CANFOR PULP PRODUCTS INC.

Management's Discussion and Analysis

For the year ended December 31, 2012

2012 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, 2012 relative to the year ended December 31, 2011, and the financial position of the Company at December 31, 2012. 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, 2012 and 2011. 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. Operating Income before Amortization is not a generally accepted earnings measure and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, CPPI's operating income before amortization may not be directly comparable with similarly titled measures used by other companies. A reconciliation of operating income before amortization to operating income reported in accordance with IFRS is included in this MD&A.

Factors that could impact future operations are also discussed. These factors may be influenced by 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 13, 2013.

Forward Looking Statements

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

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, 2012 comprise the Company and its subsidiary entities including Canfor Pulp Limited Partnership ("the Partnership"). The Partnership's operations consist of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

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 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.

Prior to March 2, 2012 Canfor held a direct controlling interest in the Partnership. The discussion which follows refers to the results of the Pulp Business for the comparative periods prior to the quarter ended March 31, 2012. For the quarter ended March 31, 2012, and all subsequent quarters, the results of CPPI include the results of the Partnership.

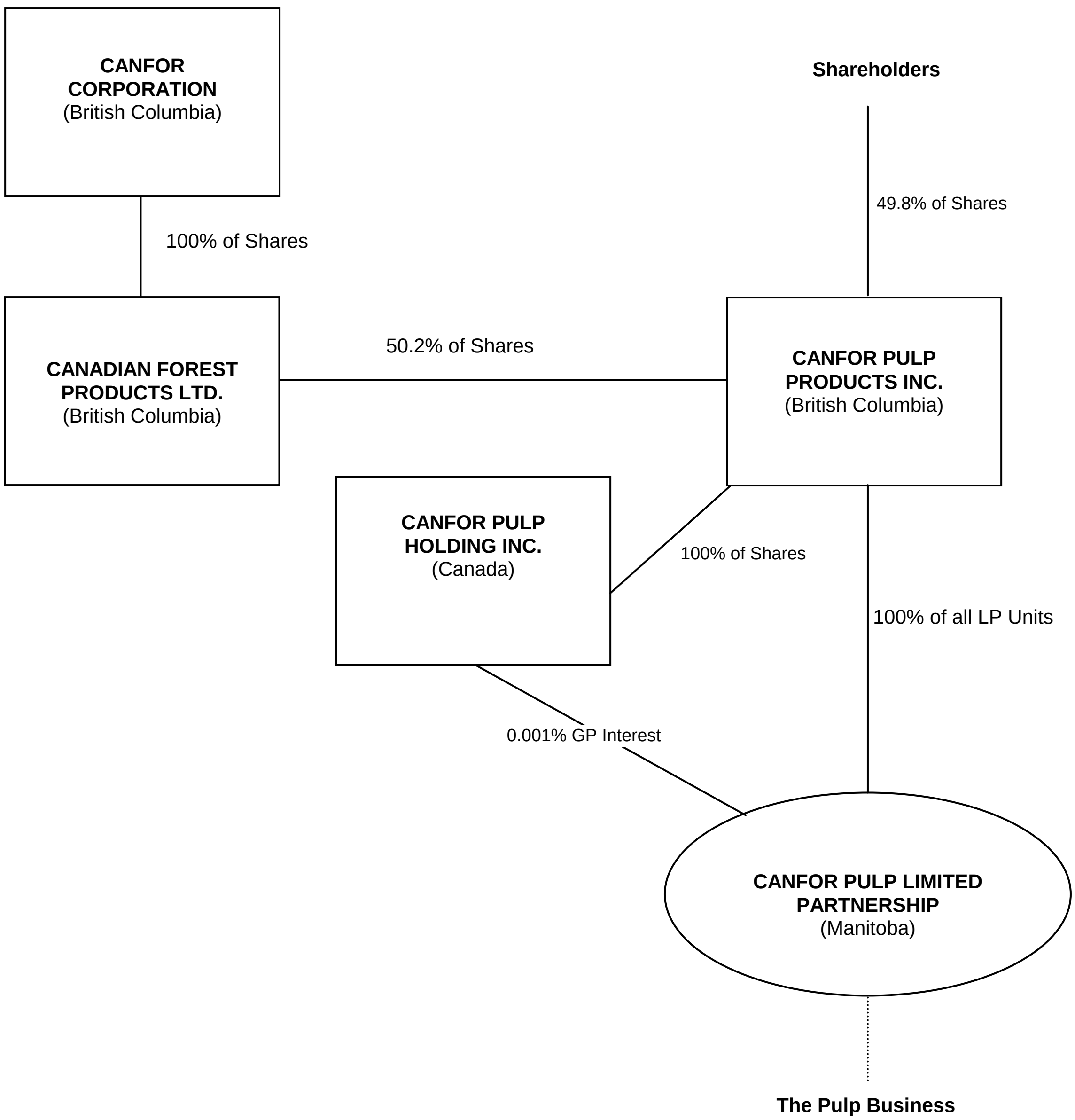
At December 31, 2012 CPPI held a 100% interest in the Partnership and the General Partner and Canfor held a 50.2% interest in CPPI.

At February 13, 2013, there were a total of 71,269,790 CPPI shares issued and outstanding, and CPPI held a total of 71,270,025 units of the Partnership, representing 100.0% of the Partnership.

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

The following chart illustrates, on a simplified basis, the ownership structure of CPPI and the Partnership (collectively the Company) as at December 31, 2012.

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 615,000 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 330,000 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 150,000 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.

The Prince George mill is the only North American producer that has a large paper machine capable of producing fully bleached, high performance kraft paper.

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 its green energy business, and
- Capitalizing on attractive growth opportunities.

OVERVIEW OF 2012

Overall, 2012 was a challenging year for global pulp markets as the ongoing financial crisis in Europe and slowing growth in China tempered global demand. NBSK pulp list prices remained relatively flat through 2012 in all regions, but on average sales realizations for the Company's products were well down from 2011, for the most part reflecting higher shipments to lower-margin regions, principally China.

The Company's operations were impacted significantly in 2012 as a result of a scheduled outage at the Prince George Pulp Mill that was extended to complete several major capital projects including the final project partially funded under the Green Transformation Program (the "Program"), and an outage at the Northwood Pulp Mill due to the unscheduled shutdown of one of the facility's recovery boilers in the summer months.

The Company's significant capital investment over the past three years, including $167.0 million partially funded under the Program, has positioned CPPI to maintain its top quartile position in the industry. Looking forward, the capital spending focus will be on growing the energy side of the Company's business. To that end, an Energy Purchase Agreement with BC Hydro is scheduled to commence upon completion of upgrades to the turbines at the Northwood Pulp Mill. The turbine upgrades are scheduled for completion by the end of 2013.

The Company also ratified new five year collective agreements with the CEP (Communications, Energy and Paperworkers Union) and PPWC (Pulp, Paper and Woodworkers of Canada) during 2012. Both agreements expire on April 30, 2017.

Operating results for the pulp segment were down significantly from the previous year, principally as a result of decline in prices denominated in US dollars and the impacts of lower production and shipment volumes, in part reflecting the aforementioned outages. Unit manufacturing costs increased slightly in 2012 as the impact of lower production volumes and increased spending, including maintenance and one-time costs associated with the new five year collective labour agreements, more than offset lower fibre costs.

On a more positive note, paper segment results were well up in 2012 as lower costs for slush pulp more than offset modest declines in realized paper prices. Reduced costs for slush pulp reflected lower global softwood pulp prices, while decreases in paper prices reflected global reductions in printing and writing demand, down 2% in 2012.

