2014

CANFOR PULP PRODUCTS INC. ANNUAL REPORT

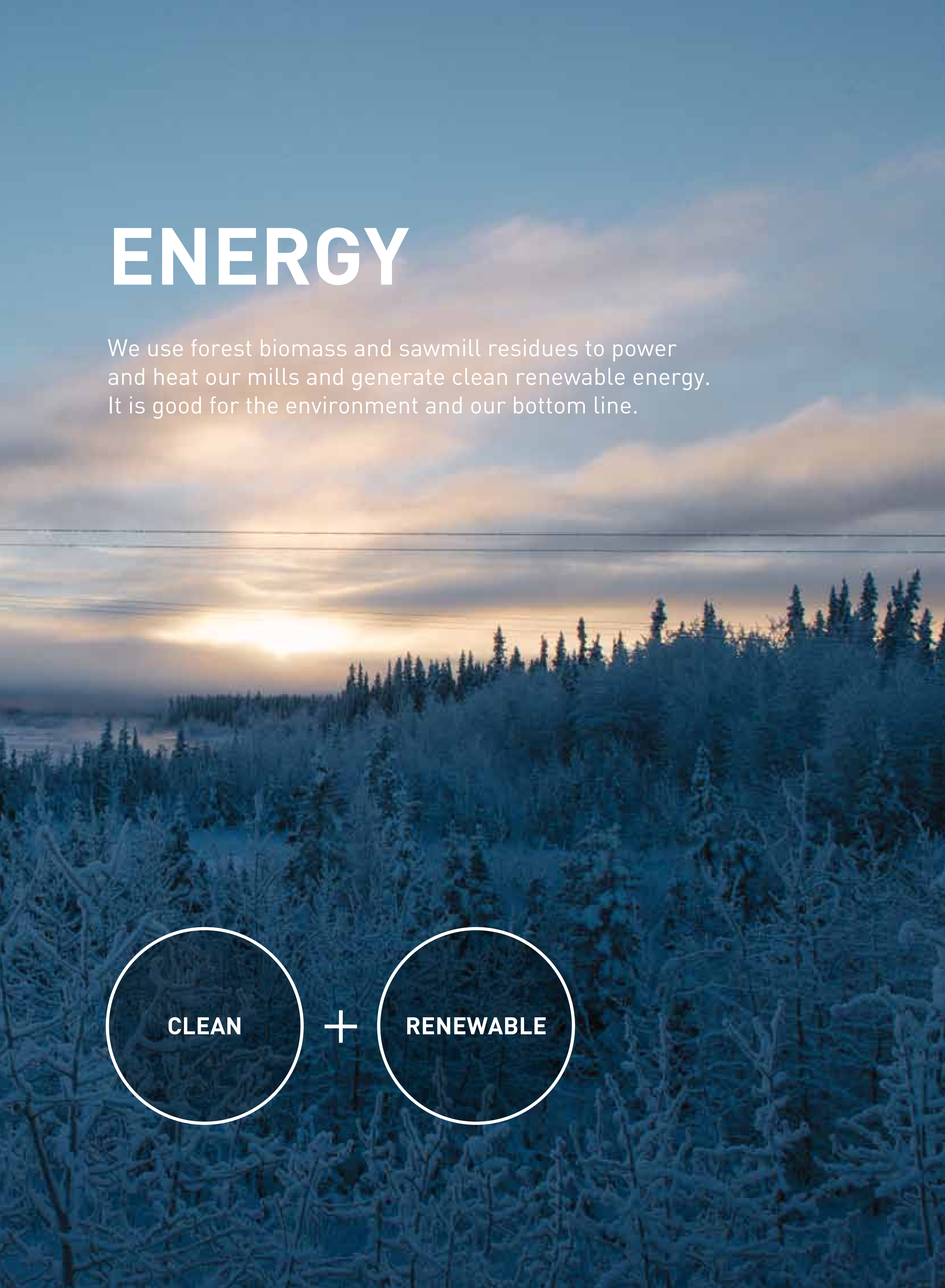
COMPANY OVERVIEW

CPPI is a leading global supplier of pulp and paper products with operations in the central interior of British Columbia ("BC") employing approximately 1,300 people throughout the organization. Canfor Pulp owns and operates three mills in Prince George, BC with a total capacity of 1.1 million tonnes of Premium Reinforcing Northern Bleached Softwood Kraft Pulp and 140,000 tonnes of kraft paper, as well as one mill in Taylor, BC[1] with an annual production capacity of 220,000 tonnes of Bleached Chemi-Thermo Mechanical Pulp ("BCTMP"). Canfor Pulp is the largest North American and one of the largest global producers of market NBSK Pulp. CPPI shares are traded on The Toronto Stock Exchange under the symbol CFX.

FINANCIAL HIGHLIGHTS

		2014		2013
Sales and income (millions of Canadian dollars)				
Sales	$	**980.5**	$	886.8
Operating income	$	**125.4**	$	73.8
Net income	$	**89.5**	$	41.8
Per common share (Canadian dollars)				
Net income attributable to equity shareholders of the Company	$	**1.26**	$	0.59
Book value	$	**6.92**	$	6.17
Share price				
High	$	**14.70**	$	12.00
Low	$	**9.89**	$	8.02
Close - December 31	$	**14.56**	$	10.27
Financial position (millions of Canadian dollars)				
Working capital	$	**179.2**	$	101.0
Total assets	$	**827.4**	$	768.6
Net debt (cash)	$	**(26.8)**	$	47.1
Common shareholders' equity	$	**489.6**	$	438.0
Additional information[2]				
Return on invested capital - consolidated		**19.6%**		12.1%
Return on common shareholders' equity		**19.3%**		10.1%
Ratio of current assets to current liabilities		**2.5:1**		1.8:1
Ratio of net debt to capitalization		**-5.8%**		9.7%
Operating income before amortization (millions of Canadian dollars)	$	**188.1**	$	143.7
Operating income before amortization margin		**19.2%**		16.2%
Capital expenditures (millions of Canadian dollars)	$	**57.7**	$	61.2

(1) Subsequent to year end, on January 30, 2015, CPPI purchased from Canfor the BCTMP Taylor Pulp Mill.
(2) See Definitions of Selected Financial Terms on page 57.



ENERGY

We use forest biomass and sawmill residues to power and heat our mills and generate clean renewable energy. It is good for the environment and our bottom line.

CLEAN + RENEWABLE

MESSAGE TO SHAREHOLDERS

FROM THE PRESIDENT

Global softwood markets and the weaker Canadian dollar delivered better-than-expected prices in 2014. While we were challenged with higher fibre and energy costs in addition to lower year-over-year shipments, we were still able to maintain our strong financial position and top-quartile performance with initiatives that delivered improvements in operational excellence, higher value products and increased energy revenue.

2014 was a pivotal year for our customers as we rolled out our worldwide total fibre solution with the successful start of Fibre United. This sales, service and marketing cooperative agreement with UPM Pulp has grown our product offerings while strengthening our technical selling proposition across the premium reinforcing pulp market. Canfor Pulp now represents UPM's pulp products in North America and Japan while UPM represents our products in Europe and China. Customers will benefit with a wider range of products, faster response times and advanced technical support.

Our pulp and paper operations delivered improved performance over the year with reliability gains, increased operating days and shorter scheduled outages. The Prince George Pulp and Paper Mill set an annual production record while the other facilities delivered modest improvements. Execution of our long-term strategic goals continued, with solid progress on several important capital upgrades focused on cost reduction and expansion of our green energy business.

Completion of the upgraded cogeneration facilities at Northwood Pulp allowed power exports to commence early in 2014, and installation of a new turbine at Intercontinental Pulp will see power exports commence in early 2015. With the completion of this project, power generation is expected to match consumption with all three facilities exporting a portion of their generation for green energy sales that will contribute about $25 million annually to our bottom line while moving closer to our goal of self-sufficiency.

Integration efforts continued across both companies with stronger alignment continuing to yield benefits. In January 2015, we acquired Taylor Pulp, a bleached chemi-thermo-mechanical pulp mill in northern British Columbia from Canfor. Taylor has a strong, talented workforce with good assets and great opportunities which align with our core business and operational expertise. In addition, the acquisition of Taylor secures close to two-thirds of our fibre supply from Canfor. In 2014, a new position to manage residual fibre streams across Canfor and Canfor Pulp was created, which will strengthen our integrated residual fibre team with a focus on long-term fibre security and optimization.

Work force renewal continues to be an area of significant effort as our solid long-term employee base reach retirement age, requiring more effort on recruitment, training and leadership growth. Canfor created and filled a new executive position in 2014 to lead the overall talent strategy for both companies as we leverage our enterprise-wide culture of safety, innovation and engagement to ensure recognition as the preferred employer in our peer group.

