2014

Canfor Pulp Products Inc.

management's discussion & analysis

Canfor Pulp

2014 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the year ended December 31, 2014 relative to the year ended December 31, 2013, and the financial position of the Company at December 31, 2014. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2014 and 2013. The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at February 4, 2015.

Forward Looking Statements

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

COMPANY OVERVIEW

CPPI is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2014 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

On March 2, 2012, Canadian Forest Products Ltd. ("Canfor") acquired 35,776,483 common shares of 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 ("the Exchange"). As a result of the Exchange, CPPI's interest in both the Partnership and the General Partner increased from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI, immediately following the Exchange.

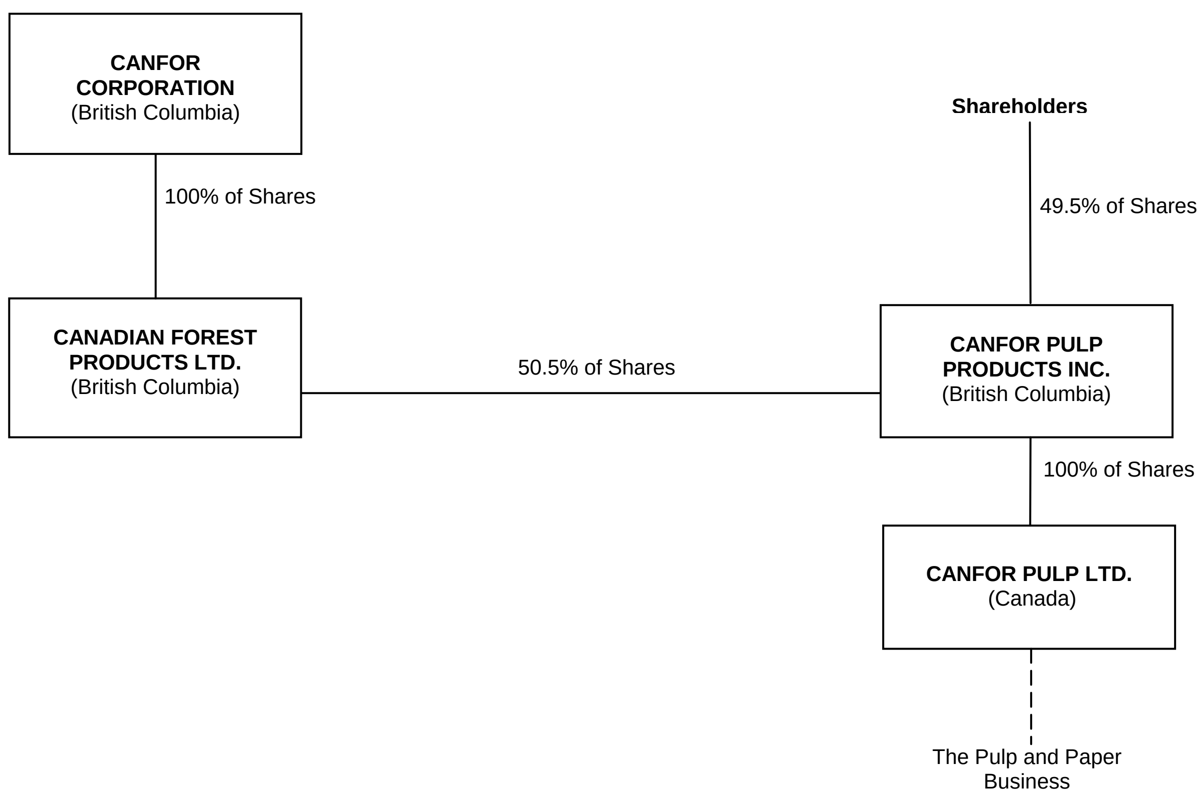
On December 27, 2013, the Partnership was wound up and the net assets were transferred to Canfor Pulp Holding Inc., a wholly owned subsidiary of CPPI. Subsequent to the transfer, Canfor Pulp Holding Inc. was renamed Canfor Pulp Ltd.

At December 31, 2014, Canfor held a 50.5% interest in CPPI, an increase of 0.1% from December 31, 2013 as a result of share purchases in 2014 under a Normal Course Issuer Bid. Further discussion of the Normal Course Issuer Bid is provided in the "Financial Requirements and Liquidity" section of this document.

CPPI employs approximately 1,160 people in its wholly owned subsidiaries and jointly owned operations.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively the Company) as at December 31, 2014.

Simplified Ownership Structure



Pulp

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

On January 30, 2015, the Company purchased from Canfor, the Taylor Pulp Mill operation located in Taylor, BC, which has an annual capacity of 220,000 tonnes of bleached chemi-thermo-mechanical pulp ("BCTMP"). Further discussion of the purchase is provided in "Transactions with Related Parties", later in this document.

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

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

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

Paper

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

Business Strategy

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

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

OVERVIEW OF 2014

Global softwood pulp markets and prices were better than anticipated in 2014, as markets remained relatively stable through the year supported by solid global demand. Concerns around possible downward pressure on softwood pulp prices in 2014 from a significant increase in eucalyptus pulp capacity from South America proved ill-founded as annual softwood pulp demand remained steady and global softwood pulp producer inventories held in the balanced range for most of 2014, before increasing in December 2014, in part reflecting a slight softening of demand. Reflecting balanced markets, North American NBSK pulp list prices climbed above $1,000 per tonne in January 2014 and stayed there through the rest of the year, although producers continued to come under pressure to increase discounts, in part reflecting the competitive landscape for key business accounts in North America. Pulp list prices to China and Europe also saw strong gains in 2014, increasing 5% and 7% from 2013, respectively, while global pulp demand was broadly in line with the prior year.

The Company continued to maintain its top-quartile margin position in 2014, and its reputation for offering premium reinforcing pulp products was further enhanced in 2014 through its sales and marketing cooperation agreement with UPM-Kymmene Corporation ("UPM"). Operational excellence remained a key focus and while the year was not without its challenges, solid progress was made during the year as the Company completed several important capital upgrades and the mills exhibited solid operational performance as they worked to fully optimize the recently renewed asset base, with the Prince George Pulp and Paper Mill setting a new production record in 2014.

The Company's green energy business continued to expand in 2014 through the completion of upgrades to cogeneration assets at the Northwood Pulp Mill and commencement of upgrades to the turbine at the Intercontinental Pulp Mill, the latter targeted for completion in the second quarter of 2015. The Company has agreements with a BC energy company for all of the cogeneration projects, which provide for commitments related to electrical load displacement and the sale of incremental power generation under energy purchase agreements.

Operating results for the pulp segment benefitted from the better than anticipated market conditions as well as the favourable impact of a 7 cent, or 7%, weaker Canadian dollar and, to a lesser extent, an improved, higher-margin sales mix and increasing energy revenues. These gains were somewhat offset by increased fibre costs (linked mostly to improved NBSK pulp sales realizations), higher energy costs, and lower year-over-year shipments, the latter of which reflected a significant drawdown of inventories in late 2013.

Results for the Company's paper segment were broadly in line with the previous year as improved paper sales realizations and higher sales and production volumes were offset principally by higher slush pulp prices.

The Company continued to preserve its strong financial position through 2014, ending the year with net cash of $77 million, up from $14 million a year earlier. Quarterly dividends moved up 1.25 cents to 6.25 cents per share in 2014, representing an average yield (to the average share price) in the current year of approximately 2%.

As mentioned, subsequent to year end, CPPI completed the purchase of the Taylor Pulp Mill from Canfor, which will result in further integration benefits for both companies.

A review of the more significant developments in 2014 follows.