In mid-2012, the Company and Canfor announced leadership changes focused on integration and greater alignment in several key business areas. Integration-to-date has gone very well with both companies realizing benefits of a more collaborative, streamlined approach as well as leveraging the expertise of both companies. Total cost savings of approximately $10 million are projected to be realized in 2013. The savings are expected to flow equally between the two entities.

A review of the more significant developments in 2012 follows.

Markets and Pricing

(i) Pulp – Challenging global markets contribute to weaker price environment

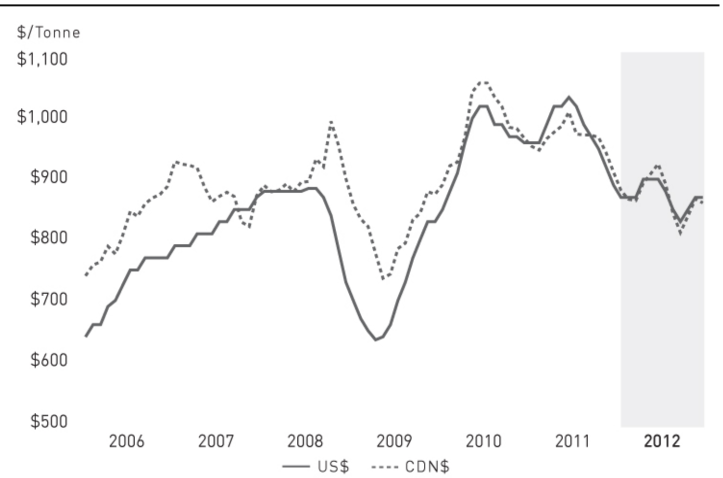
As mentioned, 2012 proved to be a challenging year for pulp markets. Weak markets at the end of 2011 continued through the first quarter of 2012 before showing some signs of moderate improvement heading into the seasonally strong spring maintenance period. However, markets failed to gain any traction through the latter half of 2012, in spite of declines in inventories held by producers, largely due to weak demand in certain markets, notably Europe. Annual softwood demand increased 3% for the full year 2012, when compared to 2011. Bleached softwood shipments into China increased significantly, offsetting declines in Europe and North America and to some extent reflecting substitution of softwood pulp for hardwood pulp by Chinese buyers.

The benchmark North American list price for NBSK pulp averaged US$872 per tonne[1] for 2012, down US$105, or 11%, from the prior year. More pronounced price decreases were seen for Europe and China of US$140 to US$170 per tonne, as a result of the weak European demand and strong competition for business in China.

The following charts show the NBSK price movements in 2012 (Chart 1) and the global pulp inventory levels (Chart 2), with prices and inventories both falling through the year as discussed above.

Chart 1

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



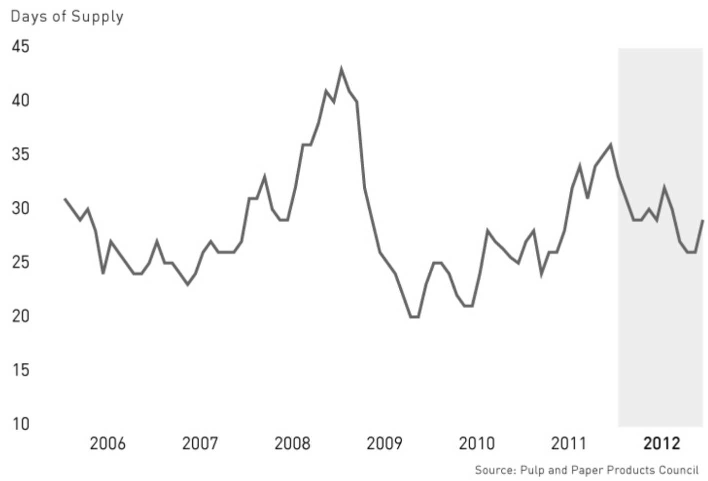
Note: Canadian price is calculated as the US price multiplied by the average monthly exchange rate per the Bank of Canada

Source: Resource Information Systems Inc.

[1] Resource Information Systems, Inc.

Chart 2

WORLD SOFTWOOD PULP INVENTORIES



(ii) Paper - Kraft paper markets flat in response to challenging global economies

Kraft paper markets were relatively flat in 2012 in face of challenging global economies and declining printing and writing demand. Global demand was steady in 2012 as weakness in the North American and European economies mitigated growth in other global regions. Total U.S. kraft paper shipments in 2012 were 6% lower than the prior year, principally reflecting an 8% reduction in total unbleached kraft paper shipments, which account for approximately 85% of total shipments in the U.S. Prices for bleached paper in North America were similar to the prior year; however, export market prices were off significantly, particularly in unbleached paper grades.

Capital and Operations Review

(i) Green Transformation Program related capital complete; Future focus now on high return energy projects

In October 2009, the Canadian federal government announced the introduction of a Pulp and Paper Green Transformation Program (the "Program") designed to reimburse funds spent by Canadian pulp producers on qualifying energy and environmental capital projects. The Company expended its full $122.2 million Program allocation and an additional $44.8 million of Company funded expenditures for a total of $167.0 million on qualifying expenditures under the Program. The Company completed several projects partially funded under the Program including a recovery boiler upgrade at the Northwood pulp mill in 2011 and an upgrade of the feedwater treatment system at the Prince George Pulp Mill in 2012. Including the projects funded by the Program, approximately $240 million has been invested in capital over the past three years enabling the Company to maintain its top quartile position in the industry.

Leveraging off these capital investments will enable the Company to focus on its near-to-medium term strategy of growing the energy business. Targeted for completion in 2013 is the recently Board approved project to upgrade the turbines at the Northwood Pulp Mill in conjunction with an Energy Purchase Agreement (EPA) and Load Displacement Agreement (LDA) secured with BC Hydro in December 2012. The EPA and LDA are part of the Integrated Power Offer program, which provides for the commitment to electrical load displacement and the sale of incremental power production at the Northwood Pulp Mill commencing April 1, 2014.

(ii) Operational performance in 2012 impacted by scheduled and unscheduled outages; Focus in 2013 on operational excellence

In 2012, scheduled and unscheduled outages at the Company's mills significantly impacted operations. In the second quarter of 2012, the Prince George Pulp Mill's scheduled maintenance outage was extended to complete several major maintenance and capital projects, including the final project partially funded under the Program ("the Prince George outage"). Also in the second quarter of 2012, an outage at the Northwood Pulp Mill due to the unscheduled shutdown of one of the facility's recovery boilers and subsequent repairs ("the Northwood outage"), resulted in a reduction in overall production of approximately 31,000 tonnes. Both mills experienced slower-than-anticipated ramp ups in the period following the outages but operating rates saw a solid improvement in the fourth quarter of 2012.

With the significant capital and maintenance projects completed, the focus in 2013 will be on optimizing operations to achieve record-high production rates, and enhancing the profitability from select high-return energy projects.

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. Integration-to-date has gone very smoothly and both companies are seeing the benefits of a more collaborative and streamlined approach and from leveraging the expertise of both companies. Total cost savings of approximately $10 million are projected to be realized in 2013, to flow equally between the two entities.