In February 2015, Prince George welcomed the nation while hosting the 2015 Canada Winter Games with class, unending energy and the graciousness I have come to know and love about this community. It was an honour to be the Executive Chair for the Host Society organizing this great event over the last five years, and I was proud to see hundreds of our employees volunteer their time. Canfor and Canfor Pulp were official community partners for the Games, and we invited close to 900 students from across northern British Columbia to be part of the experience as we hosted a day that included tours of post-secondary education facilities, exposure to our career opportunities and participation in the Canfor section at one of the most popular sporting events each day. By the end of February Canfor's brand was the number one most sought after memorabilia, we received national exposure, and our Canfor House hospitality centre was held up as one of the best-attended venues of the whole Games.

As we look forward to 2015, we will continue to maintain our position as an industry leader with strong financial performance by focusing on lower operating costs while growing our green energy business and being ready to capitalize on attractive growth opportunities. Our pulp continues to represent the strongest and highest-quality fibre in the world. The market understands that there is no substitute for quality, and while markets naturally fluctuate, we see continued demand for NBSK pulp and paper based on its superior quality and versatility.

I would like to thank our board members for their guidance, all our employees for their daily contributions, and especially all of our shareholders for their continued confidence.

Brett Robinson
President

FROM THE CHAIRMAN

Canfor Pulp delivered solid performance in 2014. Our mills improved their operational performance, markets and prices were stable, global demand for our premium products was solid, and we made good progress on our capital projects.

We maintained our top-quartile performance, and advanced our integration with Canfor through management's commitment to operating on a One Canfor basis. We also continued our leadership in energy generation in 2014 – when an upgrade to the Intercontinental Pulp Mill is finished in a few months' time, we will have achieved our goal to be energy self-sufficient across our operations. We take pride in the fact that Canfor Pulp is one of the largest single producers of renewable bioenergy in North America. We have invested significant amounts of capital to support our green energy business, and are pleased to be delivering environmental and economic benefits.

Green energy is just one example of Canfor Pulp's commitment to innovation. Teams across the organization are focused on delivering innovative solutions in all aspects of the business – whether through strategic partnerships to serve customers, initiatives to improve use of residuals, or investigating new technologies.

Our quality products and emphasis on innovation make Canfor Pulp an ideal choice for a promising career. Canfor and Canfor Pulp are preferred employers with excellent benefits and compensation, safe workplaces and operations centred in great communities. It is a message we are taking to schools, colleges and universities across Western Canada.

In 2014, Canfor Pulp and Canfor signed on to be an official sponsor of the 2015 Canada Winter Games in Prince George, where three of our pulp mills are located. Canfor Pulp President Brett Robinson served as Executive Chair of the Host Society for the Games, and he worked tirelessly in 2014 so visitors and viewers alike were able to learn more about Prince George and what it has to offer. To all the Canfor and Canfor Pulp 'volunteers' who worked to make the Canada Winter Games a success, and especially to Brett Robinson, I offer our sincere thanks for all you have done!

I want to take this opportunity to thank fellow board members for their exceptional advice and leadership, and to thank Canfor Pulp CEO Don Kayne, President, Brett Robinson and their executive and operations teams for their ongoing efforts to successfully advance Canfor Pulp's business strategy.

On behalf of the board, thanks as well to all of our dedicated employees, shareholders, customers and business partners for your many contributions. We look forward to working with you in 2015, and beyond.

Michael Korenberg
Chairman of the Board

CUSTOMERS

We work with our partners around the world to build leading technology that delivers premium products for specialty applications.

Our access to high-grade fibre, our range of superior pulp and paper products and our partnerships with academic and industry organizations provide long-term certainty, quality and assurance to our customers.

PEOPLE

We work hard to provide our people with the training, tools and resources that support safe, successful and fulfilling careers.

IN THIS REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

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

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

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

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

FORWARD LOOKING STATEMENTS

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

COMPANY OVERVIEW

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

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

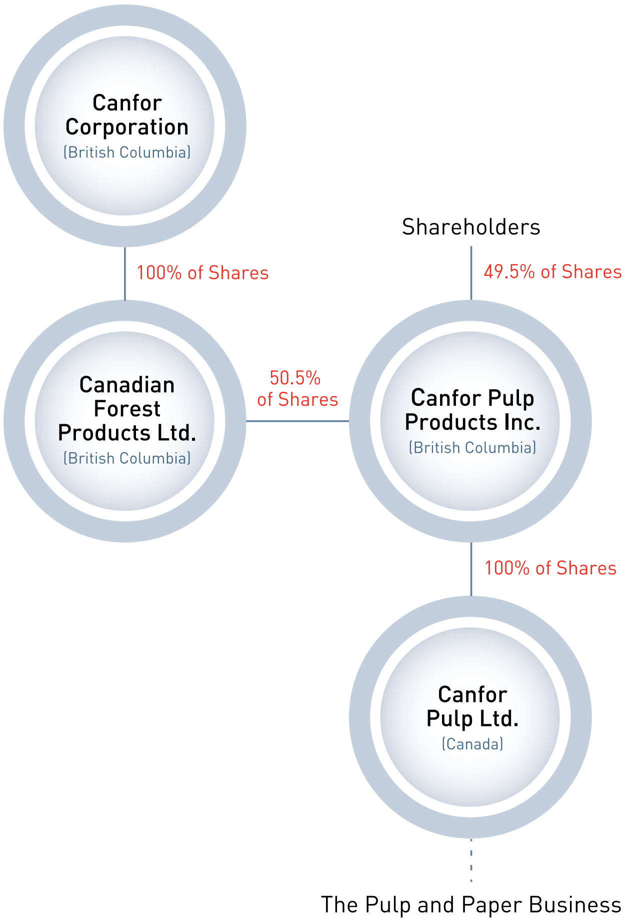
On December 27, 2013, the Partnership was wound up and the net assets were transferred to Canfor Pulp Holding Inc., a wholly owned subsidiary of CPPI. Subsequent to the transfer, Canfor Pulp Holding Inc. was renamed Canfor Pulp Ltd.

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

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

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

SIMPLIFIED OWNERSHIP STRUCTURE



PULP

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

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

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

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

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

PAPER

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

BUSINESS STRATEGY

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

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

OVERVIEW OF 2014

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

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

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

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

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

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

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

A review of the more significant developments in 2014 follows.

MARKETS AND PRICING

(i) PULP – BETTER THAN ANTICIPATED SOFTWOOD PULP MARKETS SUPPORTING HISTORICALLY-HIGH PRICING IN 2014

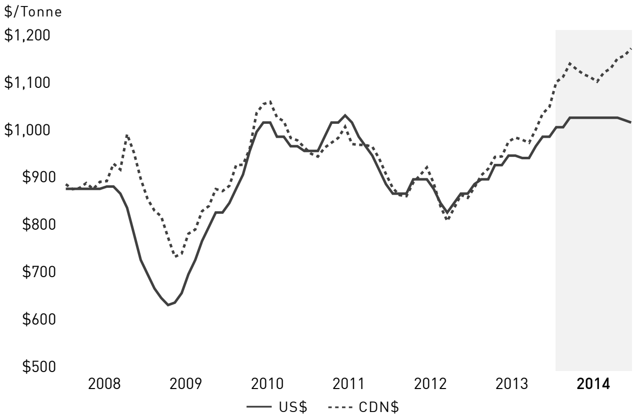
As mentioned, global softwood pulp markets were better than anticipated in 2014, as markets remained relatively stable through the year supported by solid demand from most markets. Additional hardwood pulp capacity, principally from South America, was absorbed into global markets through 2014; however,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

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

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

(1) Resource Information Systems, Inc.

CHART 1 – NBSK PULP LIST PRICE DELIVERED TO U.S. – IN US AND CANADIAN DOLLARS



Source: Resource Information Systems Inc.
Note: Canadian price is calculated as the US price multiplied by the average monthly exchange rates per the Bank of Canada.

CHART 2 – WORLD SOFTWOOD PULP INVENTORIES

Source: Pulp and Paper Products Council

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

(ii) PAPER - KRAFT PAPER MARKETS REMAINING STRONG IN 2014

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

CAPITAL AND OPERATIONS REVIEW

IMPROVED OPERATIONAL PERFORMANCE AND RENEWED FOCUS ON RELIABILITY IN 2014; CONTINUED INVESTMENT IN ASSET BASE AND PROGRESS IN GROWING HIGH RETURN GREEN ENERGY BUSINESS

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

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

INTEGRATION WITH CANFOR

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

OVERVIEW OF CONSOLIDATED RESULTS – 2014 COMPARED TO 2013

SELECTED FINANCIAL INFORMATION AND STATISTICS

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

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

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

(6) Amortization includes certain capitalized major maintenance costs.

ANALYSIS OF SPECIFIC ITEMS AFFECTING COMPARABILITY OF NET INCOME

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

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

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

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

OPERATING RESULTS BY BUSINESS SEGMENT – 2014 COMPARED TO 2013

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

CPPI's operations include the Pulp and Paper segments.

PULP

SELECTED FINANCIAL INFORMATION AND STATISTICS – PULP

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

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

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

OVERVIEW

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

MARKETS

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

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

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

SALES

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

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

OPERATIONS

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

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

PAPER

SELECTED FINANCIAL INFORMATION AND STATISTICS – PAPER

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

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

(10) Amortization includes certain capitalized major maintenance costs.