Markets and Pricing

(i) Pulp – Better than anticipated softwood pulp markets supporting historically-high pricing in 2014

As mentioned, global softwood pulp markets were better than anticipated in 2014, as markets remained relatively stable through the year supported by solid demand from most markets. Additional hardwood pulp capacity, principally from South America, was absorbed into global markets through 2014; however, markets remained strong with limited incremental softwood pulp supply and solid demand for NBSK pulp. Global shipments of bleached softwood kraft pulp remained relatively unchanged compared to 2013. Prices moved up in the first quarter of 2014 supported by a combination of solid demand and constrained supply, the latter reflecting unusually severe weather and a truckers' strike in North America, and remained relatively stable for the balance of the year. Global softwood producer inventories remained in the balanced range through most of 2014, contributing to the historically higher pricing levels.

The benchmark North American NBSK pulp list price averaged US$1,025 per tonne[1] in 2014, up US$84, or 9%, from the prior year. NSBK pulp list prices in North America saw solid increases at the beginning of 2014, settling at a three-year high of $1,030 per tonne for 8 months before declining US$10 per tonne in late 2014 to end the year at US$1,020 per tonne, up US$30 per tonne, or 3%, from the end of 2013. List prices to Europe and China also saw strong gains in 2014, up US$64 and US$33 per tonne, respectively. In addition, higher sales realizations also reflected a 7% weaker Canadian dollar and an improved sales mix. Continued upward pressure on discounts, particularly in North America, partly eroded the solid gains in NBSK pulp list prices and the favourable foreign exchange trend.

The following charts show the NBSK pulp price movements in 2014 (Chart 1) and the global pulp inventory levels (Chart 2), and serves to highlight the relatively stable list prices and producer inventories through the year, as discussed above.

[1] Resource Information Systems, Inc.

Chart 1

NBSK PULP LIST PRICE DELIVERED TO U.S. - IN US AND CANADIAN DOLLARS

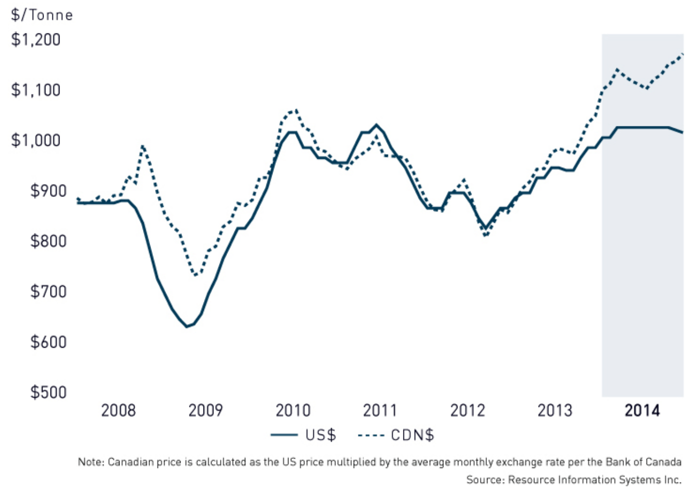
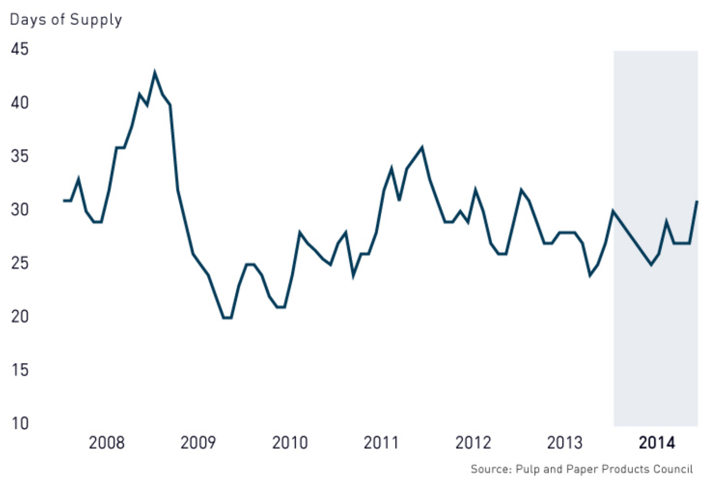


Chart 2

WORLD SOFTWOOD PULP INVENTORIES



Towards the end of 2013, CPPI entered into a strategic sales and marketing cooperation agreement with UPM. Beginning January 1, 2014, CPPI's sales network represented and co-marketed UPM pulp products in North America and Japan, while UPM's pulp sales network represented and co-marketed CPPI's products in Europe and China.

(ii) Paper - Kraft paper markets remaining strong in 2014

Kraft bleached paper markets remained steady through 2014. The Company's order files for both North American and offshore markets were solid through the year. Anticipated new capacity in Europe did not impact overall supply due to start up delays. The Paper Shipping Sack Manufacturers' Association ("PSSMA") reported strong operating rates for the United States ("US") of 85% in 2014, up from 83% in 2013. Demand also remained relatively stable for kraft paper, with total kraft paper shipments to the US, down 2% compared to 2013, according to the American Forest and Paper Association.

Capital and Operations Review

Improved operational performance and renewed focus on reliability in 2014; Continued investment in asset base and progress in growing high return green energy business

Pulp and paper operational performance improved in 2014 with increased operating days, reflecting shorter scheduled outages, and improved operating rates compared to 2013. The Company made headway against operational targets, with overall operating rates showing further signs of improvement at the end of 2014 and heading into 2015. Scheduled maintenance outages were completed at all facilities in 2014.

Energy revenue continued to build in 2014 reflecting eleven months of energy output from the upgrades to the Northwood Pulp Mill turbines, commissioned in the first quarter of 2014, as well as increased power generation from the turbine at the Company's Prince George operation, which was completed in the previous year. The Company continued to advance the upgrades to the turbine at the Intercontinental Pulp Mill, which is targeted to be complete and commence selling power under an Electricity Purchase Agreement by the second quarter of 2015. Following completion of the upgrades to the Intercontinental Pulp Mill turbine in 2015, the Company projects it will be over 100% energy self-sufficient, with the energy business anticipated to contribute approximately $25 million to operating income before amortization annually.

Integration with Canfor

The Company continues to build on the successful integration of the CPPI and Canfor leadership teams and key business areas that commenced in 2012. Both companies continued to recognize sustainable benefits from further integration and alignment, specifically in the areas of residual fibre management, transportation and logistics.

OVERVIEW OF CONSOLIDATED RESULTS – 2014 COMPARED TO 2013

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		2014		2013
Sales	**$**	**980.5**	$	886.8
Operating income before amortization[2]	**$**	**188.1**	$	143.7
Operating income	**$**	**125.4**	$	73.8
Foreign exchange loss on long-term debt	**$**	**-**	$	(7.3)
Loss on derivative financial instruments[3]	**$**	**(1.9)**	$	(0.1)
Net income	**$**	**89.5**	$	41.8
Net income per share, basic and diluted	**$**	**1.26**	$	0.59
ROIC – Consolidated[4]		**19.6%**		12.1%
Average exchange rate (US$ per C$1.00)[5]	**$**	**0.905**	$	0.971

[2] Amortization includes certain capitalized major maintenance costs.
[3] Includes gains (losses) from foreign exchange, energy, pulp futures and interest rate swap derivatives (see "Unallocated and Other Items" section for more details).
[4] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
[5] Source – Bank of Canada (average noon rate for the period).