OVERVIEW OF CONSOLIDATED RESULTS – 2012 COMPARED TO 2011

Selected Financial Information and Statistics[2]

(millions of dollars, except for per share amounts)		2012		2011
Sales	**$**	**810.4**	$	941.0
Operating income before amortization	**$**	**91.7**	$	220.2
Operating income	**$**	**24.6**	$	153.4
Foreign exchange gain (loss) on long-term debt	**$**	**2.4**	$	(2.5)
Gain (loss) on derivative financial instruments[3]	**$**	**1.7**	$	(1.6)
Net income	**$**	**13.7**	$	138.6
Net income per share, basic and diluted	**$**	**0.14**	$	1.94
ROIC[4]		**3.8%**		23.7%
Average exchange rate (US$/CDN$)[5]	**$**	**1.001**	$	1.011

[2] Certain prior period amounts have been restated due to a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. Further details can be found in the "Changes in Accounting Policy" section in this document.
[3] Includes gains (losses) from foreign exchange, crude oil and interest rate swap derivatives (see "Unallocated and Other Items" section for more details).
[4] 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 dollars)		2012		2011
Operating income (loss) by segment:				
Pulp	**$**	**19.2**	$	157.5
Paper	**$**	**19.4**	$	9.5
Unallocated	**$**	**(14.0)**	$	(13.6)
Total operating income	**$**	**24.6**	$	153.4
Add: Amortization	**$**	**67.1**	$	66.8
Total operating income before amortization	**$**	**91.7**	$	220.2
Add (deduct):				
Working capital movements	**$**	**12.2**	$	(13.1)
Salary pension plan contributions	**$**	**(7.6)**	$	(7.9)
Other operating cash flows, net	**$**	**(8.4)**	$	(0.2)
Cash from operating activities	**$**	**87.9**	$	199.0
Add (deduct):				
Distributions / dividends paid	**$**	**(19.2)**	$	(181.0)
Finance expenses paid	**$**	**(8.1)**	$	(7.8)
Capital additions, net[6]	**$**	**(66.8)**	$	(77.0)
Acquisition of CPPI cash on exchange	**$**	**6.8**	$	-
Other, net	**$**	**0.2**	$	0.6
Change in cash / operating loans	**$**	**0.8**	$	(66.2)

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

The Company recorded net income of $13.7 million, or $0.14 per share, for the year ended December 31, 2012, down $124.9, or $1.80 per share, from $138.6 million, or $1.94 per share, reported for the year ended December 31, 2011.

Reported operating income for 2012 was $24.6 million, down $128.8 million from operating income of $153.4 million for 2011. The decrease in 2012 results primarily reflected significantly lower earnings from the pulp segment principally as a result of significantly weaker NBSK pulp list prices and the impacts of an extended outage at the Prince George Pulp Mill and an unscheduled outage at the Northwood Pulp Mill, resulting in lower production and shipment volumes. Results in 2011 were impacted by an extended maintenance outage at the Northwood Pulp Mill. The reduction in pulp segment earnings was partially offset by improved paper segment results principally due to lower costs for slush pulp. Operating income for the current 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 $4.0 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 – 2012 compared to 2011", which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2012 COMPARED TO 2011

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

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for 2012 and 2011 are as follows:

(millions of dollars, unless otherwise noted)	2012	2011
Sales	**$ 675.0**	$ 802.9
Operating income before amortization	**$ 82.4**	$ 220.5
Operating income	**$ 19.2**	$ 157.5
Capital expenditures	**$ 86.9**	$ 152.2
Average pulp price delivered to U.S. - in US$[7]	**$ 872**	$ 977
Average pulp price in Cdn$	**$ 871**	$ 966
Production – pulp (000 mt)	**955.7**	996.7
Shipments – pulp (000 mt)	**961.8**	978.5
Marketed on behalf of Canfor (000 mt)	**214.8**	210.1

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

Overview

The Pulp segment reported operating income of $19.2 million for 2012, down $138.3 million from $157.5 million in 2011. Results in the current year were significantly impacted by lower market pulp prices, lower shipment volumes, and the impacts of the Prince George scheduled and Northwood unscheduled outages, while results in 2011 were impacted by an extended maintenance outage at the Northwood Pulp Mill. Unit manufacturing costs were up slightly reflecting lower production volumes, higher maintenance expenditures and one-time costs of $3.2 million associated with new five year collective labour agreements, partially offset by lower fibre costs. Also included in 2012's pulp segment results was $3.3 million of the accounting gain related to the post retirement plan adjustments.

NBSK pulp list prices decreased significantly from the prior year, with prices to North America down US$105 to US$872 per tonne. Sales realizations were positively impacted by the 1% weaker Canadian dollar compared to the previous year.

Markets

Global softwood pulp markets entered 2012 with inventories held by producers and customers at elevated levels. Inventory levels decreased through the first quarter of 2012 driven by strong demand from China and constrained supply heading into the annual spring maintenance period, which allowed pricing to gain traction, particularly in China. Through the second half of 2012 inventory levels increased through the seasonally slow summer period, returning to normal or balanced levels through the fourth quarter and down overall compared to the end of 2011; however markets remained under pressure due to weak global demand, particularly in Europe. Global softwood pulp pricing closed as it had opened the year, relatively unchanged.

Pulp and Paper Products Council ("PPPC") statistics reported decreased global demand for printing and writing papers of 2% in 2012 compared to 2011. PPPC also reported an increase in shipments of bleached softwood sulphate pulp of 3% in 2012, with increased shipments to China offsetting reduced shipments to Europe and North America.

At the end of December 2012, World 20[8] producers of bleached softwood pulp inventories were at 29 days of supply. By comparison, December 2011 inventories were at 36 days of supply.

Sales

The Company's pulp shipments in 2012 were 962,000 tonnes, down approximately 17,000 tonnes, or 2%, from the prior year. For the most part, the decrease reflected a reduction in market pulp available for sale due to the impacts of the Prince George and Northwood Pulp Mill outages.

North American NBSK pulp list prices averaged US$872 per tonne in 2012, down over US$100, or 11%, from the 2011 average of US$977 per tonne. NBSK pulp list prices saw even larger decreases in other regions with the Northern Europe benchmark price down over US$140 per tonne and China pricing falling over US$160 per tonne. North American NBSK pulp list prices ended the year at US$870 per tonne, down US$20, or 2% from the end of 2011. A positive impact on sales realizations from a 1% weaker Canadian dollar was more than outweighed by increased shipments to lower-margin regions.

Operations

Pulp production was 956,000 tonnes in 2012, down 41,000 tonnes, or 4%, compared to the prior year. The lower production was mainly attributable to the Prince George and Northwood Pulp Mill outages. The Northwood outage in the second quarter of 2012 resulted in a reduction in overall production of approximately 31,000 tonnes.

Unit manufacturing costs increased marginally compared to the prior year due primarily to lower production volumes related to the aforementioned outages, as well as one-time costs associated with the new five year collective labour agreements and higher chemical prices. These increased costs were partially offset by lower fibre costs mostly related to lower-cost sawmill residual chips, where prices are linked to NBSK pulp sales realizations. Prices for whole log chips, which accounted for approximately 17% of total consumption, were relatively unchanged from the prior year.

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2012 and 2011 are as follows:

(millions of dollars, unless otherwise noted)	2012	2011
Sales	**$ 134.6**	$ 136.6
Operating income before amortization	**$ 23.2**	$ 13.1
Operating income	**$ 19.4**	$ 9.5
Capital expenditures	**$ 1.1**	$ 2.8
Production – paper (000 mt)	**130.2**	136.5
Shipments – paper (000 mt)	**129.0**	127.6

Overview

Operating income for the paper segment was $19.4 million for 2012, up $9.9 million from 2011. The improvement was primarily attributable to lower slush pulp costs, down 19%, reflecting lower market pulp prices, partially offset by lower paper sales realizations in Canadian dollar terms.