OVERVIEW

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

MARKETS

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

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

SALES

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

OPERATIONS

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

UNALLOCATED AND OTHER ITEMS

SELECTED FINANCIAL INFORMATION

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

CORPORATE COSTS

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

FINANCE INCOME AND EXPENSE

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

GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

OTHER INCOME (EXPENSE), NET

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

INCOME TAX EXPENSE

The Company recorded an income tax expense of $30.5 million in 2014 with an overall effective tax rate of 25% (2013: 30%). The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

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

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

OTHER COMPREHENSIVE INCOME (LOSS)

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

SUMMARY OF FINANCIAL POSITION

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

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

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

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

CHANGES IN FINANCIAL POSITION

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

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

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

OPERATING ACTIVITIES

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

FINANCING ACTIVITIES

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

INVESTING ACTIVITIES

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

FINANCIAL REQUIREMENTS AND LIQUIDITY

OPERATING LOANS

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

DEBT COVENANTS

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

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

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

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

NORMAL COURSE ISSUER BID

On March 5, 2014, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,550,367 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2014. The renewed normal course issuer bid is set to expire on March 4, 2015. In 2014, CPPI purchased 177,518 common shares for $2.0 million (an average price of $11.27 per common share). As a result of the share purchases, Canfor's interest in CPPI increased from 50.4% at December 31, 2013 to 50.5% at December 31, 2014.

2015 PROJECTED CAPITAL SPENDING AND DEBT REPAYMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

b. CPPI partly uses Western Texas Intermediate oil ("WTI") contracts as proxy to hedge its diesel purchases. At 2014 year end, the Company had 102 thousand barrels of WTI oil collars outstanding, which will be settled in 2015, with weighted average protection of $58.14 per barrel and topside of $77.35 per barrel. There were unrealized losses of $0.7 million on these contracts at the end of the year.
c. From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. At 2014 year end, the Company had no futures contracts outstanding.
d. CPPI utilizes interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. At December 31, 2014, the Company had $35.0 million in fixed interest rate swaps with interest rates ranging from 2.32% to 2.34%, maturing in 2015.

COMMITMENTS

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

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

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

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

TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

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

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

ACQUISITION OF TAYLOR PULP MILL

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(12) Amortization includes certain capitalized major maintenance costs.
(13) Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

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

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

(14) Amortization includes certain capitalized major maintenance costs.

THREE-YEAR COMPARATIVE REVIEW

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

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

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

OVERVIEW OF OPERATING RESULTS

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

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

PULP

SELECTED FINANCIAL INFORMATION AND STATISTICS – PULP

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

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

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

OVERVIEW

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

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

MARKETS

Global softwood pulp markets were relatively stable in the fourth quarter of 2014, softening slightly towards the end of the quarter, with pricing down modestly in North America and China and solid demand in most regions through the quarter. Global softwood pulp producer inventory levels remained balanced during the first two months of the quarter before increasing in December 2014 to 31 days of supply, up 4 days from September 2014[18], driven in part by strong producer operating rates. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp were relatively unchanged from the fourth quarter of 2013, with stable demand seen to most regions compared to the same period in 2013[19].

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

SALES

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

OPERATIONS

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

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

PAPER

SELECTED FINANCIAL INFORMATION AND STATISTICS – PAPER

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

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

(20) Amortization includes certain capitalized major maintenance costs.

OVERVIEW

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

MARKETS

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

SALES

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

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

OPERATIONS

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

UNALLOCATED ITEMS

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

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

Net finance expense for the fourth quarter of 2014 was $1.4 million, down $1.8 million from the fourth quarter of 2013. The decrease from the same quarter in 2013 reflected lower debt levels in the current quarter coupled with lower employee future benefit net interest costs, due in part to the improved financial position of the Company's largest defined benefit plan. Net finance expense in the comparable period in 2013 also included costs associated with new term debt and extension of the Company's operating loan facility.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, interest rates and pulp prices. For the fourth quarter of 2014, the Company recorded a net loss of $0.8 million largely reflecting unrealized losses on crude oil collars stemming from the sharp decline in oil prices at the end of 2014, with oil prices declining further early in 2015. Also contributing to the loss, to a lesser degree, were unrealized losses on US dollar foreign exchange collars mostly as a result of the weakening of the Canadian dollar at the close of the current quarter relative to the exchange rate at the close of the third quarter of 2014.

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

SPECIFIC ITEMS AFFECTING COMPARABILITY

SPECIFIC ITEMS AFFECTING COMPARABILITY OF NET INCOME

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

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

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

OUTLOOK

PULP MARKETS

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

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

PAPER MARKETS

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

CRITICAL ACCOUNTING ESTIMATES

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

EMPLOYEE FUTURE BENEFITS

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

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

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

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

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

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

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

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

ASSET RETIREMENT OBLIGATIONS

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

ASSET IMPAIRMENTS

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

DEFERRED TAXES

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

VALUATION OF FINISHED PRODUCT INVENTORIES

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

FUTURE CHANGES IN ACCOUNTING POLICIES

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in process of assessing the impact, if any, on the financial statements of this new standard.

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

RISKS AND UNCERTAINTIES

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

ABORIGINAL ISSUES

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

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

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

CAPITAL REQUIREMENTS

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

COMPETITIVE MARKETS

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

CURRENCY EXCHANGE RISK

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

CYCLICALITY OF PRODUCT PRICES

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

DEPENDENCE ON CANFOR

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

DEPENDENCE ON KEY CUSTOMERS

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

DIVIDENDS

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

EMPLOYEE FUTURE BENEFITS

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

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

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

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

ENVIRONMENTAL LAWS, REGULATIONS AND COMPLIANCE

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

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

FINANCIAL RISK MANAGEMENT AND EARNINGS SENSITIVITIES

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

FINANCIAL RISK MANAGEMENT

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

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

(A) CREDIT RISK:

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

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

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

(B) LIQUIDITY RISK:

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

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

(C) MARKET RISK:

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

(i) Interest rate risk:

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

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

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

(ii) Currency risk:

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

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

(iii) Commodity price risk:

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

(iv) Energy price risk:

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

EARNINGS SENSITIVITIES

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

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

(22) Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.

(23) Represents impact on operating income and excludes the impact on operating loans denominated in US$. Decrease of US$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

GOVERNMENTAL REGULATIONS

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

INCREASED INDUSTRY PRODUCTION CAPACITY

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

MAINTENANCE OBLIGATIONS AND FACILITY DISRUPTIONS

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

RAW MATERIAL COSTS

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

TRANSPORTATION SERVICES

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

WORK STOPPAGES

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

OUTSTANDING SHARE DATA

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

February 4, 2015

Don B. Kayne Chief Executive Officer	Alan Nicholl Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CANFOR PULP PRODUCTS INC.

We have audited the accompanying consolidated financial statements of Canfor Pulp Products Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of income, the consolidated statements of other comprehensive income (loss), the consolidated statements of changes in equity, and the consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canfor Pulp Products Inc. and its subsidiaries as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

February 4, 2015

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, British Columbia

CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)	As at December 31, 2014	As at December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 76.8	$ 13.5
Accounts receivable - Trade	60.7	71.0
- Other	10.0	10.3
Inventories (Note 5)	143.7	128.0
Prepaid expenses and other assets	11.2	7.2
Total current assets	302.4	230.0
Property, plant and equipment (Note 6)	524.1	528.1
Retirement benefit surplus (Note 10)	-	8.2
Other long-term assets	0.9	2.3
Total assets	$ 827.4	$ 768.6
LIABILITIES		
Current liabilities		
Operating loans (Note 8)	$ -	$ 10.6
Accounts payable and accrued liabilities (Note 7)	123.2	118.4
Total current liabilities	123.2	129.0
Long-term debt (Note 9)	50.0	50.0
Retirement benefit obligations (Note 10)	94.9	75.8
Other long-term provisions	4.2	3.0
Deferred income taxes, net (Note 14)	65.5	72.8
Total liabilities	$ 337.8	$ 330.6
EQUITY		
Share capital (Note 12)	$ 522.1	$ 523.4
Retained earnings (deficit)	(32.5)	(85.4)
Total equity	$ 489.6	$ 438.0
Total liabilities and equity	$ 827.4	$ 768.6

Subsequent Events (Note 21)

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

APPROVED BY THE BOARD

S.E. Bracken-Horrocks　　M.J. Korenberg

Director, S.E. Bracken-Horrocks　　Director, M.J. Korenberg

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31 (millions of Canadian dollars, except per share data)	2014	2013
Sales	$ 980.5	$ 886.8
Costs and expenses		
Manufacturing and product costs	635.5	595.1
Freight and other distribution costs	129.1	123.3
Amortization	62.7	69.9
Selling and administration costs	27.8	24.0
Restructuring and severance costs	-	0.7
	855.1	813.0
Operating income	125.4	73.8
Finance expense, net (Note 13)	(5.5)	(11.8)
Foreign exchange loss on long-term debt	-	(7.3)
Loss on derivative financial instruments (Note 20)	(1.9)	(0.1)
Other income, net	2.0	5.2
Net income before income taxes	120.0	59.8
Income tax expense (Note 14)	(30.5)	(18.0)
Net income	$ 89.5	$ 41.8
Net income per common share: (in Canadian dollars)		
- Basic and diluted (Note 12)	$ 1.26	$ 0.59