(millions of Canadian dollars)		2014		2013
Operating income (loss) by segment:				
Pulp	**$**	**115.0**	$	63.2
Paper	**$**	**22.0**	$	22.7
Unallocated	**$**	**(11.6)**	$	(12.1)
Total operating income	**$**	**125.4**	$	73.8
Add: Amortization	**$**	**62.7**	$	69.9
Total operating income before amortization[6]	**$**	**188.1**	$	143.7
Add (deduct):				
Working capital movements	**$**	**(13.9)**	$	16.1
Defined benefit pension plan contributions	**$**	**(6.1)**	$	(10.1)
Income taxes paid, net	**$**	**(24.4)**	$	(0.4)
Other operating cash flows, net	**$**	**9.7**	$	7.6
Cash from operating activities	**$**	**153.4**	$	156.9
Add (deduct):				
Dividends paid	**$**	**(16.8)**	$	(14.2)
Finance expenses paid	**$**	**(2.7)**	$	(9.1)
Capital additions, net	**$**	**(57.7)**	$	(61.2)
Share purchases	**$**	**(2.0)**	$	(2.4)
Drawdown of long-term debt	**$**	**-**	$	50.0
Repayment of long-term debt	**$**	**-**	$	(116.6)
Other, net	**$**	**0.3**	$	0.7
Change in cash / operating loans	**$**	**74.5**	$	4.1

[6] Amortization includes certain capitalized major maintenance costs.

Analysis of Specific Items Affecting Comparability of Net Income

After-tax impact (millions of Canadian dollars, except for per share amounts)		2014		2013
Net income, as reported	**$**	**89.5**	$	41.8
Loss on derivative financial instruments	**$**	**1.4**	$	0.1
Foreign exchange loss on long-term debt	**$**	**-**	$	6.4
Change in substantively enacted tax rate	**$**	**-**	$	2.4
Net impact of above items	**$**	**1.4**	$	8.9
Adjusted net income	**$**	**90.9**	$	50.7
Net income per share (EPS), as reported	**$**	**1.26**	$	0.59
Net impact of above items per share	**$**	**0.02**	$	0.12
Adjusted net income per share	**$**	**1.28**	$	0.71

The Company recorded net income of $89.5 million, or $1.26 per share, for the year ended December 31, 2014, up $47.7 million, or $0.67 per share, from $41.8 million, or $0.59 per share, reported for the year ended December 31, 2013.

Operating income for 2014 was $125.4 million, up $51.6 million from operating income of $73.8 million for 2013. The higher 2014 operating income was driven by significantly higher earnings from the pulp segment, principally due to higher NBSK pulp sales realizations, which more than offset lower shipment volumes and increased fibre (market-driven) and energy costs. The paper segment earnings in 2014 were in line with the previous year as improved paper sales realizations and higher sales and production volumes were offset by higher slush pulp prices.

A more detailed review of the Company's operational performance and results is provided in "Operating Results by Business Segment – 2014 compared to 2013", which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2014 COMPARED TO 2013

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

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for 2014 and 2013 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2014		2013
Sales	**$**	**816.4**	$	738.4
Operating income before amortization[7]	**$**	**174.2**	$	129.3
Operating income	**$**	**115.0**	$	63.2
Capital expenditures	**$**	**56.2**	$	60.1
Average pulp price delivered to US - US$[8]	**$**	**1,025**	$	941
Average pulp price in Cdn$	**$**	**1,133**	$	969
Production – pulp (000 mt)		**985.6**		981.2
Shipments – pulp (000 mt)		**968.4**		998.4
Marketed on behalf of Canfor (000 mt)		**207.0**		214.6

[7] Amortization includes certain capitalized major maintenance costs.
[8] Per tonne, NBSK pulp list price delivered to US (Resource Information Systems, Inc).

Overview

The Pulp segment reported operating income of $115.0 million for 2014, up $51.8 million from $63.2 million in 2013. Improved earnings compared to 2013 principally reflected higher unit sales realizations, resulting from both improved NBSK pulp list prices, benefiting from relatively stable pulp markets through the year, and the favourable impact of the 7% weaker Canadian dollar. These gains were offset in part by lower shipments, largely reflecting the higher-than-normal shipments into China during the fourth quarter of 2013, and higher unit manufacturing costs, resulting mainly from market-driven increases in fibre costs and increased energy costs. The current year pulp segment results also included higher energy revenue compared to 2013, attributable to the upgrades to the Northwood Pulp Mill turbines, which were completed in the first quarter of 2014 and increased power generation at the Prince George Pulp Mill related to improved operational efficiency.

Markets

Global softwood pulp markets were relatively stable through 2014 supported by solid demand from most markets. Additional hardwood pulp capacity was absorbed into global markets through 2014; however, with limited incremental softwood pulp capacity and solid demand for NBSK pulp, market conditions remained solid. On the supply side, extreme weather and a truckers' strike in North America in early 2014 constrained producer shipments. Global softwood inventories held by producers remained in the balanced range for the majority of 2014 due largely to the aforementioned solid demand and aforementioned supply constraints, all of which contributed to historically high price levels.

At the end of December 2014, World 20[9] producers of bleached softwood pulp inventories were at 31 days' supply, increasing just out of the balanced range due in part to strong producer operating rates. By comparison, December 2013 inventories were at 27 days' supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Sales

The Company's pulp shipments in 2014 were 968,400 tonnes, down approximately 30,000 tonnes, or 3%, from the prior year. The reduced shipment volumes largely reflected higher-than-normal shipments into China at the end of the previous year.

[9] 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").

As mentioned, NBSK pulp list prices experienced solid gains in all regions in 2014. North American NBSK pulp list prices averaged US$1,025 per tonne in 2014, up US$84, or 9%, from US$941 per tonne. North American NBSK pulp list prices were at a three-year high of $1,030 per tonne for most of the year, before gradually trending down in the last quarter of 2014, and ended the year at US$1,020 per tonne, up US$30 per tonne, or 3%, from the end of 2013. NBSK pulp average list prices to Europe and China also saw strong gains in 2014, up US$64 and US$33 per tonne, respectively. Pulp sales realizations in 2014 were further bolstered by the 7% weaker Canadian dollar and increased sales to higher-margin regions, partially offset by continued upward pressure on discounts in North American markets. Increased sales in 2014 also included higher energy revenue, reflecting the output from the upgrades to the Northwood Pulp Mill turbines, completed in early 2014, as well as increased power generation at the Prince George Pulp Mill.

Operations

Pulp production, at 985,600 tonnes in 2014, was slightly ahead of the prior year, principally related to improved operating rates, which were in part offset by increased transfers of slush pulp to the paper segment. 2014 results were impacted by outages at the Northwood, Prince George and Intercontinental Pulp Mills, with the reductions in overall production broadly in line with 2013. During 2014, the Prince George Pulp and Paper Mill set an annual record for total production, surpassing the previous record set in 2013, while the other mills saw more modest improvements in operational performance with a renewed focus on reliability.

Unit manufacturing costs were up compared to the prior year, principally driven by a significant increase in fibre costs, and, to a lesser extent, marginally higher unit conversion costs, primarily reflecting higher energy costs in the current year. The increase in fibre costs compared to 2013 resulted largely from market-driven increases in delivered sawmill residual and whole log chip prices, and to a lesser extent, increased freight costs reflecting longer haul distances following certain sawmill closures in 2014, offset somewhat by a slightly lower proportion of higher-cost whole log chips (17% of total consumption in 2014, compared to 18% in 2013).

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2014 and 2013 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2014	2013
Sales	**$ 162.8**	$ 147.1
Operating income before amortization[10]	**$ 25.4**	$ 26.4
Operating income	**$ 22.0**	$ 22.7
Capital expenditures	**$ 1.1**	$ 0.9
Production – paper (000 mt)	**144.0**	134.7
Shipments – paper (000 mt)	**142.5**	138.8

[10] Amortization includes certain capitalized major maintenance costs.

Overview

Operating income for the paper segment was $22.0 million for 2014 in line with 2013. Improved paper sales realizations and higher sales and production volumes were offset by higher slush pulp prices, reflecting improved market pulp prices.

