	**8.6**	9.5
Other, net	**(0.3)**	0.3	**(4.1)**	0.3
Defined benefit pension plan contributions	**(2.3)**	(2.5)	**(7.6)**	(7.7)
Income taxes paid, net	**(0.1)**	(0.6)	**(0.1)**	(6.1)
Net change in non-cash working capital (Note 8)	**(10.1)**	(5.2)	**(11.8)**	9.8
	14.9	1.4	**87.8**	62.1
Financing activities				
Finance expenses paid	**(0.2)**	(0.2)	**(4.2)**	(4.0)
Dividends paid	**(3.5)**	(3.6)	**(10.7)**	(19.2)
Increase in operating bank loans	**-**	7.0	**-**	7.0
	(3.7)	3.2	**(14.9)**	(16.2)
Investing activities				
Additions to property, plant and equipment	**(26.8)**	(29.9)	**(42.3)**	(74.8)
Expenditures under Green Transformation Program	**-**	-	**-**	(1.1)
Reimbursements under Green Transformation Program	**-**	10.0	**-**	19.0
Other government grants received	**0.3**	-	**1.0**	1.6
Share purchases (Note 7)	**(1.4)**	-	**(2.4)**	-
Acquisition of CPPI cash on exchange (Note 11)	**-**	-	**-**	6.8
Other, net	**0.5**	-	**0.7**	0.2
	(27.4)	(19.9)	**(43.0)**	(48.3)
Increase (decrease) in cash and cash equivalents*	**(16.2)**	(15.3)	**29.9**	(2.4)
Cash and cash equivalents at beginning of period*	**44.9**	10.9	**(1.2)**	(2.0)
Cash and cash equivalents at end of period*	**$ 28.7**	$ (4.4)	**$ 28.7**	$ (4.4)

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, including Canfor Pulp Limited Partnership ("the Partnership"). The Partnership'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").

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 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. The acquisition of the Partnership by CPPI as a result of the Exchange has been accounted for as a continuity of interests by applying reverse acquisition accounting (Note 11).

At September 30, 2013, CPPI held a 100% interest in the Partnership and the General Partner and Canfor held a 50.4% interest in CPPI. The financial statements at September 30, 2013 include the accounts of CPPI, the Partnership and its subsidiaries (together referred to as "CPPI" or "the Company").

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2012, available at www.canforpulp.com or www.sedar.com.

The currency of presentation for these financial statements is the Canadian dollar.

Changes in Accounting Policies

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 three months ended September 30, 2012 was an increase in finance expense of $0.4 million and a decrease in net income of $0.4 million. For the nine months ended September 30, 2012 there was an increase in finance expense of $1.1 million and a decrease in net income of $1.0 million due to the adoption of amended IAS 19.

  The effect on the consolidated statement of other comprehensive income (loss) for the three months ended September 30, 2012 was a decrease in defined benefit plan actuarial losses of $0.4 million (after tax). The effect for the nine months ended September 30, 2012 was a decrease in defined benefit plan actuarial losses of $1.0 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,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

Further details of the new accounting Standard and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2012.

2. Inventories

(millions of Canadian dollars)	**As at September 30, 2013**	As at December 31, 2012
Pulp	**$ 69.8**	$ 59.4
Paper	**15.7**	18.2
Wood chips	**15.9**	10.9
Processing materials and supplies	**46.6**	45.6
	$ 148.0	$ 134.1

3. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars)	**As at September 30, 2013**	As at December 31, 2012
Operating loan facility	**$ 110.0**	$ 110.0
Facility for BC Hydro letter of credit	**7.5**	7.5
Total operating loans	**117.5**	117.5
BC Hydro letters of credit	**(11.1)**	(9.2)
Total available operating loans	**$ 106.4**	$ 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 operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. In addition, the facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. The maturity date of this facility is November 13, 2016.

The company has a separate facility with a maturity date of November 30, 2013 to cover a $7.5 million standby letter of credit issued to BC Hydro.

As at September 30, 2013, the Company was in compliance with all covenants relating to its operating loans.

(b) Long-Term Debt

At September 30, 2013, the fair value of the Company's long-term debt, which was measured at its amortized cost of $113.3 million (US$110.0 million), was $114.1 million. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

4. Employee Future Benefits

For the nine months ended September 30, 2013, an amount of $13.6 million (before tax) was credited to other comprehensive income. The gain reflects the return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation at September 30, 2013. For the three months ended September 30, 2013, the gain was $4.2 million (before tax). For the nine months ended September 30, 2012, an amount of $13.0 million (before tax) was charged to other comprehensive income. For the three months ended September 30, 2012, the charge was $5.7 million (before tax).

For the Company's single largest pension plan, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the funded deficit by an estimated $12.8 million.