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

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS) AND CHANGES IN EQUITY

Year ended December 31 (millions of Canadian dollars)	2014	2013
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)		
Net income	$ 89.5	$ 41.8
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gains (losses) (Note 10)	(25.8)	35.5
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 14)	6.7	(9.3)
Other comprehensive income (loss), net of tax	(19.1)	26.2
Total comprehensive income	$ 70.4	$ 68.0
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY		
Share capital		
Balance at beginning of year	$ 523.4	$ 525.3
Share purchases (Note 12)	(1.3)	(1.9)
Balance at end of year (Note 12)	$ 522.1	$ 523.4
Retained earnings (deficit)		
Balance at beginning of year	$ (85.4)	$ (138.7)
Net income	89.5	41.8
Defined benefit plan actuarial gains (losses), net of tax	(19.1)	26.2
Dividends declared	(16.8)	(14.2)
Share purchases (Note 12)	(0.7)	(0.5)
Balance at end of year	$ (32.5)	$ (85.4)
Total equity	$ 489.6	$ 438.0

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (millions of Canadian dollars)	2014	2013
Cash generated from (used in):		
Operating activities		
Net income	$ 89.5	$ 41.8
Items not affecting cash:		
Amortization	62.7	69.9
Income tax expense	30.5	18.0
Changes in mark-to-market value of derivative financial instruments	0.8	0.2
Employee future benefits	4.6	5.1
Net finance expense	5.5	11.8
Foreign exchange loss on long-term debt	-	7.3
Other, net	4.2	(2.8)
Defined benefit plan contributions	(6.1)	(10.1)
Income taxes paid, net	(24.4)	(0.4)
	167.3	140.8
Net change in non-cash working capital (Note 15)	(13.9)	16.1
	153.4	156.9
Financing activities		
Change in operating bank loans	(11.2)	10.6
Proceeds from long-term debt (Note 9)	-	50.0
Repayment of long-term debt	-	(116.6)
Finance expenses paid	(2.7)	(9.1)
Dividends paid	(16.8)	(14.2)
Share purchases (Note 12)	(2.0)	(2.4)
Other, net	-	(0.1)
	(32.7)	(81.8)
Investing activities		
Additions to property, plant and equipment, net	(57.7)	(61.2)
Other, net	0.3	0.8
	(57.4)	(60.4)
Increase in cash and cash equivalents*	63.3	14.7
Cash and cash equivalents at beginning of year*	13.5	(1.2)
Cash and cash equivalents at end of year*	$ 76.8	$ 13.5

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(millions of Canadian dollars unless otherwise noted)

1. REPORTING ENTITY

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2014 comprise the Company and its subsidiaries (together referred to as "CPPI" or "the Company"). The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

On December 27, 2013, the Canfor Pulp Limited Partnership was wound up and the net assets were transferred to Canfor Pulp Holding Inc., a wholly owned subsidiary of CPPI. Subsequent to the transfer, Canfor Pulp Holding Inc. was renamed Canfor Pulp Ltd. At December 31, 2014, Canfor Corporation ("Canfor") held a 50.5% interest in CPPI, an increase of 0.1% from December 31, 2013 as a result of share purchases in 2014 (Note 12).

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 4, 2015.

BASIS OF MEASUREMENT

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

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

USE OF ESTIMATES AND JUDGMENTS

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION

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

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date. CPPI measures goodwill at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in net income. Transaction costs in connection with business combinations are expensed as incurred.

CASH AND CASH EQUIVALENTS

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

FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

GOVERNMENT ASSISTANCE

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

ASSET IMPAIRMENT

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

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

Non-financial assets, for which an impairment was recorded in a prior period are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

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

EMPLOYEE BENEFITS

DEFINED CONTRIBUTION PLANS

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

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

DEFINED BENEFIT PLANS

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

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

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

PROVISIONS

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

ASSET RETIREMENT OBLIGATIONS

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

REVENUE RECOGNITION

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

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

INCOME TAXES

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

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

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

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

SEGMENT REPORTING

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

4. ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in process of assessing the impact, if any, on the financial statements of this new standard.

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

5. INVENTORIES

(millions of Canadian dollars)	As at December 31, 2014	As at December 31, 2013
Pulp	$ 68.8	$ 52.8
Paper	17.4	15.7
Wood chips and logs	12.1	14.1
Materials and supplies	45.4	45.4
	$ 143.7	$ 128.0

In 2014, costs of raw materials, consumables and changes in finished products recognized as manufacturing and product costs amounted to $344.6 million (2013 - $321.8 million).

6. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Land and improvements	Buildings, machinery and equipment	Asset retirement - landfill	Construction in progress	Major overhauls	Total
Cost						
Balance at January 1, 2013	$ 5.4	$ 1,421.5	$ 2.1	$ 16.0	$ 42.5	$ 1,487.5
Additions[1]	-	-	-	67.6	-	67.6
Disposals	-	(8.2)	-	-	(33.4)	(41.6)
Transfers	-	44.7	-	(68.1)	23.4	-
Balance at December 31, 2013	$ 5.4	$ 1,458.0	$ 2.1	$ 15.5	$ 32.5	$ 1,513.5
Additions[1]	-	-	-	59.3	-	59.3
Disposals	-	(3.6)	-	-	(7.1)	(10.7)
Transfers	-	26.3	-	(35.4)	9.1	-
Balance at December 31, 2014	$ 5.4	$ 1,480.7	$ 2.1	$ 39.4	$ 34.5	$ 1,562.1
Amortization						
Balance at January 1, 2013	$ -	$ (932.5)	$ (0.9)	$ -	$ (23.3)	$ (956.7)
Amortization for the year	-	(48.9)	(0.1)	-	(20.9)	(69.9)
Disposals	-	7.9	-	-	33.3	41.2
Balance at December 31, 2013	$ -	$ (973.5)	$ (1.0)	$ -	$ (10.9)	$ (985.4)
Amortization for the year	-	(47.7)	-	-	(15.0)	(62.7)
Disposals	-	3.0	-	-	7.1	10.1
Balance at December 31, 2014	$ -	$ (1,018.2)	$ (1.0)	-	$ (18.8)	(1,038.0)
Carrying amounts						
At January 1, 2013	$ 5.4	$ 489.0	$ 1.2	$ 16.0	$ 19.2	$ 530.8
At December 31, 2013	$ 5.4	$ 484.5	$ 1.1	$ 15.5	$ 21.6	$ 528.1
At December 31, 2014	**$ 5.4**	**$ 462.5**	**$ 1.1**	**$ 39.4**	**$ 15.7**	**$ 524.1**

(1) Net of capital expenditures financed by government grants.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(millions of Canadian dollars)	As at December 31, 2014	As at December 31, 2013
Trade payables and accrued liabilities	**$ 59.6**	$ 58.0
Accrued payroll and related liabilities	**29.9**	30.0
Income tax payable	**13.7**	8.7
Other	**20.0**	21.7
	$ 123.2	$ 118.4

8. OPERATING LOANS

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

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

The Company has a separate facility with a maturity date of June 30, 2015 to cover energy-related letters of credit. At December 31, 2014, $9.4 million of energy-related letters of credit were covered under this facility with the balance of $2.8 million covered under the Company's general operating loan facility.

As at December 31, 2014, the Company was in compliance with all covenants relating to its operating loans.

9. LONG-TERM DEBT

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

As at December 31, 2014, the Company was in compliance with all covenants relating to the long-term debt.

FAIR VALUE OF TOTAL LONG-TERM DEBT

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

10. EMPLOYEE FUTURE BENEFITS

The Company, in participation with Canfor, has several funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and certain hourly employees. The defined benefit plans are based on years of service and final average salary. CPPI's other post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Total cash payments for employee future benefits for 2014 were $14.1 million (2013 – $17.8 million), consisting of cash contributed by CPPI to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans.

DEFINED BENEFIT PLANS

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

CPPI has one registered defined benefit plan for which an actuarial valuation is performed every three years. The plan underwent an actuarial valuation for funding purposes as of December 31, 2013. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2016.

