2014

Canfor Pulp Products Inc.

quarter three

interim report

for the three months ended sept 30, 2014

Canfor Pulp

To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported net income of $24.3 million, or $0.34 per share, for the third quarter of 2014, compared to $18.8 million, or $0.27 per share, for the second quarter of 2014 and $9.1 million, or $0.13 per share, for the third quarter of 2013. For the nine months ended September 30, 2014, the Company's net income was $68.8 million, or $0.97 per share, compared to $27.6 million, or $0.39 per share, for the nine months ended September 30, 2013.

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

(millions of Canadian dollars, except per share amounts)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Sales	**$ 237.6**	$ 252.5	**$ 716.5**	$ 196.1	$ 641.2
Operating income before amortization	**$ 47.7**	$ 44.8	**$ 144.9**	$ 27.8	$ 104.2
Operating income	**$ 31.4**	$ 29.6	**$ 97.4**	$ 11.3	$ 49.8
Net income	**$ 24.3**	$ 18.8	**$ 68.8**	$ 9.1	$ 27.6
Net income per share, basic and diluted	**$ 0.34**	$ 0.27	**$ 0.97**	$ 0.13	$ 0.39
Adjusted net income	**$ 24.5**	$ 18.4	**$ 69.6**	$ 5.6	$ 33.4
Adjusted net income per share, basic and diluted	**$ 0.34**	$ 0.26	**$ 0.98**	$ 0.08	$ 0.47

After adjusting for items affecting comparability with the prior periods, the Company's adjusted net income for the third quarter of 2014 was $24.5 million, or $0.34 per share, compared to an adjusted net income of $18.4 million, or $0.26 per share, for the second quarter of 2014. CPPI's adjusted net income for the third quarter of 2013 was $5.6 million, or $0.08 per share.

The Company reported operating income of $31.4 million for the third quarter of 2014, up from operating income of $29.6 million for the second quarter of 2014, as the impact of scheduled maintenance outages in the previous quarter and increased earnings in the Company's paper segment more than offset lower pulp shipments and unit sales realizations in the current quarter.

Global softwood pulp markets remained stable during the seasonally slower summer period, supported by solid demand through the third quarter of 2014. Global softwood pulp producer inventory levels returned to balanced levels during the quarter, increasing to 27 days' supply in September 2014 (market conditions are generally considered balanced when inventories are in the 27-30 days of supply range). Average Northern Bleached Softwood Kraft ("NBSK") pulp list prices were relatively stable to North America and Europe through the quarter, with the average NBSK pulp list price to North America remaining unchanged at US$1,030 per tonne. Overall sales realizations were down modestly compared to the previous quarter, in part reflecting downward price pressure on shipments into Asia.

Pulp shipments were down 3% from the previous quarter principally as a result of higher-than-normal shipments in the second quarter of 2014 following resolution of the transportation related challenges earlier in the year. Pulp production levels were up 4% from the previous quarter reflecting the impact of scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills in the previous quarter, which reduced pulp production by 18,000 tonnes, partly offset by disruptions to operations in early July, which reduced pulp production by 10,000 tonnes. Pulp unit manufacturing costs were down moderately reflecting the higher production in the current quarter, while fibre costs were broadly in line with the second quarter of 2014.

The Company's paper segment's operating income was up $2.7 million from the previous quarter, reflecting lower unit manufacturing costs related to a scheduled maintenance outage in the previous quarter, and modestly higher unit sales realizations. These gains were offset in part by higher-than-normal quarterly shipments in the second quarter of 2014 following the aforementioned transportation related challenges earlier in the year.

The Company anticipates NBSK pulp list prices will remain relatively stable for the fourth quarter of 2014. For the month of October 2014, the Company has announced a NBSK pulp list price of US$1,030 per tonne in North America, unchanged from September 2014, and list prices to other regions remained largely unchanged.

A scheduled maintenance outage at the Northwood Pulp Mill has been substantially completed in the fourth quarter of 2014 and resulted in reduced pulp production of approximately 17,000 tonnes.

On October 29, 2014, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 18, 2014, to the shareholders of record on November 11, 2014.

Michael J. Korenberg
Chairman

Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
Third Quarter 2014
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, 2014 relative to the quarters ended June 30, 2014 and September 30, 2013, and the financial position of the Company at September 30, 2014. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2014 and 2013, as well as the 2013 annual MD&A and the 2013 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2013 (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 (Loss) 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 (Loss) 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 (Loss) 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 (Loss) 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 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, 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.