Markets

Global kraft paper demand was steady in 2012 with solid demand from China offset by lower demand for North America and Europe. Prices for bleached paper in North America were relatively flat compared to the prior year; however, export market prices were off significantly, particularly in unbleached paper grades. American Forest and Paper Association reported that U.S. total kraft paper shipments for 2012 decreased 6% from 2011. Various market indicators showed industry paper consumption fell significantly compared to December 2011 and was down slightly year-over-year.

The Company's prime paper shipments in 2012 were 97%, a 1% improvement from 2011, with prime bleached shipments unchanged from 2011 at 75%.

[8] 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 paper shipments in 2012 were 129,000 tonnes, an increase of 1,500 tonnes, or 1%, from 2011. Unit sales realizations for paper products were down almost 3% from 2012 due principally to lower offshore prices for unbleached grades, partially offset by a 1% weakening of the Canadian dollar.

Operations

Paper production in 2012 was 130,200 tonnes, down 6,300 tonnes from 136,500 tonnes in 2011, in part due to a scheduled maintenance outage at the Company's paper machine in 2012 coupled with overall lower operating rates. Paper unit manufacturing costs were down 13% compared to 2011, principally reflecting reduced slush pulp costs offset in part by slight increases in chemical and energy costs.

Unallocated and Other Items

(millions of dollars)		2012		2011
Corporate costs	**$**	**(14.0)**	$	(13.6)
Finance expense, net	**$**	**(11.8)**	$	(10.9)
Foreign exchange gain (loss) on long-term debt	**$**	**2.4**	$	(2.5)
Gain (loss) on derivative financial instruments	**$**	**1.7**	$	(1.6)
Foreign exchange gain (loss) on working capital	**$**	**(1.2)**	$	1.0

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $14.0 million in 2012, up slightly from 2011. The increase principally reflected costs in 2012 associated with integration related changes in senior management in the third quarter of 2012, partially offset by lower accruals for performance based incentive plans. Further mitigating the increase were CPPI's share of savings from integration with Canfor which began to flow through in the fourth quarter of 2012. 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 2012 was $11.8 million, up $0.9 million from 2011. The increase reflected costs associated with a new operating loan facility entered into in the fourth quarter of 2012 as well as reduced interest income as a result of lower cash balances through the 2012 year.

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

The Canadian dollar ended 2012 slightly above par compared to the US dollar, and up more than 2 cents, or 2%, from a year earlier. As a result, the Company recorded a foreign exchange translation gain on its US dollar denominated debt of $2.4 million in 2012 (2011 – loss of $2.5 million).

Gain (Loss) on Derivative Financial Instruments

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

For 2012, the Company recorded a net gain of $1.7 million related to its derivative financial instruments, principally reflecting realized gains on foreign exchange forward contracts and 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 dollars)		2012		2011
Foreign exchange collars and forward contracts	$	1.7	$	(1.6)
Crude oil collars	$	-	$	0.1
Natural gas swaps	$	-	$	(0.1)
	$	1.7	$	(1.6)

Foreign exchange gain (loss) on working capital

The foreign exchange loss of $1.2 million in 2012 related to foreign exchange movements on US dollar denominated cash, receivables and payables of Canadian operations, compared to a gain on foreign exchange in the prior year of $1.0 million.

Income Tax Expense

Income tax expense includes current tax expense on income for the March 2, 2012 to December 31, 2012 period. Taxes were minimal prior to the share exchange on March 2, 2012, reflecting the non-taxable status of the Partnership.

The Company recorded an income tax expense of $2.0 million in 2012 with an overall effective tax rate of 12.7%. The tax related to the exchange transaction in the first quarter of 2012 was the most significant factor in the difference between the effective tax rate and the Canadian statutory tax rate of 25.0%.

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

(millions of dollars)		2012
Net income before income taxes	$	15.7
Income tax expense at statutory rate 2012 – 25.0%	$	(3.9)
Add (deduct):		
Tax expense at rates other than statutory rate		(0.1)
Permanent difference from capital gains and other non deductible items		0.2
Permanent difference – exchange transaction		0.9
Tax included in equity – exchange transaction		0.9
Income tax expense	$	(2.0)

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 2012, an after-tax charge of $12.5 million was charged to other comprehensive income, principally reflecting a decrease in the discount rate over the year, which fell 0.80% for defined benefit pension plans and 0.90% for other post-retirement benefit plans, offset in part by a slightly higher than expected rate of return on plan assets. In 2011, the after-tax charge was $17.7 million, also primarily reflecting a lower discount rate over that year. 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 the end of the years 2012 and 2011:

(millions of dollars, except for ratios)	2012	2011
Cash and cash equivalents	**$ -**	$ -
Operating working capital	**133.4**	140.7
Cheques issued in excess of cash on hand	**(1.2)**	(2.0)
Current portion of long-term debt	**(109.4)**	-
Distributions payable	**-**	(7.8)
Net working capital	**22.8**	130.9
Property, plant and equipment	**530.8**	532.0
Other long-term assets	**0.4**	0.6
Net assets	**$ 554.0**	$ 663.5
Long-term debt	**$ -**	$ 111.9
Retirement benefit obligations	**105.1**	94.8
Long-term provisions	**3.6**	3.1
Deferred income taxes, net	**59.6**	-
Non-controlling interest in the Partnership	**-**	226.1
Equity attributable to controlling interest in the Partnership	**385.7**	227.6
	$ 554.0	$ 663.5
Ratio of current assets to current liabilities	**1.1 : 1**	2.0 : 1
Net debt to total capitalization	**22.3%**	20.9%

The ratio of current assets to current liabilities at the end of 2012 was 1.1:1, compared to 2.0:1 at the end of 2011. The reduction principally reflects the classification of the Company's long-term debt as current at the end of 2012 as the balance matures in November 2013. In anticipation of the maturation of the debt in 2013, the Company obtained a new $110.0 million operating loan facility in the fourth quarter of 2012. The maturity date of the new facility is November 30, 2016 and no amounts were drawn on the facility at December 31, 2012. See further discussion in "Financial Requirements and Liquidity" section.

Included in operating working capital at December 31, 2012 was an insurance receivable, net of advances received, of $6.3 million related to the Northwood Pulp Mill unscheduled outage earlier in the year. The balance represents a property damage insurance receivable of $5.6 million and a business interruption insurance receivable of $9.7 million, less a deductible of $5.0 million and advances received to date. Additional details on the insurance claim receivable are contained in note 20 to CPPI's 2012 consolidated financial statements.

The Company's net debt to capitalization was 22.3% at December 31, 2012 (December 31, 2011: 20.9%). The increase is explained principally by a lower total equity balance at year end for the most part reflecting the exchange transaction.

CHANGES IN FINANCIAL POSITION

At the end of 2012, CPPI had $1.2 million of cheques issued in excess of cash on hand.

(millions of dollars)		2012		2011
Cash generated from (used in)				
Operating activities	**$**	**87.9**	$	199.0
Financing activities		**(27.3)**		(188.8)
Investing activities		**(59.8)**		(76.4)
Increase (decrease) in cash and cash equivalents	**$**	**0.8**	$	(66.2)

The changes in the components of these cash flows during 2012 are discussed in the following sections.

