CANFOR PULP PRODUCTS INC.

Fourth Quarter Report

For the three and twelve months ended December 31, 2013

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To Our Shareholders

Canfor Pulp Products Inc. today reported net income of $14.2 million, or $0.20 per share, for the fourth quarter of 2013, compared to $9.1 million, or $0.13 per share, for the third quarter of 2013 and $5.4 million, or $0.08 per share, for the fourth quarter of 2012. For the year ended December 31, 2013, the Company's net income was $41.8 million, or $0.59 per share, compared to $13.4 million, or $0.14 per share, for 2012.

The following table summarizes selected financial information for the Company for the comparative periods[1]:

(millions of Canadian dollars, except per share amounts)	**Q4 2013**	Q3 2013	**YTD 2013**	Q4 2012	YTD 2012
Sales	**$ 245.6**	$ 196.1	**$ 886.8**	$ 201.9	$ 810.4
Operating income	**$ 24.0**	$ 11.3	**$ 73.8**	$ 12.1	$ 25.6
Net income	**$ 14.2**	$ 9.1	**$ 41.8**	$ 5.4	$ 13.4
Net income per share, basic and diluted	**$ 0.20**	$ 0.13	**$ 0.59**	$ 0.08	$ 0.14
Adjusted net income	**$ 17.3**	$ 5.6	**$ 50.7**	$ 2.6	$ 3.0
Adjusted net income per share, basic and diluted	**$ 0.24**	$ 0.08	**$ 0.71**	$ 0.04	$ 0.05

After adjusting for various items affecting comparability with the prior periods, the Company's adjusted net income for the fourth quarter of 2013 was $17.3 million, or $0.24 per share, compared to an adjusted net income of $5.6 million, or $0.08 per share, for the third quarter of 2013. CPPI's adjusted net income for the fourth quarter of 2012 was $2.6 million, or $0.04 per share. For 2013, the Company's adjusted net income was $50.7 million, or $0.71 per share, compared to $3.0 million, or $0.05 per share, for 2012.

The Company reported operating income of $24.0 million for the fourth quarter of 2013, an increase of $12.7 million compared to the third quarter of 2013, driven by improved Northern Bleached Softwood Kraft ("NBSK") pulp sales realizations coupled with higher shipments levels.

Results in the fourth quarter of 2013 benefited from a modest improvement in global softwood pulp markets, with an increase in demand and a corresponding increase in prices through the quarter. Global softwood pulp producer inventory levels were balanced during the quarter, at 27 days' supply in December 2013, in line with September 2013; market conditions are generally considered balanced when inventories are in the 27-30 days of supply range. Average NBSK pulp list prices increased in all regions during the fourth quarter, with the North American pulp list price up US$36 per tonne from the previous quarter to US$983 and Europe up US$35 per tonne from the previous quarter to US$902 reflecting a 4% gain in both regions. Pulp list prices to China were up US$52 per tonne to US$737, an increase of 8% in the quarter. List prices to all regions ended the 2013 year at their highest levels for two years, but price gains for the 2013 year as a whole were partly eroded by increased upward pressure on discounts, particularly in North America. Fourth quarter sales realizations also benefited slightly from a 1% weakening of the Canadian dollar against the US dollar.

Higher shipment levels for the fourth quarter of 2013, up over 61,000 tonnes from the prior quarter, were attributable to higher production and a drawdown of inventories resulting from increased purchasing, principally from China, in part due to inventory build ahead of the Chinese Lunar New Year. The increased production levels mainly reflected a reduction in scheduled outages during the period. Pulp unit manufacturing costs in the fourth quarter of 2013 were down slightly from the previous quarter, largely due to the favourable impact of the higher production levels, offset in part by higher energy costs.

The Company's paper segment operating income was down $2.1 million from the previous quarter, with production and shipment volumes both impacted by a scheduled maintenance outage of the Prince George Kraft paper machine in the quarter. Moderately higher unit manufacturing costs in the current quarter largely were attributable to the lower production volumes, higher slush pulp costs resulting from higher market pulp prices, and higher maintenance and operating costs.

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits.* Further details can be found in the Company's unaudited interim consolidated financial statements.

The Company continued to preserve its strong financial position, ending the year with cash and cash equivalents of $14 million, and a net debt to capitalization of 9.7%. During the fourth quarter of 2013, the Company completed a $50 million floating interest rate term debt financing, repayable on November 5, 2018 with no penalty for early repayment, and also extended the maturity on its $110 million operating loan facility to January 31, 2018.

For the month of January 2014, the Company has announced an increase in the NBSK pulp list price of US$20 per tonne in North America with list prices to China and Europe remaining unchanged. There are no maintenance outages planned for the first quarter of 2014. With significant new hardwood pulp capacity projected to come online in the coming months, there continues to be a risk that pulp prices may come under pressure in 2014.

On February 5, 2014, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of February 5, 2014, payable on February 25, 2014, to the shareholders of record on February 18, 2014. CPPI may, subject to market conditions, continue to pay a modest level of dividends through 2014.

Michael J. Korenberg
Chairman

Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
Fourth Quarter 2013
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended December 31, 2013 relative to the quarters ended September 30, 2013 and December 31, 2012, and the financial position of the Company at December 31, 2013. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended December 31, 2013 and 2012, as well as the 2012 annual MD&A and the 2012 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2012 (available at www.canforpulp.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

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

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.