Markets

Kraft bleached paper markets remained steady through 2014. The Company's order files for both North American and offshore markets were solid through the year. Anticipated new capacity in Europe did not impact overall supply due to start up delays. The Paper Shipping Sack Manufacturers' Association ("PSSMA") reported strong operating rates for the US of 85% in 2014, up from 83% in 2013. Demand also remained relatively stable for kraft paper, with total kraft paper shipments to the US, down 2% compared to 2013, according to the American Forest and Paper Association.

The Company's prime bleached paper shipments in 2014 represented 82% of sales volumes, a 4% improvement from 2013.

Sales

The Company's paper shipments in 2014 were 142,500 tonnes, an increase of 3,700 tonnes, or 3%, from 2013. Unit sales realizations for paper products were up moderately from 2013, principally reflecting the 7% weaker Canadian dollar. Unit sales realizations in 2014 also benefited from higher prices and sales volumes to North America and a 4% increase in bleached paper shipments, which more than offset a decline in prices to Europe.

Operations

Paper production in 2014 was 144,000 tonnes, up 9,300 tonnes, or 7%, from 2013, primarily due to higher overall operating rates and a shorter scheduled maintenance outage in 2014. Both years included a scheduled maintenance outage of the Company's paper machine, with the outage in the current year being approximately 5 days shorter than in 2013. Paper unit manufacturing costs were well up compared to 2013, with higher slush pulp costs (linked to higher market pulp prices) more than offsetting the impact of higher production levels. The Company's Paper Machine set annual production records for both rate and tonnes in 2014.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		2014		2013
Corporate costs	**$**	**(11.6)**	$	(12.1)
Finance expense, net	**$**	**(5.5)**	$	(11.8)
Foreign exchange loss on long-term debt	**$**	**-**	$	(7.3)
Loss on derivative financial instruments	**$**	**(1.9)**	$	(0.1)
Other income (expense), net	**$**	**2.0**	$	5.2

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $11.6 million in 2014, down $0.5 million from 2013, in part reflecting a higher allocation of certain incentive based compensation costs to the operating segments in 2014.

Finance Income and Expense

Net finance expense for 2014 was $5.5 million, down $6.3 million from 2013. The decrease reflected lower debt balances in 2014 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. Net finance expense in the previous year also included costs associated with the Company's energy-related $50.0 million term debt and an extension of the Company's operating loan facility. Included in finance expense for both periods is the expense related to the Company's retirement benefit obligations, with total interest expense of $3.0 million in 2014 compared to $4.1 million in 2013.

Gain (Loss) on Derivative Financial Instruments

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

For 2014, the Company recorded a net loss of $1.9 million related to its derivative financial instruments, principally reflecting unrealized losses on crude oil collars stemming from a sharp decline in oil prices at the end of 2014, with oil prices declining further early in 2015. Further contributing to the net loss were realized losses on pulp futures through 2014, as well as unrealized losses on foreign exchange collars, as a result of the weakening of the Canadian dollar at the close of 2014 relative to the exchange rate at the close of 2013.

Additional information on the derivative financial instruments in place at year end can be found in the "Financial Requirements and Liquidity" section, later in this document.

Other Income (Expense), Net

Other income, net for 2014 of $2.0 million included favourable exchange movements on US dollar denominated cash, receivables and payables.

Income Tax Expense

The Company recorded an income tax expense of $30.5 million in 2014 with an overall effective tax rate of 25% (2013: 30%).

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

(millions of Canadian dollars)		2014		2013
Net income before income taxes	$	120.0	$	59.8
Income tax expense at statutory rate 2014 – 26.0% (2013 – 25.75%)[11]	$	(31.2)	$	(15.4)
Add (deduct):				
Entities with different income tax rates and other tax adjustments		0.8		0.8
Permanent difference from capital gains and other non-deductible items		(0.1)		(1.0)
Change in substantively enacted tax rate[11]		-		(2.4)
Income tax expense	$	(30.5)	$	(18.0)

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

Other Comprehensive Income (Loss)

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income. For 2014, an after-tax amount of $19.1 million was charged to other comprehensive income, which comprised losses on the defined benefit post-employment compensation plans and other non-pension post-employment benefits. The losses in 2014 largely reflected a lower discount rate used to value the net defined benefit obligation coupled with actuarial adjustments made as part of the tri-annual funding valuation of the Company’s largest employee future benefit plan offset in part by the return on plan assets. In 2013, an after-tax amount of $26.2 million was credited to other comprehensive income, primarily reflecting the return on plan assets and a higher discount rate over that year offset in part by adjustments to mortality rate assumptions. For more information, see the “Employee Future Benefits” part of the “Critical Accounting Estimates” section later in this report.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI’s financial position as at December 31, 2014 and 2013:

(millions of Canadian dollars, except for ratios)		2014		2013
Cash and cash equivalents	$	76.8	$	13.5
Operating working capital		102.4		87.5
Net working capital		179.2		101.0
Property, plant and equipment		524.1		528.1
Retirement benefit surplus		-		8.2
Other long-term assets		0.9		2.3
Net assets	$	704.2	$	639.6
Long-term debt	$	50.0	$	50.0
Retirement benefit obligations		94.9		75.8
Long-term provisions		4.2		3.0
Deferred income taxes, net		65.5		72.8
Total equity		489.6		438.0
	$	704.2	$	639.6
Ratio of current assets to current liabilities		2.5 : 1		1.8 : 1
Net debt to total capitalization		(5.8) %		9.7%

The ratio of current assets to current liabilities at the end of 2014 was 2.5:1, compared to 1.8:1 at the end of 2013, driven largely by an improved net cash position at the end of 2014. See further discussion in “Changes in Financial Position” section.

The Company’s net debt to capitalization was (5.8)% at December 31, 2014, reflecting the net positive cash position (December 31, 2013: 9.7%). The decrease is explained principally by higher cash balances at the end of 2014, reflecting improved cash earnings, coupled with a higher total equity balance at year end.

CHANGES IN FINANCIAL POSITION

At the end of 2014, CPPI had $76.8 million of cash and cash equivalents.

(millions of Canadian dollars)	2014	2013
Cash generated from (used in)		
Operating activities	**$ 153.4**	$ 156.9
Financing activities	**(32.7)**	(81.8)
Investing activities	**(57.4)**	(60.4)
Increase in cash and cash equivalents	**$ 63.3**	$ 14.7

The changes in the components of these cash flows during 2014 are discussed in the following sections.

Operating Activities

For the 2014 year, CPPI generated cash from operations of $153.4 million, down $3.5 million from cash generated of $156.9 million in the previous year. Higher cash earnings in the pulp segment in 2014 were more than offset by 2014 tax instalment payments of $24.4 million and an increase in non-cash working capital. The latter increase in part reflected higher finished pulp and paper inventories, while lower accounts receivable balances were offset by increased prepaid maintenance and accounts payable balances, both largely reflecting the timing of payments.

Financing Activities

Financing activities in 2014 used cash of $32.7 million, $49.1 million lower than the $81.8 million used in 2013. Financing cash flows included dividend payments of $16.8 million, up $2.6 million from the previous year. Finance expenses paid in 2014 at $2.7 million, were down $6.4 million from 2013, reflecting lower debt levels in 2014 as well as finance costs paid in the previous year related to the final interest payment on the Company’s US$110 million term debt. Cash used for financing activities also included $2.0 million for the purchase of 177,518 CPPI common shares under the Company’s renewed Normal Course Issuer Bid; in 2013, $2.4 million of shares were purchased (see further discussion of the shares purchased under a Normal Course Issuer Bid in the following “Financial Requirements and Liquidity” section). The previous year cash used for financing activities also included repayment of the Company’s US$110 million 6.41% interest rate debt and issuance of new $50 million term debt. At December 31, 2014, CPPI had no amounts drawn on its operating loan facility, with $11.2 million repaid during 2014.