Operating Activities

During 2012, CPPI generated cash from operations of $87.9 million, down $111.1 million from cash generated of $199.0 million in the previous year. The significant decrease in 2012 related substantially to a decline in cash earnings in the pulp segment.

Financing Activities

Financing activities in 2012 used net cash of $27.3 million, $161.5 million less than the $188.8 million used in 2011 and reflected lower distributions and dividends paid in 2012.

Investing Activities

Net cash used for investing activities in 2012 amounted to $59.8 million, compared to $76.4 million used in 2011. Property, plant and equipment additions for 2012 totaled $66.8 million, net of proceeds from the federal government's Green Transformation Program of $19.7 million and other government grants received. Both capital expenditures and reimbursements under the Program declined compared to the previous year as the program was completed in mid-2012.

Capital spending in the 2012 year included upgrades to the boiler and feedwater treatment system and replacement of the recovery boiler lower furnace at the Prince George Pulp and Paper Mill, along with maintenance capital related to the outages at the Company's mills throughout the year.

Investing cash inflows during the current year also included $6.8 million of cash acquired from CPPI as part of the exchange.

FINANCIAL REQUIREMENTS AND LIQUIDITY

Operating Loans

At December 31, 2012, the Company had $117.5 million of unsecured operating loan facilities, which were undrawn, with $9.2 million reserved for several standby letters of credit.

At December 31, 2012, the Company had a $110.0 million bank loan facility, of which $1.7 million was utilized for a standby letter of credit issued for general business purposes. In the fourth quarter of 2012, the Company obtained the new $110.0 million operating loan facility which replaced its previous $40.0 million main operating loan facility. The new facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. The maturity date of the new facility is November 30, 2016. In addition, the Company has a separate facility with a maturity date of November 30, 2013 to cover a $7.5 million standby letter of credit issued to BC Hydro.

Debt Covenants

CPPI has leverage and interest coverage ratios calculated by reference to earnings before interest, taxes, depreciation and amortization and other non-cash items. 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, 2012.

2013 Projected Capital Spending and Debt Repayments

Based on its current outlook for 2013, assuming no deterioration in market conditions during the year, the Company anticipates that it may invest approximately $50 million in capital projects, which will consist primarily of various improvement projects as well as maintenance of business expenditures. Scheduled long-term debt repayments in 2013 consist of a US$110.0 million payment due on November 30, 2013. CPPI has sufficient liquidity in its cash reserves and operating loans to finance its planned capital expenditures and scheduled debt repayment as required during 2013.

Derivative Financial Instruments

As at December 31, 2012, the Company had the following derivatives:

a. Foreign exchange forward contracts of US$2.5 million. The contracts in place at the end of 2012 were as follows:

	2012	
	Notional Amount	**Exchange Rates**
US dollar forward contracts	(millions of US dollars)	(range of rates, per dollar)
0-12 months	**$ 2.5**	**$ 0.9941**

b. CPPI partly uses Western Texas Intermediate oil ("WTI") contracts as a proxy to hedge its diesel purchases. At 2012 year end collars for 48.0 thousand barrels of WTI oil were in place, which will be settled in 2013, with weighted average protection of $84.60 per barrel and topside of $97.50 per barrel. There were unrealized gains of $0.1 million on these contracts at the end of the year.

c. During 2012, CPPI put in place interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2012, the Company had $105.0 million in interest rate swaps with fixed interest rates from 2.37% to 2.59% and maturities between 2014 and 2015.

Commitments

The following table summarizes CPPI's financial contractual obligations at December 31, 2012 for each of the next five years and thereafter:

(millions of dollars)	2013	2014	2015	2016	2017	Thereafter	Total
Long-term debt obligations	$ 109.4	$ -	$ -	$ -	$ -	$ -	$ 109.4
Interest payments on long-term debt	$ 7.0	$ -	$ -	$ -	$ -	$ -	$ 7.0
Operating leases	$ 2.0	$ 1.4	$ 0.5	$ 0.1	$ -	$ -	$ 4.0
	$ 118.4	$ 1.4	$ 0.5	$ 0.1	$ -	$ -	$ 120.4

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

- The Company has an Energy agreement with BC Hydro for the sale of power production that exceeds a committed amount from the cogeneration project at the Prince George Pulp and Paper Mill. Under the agreement, the Company is required to post a standby letter of credit as security in annually decreasing amounts as a minimum required amount of electricity is generated. As of December 31, 2012, the Company had no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of $7.5 million was issued to BC Hydro as security for future power generation commitments.
- Contractual commitments totaling $9.9 million, principally related to the construction of capital assets. This relates mostly to work on the turbine project at the Northwood 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 6 to 39 years which have been discounted at risk free rates ranging from 1.6% to 2.4%. The estimated discounted value is $3.3 million (2011 – $3.1 million) and the amount is included in long-term provisions.
- Obligations to pay pension and other post-employment benefits, for which a liability of $105.1 million was recorded at December 31, 2012 (2011 – $94.8 million). As at December 31, 2012, CPPI estimated that it would make total contribution payments of $9.5 million to its defined benefit plans in 2013.
- 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.
- On December 6, 2012, the Company secured both an LDA and an EPA with BC Hydro as part of the Integrated Power Offer program, which provides for the commitment to electrical load displacement and the sale of incremental power production at the Northwood Pulp Mill commencing April 1, 2014. Under the LDA, the Company receives a facilitated government grant called the Transmission Service Rate Incentive upon completion of the project and is provided in exchange for the standby letter of credit as performance security in annually decreasing amounts as the minimum required amount of electricity is generated. Under the EPA, the Company is required to post a separate standby letter of credit as performance security for the term of the agreement. The total outstanding performance security for both agreements is the greater of the required performance security under the EPA or LDA until the performance security for the LDA is completely eliminated on the fifth anniversary of the project. As of December 31, 2012, the Company had no repayment obligations under the terms of both agreements and two standby letters of credit in the amounts of $0.8 million for the EPA and $0.1 million for the LDA were issued to BC Hydro as performance security for future power generation commitments.

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 purchased wood chips and hog fuel from Canfor sawmills in the amount of $108.1 million in 2012.

Effective July 1, 2006, the Company entered into a services agreement under which Canfor provides certain business and administrative services to the Company. Total value of the services provided in 2012 was $3.7 million, reflecting in part the integration of various finance and administration services.

Effective July 1, 2006, the Company entered into an incidental services agreement with Canfor, under which the Company provides certain business and administrative services to Canfor. Total value of the services provided in 2012 was $2.3 million.

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

The Company purchased wood chips from Lakeland Mills Ltd., in which Canfor has a 33.3% interest, in the amount of $2.6 million. Lakeland Mills Ltd.'s sawmill operation was destroyed by fire in April 2012.