CPPI SHARE EXCHANGE AND PARTNERSHIP WIND-UP

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

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

FOURTH QUARTER 2013 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of Canadian dollars, except per share amounts)	**Q4 2013**	Q3 2013	**YTD 2013**	Q4 2012	YTD 2012
Operating income (loss) by segment:					
Pulp	**$ 24.1**	$ 8.3	**$ 63.2**	$ 7.8	$ 20.0
Paper	**$ 3.8**	$ 5.9	**$ 22.7**	$ 7.0	$ 19.5
Unallocated	**$ (3.9)**	$ (2.9)	**$ (12.1)**	$ (2.7)	$ (13.9)
Total operating income	**$ 24.0**	$ 11.3	**$ 73.8**	$ 12.1	$ 25.6
Add: Amortization	**$ 15.5**	$ 16.5	**$ 69.9**	$ 20.0	$ 67.1
Total operating income before amortization	**$ 39.5**	$ 27.8	**$ 143.7**	$ 32.1	$ 92.7
Add (deduct):					
Working capital movements	**$ 27.9**	$ (10.1)	**$ 16.1**	$ 2.4	$ 12.2
Defined benefit pension plan contributions	**$ (2.5)**	$ (2.3)	**$ (10.1)**	$ (2.4)	$ (10.1)
Other operating cash flows, net	**$ 4.2**	$ (0.5)	**$ 7.2**	$ (6.3)	$ (6.9)
Cash from operating activities	**$ 69.1**	$ 14.9	**$ 156.9**	$ 25.8	$ 87.9
Add (deduct):					
Drawdown of long-term debt, net	**$ 50.0**	$ -	**$ 50.0**	$ -	$ -
Repayment of long-term debt, net	**$ (116.6)**	$ -	**$ (116.6)**	$ -	$ -
Dividends paid	**$ (3.5)**	$ (3.5)	**$ (14.2)**	$ -	$ (19.2)
Finance expenses paid	**$ (4.9)**	$ (0.2)	**$ (9.1)**	$ (4.1)	$ (8.1)
Capital additions, net[2]	**$ (19.9)**	$ (26.5)	**$ (61.2)**	$ (11.5)	$ (66.8)
Share purchases	**$ -**	$ (1.4)	**$ (2.4)**	$ -	$ -
Acquisition of CPPI cash on exchange	**$ -**	$ -	**$ -**	$ -	$ 6.8
Other, net	**$ -**	$ 0.5	**$ 0.7**	$ -	$ 0.2
Change in cash / operating loans	**$ (25.8)**	$ (16.2)	**$ 4.1**	$ 10.2	$ 0.8
ROIC – Consolidated[3]	**4.0%**	1.5%	**12.1%**	1.8%	4.0%
Average exchange rate (US$ per C$1.00)[4]	**$ 0.953**	$ 0.963	**$ 0.971**	$ 1.009	$ 1.001

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.
[2] Additions to property, plant and equipment are shown net of amounts received under Government funding initiatives.
[3] 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.
[4] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Net Income[1]

After-tax impact, net of non-controlling interests[5] (millions of Canadian dollars, except per share amounts)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Net Income[5], as reported	**$ 14.2**	$ 9.1	**$ 41.8**	$ 5.4	$ 9.1
Foreign exchange (gain) loss on long-term debt	**$ 3.0**	$ (2.0)	**$ 6.4**	$ 1.1	$ (2.2)
(Gain) loss on derivative financial instruments	**$ 0.1**	$ (1.5)	**$ 0.1**	$ 0.1	$ (1.2)
Change in substantively enacted tax rate	**$ -**	$ -	**$ 2.4**	$ -	$ -
Net gain on post retirement plan amendments	**$ -**	$ -	**$ -**	$ (4.0)	$ (4.0)
Restructuring charges for management changes	**$ -**	$ -	**$ -**	$ -	$ 1.3
Net impact of above items	**$ 3.1**	$ (3.5)	**$ 8.9**	$ (2.8)	$ (6.1)
Adjusted Net Income[5]	**$ 17.3**	$ 5.6	**$ 50.7**	$ 2.6	$ 3.0
Net Income per share (EPS), as reported[5]	**$ 0.20**	$ 0.13	**$ 0.59**	$ 0.08	$ 0.14
Net impact of above items per share	**$ 0.04**	$ (0.05)	**$ 0.12**	$ (0.04)	$ (0.09)
Adjusted Net Income per share[5]	**$ 0.24**	$ 0.08	**$ 0.71**	$ 0.04	$ 0.05

[5] 2012 amounts exclude the impact of non-controlling interest in the Partnership. Amounts are attributable to controlling interest in the Partnership.

The Company reported operating income of $24.0 million for the fourth quarter of 2013, an increase of $12.7 million compared to the third quarter of 2013, driven by improved Northern Bleached Softwood Kraft (“NBSK”) pulp sales realizations coupled with higher shipments levels.

Results in the fourth quarter of 2013 benefited from a modest improvement in global softwood pulp markets, with an increase in demand and a corresponding increase in prices through the quarter. Global softwood pulp producer inventory levels were balanced during the quarter, at 27 days’ supply in December 2013, in line with September 2013; market conditions are generally considered balanced when inventories are in the 27-30 days of supply range. Average NBSK pulp list prices increased in all regions during the fourth quarter, with the North American pulp list price up US$36 per tonne from the previous quarter to US$983 and Europe up US$35 per tonne from the previous quarter to US$902 reflecting a 4% gain in both regions. Pulp list prices to China were up US$52 per tonne to US$737, an increase of 8% in the quarter. List prices to all regions ended the 2013 year at their highest levels for two years, but price gains for the 2013 year as a whole were partly eroded by increased upward pressure on discounts, particularly in North America. Fourth quarter sales realizations also benefited slightly from a 1% weakening of the Canadian dollar against the US dollar.

Higher shipment levels for the fourth quarter of 2013, up over 61,000 tonnes from the prior quarter, were attributable to higher production and a drawdown of inventories resulting from increased purchasing, principally from China, in part due to inventory build ahead of the Chinese Lunar New Year. The increased production levels mainly reflected a reduction in scheduled outages during the period. Pulp unit manufacturing costs in the fourth quarter of 2013 were down slightly from the previous quarter, largely due to the favourable impact of the higher production levels, offset in part by higher energy costs.

The Company’s paper segment operating income was down $2.1 million from the previous quarter, with production and shipment volumes both impacted by a scheduled maintenance outage of the Prince George Kraft paper machine in the quarter. Moderately higher unit manufacturing costs in the current quarter largely were attributable to the lower production volumes, higher slush pulp costs resulting from higher market pulp prices, and higher maintenance and operating costs.