Investing Activities

Net cash used for investing activities in 2014 was $57.4 million, compared to $60.4 million used in 2013. Property, plant and equipment additions in 2014 totaled $57.7 million which included final payments related to the Northwood Pulp Mill turbine upgrades that were completed in the first quarter of 2014 and payments related to the Intercontinental Pulp Mill’s turbine upgrade. The Company anticipates that it will complete the upgrades to the Intercontinental Pulp Mill turbine and commence selling power under an Electricity Purchase Agreement in the second quarter of 2015.

FINANCIAL REQUIREMENTS AND LIQUIDITY

Operating Loans

At December 31, 2014, the Company had $130.0 million of unsecured operating loan facilities which were unused, except for $12.2 million reserved for several standby letters of credit, leaving $117.8 million of available undrawn operating loans.

Debt Covenants

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

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

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

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was in compliance with all its debt covenants for the year ended December 31, 2014.

Normal Course Issuer Bid

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. In 2014, CPPI purchased 177,518 common shares for $2.0 million (an average price of $11.27 per common share). As a result of the share purchases, Canfor's interest in CPPI increased from 50.4% at December 31, 2013 to 50.5% at December 31, 2014.

2015 Projected Capital Spending and Debt Repayments

Based on its current outlook for 2015, assuming no deterioration in market conditions during the year, the Company plans to invest approximately $60 million in capital projects, which will consist primarily of various improvement projects as well as maintenance of business expenditures. There are no scheduled debt payments in 2015. CPPI has sufficient liquidity in its cash reserves and operating loans to finance its planned capital expenditures as required during 2015.

Derivative Financial Instruments

As at December 31, 2014, the Company had the following derivatives:

a. Foreign exchange collars of US$104.0 million. There were unrealized losses of $0.3 million on the foreign exchange derivatives at the end of the year. The contracts in place at the end of 2014 were as follows:

	2014	
	Notional Amount	**Exchange Rates**
US dollar collars	(millions of US dollars)	(protection/topside, per dollar)
0-12 months	**$104.0**	**$1.11/$1.22**

b. CPPI partly uses Western Texas Intermediate oil ("WTI") contracts as proxy to hedge its diesel purchases. At 2014 year end, the Company had 102 thousand barrels of WTI oil collars outstanding, which will be settled in 2015, with weighted average protection of $58.14 per barrel and topside of $77.35 per barrel. There were unrealized losses of $0.7 million on these contracts at the end of the year.

c. From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. At 2014 year end, the Company had no futures contracts outstanding.

d. CPPI utilizes interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. At December 31, 2014, the Company had $35.0 million in fixed interest rate swaps with interest rates ranging from 2.32% to 2.34%, maturing in 2015.

Commitments

The following table summarizes CPPI's financial contractual obligations at December 31, 2014 for each of the next five years and thereafter:

(millions of Canadian dollars)	2015	2016	2017	2018	2019	Thereafter	Total
Long-term debt obligations	$ -	$ -	$ -	$ 50.0	$ -	$ -	$ 50.0
Operating leases	$ 0.8	$ 0.2	$ 0.1	$ -	$ -	$ -	$ 1.1
	$ 0.8	$ 0.2	$ 0.1	$ 50.0	$ -	$ -	$ 51.1

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

- The Company has entered into three separate energy agreements with a BC energy company and electricity transmission provider (the "Energy Agreements") for all three of the Company's mills, with commencement dates ranging from 2006 through 2015. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the Company's pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2014 the Company had posted $12.2 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.
- Contractual commitments totaling $0.6 million, principally related to the construction of capital assets, mostly related to the turbine project at the Intercontinental Pulp Mill.
- The Company's asset retirement obligations represent estimated undiscounted future payments of $7.2 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 4 to 37 years which have been discounted at risk free rates ranging from 1.4% to 2.4%. The estimated discounted value is $3.5 million and the amount is included in other long-term provisions.
- Obligations to pay pension and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2014 was $94.9 million. As at December 31, 2014, CPPI estimated that it would make contribution payments of $3.4 million to its defined benefit plans in 2015 based on the last actuarial valuation for funding purposes.
- Purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

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

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $147.5 million in 2014.

Canfor provides certain business and administrative services to the Company under a services agreement. The total value of the services provided by Canfor in 2014 was $10.6 million.

The Company provides certain business and administrative services to Canfor under an incidental services agreement. Total value of the services provided to Canfor in 2014 was $2.8 million.

The Company markets bleached chemi-thermo mechanical pulp production from Canfor's Taylor Pulp Mill for which it earned commissions totaling $1.8 million in 2014. The Company sold NBSK pulp to the Taylor Pulp Mill for packaging use totaling $3.4 million in 2014. Subsequent to the acquisition of the Taylor Pulp Mill on January 30, 2015 (described further in the "Acquisition of Taylor Pulp Mill" section below), the Taylor Pulp Mill became a division of CPPI and these transactions became internal.

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

(millions of Canadian dollars)	As at December 31, 2014
Balance Sheet	
Included in accounts payable and accrued liabilities:	
Canfor	**$ 18.0**
Included in trade and other accounts receivable:	
Products marketed for Canfor	**$ 1.7**

Additional details on related party transactions are contained in note 16 to CPPI's 2014 consolidated financial statements.

Acquisition of Taylor Pulp Mill

On January 30, 2015, CPPI completed the purchase of Canfor's Taylor Pulp Mill located in Taylor, BC, which has an annual capacity of 220,000 tonnes of BCTMP, for cash proceeds of approximately $15.0 million including working capital. The transaction also includes a long-term fibre supply agreement under which Canfor will supply fibre to the Taylor Pulp Mill at prices that approximate fair market value. In addition to the cash proceeds, Canfor may also receive contingent consideration over a 3 year period, starting January 31, 2015, based on the Taylor Pulp Mill's annual adjusted operating income before amortization. On the acquisition date, the fair value of the contingent consideration was approximately $1.8 million. CPPI recognized long-term assets acquired net of liabilities assumed of approximately $2.8 million and net working capital of approximately $14.0 million.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Sales and income (millions of Canadian dollars)								
Sales	**$ 264.0**	**$ 237.6**	**$ 252.5**	**$ 226.4**	$ 245.6	$ 196.1	$ 227.6	$ 217.5
Operating income before amortization[12]	**$ 43.2**	**$ 47.7**	**$ 44.8**	**$ 52.4**	$ 39.5	$ 27.8	$ 38.5	$ 37.9
Operating income	**$ 28.0**	**$ 31.4**	**$ 29.6**	**$ 36.4**	$ 24.0	$ 11.3	$ 19.5	$ 19.0
Net income	**$ 20.7**	**$ 24.3**	**$ 18.8**	**$ 25.7**	$ 14.2	$ 9.1	$ 7.6	$ 10.9
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.29**	**$ 0.34**	**$ 0.27**	**$ 0.36**	$ 0.20	$ 0.13	$ 0.11	$ 0.15
Book value[13]	**$ 6.92**	**$ 6.86**	**$ 6.56**	**$ 6.39**	$ 6.17	$ 5.79	$ 5.67	$ 5.53
Dividends declared	**$ 0.0625**	**$ 0.0625**	**$ 0.0625**	**$ 0.0625**	$ 0.0500	$ 0.0500	$ 0.0500	$ 0.0500
Statistics								
Pulp shipments (000 mt)	**258.6**	**240.5**	**246.9**	**222.4**	273.3	212.2	255.0	257.9
Paper shipments (000 mt)	**35.8**	**35.7**	**39.7**	**31.3**	31.1	35.5	37.2	35.0
Average exchange rate – US$/Cdn$	**$ 0.881**	**$ 0.918**	**$ 0.917**	**$ 0.906**	$ 0.953	$ 0.963	$ 0.977	$ 0.991
Average NBSK pulp list price delivered to US (US$)	**$ 1,025**	**$ 1,030**	**$ 1,030**	**$ 1,017**	$ 983	$ 947	$ 937	$ 897

[12] Amortization includes certain capitalized major maintenance costs.
[13] 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 energy swaps, pulp futures and US dollar forward contracts and collars.