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

(millions of dollars)	As at December 31, 2012
Balance Sheet	
Included in accounts payable and accrued liabilities:	
Canfor	**$ 12.9**
Included in trade accounts receivable:	
Products marketed for Canfor	**$ 4.0**
Canfor[1]	**$ 3.0**

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

Additional details on related party transactions are contained in note 18 to CPPI's 2012 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION[9]

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Sales and income (millions of dollars)								
Sales	**$ 201.9**	**$ 177.7**	**$ 210.8**	**$ 220.0**	$ 212.7	$ 233.9	$ 242.1	$ 252.3
Operating income before amortization	**$ 30.9**	**$ 7.0**	**$ 25.1**	**$ 28.7**	$ 37.9	$ 50.3	$ 64.8	$ 67.2
Operating income (loss)	**$ 10.9**	**$ (8.2)**	**$ 10.4**	**$ 11.5**	$ 16.5	$ 36.4	$ 49.8	$ 50.7
Net income (loss)	**$ 4.7**	**$ (4.6)**	**$ 3.3**	**$ 10.3**	$ 15.8	$ 23.9	$ 48.2	$ 50.7
Per common share (dollars)								
Net income (loss) – basic and diluted	**$ 0.07**	**$ (0.06)**	**$ 0.05**	**$ 0.13**	$ 0.22	$ 0.33	$ 0.68	$ 0.71
Statistics								
Pulp shipments (000 mt)	**246.6**	**214.4**	**230.2**	**270.6**	231.0	240.2	242.0	265.3
Paper shipments (000 mt)	**32.0**	**30.6**	**36.8**	**29.6**	30.2	32.1	32.7	32.6
Average exchange rate – US$/Cdn$	**$ 1.009**	**$ 1.005**	**$ 0.990**	**$ 0.999**	$ 0.977	$ 1.020	$ 1.033	$ 1.014
Average NBSK pulp list price delivered to U.S. (US$)	**$ 863**	**$ 853**	**$ 900**	**$ 870**	$ 920	$ 993	$ 1,025	$ 970

[9] Certain prior period amounts have been restated due to a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. 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 dollars)	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income (loss) by segment:								
Pulp	**$ 6.8**	**$ (8.4)**	**$ 8.6**	**$ 12.2**	$ 16.7	$ 36.7	$ 52.6	$ 51.5
Paper	**$ 6.9**	**$ 5.0**	**$ 4.8**	**$ 2.7**	$ 3.4	$ 3.2	$ 0.8	$ 2.1
Unallocated	**$ (2.8)**	**$ (4.8)**	**$ (3.0)**	**$ (3.4)**	$ (3.6)	$ (3.5)	$ (3.6)	$ (2.9)
Total operating income (loss)	**$ 10.9**	**$ (8.2)**	**$ 10.4**	**$ 11.5**	$ 16.5	$ 36.4	$ 49.8	$ 50.7
Add: Amortization	**$ 20.0**	**$ 15.2**	**$ 14.7**	**$ 17.2**	$ 21.4	$ 13.9	$ 15.0	$ 16.5
Total operating income before amortization	**$ 30.9**	**$ 7.0**	**$ 25.1**	**$ 28.7**	$ 37.9	$ 50.3	$ 64.8	$ 67.2
Add (deduct):								
Working capital movements	**$ 2.4**	**$ (5.2)**	**$ 0.6**	**$ 14.4**	$ 1.2	$ 0.3	$ (23.8)	$ 9.2
Salary pension plan contributions	**$ (1.8)**	**$ (1.9)**	**$ (2.0)**	**$ (1.9)**	$ (1.8)	$ (2.0)	$ (2.1)	$ (2.0)
Other operating cash flows, net[10]	**$ (5.7)**	**$ 1.5**	**$ (4.5)**	**$ 0.3**	$ (3.2)	$ 2.7	$ (0.5)	$ 0.8
Cash from operating activities	**$ 25.8**	**$ 1.4**	**$ 19.2**	**$ 41.5**	$ 34.1	$ 51.3	$ 38.4	$ 75.2
Add (deduct):								
Distributions/dividends paid	**$ -**	**$ (3.6)**	**$ (7.8)**	**$ (7.8)**	$ (22.8)	$ (30.6)	$ (51.3)	$ (76.3)
Finance expenses paid	**$ (4.1)**	**$ (0.2)**	**$ (3.6)**	**$ (0.2)**	$ (3.8)	$ (0.4)	$ (3.3)	$ (0.3)
Capital additions, net[11]	**$ (11.5)**	**$ (19.9)**	**$ (16.8)**	**$ (18.6)**	$ (41.6)	$ (15.3)	$ (8.0)	$ (12.1)
Acquisition of CPPI cash on exchange	**$ -**	**$ -**	**$ -**	**$ 6.8**	$ -	$ -	$ -	$ -
Other, net	**$ -**	**$ -**	**$ 0.1**	**$ 0.1**	$ 0.1	$ 0.5	$ -	$ -
Change in cash / operating loans	**$ 10.2**	**$ (22.3)**	**$ (8.9)**	**$ 21.8**	$ (34.0)	$ 5.5	$ (24.2)	$ (13.5)

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

THREE-YEAR COMPARATIVE REVIEW

(millions of dollars, except per share amounts)	2012	2011[12]	2010[12]
Sales	**$ 810.4**	$ 941.0	$ 1,001.1
Net income (loss)	**$ 13.7**	$ 138.6	$ 179.0
Total assets	**$ 758.0**	$ 791.2	$ 853.3
Total long-term financial liabilities	**$ -**	$ 111.9	$ 109.4
Net income (loss) per share, basic and diluted	**$ 0.14**	$ 1.94	$ 2.51
Dividends/distributions declared per share/unit[13]	**$ 0.52**	$ 2.10	$ 2.58

[12] 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.
[13] 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, 2010 and 2011 amounts represent Canfor Pulp Limited Partnership distributions declared per Partnership unit.

SUBSEQUENT EVENT

On February 13, 2013, the Board of Directors reinstated the Company's dividend, declaring a quarterly dividend of $0.05 per share, payable on March 5, 2013 to shareholders of record on February 26, 2013. In addition, reflecting the Company's current corporate structure and its latest outlook for 2013, the Board projects it will declare further quarterly dividends of $0.05 per share through the balance of 2013, but will review the issuance of dividends on a quarterly basis.

QUARTER ENDED DECEMBER 31, 2012 VS. QUARTER ENDED DECEMBER 31, 2011

Overview of Operating Results

The Company recorded operating income of $10.9 million and net income of $4.7 million for the fourth quarter of 2012, compared to operating income of $16.5 million and net income of $15.8 million for the fourth quarter of 2011. The net income per share (basic and diluted) was $0.07 for the fourth quarter of 2012, compared to $0.22 per share in the fourth quarter of 2011.

An overview of the results by business segment for the fourth quarter of 2012 compared to the last quarter of 2011 follows.

Pulp

Selected Financial Information and Statistics - Pulp

Summarized results for the Pulp segment for the fourth quarter of 2012 and 2011 were as follows:

(millions of dollars, unless otherwise noted)		Q4 2012		Q4 2011
Sales	$	**168.2**	$	179.1
Operating income before amortization	$	**25.8**	$	37.1
Operating income	$	**6.8**	$	16.7
Average pulp price delivered to U.S. – US$[14]	$	**863**	$	920
Average price in Cdn$	$	**855**	$	942
Production – pulp (000 mt)		**260.5**		245.7
Shipments – pulp (000 mt)		**246.6**		231.0
Marketed on behalf of Canfor		**51.2**		44.3

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

Overview

Operating income for the pulp segment was $6.8 million for the fourth quarter of 2012, down $9.9 million from operating income of $16.7 million for the fourth quarter of 2011. Results in the fourth quarter of 2012 were impacted by lower market pulp prices, partially offset by higher shipment volumes and lower unit manufacturing costs.

Compared to the fourth quarter of 2011, NBSK pulp list prices were down in all regions, with prices to North America declining US$57 to US$863 per tonne. Sales realizations were also negatively impacted by a 3% stronger Canadian dollar compared to the fourth quarter of 2011. Unit manufacturing costs decreased 7% compared to the fourth quarter of 2011, principally related to lower fibre costs and the impact of higher production volumes, which in part reflected more operational days in the fourth quarter of 2012. Other contributing factors included the aforementioned post retirement benefit accounting gain recorded in the fourth quarter of 2012.