THIRD QUARTER 2014 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Operating income (loss) by segment:					
Pulp	**$ 27.5**	$ 28.8	**$ 91.3**	$ 8.3	$ 39.1
Paper	**$ 6.5**	$ 3.8	**$ 14.8**	$ 5.9	$ 18.9
Unallocated	**$ (2.6)**	$ (3.0)	**$ (8.7)**	$ (2.9)	$ (8.2)
Total operating income	**$ 31.4**	$ 29.6	**$ 97.4**	$ 11.3	$ 49.8
Add: Amortization	**$ 16.3**	$ 15.2	**$ 47.5**	$ 16.5	$ 54.4
Total operating income before amortization[1]	**$ 47.7**	$ 44.8	**$ 144.9**	$ 27.8	$ 104.2
Add (deduct):					
Working capital movements	**$ (13.2)**	$ 10.7	**$ (22.4)**	$ (10.1)	$ (11.8)
Defined benefit pension plan contributions	**$ (1.2)**	$ (1.3)	**$ (5.0)**	$ (2.3)	$ (7.6)
Income taxes paid, net	**$ (12.5)**	$ (1.3)	**$ (23.4)**	$ (0.1)	$ (0.1)
Other operating cash flows, net	**$ 3.9**	$ (1.3)	**$ 6.1**	$ (0.4)	$ 3.1
Cash from operating activities	**$ 24.7**	$ 51.6	**$ 100.2**	$ 14.9	$ 87.8
Add (deduct):					
Dividends paid	**$ (4.4)**	$ (4.5)	**$ (12.4)**	$ (3.5)	$ (10.7)
Finance expenses paid	**$ (0.6)**	$ (0.6)	**$ (2.0)**	$ (0.2)	$ (4.2)
Capital additions, net	**$ (16.2)**	$ (20.2)	**$ (46.4)**	$ (26.5)	$ (41.3)
Share purchases	**$ (2.0)**	$ -	**$ (2.0)**	$ (1.4)	$ (2.4)
Other, net	**$ 0.1**	$ -	**$ 0.1**	$ 0.5	$ 0.7
Change in cash / operating loans	**$ 1.6**	$ 26.3	**$ 37.5**	$ (16.2)	$ 29.9
ROIC – Consolidated period-to-date[2]	**5.3%**	4.0%	**15.1%**	1.5%	8.1%
Average exchange rate (US$ per C$1.00)[3]	**$ 0.918**	$ 0.917	**$ 0.914**	$ 0.963	$ 0.977

[1] Amortization includes certain capitalized major maintenance costs.
[2] Consolidated Return on Invested Capital ("ROIC") is equal to operating income plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
[3] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Net Income

After-tax impact (millions of Canadian dollars, except per share amounts)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Net income, as reported	**$ 24.3**	$ 18.8	**$ 68.8**	$ 9.1	$ 27.6
(Gain) loss on derivative financial instruments	**$ 0.2**	$ (0.4)	**$ 0.8**	$ (1.5)	$ -
Foreign exchange (gain) loss on long-term debt	**$ -**	$ -	**$ -**	$ (2.0)	$ 3.4
Change in substantively enacted tax rate	**$ -**	$ -	**$ -**	$ -	$ 2.4
Net impact of above items	**$ 0.2**	$ (0.4)	**$ 0.8**	$ (3.5)	$ 5.8
Adjusted net income	**$ 24.5**	$ 18.4	**$ 69.6**	$ 5.6	$ 33.4
Net income per share (EPS), as reported	**$ 0.34**	$ 0.27	**$ 0.97**	$ 0.13	$ 0.39
Net impact of above items per share[4]	**$ -**	$ (0.01)	**$ 0.01**	$ (0.05)	$ 0.08
Adjusted net income per share[4]	**$ 0.34**	$ 0.26	**$ 0.98**	$ 0.08	$ 0.47

[4] The year-to-date net impact of the adjusting items per share and adjusted net income per share does not equal the sum of the quarterly per share amounts due to rounding.

The Company reported operating income of $31.4 million for the third quarter of 2014, up from operating income of $29.6 million for the second quarter of 2014, as the impact of scheduled maintenance outages in the previous quarter and increased earnings in the Company's paper segment more than offset lower pulp shipments and unit sales realizations in the current quarter.

Global softwood pulp markets remained stable during the seasonally slower summer period, supported by solid demand through the third quarter of 2014. Global softwood pulp producer inventory levels returned to balanced levels during the quarter, increasing to 27 days' supply in September 2014 (market conditions are generally considered balanced when inventories are in the 27-30 days of supply range). Average Northern Bleached Softwood Kraft ("NBSK") pulp list prices were relatively stable to North America and Europe through the quarter, with the average NBSK pulp list price to North America remaining unchanged at US$1,030 per tonne. Overall sales realizations were down modestly compared to the previous quarter, in part reflecting downward price pressure on shipments into Asia.

Pulp shipments were down 3% from the previous quarter principally as a result of higher-than-normal shipments in the second quarter of 2014 following resolution of the transportation related challenges earlier in the year. Pulp production levels were up 4% from the previous quarter reflecting the impact of scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills in the previous quarter, which reduced pulp production by 18,000 tonnes, partly offset by disruptions to operations in early July, which reduced pulp production by 10,000 tonnes. Pulp unit manufacturing costs were down moderately reflecting the higher production in the current quarter, while fibre costs were broadly in line with the second quarter of 2014.

The Company's paper segment's operating income was up $2.7 million from the previous quarter, reflecting lower unit manufacturing costs related to a scheduled maintenance outage in the previous quarter, and modestly higher unit sales realizations. These gains were offset in part by higher-than-normal quarterly shipments in the second quarter of 2014 following the aforementioned transportation related challenges earlier in the year.

Compared to the third quarter of 2013, operating income was up $20.1 million, reflecting a 13% increase in pulp shipments, driven by a similar increase in production levels, as well as gains in pulp and paper unit sales realizations. The improved sales realizations were principally attributable to increased prices to all regions and a 5 cent, or 5%, weaker Canadian dollar compared to the US dollar. Pulp unit manufacturing costs were substantially unchanged from the same period in 2013, as market-driven increases to fibre costs, higher chemical and energy costs were offset by higher production levels and reduced maintenance spending. The current quarter results also benefitted from increased energy revenue compared to the same period in 2013, mostly due to the recently completed turbine generator upgrades at the Northwood Pulp Mill.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars unless otherwise noted)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Sales	**$ 196.5**	$ 207.8	**$ 595.0**	$ 158.0	$ 526.1
Operating income before amortization[5]	**$ 42.9**	$ 43.2	**$ 136.2**	$ 23.8	$ 90.5
Operating income	**$ 27.5**	$ 28.8	**$ 91.3**	$ 8.3	$ 39.1
Average pulp price delivered to U.S. – US$[6]	**$ 1,030**	$ 1,030	**$ 1,026**	$ 947	$ 927
Average price in Cdn$	**$ 1,122**	$ 1,123	**$ 1,123**	$ 983	$ 949
Production – pulp (000 mt)	**248.1**	237.7	**744.5**	220.6	735.1
Shipments – pulp (000 mt)	**240.5**	246.9	**709.8**	212.2	725.1
Marketed on behalf of Canfor	**50.6**	67.5	**151.6**	55.3	158.4