(millions of Canadian dollars)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Operating income (loss) by segment:								
Pulp	**$ 23.7**	**$ 27.5**	**$ 28.8**	**$ 35.0**	$ 24.1	$ 8.3	$ 15.4	$ 15.4
Paper	**$ 7.2**	**$ 6.5**	**$ 3.8**	**$ 4.5**	$ 3.8	$ 5.9	$ 7.1	$ 5.9
Unallocated	**$ (2.9)**	**$ (2.6)**	**$ (3.0)**	**$ (3.1)**	$ (3.9)	$ (2.9)	$ (3.0)	$ (2.3)
Total operating income	**$ 28.0**	**$ 31.4**	**$ 29.6**	**$ 36.4**	$ 24.0	$ 11.3	$ 19.5	$ 19.0
Add: Amortization	**$ 15.2**	**$ 16.3**	**$ 15.2**	**$ 16.0**	$ 15.5	$ 16.5	$ 19.0	$ 18.9
Total operating income before amortization[14]	**$ 43.2**	**$ 47.7**	**$ 44.8**	**$ 52.4**	$ 39.5	$ 27.8	$ 38.5	$ 37.9
Add (deduct):								
Working capital movements	**$ 8.5**	**$ (13.2)**	**$ 10.7**	**$ (19.9)**	$ 27.9	$ (10.1)	$ 5.5	$ (7.2)
Defined benefit pension plan contributions	**$ (1.1)**	**$ (1.2)**	**$ (1.3)**	**$ (2.5)**	$ (2.5)	$ (2.3)	$ (2.5)	$ (2.8)
Income taxes paid, net	**$ (1.0)**	**$ (12.5)**	**$ (1.3)**	**$ (9.6)**	$ (0.3)	$ (0.1)	$ -	$ -
Other operating cash flows, net	**$ 3.6**	**$ 3.9**	**$ (1.3)**	**$ 3.5**	$ 4.5	$ (0.4)	$ 3.1	$ 0.4
Cash from operating activities	**$ 53.2**	**$ 24.7**	**$ 51.6**	**$ 23.9**	$ 69.1	$ 14.9	$ 44.6	$ 28.3
Add (deduct):								
Dividends paid	**$ (4.4)**	**$ (4.4)**	**$ (4.5)**	**$ (3.5)**	$ (3.5)	$ (3.5)	$ (3.6)	$ (3.6)
Finance expenses paid	**$ (0.7)**	**$ (0.6)**	**$ (0.6)**	**$ (0.8)**	$ (4.9)	$ (0.2)	$ (3.8)	$ (0.2)
Capital additions, net	**$ (11.3)**	**$ (16.2)**	**$ (20.2)**	**$ (10.0)**	$ (19.9)	$ (26.5)	$ (7.9)	$ (6.9)
Share purchases	**$ -**	**$ (2.0)**	**$ -**	**$ -**	$ -	$ (1.4)	$ (1.0)	$ -
Drawdown of long-term debt	**$ -**	**$ -**	**$ -**	**$ -**	$ 50.0	$ -	$ -	$ -
Repayment of long-term debt	**$ -**	**$ -**	**$ -**	**$ -**	$ (116.6)	$ -	$ -	$ -
Other, net	**$ 0.2**	**$ 0.1**	**$ -**	**$ -**	$ -	$ 0.5	$ 0.1	$ 0.1
Change in cash / operating loans	**$ 37.0**	**$ 1.6**	**$ 26.3**	**$ 9.6**	$ (25.8)	$ (16.2)	$ 28.4	$ 17.7

[14] Amortization includes certain capitalized major maintenance costs.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2014	2013	2012
Sales	**$ 980.5**	$ 886.8	$ 810.4
Net income	**$ 89.5**	$ 41.8	$ 13.4
Total assets	**$ 827.4**	$ 768.6	$ 758.0
Total long-term financial liabilities	**$ 50.0**	$ 50.0	$ -
Net income per share, basic and diluted	**$ 1.26**	$ 0.59	$ 0.14
Dividends/distributions declared per share/unit[15]	**$ 0.2375**	$ 0.20	$ 0.52

[15] Included in 2012 CPPI dividends declared per share was a $0.22 per share dividend declared in May 2012 which was paid to non-Canfor shareholders as Canfor had waived its right to receive the dividend as part of the exchange,

QUARTER ENDED DECEMBER 31, 2014 VS. QUARTER ENDED DECEMBER 31, 2013

Overview of Operating Results

The Company recorded operating income of $28.0 million and net income of $20.7 million for the fourth quarter of 2014, compared to operating income of $24.0 million and net income of $14.2 million for the fourth quarter of 2013. The net income per share was $0.29 for the fourth quarter of 2014, compared to $0.20 per share in the fourth quarter of 2013.

An overview of the results by business segment for the fourth quarter of 2014 compared to the last quarter of 2013 follows.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for the fourth quarter of 2014 and 2013 were as follows:

(millions of Canadian dollars, unless otherwise noted)		Q4 2014		Q4 2013
Sales	**$**	**221.4**	$	212.3
Operating income before amortization[16]	**$**	**38.0**	$	38.8
Operating income	**$**	**23.7**	$	24.1
Average pulp price delivered to US – US$[17]	**$**	**1,025**	$	983
Average price in Cdn$	**$**	**1,164**	$	1,032
Production – pulp (000 mt)		**241.1**		246.1
Shipments – pulp (000 mt)		**258.6**		273.3
Marketed on behalf of Canfor (000 mt)		**55.4**		56.2

[16] Amortization includes certain capitalized major maintenance costs.
[17] Per tonne, NBSK pulp list price delivered to US (Resource Information Systems, Inc.).

Overview

Operating income for the pulp segment was $23.7 million for the fourth quarter of 2014, in line with the fourth quarter of 2013.

The pulp segment's results were relatively flat compared to the fourth quarter of 2013, with strong gains in sales realizations offset by higher unit manufacturing costs and lower shipment volumes. The higher sales realizations were largely a result of the 8% weaker Canadian dollar and marginal improvements in pulp US dollar prices in most regions, while shipments for the last quarter of 2013 were at higher-than-normal levels. Unit manufacturing costs were up moderately, primarily reflecting higher market-driven fibre costs and the impact of a longer scheduled maintenance outage in the current quarter compared to a scheduled outage taken in the fourth quarter of 2013. The current quarter results also included higher energy revenue compared to the fourth quarter of 2013.

Markets

Global softwood pulp markets were relatively stable in the fourth quarter of 2014, softening slightly towards the end of the quarter, with pricing down modestly in North America and China and solid demand in most regions through the quarter. Global softwood pulp producer inventory levels remained balanced during the first two months of the quarter before increasing in December 2014 to 31 days of supply, up 4 days from September 2014[18], driven in part by strong producer operating rates. 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 relatively unchanged from the fourth quarter of 2013, with stable demand seen to most regions compared to the same period in 2013[19].

[18] 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.
[19] As reported by Pulp and Paper Products Council ("PPPC") statistics.