Markets

Global softwood pulp demand increased 7% over the fourth quarter of 2012, compared to the same period in 2011[15]. The increase in softwood shipments was primarily due to increased purchasing from China, partially offset by reductions in shipments to North America and Europe, particularly the latter region. Softwood pulp producer inventories increased 2 days to 29 days of supply, but were down 7 days compared to December 2011 inventories[15]. Global demand for printing and writing papers decreased 2% in 2012 as compared to 2011[16].

[15] 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.
[16] As reported by Pulp and Paper Products Council ("PPPC") statistics

Sales

The Company's pulp shipments in the fourth quarter of 2012 were 247,000 tonnes, an increase of 16,000 tonnes from the same quarter of 2011. For the most part, this reflected higher production volumes coupled with higher levels of purchases by Chinese consumers. Compared to the fourth quarter of 2011, pulp sales realizations decreased 12% reflecting lower NBSK pulp list pricing in all regions and the 3% strengthening of the Canadian dollar. The North America NBSK pulp list prices averaged US$863 per tonne for the quarter, down US$57, or 6%, from the fourth quarter of 2011. NBSK pulp list prices to China and Europe also decreased compared to the same period in 2011, with the average price down US$51 and US$65, respectively. Also contributing to the lower sales realizations in the fourth quarter of 2012 were a higher proportion of shipments to China.

Operations

Pulp production in the fourth quarter of 2012 was 261,000 tonnes, up almost 15,000 tonnes, from the fourth quarter of 2011. The increase in production reflected a reduction in outages and improved operating rates in the fourth quarter of 2012.

Pulp unit manufacturing costs decreased 7% compared to the fourth quarter of 2011, principally reflecting the favourable impact of higher production volumes, reduced chemical usage and lower fibre costs, partially offset by timing of maintenance spending. Lower fibre costs in the fourth quarter of 2012 reflected lower-cost sawmill residual chips, where prices are linked to NBSK pulp sales realizations, as well a reduction in higher-cost whole log chips.

Paper

Selected Financial Information and Statistics –Paper

Summarized results for the Paper segment for the fourth quarter of 2012 and 2011 were as follows:

(millions of dollars, unless otherwise noted)		Q4 2012		Q4 2011
Sales	**$**	**33.7**	$	33.5
Operating income before amortization	**$**	**7.9**	$	4.4
Operating income	**$**	**6.9**	$	3.4
Production – paper (000 mt)		**35.4**		33.5
Shipments – paper (000 mt)		**32.0**		30.2

Overview

Operating income for the paper segment was $6.9 million for the fourth quarter of 2012, an improvement of $3.5 million from the fourth quarter of 2011. The improved results were primarily the result of lower prices for slush pulp, reflecting lower market pulp prices, which more than offset lower paper unit sales realizations.

Markets

Global kraft paper demand was steady through the fourth quarter. However, demand slowed in December as a number of sack kraft paper producers in North America and Europe scheduled downtime over the holiday period as customers balanced inventories at the end of the year.

Sales

The Company's paper shipments in the fourth quarter of 2012 were 32,000 tonnes, an increase of approximately 1,800 tonnes from the fourth quarter of 2011, principally reflecting the higher production levels. Prime bleached shipments, which attract higher prices, averaged 75% of total prime shipments during the quarter, a 2% increase from the fourth quarter of 2011.

Unit sales realizations for paper products were down 5% from the fourth quarter of 2011. The decrease related primarily to lower bleached paper prices into export markets, principally Europe and China, and the 3% stronger Canadian dollar.

Operations

Paper production in the fourth quarter of 2012 was 35,400 tonnes, up 1,900 tonnes compared to the fourth quarter of 2011, primarily reflecting higher operating rates. Paper unit manufacturing costs were significantly lower in the fourth quarter of 2012, principally reflecting lower costs for slush pulp.

Unallocated and Other Items

(millions of dollars)		Q4 2012		Q4 2011
Corporate costs	$	(2.8)	$	(3.6)
Finance expense, net	$	(3.4)	$	(2.8)
Foreign exchange gain (loss) on long-term debt	$	(1.3)	$	2.4
Gain (loss) on derivative financial instruments	$	(0.1)	$	1.5
Foreign exchange gain (loss) on working capital	$	0.3	$	(1.3)

Corporate costs were $2.8 million for the fourth quarter of 2012, down $0.8 million from the fourth quarter of 2011. The reduction in the fourth quarter of 2012 in part reflected a portion of the aforementioned gain due to amendments to the Company's salaried post retirement benefit plans.

Net finance expense for the fourth quarter of 2012 was $3.4 million, an increase of $0.6 million compared to the fourth quarter of 2011, primarily reflecting costs associated with a new operating loan facility entered into in the fourth quarter of 2012. The finance expense for each period principally represents interest expense on long-term debt and stand-by fees for the Company's operating loans, 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 $1.3 million for the fourth quarter of 2012, as a result of the weakening of the Canadian dollar against the US dollar, which fell by just over 1% between the respective quarter ends. In the fourth quarter of 2011, a strengthening of the Canadian dollar resulted in a translation gain of $2.4 million.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs and interest rates. For the fourth quarter of 2012, the Company recorded a net loss of $0.1 million related to its derivative financial instruments, reflecting losses on US dollar forward contracts related to the weakening of the Canadian dollar offset in part by gains on crude oil collars.

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

(millions of dollars)		Q4 2012		Q4 2011
Foreign exchange collars and forward contracts	$	(0.2)	$	1.4
Crude oil collars	$	0.1	$	0.1
	$	(0.1)	$	1.5

OUTLOOK

Pulp Markets

NBSK pulp prices are projected to show a modest improvement through the first half of 2013, but the outlook for the balance of the year is more uncertain given the economic challenges in Europe and new hardwood and softwood pulp capacity currently projected to come online the second half of 2013. For the month of January, CPPI announced an increase in the North American NBSK pulp list price of US$30 per tonne to US$900 per tonne.

Maintenance outages are planned at the Northwood and Intercontinental Pulp Mills in the second quarter of 2013. The Northwood outage will be extended to complete upgrades to the recovery boiler with an estimated 40,000 tonnes of reduced production, while the Intercontinental outage will result in approximately 6,000 tonnes of reduced production. A scheduled maintenance outage at the Prince George Pulp Mill is planned for the fourth quarter of 2013 with an estimated 6,000 tonnes of reduced production.

Paper Markets

Kraft paper demand was weak at the end of 2012 but low customer inventories coupled with an anticipated pick up in demand in early 2013 should keep markets balanced through the first half of 2013. As a result, prices in North America and Europe are projected to remain relatively stable in the first quarter of 2013.