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

FAIR MARKET VALUE OF PLAN ASSETS

	2014		2013	
(millions of Canadian dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Beginning of year	$ 105.1	$ -	$ 87.3	$ -
Interest income on plan assets	4.5	-	3.9	-
Return on plan assets greater than discount rate	3.9	-	8.5	-
Reallocation of assets in proportion to obligations	(3.9)	-	-	-
CPPI contributions	4.6	1.5	8.3	1.6
Employee contributions	0.1	-	0.2	-
Benefit payments	(5.1)	(1.5)	(3.0)	(1.6)
Administrative expenses	(0.3)	-	(0.1)	-
End of year	$ 108.9	$ -	$ 105.1	$ -

Plan assets consist of the following:	As at December 31, 2014	As at December 31, 2013
Asset category	Percentage of Plan Assets	
Equity securities	16%	60%
Debt securities	83%	35%
Cash and cash equivalents	1%	5%
	100%	100%

ACCRUED BENEFIT OBLIGATIONS

(millions of Canadian dollars)	2014 Pension Benefit Plans	2014 Other Benefit Plans	2013 Pension Benefit Plans	2013 Other Benefit Plans
Beginning of year	$ 107.6	$ 64.1	$ 110.3	$ 79.9
Current service cost	3.2	1.6	3.2	2.0
Interest cost	4.5	3.0	4.6	3.4
Employee contributions	0.1	-	0.2	-
Benefit payments	(5.1)	(1.5)	(3.0)	(1.6)
Actuarial loss (gain)	15.6	10.0	(7.7)	(19.3)
Other	-	(0.3)	-	(0.3)
End of year	$ 125.9	$ 76.9	$ 107.6	$ 64.1

Of the defined benefit plan obligation of $125.9 million (2013 - $107.6 million), $115.2 million (2013 - $98.6 million) relates to plans that are wholly or partly funded, $10.7 million (2013 - $9.0 million) relates to plans that are wholly unfunded. At December 31, 2014 the total obligation for the other benefit plans of $76.9 million (2013 - $64.1 million) is unfunded.

RECONCILIATION OF FUNDED STATUS OF BENEFIT PLANS TO AMOUNTS RECORDED IN THE FINANCIAL STATEMENTS

(millions of Canadian dollars)	December 31, 2014 Pension Benefit Plans	December 31, 2014 Other Benefit Plans	December 31, 2013 Pension Benefit Plans	December 31, 2013 Other Benefit Plans
Fair market value of plans assets	$ 108.9	$ -	$ 105.1	$ -
Accrued benefit obligations	(125.9)	(76.9)	(107.6)	(64.1)
Funded status of plans – deficit	$ (17.0)	$ (76.9)	$ (2.5)	$ (64.1)
Other pension plans	(1.0)	-	(1.0)	-
Total accrued liability, net	$ (18.0)	$ (76.9)	$ (3.5)	$ (64.1)

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

(millions of Canadian dollars)	December 31, 2014 Pension Benefit Plans	December 31, 2014 Other Benefit Plans	December 31, 2013 Pension Benefit Plans	December 31, 2013 Other Benefit Plans
Retirement benefit surplus	$ -	$ -	$ 8.2	$ -
Retirement benefit obligations	(18.0)	(76.9)	(11.7)	(64.1)
Total accrued benefit liability, net	$ (18.0)	$ (76.9)	$ (3.5)	$ (64.1)

COMPONENTS OF PENSION COST

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

(millions of Canadian dollars)	2014 Pension Benefit Plans	2014 Other Benefit Plans	2013 Pension Benefit Plans	2013 Other Benefit Plans
Recognized in net income				
Current service cost	$ 3.2	$ 1.6	$ 3.2	$ 2.0
Administration expense	0.1	-	0.1	-
Interest cost	-	3.0	0.7	3.4
Other	-	(0.3)	0.2	(0.3)
Total included in net income	$ 3.3	$ 4.3	$ 4.2	$ 5.1
Recognized in other comprehensive income				
Actuarial (gain) – experience	$ (2.0)	$ (0.2)	$ (0.2)	$ (11.8)
Actuarial loss – demographic	3.3	2.0	2.8	0.4
Actuarial loss (gain) – financial assumptions	14.3	8.2	(10.3)	(7.9)
Return on plan assets (greater) than discount rate	(3.9)	-	(8.5)	-
Administrative greater than expected	0.2	-	-	-
Reallocation of assets in proportion to obligations	3.9	-	-	-
Total included in other comprehensive income	$ 15.8	$ 10.0	$ (16.2)	$ (19.3)

SIGNIFICANT ASSUMPTIONS

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

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

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

SENSITIVITY ANALYSIS

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

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

As at December 31, 2014, CPPI estimated that it will make contribution payments of $3.4 million to its defined benefit plans in 2015 based on the last actuarial valuation for funding purposes.

DEFINED CONTRIBUTION AND OTHER PLANS

The total expense recognized in 2014 for CPPI's defined contribution plans was $1.3 million (2013 - $1.2 million).

CPPI contributes to a pulp industry pension plan providing pension benefits. This plan is accounted for as defined contribution plan. Contributions to this plan, not included in the expense for defined contribution plan above, amounted to $6.7 million in 2014 (2013 - $6.7 million).

OTHER

CPPI's total employee benefits expense includes salaries and wages, future employee benefits and terminations as applicable. The total benefits expense in 2014 was $146.2 million (2013 - $142.0 million).

11. ASSET RETIREMENT OBLIGATIONS

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2014 and 2013:

(millions of Canadian dollars)	2014	2013
Asset retirement obligations at beginning of year	$ 2.7	$ 3.3
Accretion expense	0.1	0.1
Changes in estimates	0.7	(0.7)
Asset retirement obligations at end of year	$ 3.5	$ 2.7

CPPI's asset retirement obligations represent estimated undiscounted future payments of $7.2 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 4 to 37 years and have been discounted at risk-free rates ranging from 1.4% to 2.4% (2013 – 1.9% to 3.2%). The $0.7 million changes in estimates associated with the asset retirement obligation principally reflects a lower discount rate used in valuation of the obligation.

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

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

12. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares, no par value

ISSUED AND FULLY PAID

	2014		2013	
(millions of Canadian dollars, except number of shares)	Number of Shares	Amount	Number of Shares	Amount
Common shares at beginning of year	**71,007,341**	**$ 523.4**	71,269,790	$ 525.3
Shares purchased	**(177,518)**	**(1.3)**	(262,449)	(1.9)
Common shares at end of year	**70,829,823**	**$ 522.1**	71,007,341	$ 523.4

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

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2014 was 70,949,525 (2013 – 71,149,822), and reflected shares purchased under the Company's Normal Course Issuer Bid (see below).

NORMAL COURSE ISSUER BID

On March 5, 2014, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,550,367 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2014. The renewed normal course issuer bid is set to expire on March 4, 2015. In 2014, CPPI purchased 177,518 common shares for $2.0 million (an average price of $11.27 per common share), of which $1.3 million was charged to share capital and $0.7 million was charged to retained earnings. As a result of the share purchases in 2014, Canfor's interest in CPPI increased from 50.4% at December 31, 2013 to 50.5% at December 31, 2014.

In 2013, under a previous normal course issuer bid, CPPI purchased 262,449 common shares for $2.4 million (an average price of $9.14 per common share), of which $1.9 million was charged to share capital and $0.5 million was charged to retained earnings.

13. FINANCE EXPENSE, NET

(millions of Canadian dollars)	2014	2013
Finance expense	**$ (5.8)**	$ (12.2)
Less: Interest income	**0.3**	0.4
Finance expense, net	**$ (5.5)**	$ (11.8)

For the year ended December 31, 2014, finance expense, net related substantially to interest expense on term debt and net interest expense on retirement benefit obligations. Included in finance expense, net in 2014 was $3.0 million related to retirement benefit obligations (2013 - $4.1 million) and $1.4 million related to term debt (2013 - $6.6 million).

14. INCOME TAXES

The components of income tax expense are as follows:

(millions of Canadian dollars)	2014	2013
Current	$ (31.0)	$ (14.4)
Deferred	0.5	(3.6)
Income tax expense	$ (30.5)	$ (18.0)

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

(millions of Canadian dollars)	2014	2013
Income tax expense at statutory rate 2014 – 26.0% (2013 - 25.75%)[2]	$ (31.2)	$ (15.4)
Add (deduct):		
Permanent difference from capital gains and other non-deductible items	(0.1)	(1.0)
Entities with different income tax rates and other tax adjustments	0.8	0.8
Change in substantively enacted tax rate[2]	-	(2.4)
Income tax expense	$ (30.5)	$ (18.0)

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

In addition to the amounts recorded to net income, a tax recovery of $6.7 million was recorded to other comprehensive income for the year ended December 31, 2014 (2013 - $9.3 million expense) in relation to actuarial gains/losses on defined benefit employee compensation plans.

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

(millions of Canadian dollars)	As at December 31, 2014	As at December 31, 2013
Deferred income tax assets		
Loss carry forwards	$ -	$ 5.6
Retirement benefit obligations	24.6	17.4
Other	1.8	1.3
	$ 26.4	$ 24.3
Deferred income tax liabilities		
Depreciable capital assets	$ (91.9)	$ (96.6)
Other	-	(0.5)
	(91.9)	(97.1)
Total deferred income taxes, net	$ (65.5)	$ (72.8)

Of the amounts included in the table, $0.6 million of the deferred tax assets are forecast to be recovered within twelve months of the balance sheet date (2013 - $5.9 million deferred tax asset).