[5] Amortization includes certain capitalized major maintenance costs.
[6] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

Operating income for the pulp segment was $27.5 million for the third quarter of 2014, down $1.3 million from the previous quarter and up $19.2 million from the third quarter of 2013.

Lower shipments in the current quarter reflected higher-than-normal shipments in the second quarter of 2014 following resolution of transportation related challenges earlier in 2014. Despite NBSK pulp list prices to North America and Europe holding up relatively well through the quarter, sales realizations to Asia showed a modest decline in part reflecting downward price pressure through the middle of the second quarter of 2014 and into the current quarter. Partly mitigating the lower sales revenue in the current quarter were moderately lower pulp unit manufacturing costs, reflecting the higher costs in the previous quarter due to maintenance outages.

Compared to the third quarter of 2013, pulp segment results benefitted from a 13% increase in pulp shipments, driven by a similar increase in production, as well as strong gains in unit sales realizations, reflecting marked improvements in NBSK pulp prices across all regions coupled with the favourable impact of a 5% weaker Canadian dollar. Unit manufacturing costs were in line with the same period in 2013, as market-driven increases to fibre costs, and increased chemical and energy costs were offset by higher production levels and reduced maintenance spending, mainly due to the outages in the comparable period of 2013. Higher energy revenue further contributed to the improved pulp results compared to the third quarter of 2013.

Markets

Global softwood pulp markets remained stable during the seasonally slower summer period, supported by solid demand through the third quarter of 2014. Global softwood pulp producer inventory levels returned to balanced levels during the quarter, increasing 2 days from the end of June 2014 to 27 days' supply in September 2014[7]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp were broadly in line with the second quarter of 2014, reflecting stable shipments to most regions in the current quarter[8].

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

Sales

The Company's pulp shipments in the third quarter of 2014 totalled 240,500 tonnes, a decrease of 6,400 tonnes, or 3%, from the previous quarter, and up 28,300 tonnes, or 13%, from the same period in 2013. Decreased pulp shipments compared to the previous quarter principally reflected higher-than-normal shipments in the second quarter of 2014 following resolution of the aforementioned transportation related challenges earlier in the year. Compared to the third quarter of 2013, the 13% increase in shipments was driven by a similar increase in production volumes that was largely due to the scheduled and weather-related maintenance outages in the comparable period of 2013.

Reflecting stable global softwood pulp markets, the average North American NBSK pulp list price remained at the three-year high of US$1,030 per tonne, in line with the second quarter of 2014. Discount levels were consistent with the previous quarter. The NBSK pulp list price to Europe also remained relatively unchanged, averaging US$932 per tonne, an increase of US$7 per tonne from the previous quarter. Overall current quarter sales realizations were down modestly compared to the previous quarter, in part reflecting downward price pressure on shipments into Asia through the middle of the second quarter of 2014 and into the current quarter. Energy sales were up slightly from the second quarter of 2014, reflecting increased power generation from the Company's turbines.

Compared to the third quarter of 2013, pulp sales realizations continued to experience strong gains largely as a result of increases in average pulp list prices, the 5% weaker Canadian dollar and, to a lesser extent, increased shipments to higher-margin regions. The North American NBSK pulp list price increased US$83 per tonne, or 9%, and the list price to Europe was up 8% from the same period in 2013. Partially offsetting the full impact of these gains were increased discounts in North American markets and less pronounced increases in sales realizations to Asia. Energy revenue was also well up compared to the same period in 2013, reflecting the upgrades to the Northwood Pulp Mill turbines completed earlier in 2014 as well as increased power generation from the turbine at the Company's Prince George operation.

Operations

Pulp production in the current quarter was 248,100 tonnes, up 10,400 tonnes, or 4%, from the previous quarter, and up 27,500 tonnes, or 12%, from the third quarter of 2013. Pulp production in the current quarter reflected some disruptions to operations early in the quarter, but thereafter operating rates quickly returned to normal levels and productivity improved as the quarter progressed. Production in the second quarter of 2014 included the impact of maintenance outages at the Intercontinental and Prince George Pulp Mills, which reduced market pulp production by 18,000 tonnes; in the comparative third quarter of 2013, production levels were impacted by a maintenance outage at the Northwood Pulp Mill and severe thunderstorms, which reduced pulp production by 32,000 tonnes and 10,000 tonnes, respectively.

Pulp unit manufacturing costs were down moderately compared to the second quarter of 2014, reflecting the higher costs in the previous quarter attributable to the maintenance outages and, to a lesser degree, seasonally lower energy costs. Fibre costs were broadly in line with the previous quarter, as slightly lower prices for sawmill residual chips (linked to lower NBSK market pulp sales realizations) and lower freight costs were offset by an increased proportion of higher-cost whole log chips and seasonal adjustments.