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 expected rate of return on plan assets, the rate of compensation increase 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 defined benefit plan are as follows:

	2012		2011	
(weighted average assumptions)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation as of December 31:				
Discount rate	**4.20%**	**4.40%**	5.00%	5.30%
Rate of compensation increase	**3.00%**	**n/a**	3.00%	n/a
Benefit costs for year ended December 31:				
Discount rate	**5.00%**	**5.30%**	5.50%	5.75%
Expected long-term rate of return on plan assets	**7.00%**	**n/a**	7.00%	n/a
Rate of compensation increase	**3.00%**	**n/a**	3.00%	n/a

Assumed health care cost trend rates used in the accrued benefit obligation were as follows:

(weighted average assumptions)	2012	2011
Initial health care cost trend rate	**6.28%**	6.33%
Ultimate health care trend rate	**4.50%**	4.50%
Year ultimate rate reached	**2029**	2029

Assumed health care cost trend rates have a significant effect on the amounts reported for the other post-retirement benefit plans. A one percentage point change in assumed health care cost trend rates in each year would have had the following impact on the amounts recorded in 2012:

	1% Increase	1% Decrease
Accrued benefit obligation	$ 15.2	$ 11.9
Total service and interest cost	$ 1.3	$ 1.0

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

Asset Retirement Obligations

CPPI records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period 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 6 to 39 years and have been discounted at risk-free rates ranging from 1.6% to 2.4%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Asset Impairments

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No impairments were recorded in 2012 or 2011.

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, 2012.

Changes in Accounting Policy

Effective January 1, 2012, the Company retroactively changed its accounting policy for the presentation of interest expense and expected rate of return on assets of defined benefit post-retirement plans. The net expense has been reclassified from operating income, where it was included in manufacturing and product costs, to net finance expense. Management considers the classification of net pension interest expense with the Company's other interest expense to provide more relevant information on the operating results of the Company. The effect on the year ended December 31, 2012 is an increase in operating income and net finance expense of $3.2 million (2011 - $2.9 million). There is no impact on amounts recorded in the consolidated balance sheet or opening equity as at January 1, 2012.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new or revised accounting standards have been issued by the International Accounting Standards Board ("IASB"). These are mostly effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. These new and revised accounting standards have not yet been adopted by CPPI and the Company does not plan to early adopt any of these standards.

Consolidation and interests in other entities

In May 2011, as part of its consolidation project, the IASB issued the following new suite of consolidation and related standards. The suite is intended to cover all aspects of interests in other entities from determination of how to account for interests in other entities to required disclosure of the interest in those entities. Early adoption is permitted provided that the entire suite of consolidation standards is adopted at the same time.

- IFRS 10, *Consolidated Financial Statements,* requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvements with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities,* and parts of IAS 27, *Consolidated and Separate Financial Statements.* IFRS 10 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

- IFRS 11, *Joint Arrangements,* redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. The new Standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers.* IFRS 11 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

- IFRS 12, *Disclosure of Interests in Other Entities,* carries forward existing disclosure requirements and introduces additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

- There have been amendments to existing standards, including IAS 27 (2011), *Separate Financial Statements,* and IAS 28 (2011), *Investments in Associates and Joint Ventures.* IAS 27 (2011) addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 (2011) sets out the equity accounting for joint ventures and associates, once the assessment of the arrangement has been made under IFRS 11. The amendments to IAS 27 and IAS 28 are not expected to have a material impact on amounts recorded in the financial statements of the Company.

Employee benefits

- IAS 19, *Employee Benefits,* has been amended to make changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. Pension benefit cost will be 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 currently reflect different rates, will be replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset). The principal impact on the Company of this portion of the amended standard is expected to be an increase in net finance cost as the Company's return on plan assets will effectively be estimated at a lower rate.

  The amended standard also requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the Company's current accounting policy.

  In addition, under the amended standard, the impact of plan amendments related to past service will no longer be recognized over a vesting period but instead will be recognized immediately in the period of a plan amendment.

  The amended standard will result in an increase in operating income of approximately $1.1 million offset by an increase in finance expense of approximately $1.4 million in the 2012 comparative financial statements.

Other standards and amendments

- IFRS 9, *Financial Instruments,* addresses classification and measurement of financial assets and financial liabilities, and is effective January 1, 2015, with earlier adoption permitted. 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 the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.
- IFRS 13, *Fair Value Measurement,* clarifies that fair value is the price that would be received on sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.
- IAS 1, *Presentation of Financial Statements,* has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. IAS 1 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 2012 were approximately $88.7 million of which approximately $1.1 million was incurred under qualifying projects under the Canadian Federal government's Green Transformation Program and $2.2 million funded under other government programs. 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 deficiencies; 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 to fund distributions.

Cyclicality of Product Prices

The Company's financial performance is dependent upon the selling prices in Canadian dollars 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. In particular, the list prices of pulp have historically been unpredictable.

Dependence on Canfor

Approximately 59% 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 2012, the Company's top five customers accounted for approximately 34% 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

For 2013, CPPI projects it will declare quarterly dividends of $0.05 per share through 2013, reflecting its latest outlook for the year and corporate structure. There is no assurance that 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. The cash payments required to fund the plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan being completed as at December 31, 2010.

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.

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 main Salaried Pension Plan, a one percentage point increase in the rate of return on plan assets over one year would reduce the funded deficit by an estimated $0.8 million. A one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the funded deficit by an estimated $12.8 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and approval for a change in annual funding contributions was obtained from the regulator.

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 obtain authorizations from and comply with the authorization requirements of the appropriate governmental authorities, which have considerable discretion over the terms and timing of permits.

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. The provision for these future environmental remediation expenditures was $3.3 million as of December 31, 2012. 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 customer, bank or third party to a derivative instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, accounts receivable, and other. 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 83% of the outstanding trade receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. At December 31, 2012, CPPI trade accounts receivable balance reflected a $40.1 million reduction due to discounting of letters of credit. CPPI's trade receivable balance at December 31, 2012 was $61.6 million. At December 31, 2012, approximately 95% 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 on a current basis. CPPI manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities, and use of the bank credit facility to meet short-term working capital requirements.

At December 31, 2012, CPPI had accounts payable and accrued liabilities of $93.4 million, cheques issued in excess of cash on hand of $1.2 million, and current long-term debt obligations of $109.4 million, all of which fall due for payments within one year of the balance sheet date. At December 31, 2012, the Company had $117.5 million of unsecured operating loan facilities, which were undrawn, except for $9.2 million reserved for several standby letters of credit.

In the fourth quarter of 2012, the Company obtained a new $110.0 million operating loan facility replacing its previous $40.0 million main operating loan facility. The maturity date of the new facility is November 30, 2016.

(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.

Changes in the market interest rates do not have a significant impact on CPPI's results of operations due to the short-term nature of the respective financial assets and obligations.

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.

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).

(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, trade accounts receivable and long-term debt.

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, futures and forward contracts to hedge commodity prices and energy costs, and interest rate swaps to hedge movements in variable interest rate financial obligations. 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 2013 Business Plan forecast production and year end foreign exchange rates, are set out in the following table:

(millions of dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US$10 change per tonne [17]	$ 10
Natural gas cost – $1 change per gigajoule	$ 4
Chip cost –$2 change per tonne	$ 5
Canadian dollar – US$0.01 change per Canadian dollar:	
Operations	$ 6
US dollar denominated debt	$ 1

[17] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.

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.

Maintenance Obligations and Facility Disruptions

The Company’s manufacturing processes are vulnerable to operational problems that can impair the Company’s 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 August 31, 2013, and is being reviewed and may be amended as necessary to ensure it is reflective of market conditions. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs.

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.

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 ratified new five year collective agreements with the CEP (Communications, Energy and Paperworkers Union) and PPWC (Pulp, Paper and Woodworkers of Canada) during 2012. Both agreements expire 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 13, 2013, there were 71,269,790 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, 2012, 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, 2012 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, 2012, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2012 Annual Information Form, is available at www.sedar.com or at www.canforpulp.com.