15. NET CHANGE IN NON-CASH WORKING CAPITAL

(millions of Canadian dollars)	2014	2013
Accounts receivable	$ 11.5	$ (0.3)
Inventories	(15.6)	6.1
Prepaid expenses and other assets	(5.6)	2.7
Accounts payable and accrued liabilities	(4.2)	7.6
Net decrease (increase) in non-cash working capital	$ (13.9)	$ 16.1

16. RELATED PARTY TRANSACTIONS

In 2014, the Company depended on Canfor to provide approximately 59% (2013 - 61%) of its fibre supply as well as to provide certain key business and administrative services as described below. As a result, of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The pricing under the Company's Fibre Supply Agreement with Canfor was renewed effective November 1, 2013. The current pricing under the agreement expires September 1, 2016 and may be amended as necessary to ensure that it is reflective of market conditions.

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

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $147.5 million in 2014 (2013 - $126.1 million).

Canfor provides certain business and administrative services to CPPI under a services agreement. The total value of the services provided by Canfor in 2014 was $10.6 million (2013 - $8.7 million). These amounts are included in manufacturing and product costs and selling and administration costs.

CPPI provides certain business and administrative services to Canfor under an incidental services agreement. Total value of the services provided to Canfor in 2014 was $2.8 million (2013 - $2.5 million). These amounts are included as a cost recovery in manufacturing and product costs and selling and administration costs.

The Company markets bleached chemi-thermo mechanical pulp ("BCTMP") production from Canfor's Taylor Pulp Mill ("Taylor") for which it earned commissions totaling $1.8 million in 2014 (2013 - $2.0 million), included in sales. The Company did not purchase BCTMP from Taylor for resale in 2014 (2013 – $0.2 million). The Company sold NBSK pulp to Taylor for packaging use totaling $3.4 million in 2014 (2013 – $3.0 million). Subsequent to the purchase of the Taylor Pulp Mill on January 30, 2015 (Note 21b), the Taylor Pulp Mill became a division of CPPI and these transactions became internal.

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

(millions of Canadian dollars)	**As at December 31, 2014**	As at December 31, 2013
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**$ 18.0**	$ 18.9
Included in trade and other accounts receivable:		
Products marketed for Canfor	**$ 1.7**	$ 9.0

KEY MANAGEMENT PERSONNEL

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

(millions of Canadian dollars)	**2014**	2013
Short-term benefits	**$ 3.4**	$ 3.9
Post-employment benefits	**0.2**	0.3
	$ 3.6	$ 4.2

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

OTHER RELATED PARTIES

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

Subsequent to year end CPPI completed the purchase of Canfor's Taylor Pulp Mill. Note 21 Subsequent Events contains further details.

17. SEGMENT INFORMATION

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

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

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

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

(millions of Canadian dollars)		Pulp	Paper	Unallocated	Elimination Adjustment		Total
Year ended December 31, 2014							
Sales to external customers	**$**	**816.4**	**162.8**	**1.3**	**-**	**$**	**980.5**
Sales to other segments	**$**	**93.8**	**-**	**-**	**(93.8)**	**$**	**-**
Operating income (loss)	**$**	**115.0**	**22.0**	**(11.6)**	**-**	**$**	**125.4**
Amortization	**$**	**59.2**	**3.4**	**0.1**	**-**	**$**	**62.7**
Capital expenditures[3]	**$**	**56.2**	**1.1**	**0.4**	**-**	**$**	**57.7**
Identifiable assets	**$**	**677.9**	**57.6**	**91.9**	**-**	**$**	**827.4**
Year ended December 31, 2013							
Sales to external customers	$	738.4	147.1	1.3	-	$	886.8
Sales to other segments	$	76.2	-	-	(76.2)	$	-
Operating income (loss)	$	63.2	22.7	(12.1)	-	$	73.8
Amortization	$	66.1	3.7	0.1	-	$	69.9
Capital expenditures[3]	$	60.1	0.9	0.2	-	$	61.2
Identifiable assets	$	674.9	56.7	37.0	-	$	768.6

(3) Capital expenditures represent cash paid for capital assets during the period and include capital expenditures financed by government grants.

GEOGRAPHIC INFORMATION

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

(millions of Canadian dollars)		**2014**		2013
Sales by location of customer				
Canada	**$**	**54.8**	$	41.3
United States		**301.0**		238.3
Europe		**86.3**		106.9
Asia		**492.5**		464.5
Other		**45.9**		35.8
	$	**980.5**	$	886.8

18. COMMITMENTS

At the end of the year, CPPI had contractual commitments for the construction of capital assets for $0.6 million (2013 - $4.0 million). These commitments are expected to be settled over the following year.

CPPI has committed to operating leases for property, plant and equipment. As at December 31, 2014 and 2013, the future minimum lease payments under these operating leases were as follows:

(millions of Canadian dollars)		**As at December 31, 2014**		As at December 31, 2013
Within one year	**$**	**0.8**	$	1.7
Between one and five years		**0.3**		1.0
Total	**$**	**1.1**	$	2.7

During the year ended December 31, 2014, $2.9 million (2013 - $2.9 million) was recognized as an expense in the income statement in respect to operating leases.

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

ENERGY AGREEMENTS

The Company has entered into three separate energy agreements with a BC energy company and electricity transmission provider (the "Energy Agreements") for all three of the Company's mills, with commencement dates ranging from 2006 through 2015. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the Company's pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2014 CPPI had posted $12.2 million of standby letters of credit (2013 - $12.2 million) under these agreements, and had no repayment obligations under the terms of any of these agreements.

19. FINANCIAL RISK AND CAPITAL MANAGEMENT

FINANCIAL RISK MANAGEMENT

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

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

CREDIT RISK:

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

Financial instruments that are subject to credit risk include cash and cash equivalents and accounts receivable. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date of three months or less. The cash and cash equivalents balance at December 31, 2014 is $76.8 million (2013 – $13.5 million).

CPPI utilizes credit insurance to manage the risk associated with trade receivables. As at December 31, 2014, approximately 81% (2013 - 87%) of the outstanding trade receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade receivable balance at December 31, 2014 was $60.7 million (2013 - $71.0 million). At December 31, 2014, approximately 98% (2013 – 96%) of the trade accounts receivable balance was within CPPI's established credit terms.

LIQUIDITY RISK:

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

At December 31, 2014, CPPI had no amounts drawn (2013 – $10.6 million) on its operating loans and accounts payable and accrued liabilities of $123.2 million (2013 - $118.4 million), all of which are due within twelve months of the balance sheet date.

MARKET RISK:

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

(i) INTEREST RATE RISK:

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

CPPI utilizes interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. At December 31, 2014, CPPI had $35.0 million in fixed interest rate swaps (2013 – $105.0 million) with interest rates ranging from 2.32% to 2.34%, maturing in 2015.

(ii) CURRENCY RISK:

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $0.6 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable).

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

CPPI had the following foreign exchange derivatives at December 31, 2014 and 2013:

	As at December 31, 2014		As at December 31, 2013	
	Notional Amount	**Exchange Rates**	Notional Amount	Exchange Rates
US Dollar Collars	(millions of US dollars)	(protection/ topside per dollar)	(millions of US dollars)	(protection/ topside per dollar)
0-12 months	$ 104.0	$1.11/$1.22	$ 90.0	$1.04/$1.11

(iii) COMMODITY PRICE RISK:

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

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

CPPI had the following pulp futures contracts at December 31, 2014 and 2013:

	As at December 31, 2014		As at December 31, 2013	
	Notional Amount	**Average Rate**	Notional Amount	Average Rate
Pulp	(tonnes)	(US dollars per tonne)	(tonnes)	(US dollars per tonne)
Future Sales Contracts				
0-12 months	-	$ -	12,000	$ 945.00

(iv) ENERGY PRICE RISK:

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

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

As at December 31, 2014, the Company had 102 thousand barrels of WTI oil collars outstanding, which will be settled in 2015, with weighted average protection of $58.14 per barrel and topside of $77.35 per barrel. As at December 31, 2013, the Company had no WTI oil collars outstanding.

CAPITAL MANAGEMENT

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

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

(millions of Canadian dollars)	**As at December 31, 2014**	As at December 31, 2013
Total debt (including operating loans)	$ 50.0	$ 60.6
Less: Cash and cash equivalents	76.8	13.5
Net debt (cash)	$ (26.8)	$ 47.1
Total equity	489.6	438.0
	$ 462.8	$ 485.1

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

CPPI's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. CPPI was in compliance with all its debt covenants for the years ended December 31, 2014 and 2013.

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

20. FINANCIAL INSTRUMENTS

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

CPPI's cash and cash equivalents, accounts receivable, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition.

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

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
Level 3 – Inputs that are not based on observable market data.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, energy costs and interest rates. At December 31, 2014, the fair value of derivative financial instruments was a net liability of $1.0 million (2013 – net liability of $0.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2014 and 2013:

(millions of Canadian dollars)	2014	2013
Foreign exchange collars	$ (0.3)	$ 0.1
Energy derivatives	(0.7)	0.1
Interest rate swaps	(0.1)	(0.2)
Pulp futures	(0.8)	(0.1)
Loss on derivative financial instruments	$ (1.9)	$ (0.1)

These financial instruments are classified as held for trading and as level 2 in the fair value hierarchy. There were no financial instrument transfers between fair value hierarchy levels during 2014 or 2013.