Compared to the third quarter of 2013, unit manufacturing costs were largely unchanged, primarily reflecting the impact of higher fibre and energy costs, offset by higher production levels and reduced maintenance spending. The increase in fibre costs was largely attributable to market-driven increases to sawmill residual and whole log chip prices and higher freight costs, while the higher energy costs reflected higher natural gas prices and increased fuel costs related to the incremental energy generation.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Sales	**$ 41.0**	$ 44.5	**$ 120.3**	$ 38.1	$ 113.9
Operating income before amortization[9]	**$ 7.4**	$ 4.6	**$ 17.4**	$ 6.9	$ 21.8
Operating income	**$ 6.5**	$ 3.8	**$ 14.8**	$ 5.9	$ 18.9
Production – paper (000 mt)	**35.9**	35.4	**108.0**	33.8	103.9
Shipments – paper (000 mt)	**35.7**	39.7	**106.7**	35.5	107.7

[9] Amortization includes certain capitalized major maintenance costs.

Overview

Operating income for the paper segment was $6.5 million for the third quarter of 2014, up $2.7 million from the second quarter of 2014 and up $0.6 million from the third quarter of 2013.

The increase in earnings in relation to the second quarter of 2014 resulted primarily from lower manufacturing costs, largely related to a maintenance outage at the Company's paper machine in the previous quarter, and modestly higher unit sales realizations. Lower unit manufacturing costs were offset in part by lower shipments in the current quarter as shipments returned to more normal quarterly levels following the aforementioned transportation related challenges earlier in the year.

Compared to the third quarter of 2013, higher unit sales realizations and the impact on unit costs of increased production were almost entirely offset by higher unit manufacturing costs resulting from increased market-driven slush pulp costs and the timing of maintenance costs.

Markets

Global kraft paper market demand was strong through the third quarter of 2014. Price increases announced in the second quarter of 2014 were fully implemented during the current quarter. Order files remained strong for both North American and offshore markets while European end users saw positive growth for the first time in years.

Sales

The Company's paper shipments in the third quarter of 2014 were 35,700 tonnes, down 4,000 tonnes, or 10%, from the previous quarter and in line with the same period of the previous year. Compared to the second quarter of 2014, lower shipments largely reflected a drawdown to normal inventory levels in the second quarter of 2014 following transportation related challenges early in 2014. Prime bleached shipments, which attract higher prices, were in line with the previous quarter and up 3% from the third quarter of 2013.

Current quarter unit sales realizations improved modestly from the second quarter of 2014, largely due to improved prices for the Company's paper products. Compared to the same period in 2013, unit sales realizations showed a moderate improvement, principally reflecting the weaker Canadian dollar coupled with the increased list prices and, to a lesser degree, the increased prime bleached product shipments.

Operations

Paper production in the third quarter of 2014 was 35,900 tonnes, in line with the previous quarter, with operating rates returning to more normal levels in the current quarter, after a second quarter which saw a scheduled maintenance outage offset by record production. Overall operating rates were improved compared to the same period in 2013, contributing to an increase in paper production of 2,100 tonnes or 6%.

Paper unit manufacturing costs decreased from the second quarter of 2014 largely reflecting the impact of reduced slush pulp costs due to lower overall pulp sales realizations in the current quarter coupled with the higher costs in the previous quarter due to the scheduled maintenance outage. Manufacturing costs in the previous quarter also included the impact of the drawdown of higher cost inventories.

Compared to the third quarter of 2013, unit manufacturing costs showed a moderate increase, as higher costs for slush pulp, principally reflecting higher market pulp prices, and maintenance costs (timing-related), were offset slightly by reduced operating costs and higher production levels.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Corporate costs	**$ (2.6)**	$ (3.0)	**$ (8.7)**	$ (2.9)	$ (8.2)
Finance expense, net	**$ (1.3)**	$ (1.3)	**$ (4.1)**	$ (3.0)	$ (8.6)
Foreign exchange gain (loss) on long-term debt	**$ -**	$ -	**$ -**	$ 2.3	$ (3.9)
Gain (loss) on derivative financial instruments	**$ (0.3)**	$ 0.6	**$ (1.1)**	$ 1.9	$ -
Other income (expense), net	**$ 3.0**	$ (3.7)	**$ 0.2**	$ (1.5)	$ 3.0

Corporate costs of $2.6 million for the third quarter of 2014 were down from both comparative periods.

Net finance expense for the third quarter of 2014 was $1.3 million, in line with the second quarter of 2014, and down $1.7 million from the third quarter of 2013. The decrease from the same quarter in 2013 reflected lower debt levels in the current quarter coupled with lower employee future benefit net interest costs, due in part to the improved financial position of the Company's largest defined benefit plan.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, interest rates and pulp prices. For the third quarter of 2014, the Company recorded a net loss of $0.3 million reflecting unrealized losses on US dollar foreign exchange collars mostly as a result of the weakening of the Canadian dollar at the close of the current quarter relative to the exchange rate at the close of the second quarter of 2014.

Other income, net for the third quarter of 2014 of $3.0 million reflected favourable exchange movements on US dollar denominated cash, receivables and payables, resulting from the weakening of the Canadian dollar through the quarter.

Other Comprehensive Income (Loss)

In the third quarter of 2014, the Company recorded an after-tax gain of $1.8 million in relation to changes in the valuation of the Company's employee future benefit plans. The gain principally reflects a modest return on plan assets during the quarter coupled with slightly higher discount rates used to value the net defined benefit obligation. In the previous quarter, an after-tax loss of $1.8 million was recorded in part due to actuarial assumption and experience adjustments stemming from the actuarial funding valuation completed in the quarter. In the third quarter of 2013, an after-tax actuarial gain of $3.2 million was recorded.