Compared to the fourth quarter of 2012, operating income improved by $11.9 million, principally due to higher pulp segment earnings. Improved pulp segment results largely reflected improved sales realizations, and to a lesser degree, a 6% weaker Canadian dollar, coupled with higher shipments. Pulp unit manufacturing costs were up modestly from the fourth quarter of 2012, driven by the unfavourable impact of lower production volumes and higher fibre costs. Included in the fourth quarter of 2012 results was $5.3 million of an accounting gain related to post retirement plan adjustments.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp[6]

(millions of Canadian dollars unless otherwise noted)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Sales	**$ 212.3**	$ 158.0	**$ 738.4**	$ 168.2	$ 675.0
Operating income before amortization	**$ 38.8**	$ 23.8	**$ 129.3**	$ 26.8	$ 83.2
Operating income	**$ 24.1**	$ 8.3	**$ 63.2**	$ 7.8	$ 20.0
Average pulp price delivered to U.S. – US$[7]	**$ 983**	$ 947	**$ 941**	$ 863	$ 872
Average price in Cdn$	**$ 1,032**	$ 983	**$ 969**	$ 855	$ 871
Production – pulp (000 mt)	**246.1**	220.6	**981.2**	260.5	955.7
Shipments – pulp (000 mt)	**273.3**	212.2	**998.4**	246.6	961.8
Marketed on behalf of Canfor	**56.2**	55.3	**214.6**	51.2	214.8

[6] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.
[7] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

Operating income for the pulp segment was $24.1 million for the fourth quarter of 2013, up $15.8 million from the previous quarter and up $16.3 million from the fourth quarter of 2012. Compared to the previous quarter of 2013, results for the pulp segment reflected significantly higher shipment volumes coupled with moderate increases in sales realizations resulting from increased NBSK prices and a further weakening of the Canadian dollar. The increased production primarily resulted from a reduction in scheduled outages. For the 2013 year as a whole, operating income was $63.2 million, up $43.2 million from $20.0 million in 2012.

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

Markets

Global softwood pulp markets strengthened in the fourth quarter of 2013, with increased demand and solid increases in list prices through the quarter. Global softwood pulp producer inventory levels were balanced during the quarter, at 27 days' supply in December 2013, in line with September 2013[8]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp increased 2% in 2013 compared to 2012[9]. The increase in softwood pulp shipments in the year was primarily due to increased shipments to North America and Europe, while shipments to China were relatively flat. Global shipments to China were up 2% in the fourth quarter of 2013 compared to the third quarter of 2013 and up 11% compared to the same period in 2012[9].

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

Sales

The Company's pulp shipments in the fourth quarter of 2013 were 273,000 tonnes, an increase of 61,000 tonnes, or 29%, from the previous quarter, reflecting both higher production volumes and increased demand, principally from China, driven in part by a build in inventories ahead of the Chinese Lunar New Year. Compared to the fourth quarter of 2012, shipments were higher by 27,000 tonnes, or 11%, due largely to increased shipments to China, partially offset by reduced volumes to the U.S.

The North American pulp list price increased US$36 per tonne to US$983 and the list price to Europe increased US$35 to US$902 reflecting a 4% gain in both regions. The NBSK pulp list price to China increased US$52 per tonne, averaging US$737 in the quarter. List prices to all regions ended the year at their highest levels over the last two years. The favourable impact of higher NBSK prices during the quarter was slightly offset by increased volume to China, with lower average sales realizations. Current quarter sales realizations also benefited slightly from the 1% weakening of the Canadian dollar against the US dollar.

Compared to the fourth quarter of 2012, higher pulp sales realizations resulted from significant improvements in average pulp prices in all regions and the 6% weakening of the Canadian dollar. The North American NBSK list pulp price increased US$120 per tonne, or 14%. List prices to Europe and China experienced similar increases, up 12% and 11%, respectively, compared to the fourth quarter of 2012. The improved NBSK list prices more than offset the impact of increased volume to lower-margin regions, principally China, and the impact of increased discounts in North American markets in 2013.

Operations

Pulp production in the current quarter was 246,000 tonnes, an increase of 26,000 tonnes, or 12%, from the previous quarter, and a decrease of 14,000 tonnes, or 6%, compared to the fourth quarter of 2012.

Increased production in the current quarter was primarily the result of a reduction in scheduled outages compared to the previous quarter. The current quarter included a scheduled maintenance outage at the Prince George Pulp Mill which resulted in reduced market pulp production of 4,000 tonnes. In comparison, the third quarter of 2013 included a scheduled major maintenance outage at the Northwood Pulp Mill, which impacted production by 32,000 tonnes. Both the current and previous quarters' production levels reflected similar impacts from operational challenges but productivity improved towards the end of the current quarter. Compared to the fourth quarter of 2012, production levels reflected lower overall operating rates.

Pulp unit manufacturing costs saw a slight decrease from the previous quarter, largely due to the favourable impact of higher production and slightly lower fibre costs, partially offset by higher energy costs. Fibre costs were down slightly compared to the previous quarter, attributable to lower-cost whole log chips and seasonal pricing adjustments. The increase in energy costs in the current quarter was primarily related to reduced power production as upgrades were completed to the Northwood turbine generators and planned maintenance was completed on the Prince George Pulp Mill's turbine generator.

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

Paper

Selected Financial Information and Statistics – Paper[10]

(millions of Canadian dollars unless otherwise noted)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Sales	**$ 33.2**	$ 38.1	**$ 147.1**	$ 33.7	$ 134.6
Operating income before amortization	**$ 4.6**	$ 6.9	**$ 26.4**	$ 8.0	$ 23.3
Operating income	**$ 3.8**	$ 5.9	**$ 22.7**	$ 7.0	$ 19.5
Production – paper (000 mt)	**30.8**	33.8	**134.7**	35.4	130.2
Shipments – paper (000 mt)	**31.1**	35.5	**138.8**	32.0	129.0

[10] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.

Overview

Operating income for the paper segment was $3.8 million for the fourth quarter of 2013, down $2.1 million from the third quarter of 2013 and down $3.2 million from the fourth quarter of 2012. The decrease in earnings compared to the previous quarter primarily resulted from moderately higher unit manufacturing costs, coupled with lower production and shipment volumes, with both impacted by a scheduled maintenance outage of the Prince George Kraft paper machine in the current quarter. Compared to the fourth quarter of 2012, lower operating income reflected higher costs for slush pulp and lower production volumes which were partly offset by higher unit sales realizations. For the 2013 year, operating income was $22.7 million, an improvement of $3.2 million compared to 2012.