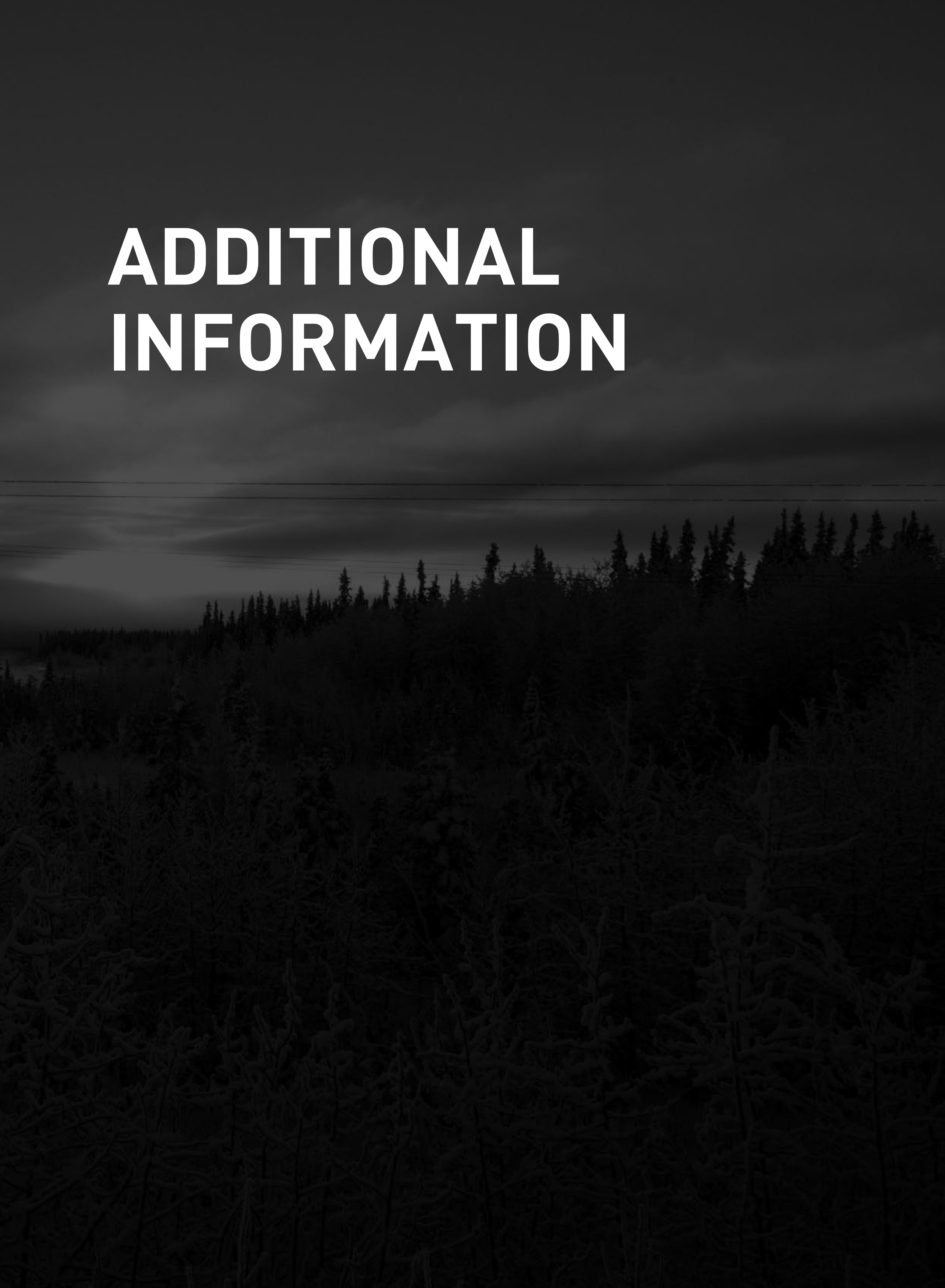
21. SUBSEQUENT EVENTS

(A) DIVIDENDS

On February 4, 2015, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on February 24, 2015, to shareholders of record on February 17, 2015.

(B) PURCHASE OF TAYLOR PULP MILL

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



ADDITIONAL INFORMATION

SUMMARY OF CONSOLIDATED PRODUCTION AND SHIPMENTS

(unaudited)

PRODUCTION

2014	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	258.7	237.7	248.1	241.1	985.6
Kraft Paper – 000 mt	36.7	35.4	35.9	36.0	144.0

2013	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	264.5	250.0	220.6	246.1	981.2
Kraft Paper – 000 mt	34.8	35.3	33.8	30.8	134.7

SHIPMENTS

2014	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	222.4	246.9	240.5	258.6	968.4
Kraft Paper – 000 mt	31.3	39.7	35.7	35.8	142.5

2013	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Pulp – 000 mt	257.9	255.0	212.2	273.3	998.4
Kraft Paper – 000 mt	35.0	37.2	35.5	31.1	138.8

2014 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of Canadian dollars)					
Sales	$ 226.4	$ 252.5	$ 237.6	$ 264.0	$ 980.5
Manufacturing and product costs	138.5	166.4	151.3	179.3	635.5
Freight and other distribution costs	28.9	33.9	32.0	34.3	129.1
Amortization	16.0	15.2	16.3	15.2	62.7
Selling and administration costs	6.6	7.4	6.6	7.2	27.8
Operating income	36.4	29.6	31.4	28.0	125.4
Finance expense, net	(1.5)	(1.3)	(1.3)	(1.4)	(5.5)
Gain (loss) on derivative financial instruments	(1.4)	0.6	(0.3)	(0.8)	(1.9)
Other income (expense), net	0.9	(3.7)	3.0	1.8	2.0
Net income before income taxes	34.4	25.2	32.8	27.6	120.0
Income tax expense	(8.7)	(6.4)	(8.5)	(6.9)	(30.5)
Net income	$ 25.7	$ 18.8	$ 24.3	$ 20.7	$ 89.5
Net income attributable to:					
Equity shareholders of the Company	$ 25.7	$ 18.8	$ 24.3	$ 20.7	$ 89.5
Net income per common share: (Canadian dollars)					
Attributable to equity shareholders of the Company					
- Basic and diluted	$ 0.36	$ 0.27	$ 0.34	$ 0.29	$ 1.26
Cash generated from (used in) (millions of Canadian dollars)					
Operating activities	$ 23.9	$ 51.6	$ 24.7	$ 53.2	$ 153.4
Financing activities					
Dividend paid	(3.5)	(4.5)	(4.4)	(4.4)	(16.8)
Share purchases	-	-	(2.0)	-	(2.0)
Other	(7.0)	(5.6)	(0.6)	(0.7)	(13.9)
	(10.5)	(10.1)	(7.0)	(5.1)	(32.7)
Investing activities					
Property, plant, equipment, net	(10.0)	(20.2)	(16.2)	(11.3)	(57.7)
Other	-	-	0.1	0.2	0.3
	(10.0)	(20.2)	(16.1)	(11.1)	(57.4)
Increase in cash and cash equivalents	$ 3.4	$ 21.3	$ 1.6	$ 37.0	$ 63.3

2013 SELECTED QUARTERLY FINANCIAL INFORMATION

(unaudited)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales and income (millions of Canadian dollars)					
Sales	$ 217.5	$ 227.6	$ 196.1	$ 245.6	$ 886.8
Manufacturing and product costs	143.3	151.7	135.1	165.0	595.1
Freight and other distribution costs	30.9	31.9	27.3	33.2	123.3
Amortization	18.9	19.0	16.5	15.5	69.9
Selling and administration costs	5.4	5.5	5.9	7.2	24.0
Restructuring, mill closure and severance costs	-	-	-	0.7	0.7
Operating income	19.0	19.5	11.3	24.0	73.8
Finance expense, net	(3.1)	(2.5)	(3.0)	(3.2)	(11.8)
Foreign exchange gain (loss) on long-term debt	(2.3)	(3.9)	2.3	(3.4)	(7.3)
Gain (loss) on derivative financial instruments	0.7	(2.6)	1.9	(0.1)	(0.1)
Other income (expense), net	0.7	3.8	(1.5)	2.2	5.2
Net income before income taxes	15.0	14.3	11.0	19.5	59.8
Income tax expense	(4.1)	(6.7)	(1.9)	(5.3)	(18.0)
Net income	$ 10.9	$ 7.6	$ 9.1	$ 14.2	$ 41.8
Net income attributable to:					
Equity shareholders of the Company	$ 10.9	$ 7.6	$ 9.1	$ 14.2	$ 41.8
Net income per common share: (Canadian dollars)					
Attributable to equity shareholders of the Company					
- Basic and diluted	$ 0.15	$ 0.11	$ 0.13	$ 0.20	$ 0.59
Cash generated from (used in) (millions of Canadian dollars)					
Operating activities	$ 28.3	$ 44.6	$ 14.9	$ 69.1	$ 156.9
Financing activities					
Long-term debt	-	-	-	(66.6)	(66.6)
Dividend paid	(3.6)	(3.6)	(3.5)	(3.5)	(14.2)
Share purchases	-	(1.0)	(1.4)	-	(2.4)
Other	(0.2)	(3.8)	(0.2)	5.6	1.4
	(3.8)	(8.4)	(5.1)	(64.5)	(81.8)
Investing activities					
Property, plant, equipment, net	(6.9)	(7.9)	(26.5)	(19.9)	(61.2)
Other	0.1	0.1	0.5	0.1	0.8
	(6.8)	(7.8)	(26.0)	(19.8)	(60.4)
Increase (decrease) in cash and cash equivalents	$ 17.7	$ 28.4	$ (16.2)	$ (15.2)	$ 14.7

Certain previously published figures have been reclassified to conform to the current presentation.

