CANFOR PULP PRODUCTS INC.

Management's Discussion and Analysis

For the year ended December 31, 2013

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

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

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

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

<u>Forward Looking Statements</u>

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

COMPANY OVERVIEW

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

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

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

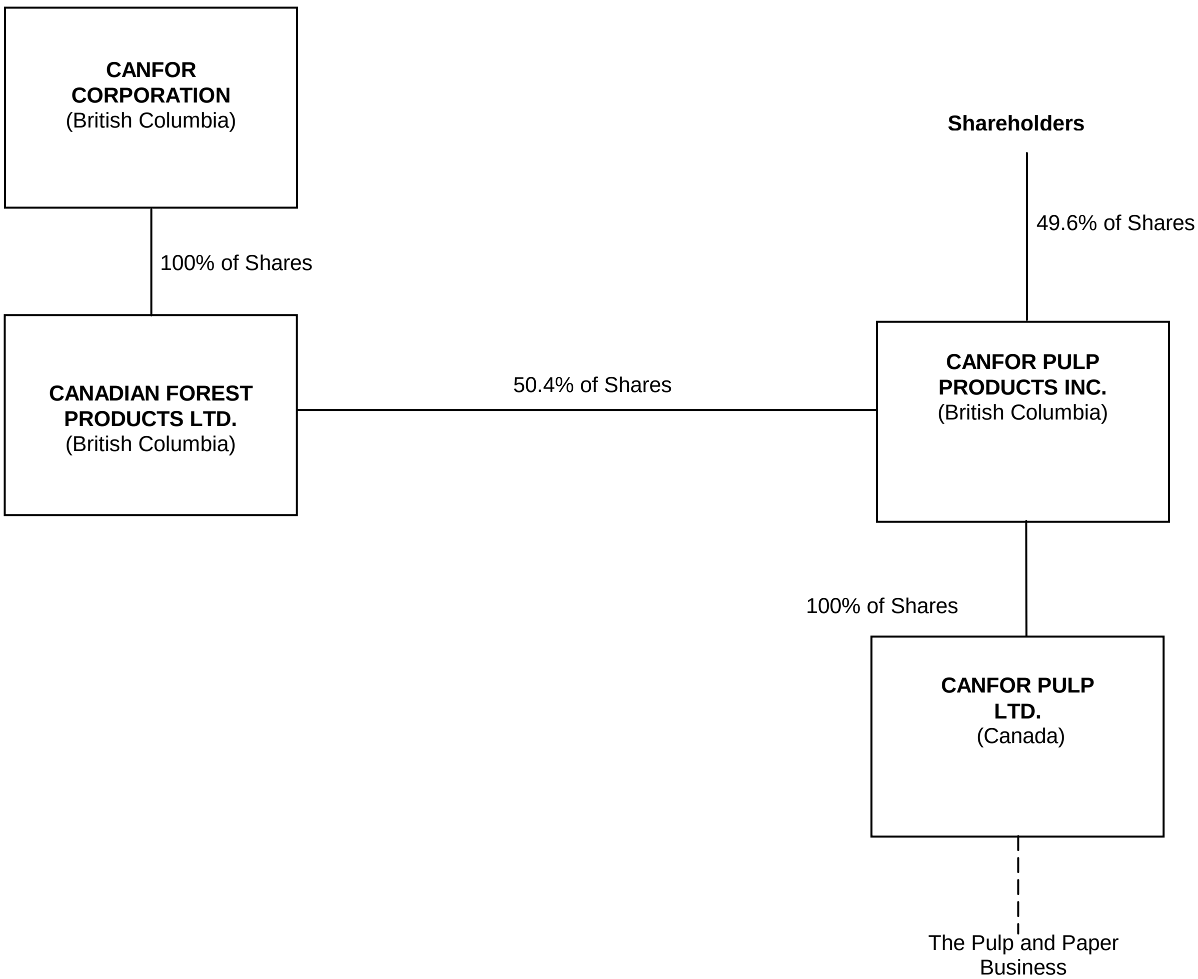
On December 27, 2013, the Partnership was wound up and all of the net assets were transferred to Canfor Pulp Holding Inc. Subsequent to the transfer, Canfor Pulp Holding Inc. was renamed Canfor Pulp Ltd.

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

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

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

Simplified Ownership Structure



Pulp

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

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

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

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

Paper

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

Business Strategy

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

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

OVERVIEW OF 2013

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

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

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

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

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

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

A review of the more significant developments in 2013 follows.

Markets and Pricing

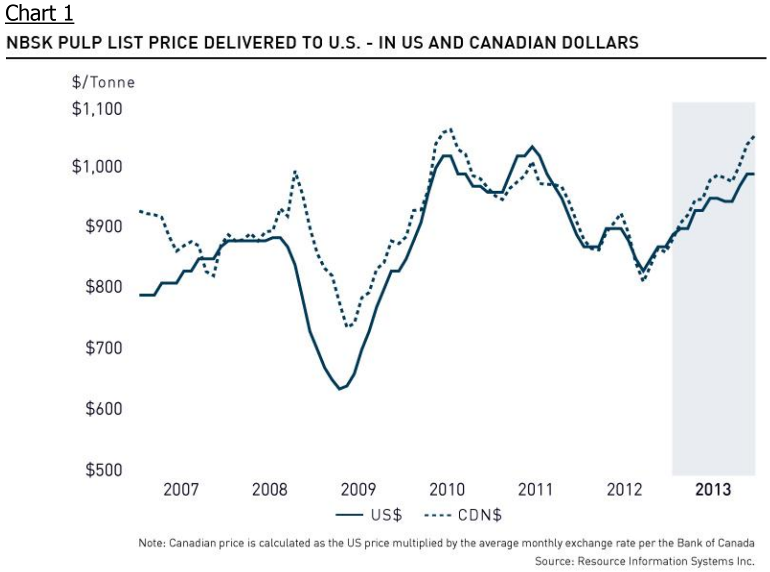
(i) Pulp – Steady global demand and tightening producer inventory levels support modest price increases through 2013

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

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

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

Chart 1



[1] Resource Information Systems, Inc.