The assumptions used to estimate the changes in net accrued benefit liabilities were as follows:

Pension Benefit Plans	
Discount rate	
September 30, 2013	**4.70%**
June 30, 2013	4.60%
December 31, 2012	4.20%
September 30, 2012	4.30%
June 30, 2012	4.65%
December 31, 2011	5.00%
Rate of return on plan assets	
9 months ended September 30, 2013	**6.60%**
6 months ended June 30, 2013	3.20%
9 months ended September 30, 2012	6.60%
6 months ended June 30, 2012	2.60%
Other Benefit Plans	
Discount rate	
September 30, 2013	**4.80%**
June 30, 2013	4.70%
December 31, 2012	4.40%
September 30, 2012	4.50%
June 30, 2012	4.90%
December 31, 2011	5.30%

5. 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.

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.

The following table summarizes CPPI's financial instruments measured at fair value at September 30, 2013 and December 31, 2012, and shows the level within the fair value hierarchy in which they have been classified:

(millions of Canadian dollars)	Fair Value Hierarchy Level		**As at September 30, 2013**		As at December 31, 2012
Financial assets					
Held for trading					
Derivative financial instruments	Level 2	**$**	**0.1**	$	0.1
		$	**0.1**	$	0.1
Financial liabilities					
Held for trading					
Derivative financial instruments	Level 2	**$**	**0.2**	$	-
		$	**0.2**	$	-

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs, and interest rates. At September 30, 2013, the fair value of derivative financial instruments was a net liability of $0.1 million (December 31, 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 three and nine month periods ended September 30, 2013 and 2012:

	3 months ended September 30,				9 months ended September 30,			
(millions of Canadian dollars)		**2013**		2012		**2013**		2012
Foreign exchange collars and forward contracts	**$**	**2.0**	$	1.8	**$**	**-**	$	1.9
Crude oil collars		**0.1**		0.1		**0.2**		(0.1)
Interest rate swaps		**(0.2)**		-		**(0.2)**		-
	$	**1.9**	$	1.9	**$**	**-**	$	1.8

The following table summarizes the fair value of the derivative financial instruments included in the balance sheet at September 30, 2013 and December 31, 2012:

(millions of Canadian dollars)		**As at September 30, 2013**		As at December 31, 2012
Foreign exchange collars and forward contracts	**$**	**(0.1)**	$	-
Crude oil collars		**0.1**		0.1
Interest rate swaps		**(0.1)**		-
Total asset (liability), net		**(0.1)**		0.1
Less: current portion asset (liability), net		**-**		0.1
Long-term portion liability, net	**$**	**(0.1)**	$	-

6. Income Taxes

Income tax expense for the three and nine months ended September 30, 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 11).

	3 months ended September 30,				9 months ended September 30,			
(millions of Canadian dollars)		**2013**		2012		**2013**		2012
Current	**$**	**1.7**	$	1.5	**$**	**(10.0)**	$	0.6
Deferred		**(3.6)**		0.7		**(2.7)**		(0.6)
Income tax recovery (expense)	**$**	**(1.9)**	$	2.2	**$**	**(12.7)**	$	-

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

(millions of Canadian dollars)	3 months ended September 30, **2013**	2012	9 months ended September 30, **2013**	2012
Income tax recovery (expense) at statutory rate 2013 – 25.75% (2012 – 25.0%)[1]	**$ (2.9)**	$ 1.8	**$ (10.4)**	$ (2.0)
Add (deduct):				
Permanent difference from capital gains and other non-deductible items	**0.3**	0.4	**(0.5)**	0.4
Tax recovery (expense) at rates other than statutory rate and other tax adjustments	**0.7**	-	**0.6**	(0.2)
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 recovery (expense)	**$ (1.9)**	$ 2.2	**$ (12.7)**	$ -

[1] In the second quarter of 2013, the British Columbia Provincial Government increased corporate tax rate from 10% to 11%.

In addition to the amounts recorded to net income, a tax expense of $1.0 million was recorded to other comprehensive income for the three month period ended September 30, 2013 (three months ended September 30, 2012 – recovery of $1.4 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the nine months ended September 30, 2013, the tax expense was $3.4 million (nine months ended September 30, 2012 – tax recovery of $3.2 million).

7. Earnings per Share and Normal Course Issuer Bid

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. As a result of the exchange transaction and the application of reverse acquisition accounting, the CPPI shares relating to the non-controlling interest shareholders were not included until March 2, 2012. The issuance of the new shares as a result of the exchange was accompanied by a corresponding increase in CPPI's investment in the Partnership and as a result there was no dilution of CPPI's net income (loss) per share.