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 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Increase (decrease) in cash and cash equivalents	**$ 1.6**	$ 21.3	**$ 26.3**	$ (16.2)	$ 29.9
Operating activities	**$ 24.7**	$ 51.6	**$ 100.2**	$ 14.9	$ 87.8
Financing activities	**$ (7.0)**	$ (10.1)	**$ (27.6)**	$ (5.1)	$ (17.3)
Investing activities	**$ (16.1)**	$ (20.2)	**$ (46.3)**	$ (26.0)	$ (40.6)
Ratio of current assets to current liabilities			**2.6 : 1**		1.2 : 1
Net debt to capitalization			**2.1%**		17.1%
ROIC – Consolidated period-to-date	**5.3%**	**4.0%**	**15.1%**	1.5%	8.1%

Changes in Financial Position

Cash generated from operating activities was $24.7 million in the third quarter of 2014, down $26.9 million from the previous quarter, with an increase in non-cash working capital and tax installment payments in the current quarter more than offsetting slightly higher cash earnings. The 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, primarily due to payments in respect of maintenance outages in the previous quarter. These movements in working capital were offset in part by a decrease in trade accounts receivable balances driven by the lower sales volumes in the current quarter. Compared to the third quarter of 2013, cash generated from operating activities increased by $9.8 million, largely reflecting higher cash earnings which more than offset increased income tax payments made in the current quarter.

Cash used for financing activities was $7.0 million in the third quarter of 2014, down $3.1 million from the previous quarter and up $1.9 million from the third quarter of 2013. Cash flows in the current period included a $4.4 million dividend (6.25 cents per share), in line with the previous quarter and up from $3.5 million (5 cents per share) in the third quarter of 2013. Finance expenses paid in the third quarter of 2014 at $0.6 million were in line with the second quarter of 2014 and up slightly from the third quarter of 2013. Cash used for financing activities in the current quarter also included share purchases of $2.0 million (see further discussion of the shares purchased under the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section), while financing cash flows in the previous quarter included a $5.0 million payment against the Company's operating loan facility. No amounts were drawn against the facility at the end of the third quarter of 2014.

Cash used for investing activities of $16.1 million in the current quarter primarily related to the Intercontinental Pulp Mill's turbine upgrade and payments made for maintenance capital completed in the previous quarter. The Company anticipates that it will complete the upgrades to the Intercontinental Pulp Mill turbine and commence selling power under an Electricity Purchase Agreement by the second quarter of 2015.

Liquidity and Financial Requirements

At September 30, 2014, CPPI had cash of $39.8 million and operating loan facilities of $130.0 million which were unused, except for $12.2 million reserved for several standby letters of credit related to energy sales agreements. Total available undrawn operating loans were $117.8 million.

CPPI has $50.0 million of floating interest rate term debt, repayable in November 2018.

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, 2014, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,550,367 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2014. The renewed normal course issuer bid is set to expire on March 4, 2015. During the third quarter of 2014, CPPI purchased 177,518 common shares for $2.0 million (an average of $11.27 per common share), all of which was paid in cash in the period. As a result of the share purchases during the quarter, Canfor's interest in CPPI increased to 50.5% by quarter end.

Dividends

On October 29, 2014, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 18, 2014, to the shareholders of record on November 11, 2014.

OUTLOOK

Pulp

The Company anticipates NBSK pulp list prices will remain relatively stable for the fourth quarter of 2014. For the month of October 2014, the Company has announced a NBSK pulp list price of US$1,030 per tonne in North America, unchanged from September 2014, and list prices to other regions remained largely unchanged.

A scheduled maintenance outage at the Northwood Pulp Mill has been substantially completed in the fourth quarter of 2014 and resulted in reduced pulp production of approximately 17,000 tonnes.

Paper

Kraft paper markets appear to be softening slightly heading into the fourth quarter of 2014. While order files are steady, pricing to offshore markets is under pressure with recent bleached capacity additions in Europe.

OUTSTANDING SHARES

At October 29, 2014, there were 70,829,823 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.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is still in the process of assessing the impact, if any, on the financial statements of this new standard.

Further details of the new accounting Standards and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2013.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2014, 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 2013 annual statutory reports which are available on www.canforpulp.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Sales and income (millions of Canadian dollars)								
Sales	**$ 237.6**	$ 252.5	$ 226.4	$ 245.6	$ 196.1	$ 227.6	$ 217.5	$ 201.9
Operating income	**$ 31.4**	$ 29.6	$ 36.4	$ 24.0	$ 11.3	$ 19.5	$ 19.0	$ 12.1
Net income	**$ 24.3**	$ 18.8	$ 25.7	$ 14.2	$ 9.1	$ 7.6	$ 10.9	$ 5.4
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.34**	$ 0.27	$ 0.36	$ 0.20	$ 0.13	$ 0.11	$ 0.15	$ 0.08
Book value[10]	**$ 6.86**	$ 6.56	$ 6.39	$ 6.17	$ 5.79	$ 5.67	$ 5.53	$ 5.42
Dividends declared	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 0.0500	$ 0.0500	$ 0.0500	$ 0.0500	$ 0.0500
Statistics								
Pulp shipments (000 mt)	**240.5**	246.9	222.4	273.3	212.2	255.0	257.9	246.6
Paper shipments (000 mt)	**35.7**	39.7	31.3	31.1	35.5	37.2	35.0	32.0
Average exchange rate – US$/Cdn$	**$ 0.918**	$ 0.917	$ 0.906	$ 0.953	$ 0.963	$ 0.977	$ 0.991	$ 1.009
Average NBSK pulp list price delivered to U.S. (US$)	**$ 1,030**	$ 1,030	$ 1,017	$ 983	$ 947	$ 937	$ 897	$ 863

[10] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

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.