Markets

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

Sales

The Company's paper shipments in the fourth quarter of 2013 were 31,000 tonnes, a decrease of 4,400 tonnes, or 12%, from the previous quarter and down 900 tonnes, or 3%, from the fourth quarter of 2012, principally reflecting lower production levels. Prime bleached shipments, which attract higher prices, were down 5% from the third quarter of 2013 but up 2% from the fourth quarter of 2012.

Unit sales realizations for paper products were in line with the third quarter of 2013 and up slightly compared to the fourth quarter of 2012. Sales realizations in the current quarter benefited from the weaker Canadian dollar relative to both comparative periods.

Operations

Paper production in the fourth quarter of 2013 was 31,000 tonnes, a decrease of 3,000 tonnes, or 9%, from the previous quarter and down 4,600 tonnes, or 13%, from the fourth quarter of 2012. The decreased production principally related to a scheduled maintenance outage at the Company's paper machine in October 2013.

Paper unit manufacturing costs increased moderately from the previous quarter largely reflecting the impact of lower production volumes on unit costs and higher maintenance and operating costs, as well as the impact of higher market pulp prices on slush pulp costs.

Compared to the fourth quarter of 2012, unit manufacturing costs for the current quarter showed a more marked increase, with higher costs for slush pulp, principally attributable to an uplift in market pulp prices, coupled with the impact of the scheduled maintenance outage.

Unallocated Items

Selected Financial Information[11]

(millions of Canadian dollars)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Corporate costs	**$ (3.9)**	$ (2.9)	**$ (12.1)**	$ (2.7)	$ (13.9)
Finance expense, net	**$ (3.2)**	$ (3.0)	**$ (11.8)**	$ (3.7)	$ (13.2)
Foreign exchange gain (loss) on long-term debt	**$ (3.4)**	$ 2.3	**$ (7.3)**	$ (1.3)	$ 2.4
Gain (loss) on derivative financial instruments	**$ (0.1)**	$ 1.9	**$ (0.1)**	$ (0.1)	$ 1.7
Other income (expense), net	**$ 2.2**	$ (1.5)	**$ 5.2**	$ 0.3	$ (1.2)

[11] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.

Corporate costs were $3.9 million for the fourth quarter of 2013, up $1.0 million from the previous quarter and up $1.2 million from the fourth quarter of 2012. The increase in costs in the current quarter were attributable to several factors including costs associated with the wind-up of Canfor Pulp Limited Partnership at the end of the current year (see further discussion in the earlier "CPPI Share Exchange and Partnership Wind-Up" section) and year end incentive compensation adjustments. The fourth quarter of 2012 also included an accounting gain of $0.5 million due to amendments to the Company's salaried post retirement benefit plans.

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

The Company recorded a foreign exchange translation loss on its US dollar denominated debt of $3.4 million for the fourth quarter of 2013, as a result of a weaker Canadian dollar against the US dollar through the fourth quarter of 2013. In the third quarter of 2013, a strengthening of the Canadian dollar at the quarter end close dates resulted in a translation gain of $2.3 million, while the fourth quarter of 2012 showed a loss of $1.3 million due to a weakening of the Canadian dollar against the US dollar at the respective quarter ends.

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

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

(millions of Canadian dollars)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Foreign exchange collars and forward contracts	**$ 0.1**	$ 2.0	**$ 0.1**	$ (0.2)	$ 1.7
Crude oil collars	**$ (0.1)**	$ 0.1	**$ 0.1**	$ 0.1	$ -
Interest rate swaps	**$ -**	$ (0.2)	**$ (0.2)**	$ -	$ -
Pulp futures	**$ (0.1)**	$ -	**$ (0.1)**	$ -	$ -
	$ (0.1)	$ 1.9	**$ (0.1)**	$ (0.1)	$ 1.7

Other expense, net for the fourth quarter of 2013 of $2.2 million included favourable exchange movements on US dollar denominated cash, receivables and payables.

Other Comprehensive Income (Loss)

In the fourth quarter of 2013, the Company recorded an after-tax credit to the statements of other comprehensive income (loss) of $16.0 million in relation to changes in the valuation of its defined benefit post-employment compensation plans and other non-pension post-employment benefit plans. The gain associated with the defined benefit post-employment compensation plans is principally due to a higher return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation, offset in part by adjustments to mortality rate assumptions. The gain related to the other non-pension post-employment benefits principally reflected a higher discount rate used to value the post-employment obligation and favourable experience adjustments, offset in part by adjustments to mortality rate assumptions. In the previous quarter, the Company recorded a credit of $3.2 million (after-tax), while an after-tax charge of $1.5 million was recorded in the fourth quarter of 2012.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	Q4 2013	Q3 2013	YTD 2013	Q4 2012	YTD 2012
Increase (decrease) in cash and cash equivalents	**$ (15.2)**	$ (16.2)	**$ 14.7**	$ 3.2	$ 0.8
Operating activities	**$ 69.1**	$ 14.9	**$ 156.9**	$ 25.8	$ 87.9
Financing activities	**$ (64.5)**	$ (5.1)	**$ (81.8)**	$ (11.1)	$ (27.3)
Investing activities	**$ (19.8)**	$ (26.0)	**$ (60.4)**	$ (11.5)	$ (59.8)
Ratio of current assets to current liabilities			**1.8 : 1**		1.1 : 1
Net debt to capitalization			**9.7%**		22.2%
ROIC – Consolidated	**4.0%**	1.5%	**12.1%**	1.8%	4.0%

Changes in Financial Position

Cash generated from operating activities was $69.1 million in the fourth quarter of 2013, up $54.2 million from the previous quarter, resulting from an increase in operating income and a decrease in non-cash working capital. The cash generated from non-cash working capital principally reflected a significant reduction in finished good pulp inventory levels. The previous quarter's cash inflows included annual property tax and insurance payments. Compared to the fourth quarter of 2012, cash generated from operating activities increased by $43.3 million, largely due to the combination of higher cash earnings and a larger reduction in finished goods inventories in the current quarter.