Sales

The Company's pulp shipments in the fourth quarter of 2014 totalled 258,600 tonnes, down 14,700 tonnes, or 5%, from the same period in 2013, due in part to higher-than-normal shipments into China in the fourth quarter of 2013, partly offset by improved demand in North America. Compared to the fourth quarter of 2013, pulp sales realizations showed strong gains, largely as a result of the 8% weaker Canadian dollar, increased US-dollar pulp prices in most regions, and increased shipments to higher-margin regions. The average NBSK pulp list price to North America increased US$42 per tonne, or 4%, with list prices to Europe seeing similar gains. Partially offsetting these gains were increased discounts in North America and a 3% decrease in the average list price to China. Higher energy revenue compared to the same period in 2013 continued to reflect output from the upgrades to the Northwood Pulp Mill turbines, completed in early 2014, as well as increased power generation from the turbine at the Company's Prince George Pulp Mill facility.

Operations

Pulp production in the current quarter was 241,100 tonnes, down 5,000 tonnes, or 2%, from the fourth quarter of 2013. The current quarter included a scheduled maintenance outage at the Northwood Pulp Mill which resulted in reduced market pulp production of 17,000 tonnes. In comparison, production in the fourth quarter of 2013 reflected a scheduled maintenance outage at the Prince George Pulp Mill, which resulted in reduced market pulp production of 4,000 tonnes. Current quarter production levels were favourably impacted by higher operating rates than the same period in 2013.

Compared to the fourth quarter of 2013, unit manufacturing costs were up, reflecting the impact of higher fibre costs coupled with higher costs attributable to the longer maintenance outage in the current quarter. The higher fibre costs resulted largely from market-driven increases in sawmill residual and whole log chip prices and, to a lesser extent, an increased proportion of higher-cost whole log chips.

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for the fourth quarter of 2014 and 2013 were as follows:

(millions of Canadian dollars, unless otherwise noted)	**Q4 2014**	Q4 2013
Sales	**$ 42.5**	$ 33.2
Operating income before amortization[20]	**$ 8.0**	$ 4.6
Operating income	**$ 7.2**	$ 3.8
Production – paper (000 mt)	**36.0**	30.8
Shipments – paper (000 mt)	**35.8**	31.1

[20] Amortization includes certain capitalized major maintenance costs.

Overview

Operating income for the paper segment was $7.2 million for the fourth quarter of 2014, up $3.4 million from the fourth quarter of 2013. The higher operating income compared to the fourth quarter of 2013 reflected increased shipment volumes and higher unit sales realizations coupled with lower unit conversion costs principally resulting from higher production volume in the current quarter due to a scheduled maintenance outage in the comparable period in 2013. These gains were partially offset by market-driven increases in slush pulp costs in the current quarter.

Markets

Global kraft paper demand remained strong through the fourth quarter of 2014 with full order files for both North American and offshore markets. Anticipated new capacity in Europe did not impact overall supply in the period due to start up delays.

Sales

The Company's paper shipments in the fourth quarter of 2014 were 35,800 tonnes, up 4,700 tonnes, or 15%, from the fourth quarter of 2013, principally reflecting higher production levels. Prime bleached shipments, which attract higher prices, were up 6% from the fourth quarter of 2013.

Unit sales realizations were well up compared to the same period in 2013, largely the result of the 8% weaker Canadian dollar as well as increased prices and the higher prime bleached paper shipments.

Operations

Paper production in the fourth quarter of 2014 was 36,000 tonnes, up 5,200 tonnes, or 17%, from the fourth quarter of 2013. The increase in production compared to the fourth quarter of 2013 was mostly due to a scheduled maintenance outage at the Company's paper machine in October 2013. Operating rates in the current quarter were improved from the same period in 2013, further contributing to higher production volumes. Unit manufacturing costs showed a marginal increase compared to the fourth quarter of 2013, as higher costs for slush pulp, principally reflecting higher market pulp prices, and chemical costs, were partly offset by lower maintenance and operating costs, mostly due to a scheduled maintenance outage in the comparative period and corresponding lower production volumes.

Unallocated Items

(millions of Canadian dollars)		**Q4 2014**		Q4 **2013**
Corporate costs	**$**	**(2.9)**	$	(3.9)
Finance expense, net	**$**	**(1.4)**	$	(3.2)
Foreign exchange loss on long-term debt	**$**	**-**	$	(3.4)
Loss on derivative financial instruments	**$**	**(0.8)**	$	(0.1)
Other income (expense), net	**$**	**1.8**	$	2.2

Corporate costs were $2.9 million for the fourth quarter of 2014, down $1.0 million from the fourth quarter of 2013. The comparable period in 2013 included costs associated with the wind-up of Canfor Pulp Limited Partnership at the end of 2013.

Net finance expense for the fourth quarter of 2014 was $1.4 million, down $1.8 million from the fourth 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. Net finance expense in the comparable period in 2013 also included costs associated with new term debt and extension of the Company's operating loan facility.

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 fourth quarter of 2014, the Company recorded a net loss of $0.8 million largely reflecting unrealized losses on crude oil collars stemming from the sharp decline in oil prices at the end of 2014, with oil prices declining further early in 2015. Also contributing to the loss, to a lesser degree, were 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 third quarter of 2014.

Other income, net for the fourth quarter of 2014 of $1.8 million reflected favourable exchange movements on US dollar denominated cash, receivables and payables, resulting from the weakening of the Canadian dollar through the quarter.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Net Income

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net income, as reported	**$ 20.7**	**$ 24.3**	**$ 18.8**	**$ 25.7**	$ 14.2	$ 9.1	$ 7.6	$ 10.9
(Gain) loss on derivative financial instruments	**$ 0.6**	**$ 0.2**	**$ (0.4)**	**$ 1.0**	$ 0.1	$ (1.5)	$ 2.0	$ (0.5)
Foreign exchange (gain) loss on long-term debt	**$ -**	**$ -**	**$ -**	**$ -**	$ 3.0	$ (2.0)	$ 3.4	$ 2.0
Change in substantively enacted tax rate	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ 2.4	$ -
Net impact of above items	**$ 0.6**	**$ 0.2**	**$ (0.4)**	**$ 1.0**	$ 3.1	$ (3.5)	$ 7.8	$ 1.5
Adjusted net income	**$ 21.3**	**$ 24.5**	**$ 18.4**	**$ 26.7**	$ 17.3	$ 5.6	$ 15.4	$ 12.4
Net income per share (EPS), as reported	**$ 0.29**	**$ 0.34**	**$ 0.27**	**$ 0.36**	$ 0.20	$ 0.13	$ 0.11	$ 0.15
Net impact of above items per share[21]	**$ 0.01**	**$ -**	**$ (0.01)**	**$ 0.01**	$ 0.04	$ (0.05)	$ 0.11	$ 0.02
Adjusted net income per share[21]	**$ 0.30**	**$ 0.34**	**$ 0.26**	**$ 0.37**	$ 0.24	$ 0.08	$ 0.22	$ 0.17

[21] 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.

OUTLOOK

Pulp Markets

For the month of January 2015, NBSK pulp list prices were down from December 2014, with the NBSK pulp list price to North America at US$1,010 per tonne, down US$10 per tonne, and the list prices to China and Europe down US$20 per tonne at US$680 per tonne and US$915 per tonne, respectively. For the month of February 2015, the Company has announced a NBSK pulp list price of US$1,000 per tonne in North America. There are no maintenance outages planned for the first quarter of 2015. NBSK pulp list prices are anticipated to continue to soften modestly through the first quarter of 2015, with a modest growth in producer inventories due in part to minimal industry maintenance during the first quarter and NBSK pulp production facilities running at or near capacity; however, the continued weakening of the Canadian dollar is currently projected to outweigh the forecast declines in NBSK pulp list prices. For the second quarter of 2015, producer inventories are forecast to decline during the industry's spring maintenance period.