DIRECTORS AND OFFICERS

DIRECTORS

The names, principal occupations and municipalities of residence of the Directors of the Company as at December 31, 2014 are as below. For more information visit www.canforpulp.com

Peter J.G. Bentley, O.C., O.B.C., LL.D. [2][3][4][5]
Chairman Emeritus
Canfor Corporation
Vancouver, British Columbia

Stan E. Bracken-Horrocks, FCA [1][3][5]
Retired Partner of
PricewatehouseCoopers, LLP
Kelowna, British Columbia

David M. Calabrigo, Q.C.
Senior Vice President, Corporate Development,
Legal Affairs and Corporate Secretary
Canfor Corporation
Vancouver, British Columbia

Charles J. Jago, PhD, C.M., O.B.C. [2][4]
Former President of University of
Northern British Columbia
Prince George, British Columbia

Michael J. Korenberg [1][3][5]
Deputy Chairman and Managing Director
The Jim Pattison Group
Chairman
Canfor Pulp Products Inc.
West Vancouver, British Columbia

Conrad A. Pinette [2][4][5]
Corporate Director
Vancouver, British Columbia

William W. Stinson [1][2][4][5]
Chairman and CEO
Westshore Terminals Investment Corp.
Vancouver, British Columbia

OFFICERS

The names and municipalities of residence of the officers of the Company and the offices held by each of them as at December 31, 2014 are as below. For more information visit www.canforpulp.com

Michael J. Korenberg
Chairman
West Vancouver, British Columbia

Don B. Kayne
Chief Executive Officer
Tsawwassen, British Columbia

Brett Robinson
President
Tsawwassen, British Columbia

Alan R. Nicholl
Chief Financial Officer
West Vancouver, British Columbia

David M. Calabrigo, Q.C.
Corporate Secretary
Vancouver, British Columbia

Sean Curran
Vice President, Sales and Marketing
Tsawwassen, British Columbia

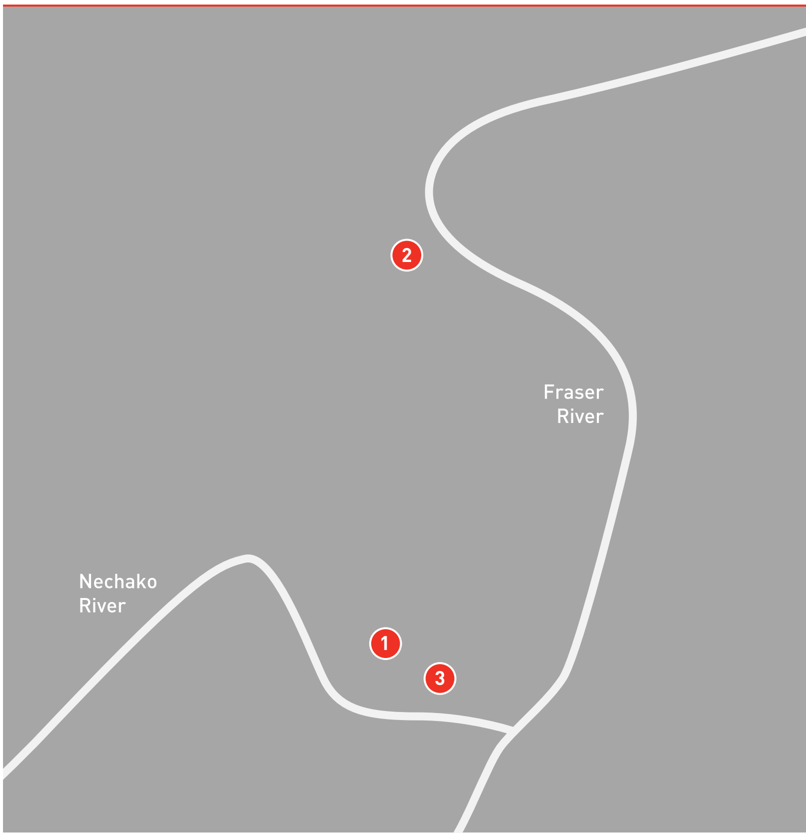
Martin Pudlas
Vice President, Operations
Prince George, British Columbia

(1) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.
(2) Member of the Joint Management Resources and Compensation Committee, which oversees human resources and compensation policies and ensures management development and succession programs are in place.
(3) Member of the Joint Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.
(4) Member of the Joint Environmental, Health and Safety Committee, which develops, reviews and makes recommendations on matters related to the Company's environmental, health and safety policies, and monitors compliance with those policies and with government regulations.
(5) Member of the Joint Capital Expenditure Committee, which reviews proposed capital expenditures.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

MAP OF OPERATIONS

PRINCE GEORGE



WESTERN CANADA

PULP & PAPER

Intercontinental Pulp Mill	1
Northwood Pulp Mill	2
Prince George Pulp and Paper Mill	3
Taylor Pulp Mill[1]	4
Canfor Pulp Innovation	5

(1) Subsequent to year end, on January 30, 2015, CPPI purchased from Canfor the BCTMP Taylor Pulp Mill.

CANFOR PULP INNOVATION

Canfor Pulp Innovation (CPI) was established and charged with a "search and apply" mandate for technology which determined that we adopt an Open Innovation approach to Canfor Pulp's R&D investment. Located in a purpose built facility in Burnaby, CPI is unique in Canada, right-sized and ultra-responsive to Canfor Pulp's customers and mills.

CPI operates under 4 strategic themes; cost reduction, strength & quality, tissue, and new products. Delivering an annual program comprising of approximately twenty projects, CPI's Open Innovation delivery model comprises of 4 levels: CPI staff; contracted industry leading expertise; and partnerships and technical contracts.

Sponsored research with an international suite of collaborators is now delivering new opportunities from our growing intellectual property portfolio. CPI is delivering opportunities for continuous customer and mill improvements contributing to ensuring that Canfor Pulp remains a global quality and technology leader in NBSK.

DEFINITIONS AND INFORMATION

MILL OPERATIONS

	2014 Production	Capacity
Pulp[1] (000 tonnes)	985.6	1,065.0
Kraft Paper (000 tonnes)	144.0	140.0

(1) Subsequent to year end, on January 30, 2015, CPPI purchased from Canfor the BCTMP Taylor Pulp Mill, located in Taylor, BC with an annual production capacity of 220,000 tonnes of BCTMP.

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting
The Annual General Meeting of the shareholders of Canfor Pulp Products Inc. will be held at The Westin Wall Centre, 3099 Corvette Way, Richmond, BC on Tuesday, April 28th, 2015 at 11:00 a.m.

Auditors
PricewaterhouseCoopers LLP
Vancouver, BC

Transfer Agent and Registrar
CST Trust Company Inc.
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax

Stock Listing
Toronto Stock Exchange
Symbol: CFX

Investor Contact
Patrick Elliott
Vice President & Treasurer, Canfor Corporation
T: (604) 661-5441
F: (604) 661-5429
E: patrick.elliott@canfor.com

Rick Remesch
Corporate Controller
T: (604) 661-5221
F: (604) 648-1952
E: rick.remesch@canforpulp.com

Canfor Pulp Products Inc. Head Office
#230 – 1700 West 75th Avenue, Vancouver, BC
V6P 6G2
T: (604) 661-5241
F: (604) 661-5226
E: info@canforpulp.com
www.canforpulp.com

Canfor Pulp Innovation
138 – 8610 Glenlyon Parkway, Burnaby, BC V5J 0B6
T: (604) 228-6710
F: (604) 228-6723

CPPI also produces an Annual Information Form. To obtain this publication or more information about the company, please contact Canfor Pulp Products Inc., Public Affairs or visit our website at http://www.canforpulp.com/investors/

Public Affairs Contact
Corinne Stavness
Director, Public Affairs & Responsibility
T: (604) 661-5225
F: (604) 661-5219
E: corinne.stavness@canfor.com

DEFINITIONS OF SELECTED FINANCIAL TERMS

Book Value per Common Share is the shareholders' equity at the end of the year, divided by the number of common shares outstanding at the end of the year.

Net Debt is total debt less cash and cash equivalents and temporary investments.

Net Income (Loss) per Common Share is calculated as described in Note 12 to the Consolidated Financial Statements.

Return on Common Shareholders' Equity is equal to net income (loss) attributable to shareholders of the Company for the year, divided by the average total shareholders' equity during the year.

Return on Invested Capital 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.

Working Capital is total current assets (including cash and cash equivalents) less total current liabilities.

WWW.CANFOR.COM