Other material factors that impact the comparability of the quarters are noted below:

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Net income, as reported	**$ 24.3**	$ 18.8	$ 25.7	$ 14.2	$ 9.1	$ 7.6	$ 10.9	$ 5.4
(Gain) loss on derivative financial instruments	**$ 0.2**	$ (0.4)	$ 1.0	$ 0.1	$ (1.5)	$ 2.0	$ (0.5)	$ 0.1
Foreign exchange (gain) loss on long-term debt	**$ -**	$ -	$ -	$ 3.0	$ (2.0)	$ 3.4	$ 2.0	$ 1.1
Change in substantively enacted tax rate	**$ -**	$ -	$ -	$ -	$ -	$ 2.4	$ -	$ -
Net gain on post retirement plan amendments	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ (4.0)
Net impact of above items	**$ 0.2**	$ (0.4)	$ 1.0	$ 3.1	$ (3.5)	$ 7.8	$ 1.5	$ (2.8)
Adjusted net income	**$ 24.5**	$ 18.4	$ 26.7	$ 17.3	$ 5.6	$ 15.4	$ 12.4	$ 2.6
Net income per share (EPS), as reported	**$ 0.34**	$ 0.27	$ 0.36	$ 0.20	$ 0.13	$ 0.11	$ 0.15	$ 0.08
Net impact of above items per share	**$ -**	$ (0.01)	$ 0.01	$ 0.04	$ (0.05)	$ 0.11	$ 0.02	$ (0.04)
Adjusted net income per share	**$ 0.34**	$ 0.26	$ 0.37	$ 0.24	$ 0.08	$ 0.22	$ 0.17	$ 0.04

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2014**		As at December 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**39.8**	$	13.5
Accounts receivable - Trade		**60.4**		71.0
- Other		**13.0**		10.3
Inventories (Note 2)		**149.4**		128.0
Prepaid expenses and other assets		**11.6**		7.2
Total current assets		**274.2**		230.0
Property, plant and equipment		**521.2**		528.1
Retirement benefit surplus (Note 4)		**7.5**		8.2
Other long-term assets		**0.5**		2.3
Total assets	**$**	**803.4**	$	768.6
LIABILITIES				
Current liabilities				
Operating loans (Note 3)	**$**	**-**	$	10.6
Accounts payable and accrued liabilities		**105.8**		118.4
Total current liabilities		**105.8**		129.0
Long-term debt		**50.0**		50.0
Retirement benefit obligations (Note 4)		**85.2**		75.8
Other long-term provisions		**3.8**		3.0
Deferred income taxes, net		**73.0**		72.8
Total liabilities	**$**	**317.8**	$	330.6
EQUITY				
Share capital	**$**	**522.1**	$	523.4
Retained earnings (deficit)		**(36.5)**		(85.4)
Total equity	**$**	**485.6**	$	438.0
Total liabilities and equity	**$**	**803.4**	$	768.6

Subsequent Event (Note 11)

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

Director, M.J. Korenberg

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, 2014	3 months ended September 30, 2013	9 months ended September 30, 2014	9 months ended September 30, 2013
Sales	**$ 237.6**	$ 196.1	**$ 716.5**	$ 641.2
Costs and expenses				
Manufacturing and product costs	**151.3**	135.1	**456.2**	430.1
Freight and other distribution costs	**32.0**	27.3	**94.8**	90.1
Amortization	**16.3**	16.5	**47.5**	54.4
Selling and administration costs	**6.6**	5.9	**20.6**	16.8
	206.2	184.8	**619.1**	591.4
Operating income	**31.4**	11.3	**97.4**	49.8
Finance expense, net	**(1.3)**	(3.0)	**(4.1)**	(8.6)
Foreign exchange gain (loss) on long-term debt	**-**	2.3	**-**	(3.9)
Gain (loss) on derivative financial instruments (Note 5)	**(0.3)**	1.9	**(1.1)**	-
Other income (expense), net	**3.0**	(1.5)	**0.2**	3.0
Net income before income taxes	**32.8**	11.0	**92.4**	40.3
Income tax expense (Note 6)	**(8.5)**	(1.9)	**(23.6)**	(12.7)
Net income	**$ 24.3**	$ 9.1	**$ 68.8**	$ 27.6

Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 0.34**	$ 0.13	**$ 0.97**	$ 0.39

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, **2014**	3 months ended September 30, 2013	9 months ended September 30, **2014**	9 months ended September 30, 2013
Net income	**$ 24.3**	$ 9.1	**$ 68.8**	$ 27.6
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 4)	**2.4**	4.2	**(9.2)**	13.6
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 6)	**(0.6)**	(1.0)	**2.4**	(3.4)
Other comprehensive income (loss), net of tax	**1.8**	3.2	**(6.8)**	10.2
Total comprehensive income	**$ 26.1**	$ 12.3	**$ 62.0**	$ 37.8

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2014**	3 months ended September 30, 2013	9 months ended September 30, **2014**	9 months ended September 30, 2013
Share capital				
Balance at beginning of period	**$ 523.4**	$ 524.1	**$ 523.4**	$ 525.3
Share purchases (Note 7)	**(1.3)**	(0.7)	**(1.3)**	(1.9)
Balance at end of period	**$ 522.1**	$ 523.4	**$ 522.1**	$ 523.4
Retained earnings (deficit)				
Balance at beginning of period	**$ (57.5)**	$ (120.7)	**$ (85.4)**	$ (138.7)
Net income	**24.3**	9.1	**68.8**	27.6
Defined benefit plan actuarial gains (losses), net of tax	**1.8**	3.2	**(6.8)**	10.2
Dividends declared	**(4.4)**	(3.5)	**(12.4)**	(10.7)
Share purchases (Note 7)	**(0.7)**	(0.2)	**(0.7)**	(0.5)
Balance at end of period	**$ (36.5)**	$ (112.1)	**$ (36.5)**	$ (112.1)
Total equity	**$ 485.6**	$ 411.3	**$ 485.6**	$ 411.3