Cash used for financing activities was $64.5 million in the fourth quarter of 2013, up from $5.1 million used in the third quarter. The current quarter cash flows included repayment of the Company's US$110 million 6.41% interest rate debt. In the fourth quarter of 2013, the Company completed a $50.0 million unsecured non-revolving floating rate term debt financing (see further discussion of the debt issued in the fourth quarter in the following "Liquidity and Financial Requirements" section). At the end of the fourth quarter of 2013, the Company had $10.6 million outstanding on its operating loan facility. CPPI also paid $4.9 million in finance costs principally relating to the final interest payment on its US$110 million term debt. Financing cash flows also included dividend payments of $3.5 million, in line with the previous quarter. Compared to the fourth quarter of 2012, cash used for financing activities was up $53.4 million, principally due to the repayment of the US$110 million term debt less proceeds from the new $50.0 million term debt. There were no shares purchased under the Company's Normal Course Issuer Bid in the fourth quarter of 2013; in the third quarter of 2013, 97,431 shares were purchased for $1.4 million (see further discussion of the Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section).

Cash used in investing activities of $19.8 million in the current quarter principally related to the Northwood Pulp Mill and Intercontinental turbine upgrades, work performed on a power boiler precipitator upgrade at the Prince George Pulp Mill and scheduled major maintenance of business. Construction of the Northwood Pulp Mill turbines was substantially completed by the end of the year and the project is targeted for commissioning by the end of the first quarter of 2014.

Liquidity and Financial Requirements

At December 31, 2013, CPPI had cash of $13.5 million, $10.6 million drawn on its operating loans, and an additional $12.2 million reserved for standby letters of credit related to energy sales agreements. Total available undrawn operating loans were $107.2 million.

In the fourth quarter of 2013, the Company replaced its facility for energy related letters of credit with a new $20.0 million facility maturing on June 30, 2015. At December 31, 2013, $9.8 million of energy letters of credits were covered under the new facility. In the fourth quarter of 2013, CPPI also extended the maturity on its $110.0 million principal operating loan facility from November 13, 2016 to January 31, 2018. All other terms on the operating loan facility remain unchanged.

As previously mentioned, in the fourth quarter of 2013, the Company completed a 5-year $50.0 million floating interest rate term debt financing, repayable in November 2018 with no penalty for early repayment, and also repaid its US$110 million 6.41% term debt.

The Company remained in compliance with the covenants relating to its operating loans and long-term debt during the quarter, and expects to remain so for the foreseeable future.

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 3,563,489 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid is set to expire on March 4, 2014. There were no share purchases by the Company during the fourth quarter of 2013. For the year ended December 31, 2013, CPPI purchased 262,449 common shares for $2.4 million. As a result of the total share purchases during the year, Canfor's interest in CPPI increased to 50.4% by year end.

Dividends

On February 5, 2014, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of February 5, 2014, payable on February 25, 2014, to the shareholders of record on February 18, 2014. CPPI may, subject to market conditions, continue to pay a modest level of dividends through 2014.

OUTLOOK

Pulp

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

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

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

Paper

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

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	**As at December 31, 2013**	As at December 31, 2012 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	**$ 13.5**	$ -
Accounts receivable - Trade	**71.0**	61.6
- Other	**10.3**	22.8
Inventories (Note 2)	**128.0**	134.1
Prepaid expenses and other assets	**7.2**	8.3
Total current assets	**230.0**	226.8
Property, plant and equipment	**528.1**	530.8
Retirement benefit surplus (Note 4)	**8.2**	-
Other long-term assets	**2.3**	0.4
Total assets	**$ 768.6**	$ 758.0
LIABILITIES		
Current liabilities		
Cheques issued in excess of cash on hand	**$ -**	$ 1.2
Operating loans (Note 3(a))	**10.6**	-
Accounts payable and accrued liabilities	**118.4**	93.4
Current portion of long-term debt (Note 3(b))	**-**	109.4
Total current liabilities	**129.0**	204.0
Long-term debt (Note 3(b))	**50.0**	-
Retirement benefit obligations (Note 4)	**75.8**	103.9
Other long-term provisions	**3.0**	3.6
Deferred income taxes, net	**72.8**	59.9
Total liabilities	**$ 330.6**	$ 371.4
EQUITY		
Share capital	**$ 523.4**	$ 525.3
Retained earnings (deficit)	**(85.4)**	(138.7)
Total equity	**$ 438.0**	$ 386.6
Total liabilities and equity	**$ 768.6**	$ 758.0

Subsequent Event (Note 13)

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

APPROVED BY THE BOARD

Director, S.E. Bracken-Horrocks

Director, R.L. Cliff

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31, **2013**	3 months ended December 31, 2012 (Note 1)	12 months ended December 31, **2013**	12 months ended December 31, 2012 (Note 1)
Sales	**$ 245.6**	$ 201.9	**$ 886.8**	$ 810.4
Costs and expenses				
Manufacturing and product costs	**165.0**	135.2	**595.1**	575.0
Freight and other distribution costs	**33.2**	28.8	**123.3**	116.4
Amortization	**15.5**	20.0	**69.9**	67.1
Selling and administration costs	**7.2**	5.8	**24.0**	24.6
Restructuring and severance costs	**0.7**	-	**0.7**	1.7
	221.6	189.8	**813.0**	784.8
Operating income	**24.0**	12.1	**73.8**	25.6
Finance expense, net	**(3.2)**	(3.7)	**(11.8)**	(13.2)
Foreign exchange gain (loss) on long-term debt	**(3.4)**	(1.3)	**(7.3)**	2.4
Gain (loss) on derivative financial instruments (Note 5)	**(0.1)**	(0.1)	**(0.1)**	1.7
Other income (expense), net	**2.2**	0.3	**5.2**	(1.2)
Net income before income taxes	**19.5**	7.3	**59.8**	15.3
Income tax expense (Note 6)	**(5.3)**	(1.9)	**(18.0)**	(1.9)
Net income	**$ 14.2**	$ 5.4	**$ 41.8**	$ 13.4
Net income attributable to:				
Equity shareholders of the Company	**$ 14.2**	$ 5.4	**$ 41.8**	$ 9.1
Non-controlling interests (Note 11)	**-**	-	**-**	4.3
Net income	**$ 14.2**	$ 5.4	**$ 41.8**	$ 13.4
Net income per common share: (in dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 0.20**	$ 0.08	**$ 0.59**	$ 0.14