Maintenance outages are currently planned at the Intercontinental and Prince George Mills in the second quarter of 2015 with a projected 10,000 tonnes of reduced production and at the Northwood Mill in the fourth quarter of 2015 with a projected 25,000 tonnes of reduced production.

Paper Markets

Kraft paper markets are softening slightly heading into the first quarter of 2015. There is potential for some modest downward pressure on prices in North American markets in the first quarter of 2015 with increased competition for business from European paper producers. Any decreases in prices are anticipated to be mitigated by a projected further weakening of the Canadian dollar.

CRITICAL ACCOUNTING ESTIMATES

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

Employee Future Benefits

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

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

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

	December 31, 2014		December 31, 2013	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Discount rate	**3.90%**	**3.90%**	4.80%	4.90%
Rate of compensation increases	**3.00%**	**n/a**	3.00%	n/a
Future salary increases	**2.50%**	**n/a**	3.00%	n/a
Initial medical cost trend rate	**n/a**	**7.00%**	n/a	7.00%
Ultimate medical cost trend rate	**n/a**	**4.50%**	n/a	4.50%
Year ultimate rate is reached	**n/a**	**2021**	n/a	2021

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2014 is between 20.8 years and 24.0 years (2013 – 19.8 years and 23.0 years). As at December 31, 2014, the weighted average duration of the defined benefit obligation is 12.4 years (2013 – 11.4 years). The weighted average duration of the other benefit plans is 13.9 years (2013 – 13.7 years).

Assumed discount rates and medical cost trend rates have a significant effect on the accrued benefit obligation. A one percentage point change in these assumptions would have the following effects on the accrued benefit obligation for 2014:

(millions of Canadian dollars)	1% Increase	1% Decrease
Pension benefit plans		
Discount rate	$ (15.8)	$ 17.8
Other benefit plans		
Discount rate	$ (10.6)	$ 13.4
Initial medical cost trend rate	$ 9.5	$ (8.0)

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

Asset Retirement Obligations

CPPI records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period in which they are incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 4 to 37 years and have been discounted at risk-free rates ranging from 1.4% to 2.4%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Asset Impairments

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No impairments were recorded in 2014 or 2013.

Deferred Taxes

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

Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates there is no requirement to write-down the Company's finished goods inventories, which are carried at cost at December 31, 2014.

FUTURE CHANGES IN ACCOUNTING POLICIES

In July 2014, the 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.

RISKS AND UNCERTAINTIES

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

Aboriginal Issues

Canfor Pulp sources the majority of its fibre from areas subject to claims of Aboriginal rights or title. Canadian judicial decisions have recognized the continued existence of Aboriginal rights and title to lands continuously and exclusively used or occupied by Aboriginal groups; however, until recently, the courts have not identified any specific lands where Aboriginal title exists. In June 2014, the Supreme Court of Canada, for the first time, recognized Aboriginal title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's *Forest Act*, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Aboriginal title lands.

While Aboriginal title had previously been assumed over specific, intensively occupied areas such as villages, the William decision marks the first time Canada's highest court has recognized Aboriginal title over a specific piece of land and, in so doing, affirmed a broader territorial use-based approach to Aboriginal title. The decision also defines what Aboriginal title means and the types of land uses consistent with this form of collective ownership.

The impacts of the Supreme Court of Canada's decision on the timber supply from Crown lands is unknown at this time; and the Company does not know if the decision will lead to changes in BC laws or policies. Canfor Pulp supports the work of tenure holders to engage, cooperate and exchange information and views with First Nations and Government to foster good relationships and minimize risks to the Company's operational plans.

Capital Requirements

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2014 were approximately $57.7 million. The Company anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Competitive Markets

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

Currency Exchange Risk

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

Cyclicality of Product Prices

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

Dependence on Canfor

In 2014, approximately 59% of the fibre used by the Company was derived from the Fibre Supply Agreement with Canfor. Following the purchase of the Taylor Pulp Mill from Canfor on January 30, 2015 and the related fibre supply agreement, the Company anticipates approximately 62% of the fibre used will be derived from Canfor. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Dependence on Key Customers

In 2014, the Company's top five customers accounted for approximately 27% of its pulp sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Dividends

CPPI paid quarterly dividends of $0.0625 per share through 2014 and may, subject to market conditions, continue to pay a comparable level of dividends through 2015. There is no assurance that the dividends will be maintained at this level and the market value of CPPI shares may fluctuate depending on the amount of dividends paid in the future. The board retains the discretion to change the policy at any time and reviews the policy on a quarterly basis.

Employee Future Benefits

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

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

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

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $15.8 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $17.8 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Laws, Regulations and Compliance

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

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. The provision for these future environmental remediation expenditures was $3.5 million as of December 31, 2014. It is possible that the Company could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact the Company's financial condition or preclude the Company from making capital expenditures that would otherwise benefit the Company's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Company.

Financial Risk Management and Earnings Sensitivities

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

Financial Risk Management

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

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

(a) Credit risk:

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

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

CPPI utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. As at December 31, 2014, approximately 81% of the outstanding trade receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade receivable balance at December 31, 2014 was $60.7 million. At December 31, 2014, approximately 98% of the trade accounts receivable balance was within CPPI's established credit terms.

(b) Liquidity risk:

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

At December 31, 2014, CPPI had no amounts drawn on its operating loans, and accounts payable and accrued liabilities of $123.2 million, all of which are due within twelve months of the balance sheet date.

(c) Market risk:

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

(i) *Interest Rate risk:*

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

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

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

(ii) *Currency risk:*

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

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

(iii) *Commodity price risk:*

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

(iv) *Energy price risk:*

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

The exposure is hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months. In the case of diesel, CPPI uses WTI oil contracts to hedge its exposure (See "Derivative Financial Instruments" section later in this document).

Derivative Financial Instruments

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

Earnings Sensitivities

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2015 Business Plan forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US$10 change per tonne [22]	$ 8
Natural gas cost – $1 change per gigajoule	$ 4
Chip cost – $1 change per tonne	$ 3
Canadian dollar – US$0.01 change per Canadian dollar[23]	$ 7

[22] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.
[23] Represents impact on operating income and excludes the impact on operating loans denominated in US$. Decrease of US$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

Governmental Regulations

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

Increased Industry Production Capacity

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

Maintenance Obligations and Facility Disruptions

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

Raw Material Costs

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's Fibre Supply Agreement with Canfor contains a pricing formula that currently results in the Company paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current pricing under the agreement expires September 1, 2016, and may be amended as necessary to ensure it is reflective of market conditions. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs. Residual chip pricing depends on current sawmills running at current levels. In order to meet the raw materials requirements of its mills, the Company may be forced to further supplement with increased purchases of higher-cost whole log chips.

Transportation Services

The Company relies on third parties for transportation of its products, as well as delivery of raw materials principally by railroad, trucks and ships. If any significant third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, the Company may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which may have a material adverse effect on its financial condition and operating results. In addition, if any of these significant third parties were to cease operations or cease doing business with the Company, the Company may be unable to replace them at a reasonable cost. Transportation services may also be impacted by seasonal factors, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on CPPI's financial condition and operating results. As a result of increased government regulation on truck driver work hours and rail capacity constraints, access to adequate transportation capacity has at times been strained and could affect the Company's ability to move its log, lumber and wood chips at market competitive prices.

Work Stoppages

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

OUTSTANDING SHARE DATA

At February 4, 2015, there were 70,829,823 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ending December 31, 2014, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the year ended December 31, 2014 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2014, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2014 Annual Information Form, is available at www.sedar.com or at www.canforpulp.com.