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, 2014	3 months ended September 30, 2013	9 months ended September 30, 2014	9 months ended September 30, 2013
Cash generated from (used in):				
Operating activities				
Net income	**$ 24.3**	$ 9.1	**$ 68.8**	$ 27.6
Items not affecting cash:				
Amortization	**16.3**	16.5	**47.5**	54.4
Income tax expense	**8.5**	1.9	**23.6**	12.7
Foreign exchange loss on long-term debt	**-**	(2.3)	**-**	3.9
Changes in mark-to-market value of derivative financial instruments	**(0.1)**	(1.9)	**0.2**	0.1
Employee future benefits	**1.2**	1.4	**3.6**	4.1
Net finance expense	**1.3**	3.0	**4.1**	8.6
Other, net	**0.1**	(0.3)	**3.2**	(4.1)
Defined benefit pension plan contributions	**(1.2)**	(2.3)	**(5.0)**	(7.6)
Income taxes paid, net	**(12.5)**	(0.1)	**(23.4)**	(0.1)
	37.9	25.0	**122.6**	99.6
Net change in non-cash working capital (Note 8)	**(13.2)**	(10.1)	**(22.4)**	(11.8)
	24.7	14.9	**100.2**	87.8
Financing activities				
Change in operating bank loans	**-**	-	**(11.2)**	-
Finance expenses paid	**(0.6)**	(0.2)	**(2.0)**	(4.2)
Dividends paid	**(4.4)**	(3.5)	**(12.4)**	(10.7)
Share purchases (Note 7)	**(2.0)**	(1.4)	**(2.0)**	(2.4)
	(7.0)	(5.1)	**(27.6)**	(17.3)
Investing activities				
Additions to property, plant and equipment, net	**(16.2)**	(26.5)	**(46.4)**	(41.3)
Other, net	**0.1**	0.5	**0.1**	0.7
	(16.1)	(26.0)	**(46.3)**	(40.6)
Increase in cash and cash equivalents*	**1.6**	(16.2)	**26.3**	29.9
Cash and cash equivalents at beginning of period*	**38.2**	44.9	**13.5**	(1.2)
Cash and cash equivalents at end of period*	**$ 39.8**	$ 28.7	**$ 39.8**	$ 28.7

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

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

Canfor Pulp Products Inc.
Notes to the Condensed Consolidated Financial Statements

(unaudited, millions of Canadian dollars unless otherwise noted)

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, hereinafter referred to as “CPPI” or “the Company”. At September 30, 2014, Canfor Corporation (“Canfor”) held a 50.5% interest in CPPI.

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, 2013, available at www.canforpulp.com or www.sedar.com.

Accounting Standards Issued and Not Applied

In May 2011, the International Accounting Standards Board (“IASB”) issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in process of assessing the impact, if any, on the financial statements of this new standard.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

2. Inventories

(millions of Canadian dollars)	**As at September 30, 2014**	As at December 31, 2013
Pulp	**$ 78.8**	$ 52.8
Paper	**17.3**	15.7
Wood chips and logs	**7.3**	14.1
Processing materials and supplies	**46.0**	45.4
	$ 149.4	$ 128.0

3. Operating Loans

Available Operating Loans

(millions of Canadian dollars)	**As at September 30, 2014**	As at December 31, 2013
Available Operating Loans:		
Operating loan facility	**$ 110.0**	$ 110.0
Facility for letters of credit related to energy agreements	**20.0**	20.0
Total operating loans	**130.0**	130.0
Drawn	**-**	(10.6)
Energy letters of credit	**(12.2)**	(12.2)
Total available operating loans	**$ 117.8**	$ 107.2

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. The maturity date of this facility is January 31, 2018.

The Company has a separate facility with a maturity date of June 30, 2015 to cover energy-related letters of credit. At September 30, 2014, $9.4 million of energy-related letters of credit were covered under this facility with the balance of $2.8 million covered under the Company's general operating loan facility.

As at September 30, 2014 the Company was in compliance with all covenants relating to its operating loans.

4. Employee Future Benefits

For the three months ended September 30, 2014, a defined benefit actuarial gain of $2.4 million (before-tax) was recognized in other comprehensive income. The defined benefit actuarial gain recorded in the third quarter of 2014 reflects a slightly higher discount rate used to value the net retirement benefit obligations, coupled with a return on plan assets. For the nine months ended September 30, 2014, a defined benefit actuarial loss of $9.2 million (before-tax) was recognized in other comprehensive income. For the three and nine months ended September 30, 2013 gains of $4.2 million (before-tax) and $13.6 million (before-tax) were recognized in other comprehensive income, respectively.

For the Company's employee future benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $22.6 million.

The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

	Pension Benefit Plans	**Other Benefit Plans**
September 30, 2014	**4.40%**	**4.40%**
June 30, 2014	4.30%	4.40%
December 31, 2013	4.80%	4.90%
September 30, 2013	4.70%	4.80%
June 30, 2013	4.60%	4.70%
December 31, 2012	4.20%	4.40%

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. At September 30, 2014, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (December 31, 2013 - $50.0 million).