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

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

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2013	2012 (Note 1)	12 months ended December 31, 2013	2012 (Note 1)
Net income	**$ 14.2**	$ 5.4	**$ 41.8**	$ 13.4
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 4)	**21.9**	(2.0)	**35.5**	(15.0)
Income tax recovery (expense) on defined benefit plan actuarial losses (gains) (Note 6)	**(5.9)**	0.5	**(9.3)**	3.7
Other comprehensive income (loss), net of tax	**16.0**	(1.5)	**26.2**	(11.3)
Total comprehensive income	**$ 30.2**	$ 3.9	**$ 68.0**	$ 2.1
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 30.2**	$ 3.9	**$ 68.0**	$ (2.2)
Non-controlling interests (Note 11)	**-**	-	**-**	4.3
Total comprehensive income	**$ 30.2**	$ 3.9	**$ 68.0**	$ 2.1

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2013	2012 (Note 1)	12 months ended December 31, 2013	2012 (Note 1)
Share capital				
Balance at beginning of period	**$ 523.4**	$ 525.3	**$ 525.3**	$ 294.9
Share purchases (Note 7)	**-**	-	**(1.9)**	-
Exchange transaction (Note 11)	**-**	-	**-**	230.4
Balance at end of period	**$ 523.4**	$ 525.3	**$ 523.4**	$ 525.3
Retained earnings (deficit)				
Balance at beginning of period	**$ (112.1)**	$ (142.6)	**$ (138.7)**	$ (67.3)
Net income excluding amount attributable to non-controlling interests	**14.2**	5.4	**41.8**	9.1
Defined benefit plan actuarial gains (losses), net of tax	**16.0**	(1.5)	**26.2**	(11.3)
Dividends declared	**(3.5)**	-	**(14.2)**	(11.4)
Share purchases (Note 7)	**-**	-	**(0.5)**	-
Exchange transaction (Note 11)	**-**	-	**-**	(57.8)
Balance at end of period	**$ (85.4)**	$ (138.7)	**$ (85.4)**	$ (138.7)
Total equity attributable to equity holders of the Company	**$ 438.0**	$ 386.6	**$ 438.0**	$ 386.6
Non-controlling interests				
Balance at beginning of period	**$ -**	$ -	**$ -**	$ 226.1
Net income attributable to non-controlling interests	**-**	-	**-**	4.3
Exchange transaction (Note 11)	**-**	-	**-**	(230.4)
Balance at end of period	**$ -**	$ -	**$ -**	$ -
Total equity	**$ 438.0**	$ 386.6	**$ 438.0**	$ 386.6

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2013	3 months ended December 31, 2012 (Note 1)	12 months ended December 31, 2013	12 months ended December 31, 2012 (Note 1)
Cash generated from (used in):				
Operating activities				
Net income	**$ 14.2**	$ 5.4	**$ 41.8**	$ 13.4
Items not affecting cash:				
Amortization	**15.5**	20.0	**69.9**	67.1
Income tax expense	**5.3**	1.9	**18.0**	1.9
Foreign exchange gain (loss) on long-term debt	**3.4**	1.3	**7.3**	(2.4)
Changes in mark-to-market value of derivative financial instruments	**0.1**	(0.2)	**0.2**	0.4
Employee future benefits	**1.0**	(4.7)	**5.1**	(0.4)
Net finance expense	**3.2**	3.7	**11.8**	13.2
Other, net	**1.3**	-	**(2.8)**	0.3
Defined benefit pension plan contributions	**(2.5)**	(2.4)	**(10.1)**	(10.1)
Income taxes paid, net	**(0.3)**	(1.6)	**(0.4)**	(7.7)
	41.2	23.4	**140.8**	75.7
Net change in non-cash working capital (Note 8)	**27.9**	2.4	**16.1**	12.2
	69.1	25.8	**156.9**	87.9
Financing activities				
Proceeds from long-term debt (Note 3(b))	**50.0**	-	**50.0**	-
Repayment of long-term debt (Note 3(b))	**(116.6)**	-	**(116.6)**	-
Change in operating bank loans	**10.6**	(7.0)	**10.6**	-
Finance expenses paid	**(4.9)**	(4.1)	**(9.1)**	(8.1)
Dividends paid	**(3.5)**	-	**(14.2)**	(19.2)
Share purchases (Note 7)	**-**	-	**(2.4)**	-
Other, net	**(0.1)**	-	**(0.1)**	-
	(64.5)	(11.1)	**(81.8)**	(27.3)
Investing activities				
Additions to property, plant and equipment	**(20.0)**	(12.8)	**(62.3)**	(87.6)
Expenditures under Green Transformation Program	**-**	-	**-**	(1.1)
Reimbursements under Green Transformation Program	**-**	0.7	**-**	19.7
Other government grants received	**0.1**	0.6	**1.1**	2.2
Acquisition of CPPI cash on exchange (Note 11)	**-**	-	**-**	6.8
Other, net	**0.1**	-	**0.8**	0.2
	(19.8)	(11.5)	**(60.4)**	(59.8)
Increase (decrease) in cash and cash equivalents*	**(15.2)**	3.2	**14.7**	0.8
Cash and cash equivalents at beginning of period*	**28.7**	(4.4)	**(1.2)**	(2.0)
Cash and cash equivalents at end of period*	**$ 13.5**	$ (1.2)	**$ 13.5**	$ (1.2)

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities. The Company's operations consist of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

On March 2, 2012, Canadian Forest Products Ltd. ("Canfor") exchanged 35,776,483 Class B Exchangeable Limited Partnership Units ("the Exchange"), representing a 50.2% interest in Canfor Pulp Limited Partnership ("the Partnership"), for an equivalent number of CPPI shares pursuant to the terms of the exchange agreement dated January 1, 2011 between Canfor, CPPI, the Partnership and Canfor Pulp Holding Inc., the general partner of the Partnership ("the General Partner"). As a result of the Exchange, CPPI's interest in both the Partnership and the General Partner increased from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI. The acquisition of the Partnership by CPPI as a result of the Exchange has been accounted for as a continuity of interests by applying reverse acquisition accounting (Note 11).