	3 months ended September 30, **2013**	2012	9 months ended September 30, **2013**	2012
Weighted average number of common shares	**71,069,979**	71,269,790	**71,188,256**	63,238,458

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 may continue until March 4, 2014. During the third quarter of 2013, CPPI purchased 97,431 common shares for $0.9 million. Also during the third quarter of 2013, $0.5 million was paid for share purchases made late in the previous quarter. For the nine months ended September 30, 2013, CPPI purchased 262,449 common shares for $2.4 million. As a result of the share purchases during the quarter, Canfor's interest in CPPI increased to 50.4% by quarter end.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	3 months ended September 30, **2013**	2012	9 months ended September 30, **2013**	2012
Accounts receivable	**$ 20.7**	$ 20.5	**$ 3.7**	$ 12.6
Inventories	**(10.0)**	(1.9)	**(13.9)**	8.9
Prepaid expenses and other assets	**(8.6)**	(8.1)	**(3.1)**	(9.4)
Accounts payable and accrued liabilities	**(12.2)**	(15.7)	**1.5**	(2.3)
Net decrease (increase) in non-cash working capital	**$ (10.1)**	$ (5.2)	**$ (11.8)**	$ 9.8

9. 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.

(millions of Canadian dollars)		Pulp	Paper	Unallocated	Elimination Adjustment		Consolidated
3 months ended September 30, 2013							
Sales to external customers	**$**	**158.0**	**38.1**	**-**	**-**	**$**	**196.1**
Sales to other segments	**$**	**19.5**	**-**	**-**	**(19.5)**	**$**	**-**
Operating income (loss)	**$**	**8.3**	**5.9**	**(2.9)**	**-**	**$**	**11.3**
Amortization	**$**	**15.5**	**1.0**	**-**	**-**	**$**	**16.5**
Capital expenditures[1]	**$**	**26.6**	**0.2**	**-**	**-**	**$**	**26.8**
3 months ended September 30, 2012							
Sales to external customers	$	144.8	32.8	0.1	-	$	177.7
Sales to other segments	$	15.5	-	-	(15.5)	$	-
Operating income (loss)	$	(8.5)	5.0	(4.8)	-	$	(8.3)
Amortization	$	14.3	0.9	-	-	$	15.2
Capital expenditures[1]	$	29.5	0.3	0.1	-	$	29.9
9 months ended September 30, 2013							
Sales to external customers	**$**	**526.1**	**113.9**	**1.2**	**-**	**$**	**641.2**
Sales to other segments	**$**	**57.5**	**-**	**-**	**(57.5)**	**$**	**-**
Operating income (loss)	**$**	**39.1**	**18.9**	**(8.2)**	**-**	**$**	**49.8**
Amortization	**$**	**51.4**	**2.9**	**0.1**	**-**	**$**	**54.4**
Capital expenditures[1]	**$**	**41.7**	**0.5**	**0.1**	**-**	**$**	**42.3**
Identifiable assets	**$**	**685.4**	**61.8**	**44.9**	**-**	**$**	**792.1**
9 months ended September 30, 2012							
Sales to external customers	$	506.8	100.9	0.8	-	$	608.5
Sales to other segments	$	49.2	-	-	(49.2)	$	-
Operating income (loss)	$	12.2	12.5	(11.2)	-	$	13.5
Amortization	$	44.2	2.8	0.1	-	$	47.1
Capital expenditures[1]	$	74.6	0.8	0.5	-	$	75.9
Identifiable assets	$	693.6	61.4	20.6	-	$	775.6

[1] Capital expenditures represent cash paid for capital assets during the period. For 2012, capital expenditures includes amounts that were financed by the federal government-funded Green Transportation Program.

10. 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 a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2012 audited consolidated financial statements of CPPI and the Partnership and are based on agreed upon amounts between the parties.

Transactions and payables to Canfor include purchases of wood chips, pulp and administrative services. These are summarized below:

(millions of Canadian dollars)	3 months ended September 30, 2013	3 months ended September 30, 2012	9 months ended September 30, 2013	9 months ended September 30, 2012
Transactions				
Canfor – purchase of wood chips and other	**$ 36.8**	$ 27.4	**$ 96.6**	$ 79.2

(millions of Canadian dollars)	**As at September 30, 2013**	As at December 31, 2012
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**$ 20.0**	$ 12.9
Included in trade and other accounts receivable:		
Products marketed for Canfor	**$ 8.9**	$ 4.4
Canfor[1]	**-**	3.0

[1] Market rate of interest is charged on all amounts receivable from Canfor.

11. Acquisition of Interest in Canfor Pulp Limited Partnership

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 three months ended March 30, 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.

12. 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. The Company recognized a property damage insurance receivable of $5.6 million, which substantially offset the repair costs related to this incident. In addition, the Company recognized a business interruption insurance receivable of $9.7 million, less a deductible of $5.0 million, to recover the estimated impact of lost production. As at September 30, 2013, the total insurance receivable amount, net of advances received, of $1.9 million is included within Other Accounts Receivable.

13. Subsequent Event

On October 29, 2013, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of October 30, 2013, payable on November 19, 2013, to shareholders of record on November 12, 2013.