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement,* requires classification of financial instruments 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 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 floating interest rates on long-term debt.

At September 30, 2014, the fair value of derivative financial instruments was a net liability of $0.4 million (December 31, 2013 – net liability 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 level 2 derivative financial instruments for the three and nine month periods ended September 30, 2014 and 2013:

(millions of Canadian dollars)	3 months ended September 30, **2014**	2013	9 months ended September 30, **2014**	2013
Foreign exchange collars and forward contracts	**$ (0.2)**	$ 2.0	**$ (0.2)**	$ -
Crude oil collars	**-**	0.1	**-**	0.2
Interest rate swaps	**-**	(0.2)	**(0.1)**	(0.2)
Pulp futures	**(0.1)**	-	**(0.8)**	-
Gain (loss) on derivative financial instruments	**$ (0.3)**	$ 1.9	**$ (1.1)**	$ -

6. Income Taxes

(millions of Canadian dollars)	3 months ended September 30, **2014**	2013	9 months ended September 30, **2014**	2013
Current	**$ (10.1)**	$ 1.7	**$ (21.0)**	$ (10.0)
Deferred	**1.6**	(3.6)	**(2.6)**	(2.7)
Income tax expense	**$ (8.5)**	$ (1.9)	**$ (23.6)**	$ (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, **2014**	2013	9 months ended September 30, **2014**	2013
Income tax expense at statutory rate 2014 – 26.0% (2013 – 25.75%)[1]	**$ (8.5)**	$ (2.9)	**$ (24.0)**	$ (10.4)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**-**	0.7	**0.5**	0.6
Permanent difference from capital gains and other non-deductible items	**-**	0.3	**(0.1)**	(0.5)
Change in substantively enacted tax rate[1]	**-**	-	**-**	(2.4)
Income tax expense	**$ (8.5)**	$ (1.9)	**$ (23.6)**	$ (12.7)

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

In addition to the amounts recorded to net income, a tax expense of $0.6 million was recorded to other comprehensive income for the three month period ended September 30, 2014 (three months ended September 30, 2013 – tax expense of $1.0 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the nine months ended September 30, 2014, the tax recovery was $2.4 million (nine months ended September 30, 2013 – tax expense of $3.4 million).

7. Earnings per Share and Normal Course Issuer Bid

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.

	3 months ended September 30, **2014**	2013	9 months ended September 30, **2014**	2013
Weighted average number of common shares	**70,955,480**	71,069,979	**70,989,864**	71,188,256

On March 5, 2014, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,550,367 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2014. The renewed normal course issuer bid is set to expire on March 4, 2015. During the third quarter of 2014, CPPI purchased 177,518 common shares for $2.0 million (an average of $11.27 per common share), all of which was paid in cash in the period. As a result of the share purchases during the quarter, Canfor's interest increased to 50.5% by quarter end. As at October 29, 2014, there were 70,829,823 common shares outstanding.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	3 months ended September 30, **2014**	2013	9 months ended September 30, **2014**	2013
Accounts receivable	**$ 14.3**	$ 20.7	**$ 6.3**	$ 3.7
Inventories	**(3.3)**	(10.0)	**(21.3)**	(13.9)
Prepaid expenses and other assets	**(9.0)**	(8.6)	**(5.9)**	(3.1)
Accounts payable and accrued liabilities	**(15.2)**	(12.2)	**(1.5)**	1.5
Net increase in non-cash working capital	**$ (13.2)**	$ (10.1)	**$ (22.4)**	$ (11.8)

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, 2014					
Sales to external customers	**$ 196.5**	**41.0**	**0.1**	**-**	**$ 237.6**
Sales to other segments	**$ 22.5**	**-**	**-**	**(22.5)**	**$ -**
Operating income (loss)	**$ 27.5**	**6.5**	**(2.6)**	**-**	**$ 31.4**
Amortization	**$ 15.4**	**0.9**	**-**	**-**	**$ 16.3**
Capital expenditures	**$ 15.8**	**0.4**	**-**	**-**	**$ 16.2**
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	$ 26.3	0.2	-	-	$ 26.5
9 months ended September 30, 2014					
Sales to external customers	**$ 595.0**	**120.3**	**1.2**	**-**	**$ 716.5**
Sales to other segments	**$ 70.0**	**-**	**-**	**(70.0)**	**$ -**
Operating income (loss)	**$ 91.3**	**14.8**	**(8.7)**	**-**	**$ 97.4**
Amortization	**$ 44.9**	**2.6**	**-**	**-**	**$ 47.5**
Capital expenditures	**$ 45.6**	**0.8**	**-**	**-**	**$ 46.4**
Identifiable assets	**$ 673.4**	**62.8**	**67.2**	**-**	**$ 803.4**
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	$ 40.7	0.5	0.1	-	$ 41.3
Identifiable assets	$ 685.4	61.8	44.9	-	$ 792.1

10. Related Party Transactions

The Company relies on Canfor to provide approximately 58% (2013 – 61%) of its fibre supply as well as 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, 2013 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

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

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars)	**2014**	2013	**2014**	2013
Transactions				
Purchase of wood chips and other	**$ 42.5**	$ 36.8	**$ 109.5**	$ 96.6

(millions of Canadian dollars)	**As at September 30, 2014**	As at December 31, 2013
Balance Sheet		
Included in accounts payable and accrued liabilities:	**$ 21.1**	$ 18.9
Included in trade and other accounts receivable:	**$ 5.5**	$ 9.0

11. Subsequent Event

On October 29, 2014, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 18, 2014, to shareholders of record on November 11, 2014.