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

At December 31, 2013, Canfor held a 50.4% interest in CPPI, an increase of 0.2% from December 31, 2012 as a result of share purchases during 2013 (Note 7). The financial statements at December 31, 2013 include the accounts of CPPI and its subsidiaries (together referred to as "CPPI" or "the Company").

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2012, available at www.canforpulp.com or www.sedar.com.

The currency of presentation for these financial statements is the Canadian dollar.

Changes in Accounting Policy

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

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

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

  The effect on the consolidated statements of income for the three months ended December 31, 2012 was an increase in finance expense of $0.3 million, a decrease in manufacturing and product cost of $1.2 million and an increase in net income of $0.7 million. For the twelve months ended December 31, 2012 there was an increase in finance expense of $1.4 million, a decrease in manufacturing and product cost of $1.0 million and a decrease in net income of $0.3 million due to the adoption of amended IAS 19.

The effect on the consolidated statements of other comprehensive income (loss) for the three months ended December 31, 2012 was a decrease in defined benefit plan actuarial losses of $0.2 million (after tax). The effect for the twelve months ended December 31, 2012 was a decrease in defined benefit plan actuarial losses of $1.2 million (after tax).

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

Accounting Standards Issued and Not Applied

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 has been deferred and is not expected until January 1, 2017, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

Further details of the new accounting Standard and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2012.

2. Inventories

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

3. Operating Loans and Long-Term Debt

(a) Available Operating Loans

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

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

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

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

(b) 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 lender's Canadian prime rate, or bankers acceptance rate in the year of payment. On November 29, 2013, CPPI repaid its $116.6 million (US$110.0 million) 6.41% term debt.

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

4. Employee Future Benefits

For the three months ended December 31, 2013, an amount of $21.9 million (before tax) was credited to other comprehensive income. The gain associated with the defined benefit post-employment compensation plans principally reflected a higher return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation, offset in part by adjustments made to mortality rate assumptions. The gain related to the other non pension post-employment benefits principally reflected a higher discount rate used to value the post-employment obligation, and favourable experience adjustments, offset in part by adjustments to mortality rate assumptions. For the twelve months ended December 31, 2013, an amount of $35.5 million (before tax) was credited to other comprehensive income. For the three months ended December 31, 2012, the charge was $2.0 million (before tax). For the twelve months ended December 31, 2012, an amount of $15.0 million (before tax) was charged to other comprehensive income.

At December 31, 2013, certain post-employment defined benefit pension plans are in a surplus position of $8.2 million (2012 – deficit position of $24.0 million) reflecting the credit to other comprehensive income and employer contributions to the pension plans during 2013.

For the Company's defined benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $13.7 million.

The assumptions used to estimate the changes in net accrued benefit liabilities were as follows:

Pension Benefit Plans	
Discount rate	
December 31, 2013	**4.80%**
September 30, 2013	4.70%
December 31, 2012	4.20%
September 30, 2012	4.30%
December 31, 2011	5.00%
Rate of return on plan assets	
12 months ended December 31, 2013	**13.70%**
9 months ended September 30, 2013	6.60%
12 months ended December 31, 2012	9.40%
9 months ended September 30, 2012	6.60%
Other Benefit Plans	
Discount rate	
December 31, 2013	**4.90%**
September 30, 2013	4.80%
December 31, 2012	4.40%
September 30, 2012	4.50%
December 31, 2011	5.30%

5. 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.

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

At December 31, 2013, the fair value of derivative financial instruments was a net liability of $0.1 million (December 31, 2012 – net asset of $0.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

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

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Foreign exchange collars and forward contracts	**$ 0.1**	$ (0.2)	**$ 0.1**	$ 1.7
Crude oil collars	**(0.1)**	0.1	**0.1**	-
Interest rate swaps	**-**	-	**(0.2)**	-
Pulp futures	**(0.1)**	-	**(0.1)**	-
Gain (loss) on derivative financial instruments	**$ (0.1)**	$ (0.1)	**$ (0.1)**	$ 1.7

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

6. Income Taxes

Income tax expense for the three and twelve months ended December 31, 2012 includes current tax expense on income subsequent to the Exchange on March 2, 2012. Prior to the Exchange, taxes were minimal reflecting the non-taxable status of the Partnership (Note 11).

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Current	**$ (4.4)**	$ (2.0)	**$ (14.4)**	$ (1.4)
Deferred	**(0.9)**	0.1	**(3.6)**	(0.5)
Income tax expense	**$ (5.3)**	$ (1.9)	**$ (18.0)**	$ (1.9)

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

(millions of Canadian dollars)	3 months ended December 31, **2013**	3 months ended December 31, 2012	12 months ended December 31, **2013**	12 months ended December 31, 2012
Income tax expense at statutory rate 2013 – 25.75% (2012 – 25.0%)[1]	**$ (5.0)**	$ (1.8)	**$ (15.4)**	$ (3.8)
Add (deduct):				
Permanent difference from capital gains and other non-deductible items	**(0.5)**	(0.2)	**(1.0)**	0.2
Entities with different income tax rates and other tax adjustments	**0.2**	0.1	**0.8**	(0.1)
Change in substantively enacted tax rate[1]	**-**	-	**(2.4)**	-
Permanent difference – exchange transaction	**-**	-	**-**	0.9
Tax included in equity – exchange transaction	**-**	-	**-**	0.9
Income tax expense	**$ (5.3)**	$ (1.9)	**$ (18.0)**	$ (1.9)

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

In addition to the amounts recorded in net income, a tax expense of $5.9 million was recorded to other comprehensive income for the three month period ended December 31, 2013 (three months ended December 31, 2012 – recovery of $0.5 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the twelve months ended December 31, 2013, the tax expense was $9.3 million (twelve months ended December 31, 2012 – tax recovery of $3.7 million).

