

CANFOR PULP PRODUCTS INC.

Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

February 5, 2014

"Don B. Kayne"

Don B. Kayne
Chief Executive Officer

"Alan Nicholl"

Alan Nicholl
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canfor Pulp Products Inc.

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

"PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia
February 5, 2014

Canfor Pulp Products Inc.
Consolidated Balance Sheets

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

Subsequent Event (Note 23)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"R.L. Cliff"

Director, R.L. Cliff

Canfor Pulp Products Inc.
Consolidated Statements of Income

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

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

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

(millions of Canadian dollars)	Year ended December 31,	
	2013	2012
		(Note 4)
Net income	\$ 41.8	\$ 13.4
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gains (losses) (Note 10)	35.5	(15.0)
Income tax recovery (expense) on defined benefit plan actuarial losses (gains) (Note 14)	(9.3)	3.7
Other comprehensive income (loss), net of tax	26.2	(11.3)
Total comprehensive income	\$ 68.0	\$ 2.1
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	\$ 68.0	\$ (2.2)
Non-controlling interests (Note 22)	-	4.3
Total comprehensive income	\$ 68.0	\$ 2.1

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Year ended December 31,	
	2013	2012
		(Note 4)
Share capital		
Balance at beginning of year	\$ 525.3	\$ 294.9
Share purchases (Note 12)	(1.9)	-
Exchange transaction (Note 22)	-	230.4
Balance at end of year (Note 12)	\$ 523.4	\$ 525.3
Retained earnings (deficit)		
Balance at beginning of year	\$ (138.7)	\$ (67.3)
Net income excluding amount attributable to non-controlling interests	41.8	9.1
Defined benefit plan actuarial gains (losses), net of tax	26.2	(11.3)
Dividends declared	(14.2)	(11.4)
Share purchases (Note 12)	(0.5)	-
Exchange transaction (Note 22)	-	(57.8)
Balance at end of year	\$ (85.4)	\$ (138.7)
Total equity attributable to equity holders of the Company	\$ 438.0	\$ 386.6
Non-controlling interests		
Balance at beginning of year	\$ -	\$ 226.1
Net income attributable to non-controlling interests	-	4.3
Exchange transaction (Note 22)	-	(230.4)
Balance at end of year	\$ -	\$ -
Total equity	\$ 438.0	\$ 386.6

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

Canfor Pulp Products Inc. Consolidated Statements of Cash Flows

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

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

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

Canfor Pulp Products Inc.

Notes to the Consolidated Financial Statements

1. Reporting Entity

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

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

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

2. Basis of Preparation

Statement of compliance

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

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

Basis of measurement

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

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

Use of estimates and judgments

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

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

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

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

3. Significant Accounting Policies

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

Basis of consolidation

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

Cash and cash equivalents

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

Financial instruments

Non-derivative financial instruments

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

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

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

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

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

Derivative financial instruments

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

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

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

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

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

Government assistance

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

Asset impairment

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

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

Non-financial assets, for which an impairment was recorded in a prior period are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset

cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

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

Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

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

Provisions

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

Asset retirement obligations

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

Revenue recognition

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

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

Income taxes

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

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

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

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

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

Foreign currency translation

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

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

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

Segment reporting

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

4. Changes in Accounting Policy

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

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

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

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

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

Accounting Standards Issued and Not Applied

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

5. Inventories

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

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

6. Property, Plant and Equipment

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

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

7. Accounts Payable and Accrued Liabilities

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

8. Operating Loans

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

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

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

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

9. Long-Term Debt

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

Summary of long-term debt

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

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

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

Fair value of total long-term debt

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

10. Employee Future Benefits

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

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

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

Defined benefit plans

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

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

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

Fair Market Value of Plan Assets

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

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

Accrued Benefit Obligations

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

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

Reconciliation of Funded Status of Benefit Plans to Amounts Recorded in the Financial Statements

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

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

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

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

Components of pension cost

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

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

Significant assumptions

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

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

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

Sensitivity analysis

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

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

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

Defined contribution and other plans

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

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

Employee future benefit plan amendments

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

Other

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

11. Asset Retirement Obligations

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

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

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

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

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

12. Share Capital

Authorized

Unlimited number of common shares, no par value

Issued and Fully Paid

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

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

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

Normal Course Issuer Bid

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

13. Finance Expense, Net

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

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

14. Income Taxes

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

The components of income tax expense are as follows:

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

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

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

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

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

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

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

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

15. Net Change in Non-Cash Working Capital

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

16. Related Party Transactions

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

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

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

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

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

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

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

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

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

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

Key Management Personnel

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

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

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

Other Related Parties

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

17. Segment Information

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

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

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

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

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

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

Geographic information

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

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

18. Insurance Claim Receivable

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

19. Commitments

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

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

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

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

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

Energy Agreements

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

20. Financial Risk and Capital Management

Financial Risk Management

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

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

Credit risk:

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

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

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

Liquidity risk:

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

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

Market risk:

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

(i) Interest rate risk:

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

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

(ii) Currency risk:

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

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

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

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

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

(iii) Commodity price risk:

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

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

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

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

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

(iv) Energy price risk:

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

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

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

Capital management

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

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

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

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

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

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

21. Financial Instruments

Classification and measurement of financial instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

Derivative financial instruments

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

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

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

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

22. Acquisition of Interest in Canfor Pulp Limited Partnership and Partnership Wind-Up

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

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

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

23. Subsequent Event

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