Chart 2
WORLD SOFTWOOD PULP INVENTORIES

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

(ii) Paper - Kraft paper markets improve modestly in 2013

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

Capital and Operations Review

(i) Completion of renewal initiative allowing Company to capitalize on high return energy projects

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

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

(ii) Operational performance improving heading into 2014, after year of disruption from major scheduled and unscheduled outages

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

Integration with Canfor

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

OVERVIEW OF CONSOLIDATED RESULTS – 2013 COMPARED TO 2012

Selected Financial Information and Statistics[2]

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

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

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

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

Analysis of Specific Items Affecting Comparability of Net Income[2]

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

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

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

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

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

OPERATING RESULTS BY BUSINESS SEGMENT – 2013 COMPARED TO 2012

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

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp[8]

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

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

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

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

Overview

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

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

Markets

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

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

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

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

Sales

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

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

Operations

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

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

Paper

Selected Financial Information and Statistics – Paper[11]

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

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

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

Overview

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

Markets

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

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

Sales

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

Operations

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

Unallocated and Other Items

Selected Financial Information[12]

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

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

Corporate Costs

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

Finance Income and Expense

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

Foreign Exchange Gain (Loss) on Translation of Long-Term Debt

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

Gain (Loss) on Derivative Financial Instruments

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

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

Gain (Loss) on Derivative Financial Instruments:

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

Other Income and Expense, Net

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

Income Tax Expense

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

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

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

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

Other Comprehensive Income (Loss)

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

SUMMARY OF FINANCIAL POSITION

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

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

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

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

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

CHANGES IN FINANCIAL POSITION

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

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

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

Operating Activities

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

Financing Activities

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

Investing Activities

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

FINANCIAL REQUIREMENTS AND LIQUIDITY

Operating Loans

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

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

Debt Covenants

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

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

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

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

Normal Course Issuer Bid

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

2014 Projected Capital Spending and Debt Repayments

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

Derivative Financial Instruments

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

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

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

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

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

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

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

Commitments

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

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

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

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

TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION[16]

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

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

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

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

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

THREE-YEAR COMPARATIVE REVIEW[19]

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

[19] Certain 2012 amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits.* Further details can be found in the "Changes in Accounting Policy" section in this document.
[20] Amounts represent the balances and results for Canfor Pulp Limited Partnership, as a result of the accounting treatment of the acquisition of Canfor Pulp Limited Partnership as described in the Company's annual consolidated financial statements.
[21] Included in 2012 CPPI dividends declared per share was a $0.22 per share dividend declared in May 2012 which was paid to non-Canfor shareholders as Canfor had waived its right to receive the dividend as part of the exchange, 2011 amounts represent Canfor Pulp Limited Partnership distributions declared per Partnership unit.

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

Overview of Operating Results

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

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

Pulp

Selected Financial Information and Statistics – Pulp[22]

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

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

[22] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits.* Further details can be found in the "Changes in Accounting Policy" section in this document.
[23] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

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

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

Markets

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

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

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

Sales

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

Operations

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

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

Paper

Selected Financial Information and Statistics – Paper[26]

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

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

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

Overview

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

Markets

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

Sales

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

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

Operations

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

Unallocated and Other Items[27]

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

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

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

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

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

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

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

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

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Net Income (Loss)

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

After-tax impact, net of non-controlling interests[28]

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

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

OUTLOOK

Pulp Markets

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

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

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

Paper Markets

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

CRITICAL ACCOUNTING ESTIMATES

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

Employee Future Benefits

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

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

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

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

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

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

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

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

Asset Retirement Obligations

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

Asset Impairments

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

Deferred Taxes

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

Valuation of Finished Product Inventories

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

Changes in Accounting Policy

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

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

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

RISKS AND UNCERTAINTIES

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

Capital Requirements

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

Competitive Markets

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

Currency Exchange Risk

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

Cyclicality of Product Prices

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

Dependence on Canfor

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

Dependence on Key Customers

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

Dividends

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

Employee Future Benefits

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

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

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

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

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

Environmental Laws, Regulations and Compliance

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

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

Financial Risk Management and Earnings Sensitivities

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

Financial Risk Management

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

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

(a) Credit risk:

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

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

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

(b) Liquidity risk:

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

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

(c) Market risk:

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

(i) *Interest Rate risk:*

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

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

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

(ii) *Currency risk:*

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

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

(iii) *Commodity price risk:*

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

(iii) *Energy price risk:*

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

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

Derivative Financial Instruments

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

Earnings Sensitivities

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

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

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

Governmental Regulation

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

Increased Production Capacity

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

Maintenance Obligations and Facility Disruptions

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

Native Land Claims

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

Raw Material Costs

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

Transportation Services

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

Work Stoppages

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

OUTSTANDING SHARE DATA

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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