7. Earnings per Share and Normal Course Issuer Bid

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. As a result of the Exchange transaction and the application of reverse acquisition accounting, the CPPI shares relating to the non-controlling interest shareholders were not included until March 2, 2012. The issuance of the new shares as a result of the exchange was accompanied by a corresponding increase in CPPI's investment in the Partnership and as a result there was no dilution of CPPI's net income (loss) per share.

	3 months ended December 31, **2013**	3 months ended December 31, 2012	12 months ended December 31, **2013**	12 months ended December 31, 2012
Weighted average number of common shares	**71,007,341**	71,269,790	**71,149,822**	65,257,263

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 3,563,489 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid is set to expire on March 4, 2014. There were no share purchases by the Company during the fourth quarter of 2013. For the twelve months ended December 31, 2013, CPPI purchased 262,449 common shares for $2.4 million. As a result of the total share purchases, Canfor's interest in CPPI increased from 50.2% at December 31, 2012 to 50.4% at December 31, 2013.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	3 months ended December 31, **2013**	3 months ended December 31, 2012	12 months ended December 31, **2013**	12 months ended December 31, 2012
Accounts receivable	**$ (4.0)**	$ (1.7)	**$ (0.3)**	$ 10.9
Inventories	**20.0**	(1.5)	**6.1**	7.4
Prepaid expenses and other assets	**5.8**	6.9	**2.7**	(2.5)
Accounts payable and accrued liabilities	**6.1**	(1.3)	**7.6**	(3.6)
Net decrease in non-cash working capital	**$ 27.9**	$ 2.4	**$ 16.1**	$ 12.2

9. 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.

(millions of Canadian dollars)		Pulp	Paper	Unallocated	Elimination Adjustment		Consolidated
3 months ended December 31, 2013							
Sales to external customers	**$**	**212.3**	**33.2**	**0.1**	**-**	**$**	**245.6**
Sales to other segments	**$**	**18.7**	**-**	**-**	**(18.7)**	**$**	**-**
Operating income (loss)	**$**	**24.1**	**3.8**	**(3.9)**	**-**	**$**	**24.0**
Amortization	**$**	**14.7**	**0.8**	**-**	**-**	**$**	**15.5**
Capital expenditures[1]	**$**	**19.5**	**0.4**	**0.1**	**-**	**$**	**20.0**
3 months ended December 31, 2012							
Sales to external customers	$	168.2	33.7	-	-	$	201.9
Sales to other segments	$	18.0	-	-	(18.0)	$	-
Operating income (loss)	$	7.8	7.0	(2.7)	-	$	12.1
Amortization	$	19.0	1.0	-	-	$	20.0
Capital expenditures[1]	$	12.3	0.3	0.2	-	$	12.8
12 months ended December 31, 2013							
Sales to external customers	**$**	**738.4**	**147.1**	**1.3**	**-**	**$**	**886.8**
Sales to other segments	**$**	**76.2**	**-**	**-**	**(76.2)**	**$**	**-**
Operating income (loss)	**$**	**63.2**	**22.7**	**(12.1)**	**-**	**$**	**73.8**
Amortization	**$**	**66.1**	**3.7**	**0.1**	**-**	**$**	**69.9**
Capital expenditures[1]	**$**	**61.2**	**0.9**	**0.2**	**-**	**$**	**62.3**
Identifiable assets	**$**	**674.9**	**56.7**	**37.0**	**-**	**$**	**768.6**
12 months ended December 31, 2012							
Sales to external customers	$	675.0	134.6	0.8	-	$	810.4
Sales to other segments	$	67.2	-	-	(67.2)	$	-
Operating income (loss)	$	20.0	19.5	(13.9)	-	$	25.6
Amortization	$	63.2	3.8	0.1	-	$	67.1
Capital expenditures[1]	$	86.9	1.1	0.7	-	$	88.7
Identifiable assets	$	670.9	64.6	22.5	-	$	758.0

[1] Capital expenditures represent cash paid for capital assets during the period. For 2012, capital expenditures includes amounts that were financed by the federal government-funded Green Transformation Program and other government grants.

10. Related Party Transactions

The Company depends on Canfor to provide approximately 61% (2012 – 59%) of its fibre supply as well as to provide certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The Company's Fibre Supply Agreement with Canfor was renewed effective November 1, 2013. The current pricing under the agreement expires September 1, 2016 and may be amended as necessary to ensure that it is reflective of market conditions. The transactions with Canfor are consistent with the transactions described in the December 31, 2012 audited consolidated financial statements of CPPI and the Partnership and are based on agreed upon amounts between the parties.

Transactions and payables to Canfor include purchases of wood chips, pulp and administrative services. These are summarized below:

(millions of Canadian dollars)	3 months ended December 31, **2013**	3 months ended December 31, 2012	12 months ended December 31, **2013**	12 months ended December 31, 2012
Transactions				
Canfor – purchase of wood chips and other	**$ 30.5**	$ 25.7	**$ 127.5**	$ 104.9

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

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

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

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

The transaction was accounted for as a reverse acquisition under IFRS, with Canfor's interest in the Pulp Business being the acquirer for accounting purposes and CPPI the acquiree for accounting purposes. The Pulp Business is continuing to operate under CPPI, the legal parent. The financial statements have been presented from the accounting perspective that Canfor's interest in the Pulp Business is the continuing entity after the exchange transaction as it gained control of the Company through a reverse transaction. Prior to March 2, 2012 49.8% of the Pulp Business was held by CPPI and reflected as non-controlling interest. Net income and comprehensive income attributable to CPPI's non-controlling interest in the Pulp business was $4.3 million for the three months ended March 30, 2012. Canfor's interest in the Pulp Business was deemed to acquire CPPI on March 2, 2012 and the non-controlling interest was eliminated on that date.

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

12. Insurance Claim Receivable

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

13. Subsequent Event

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