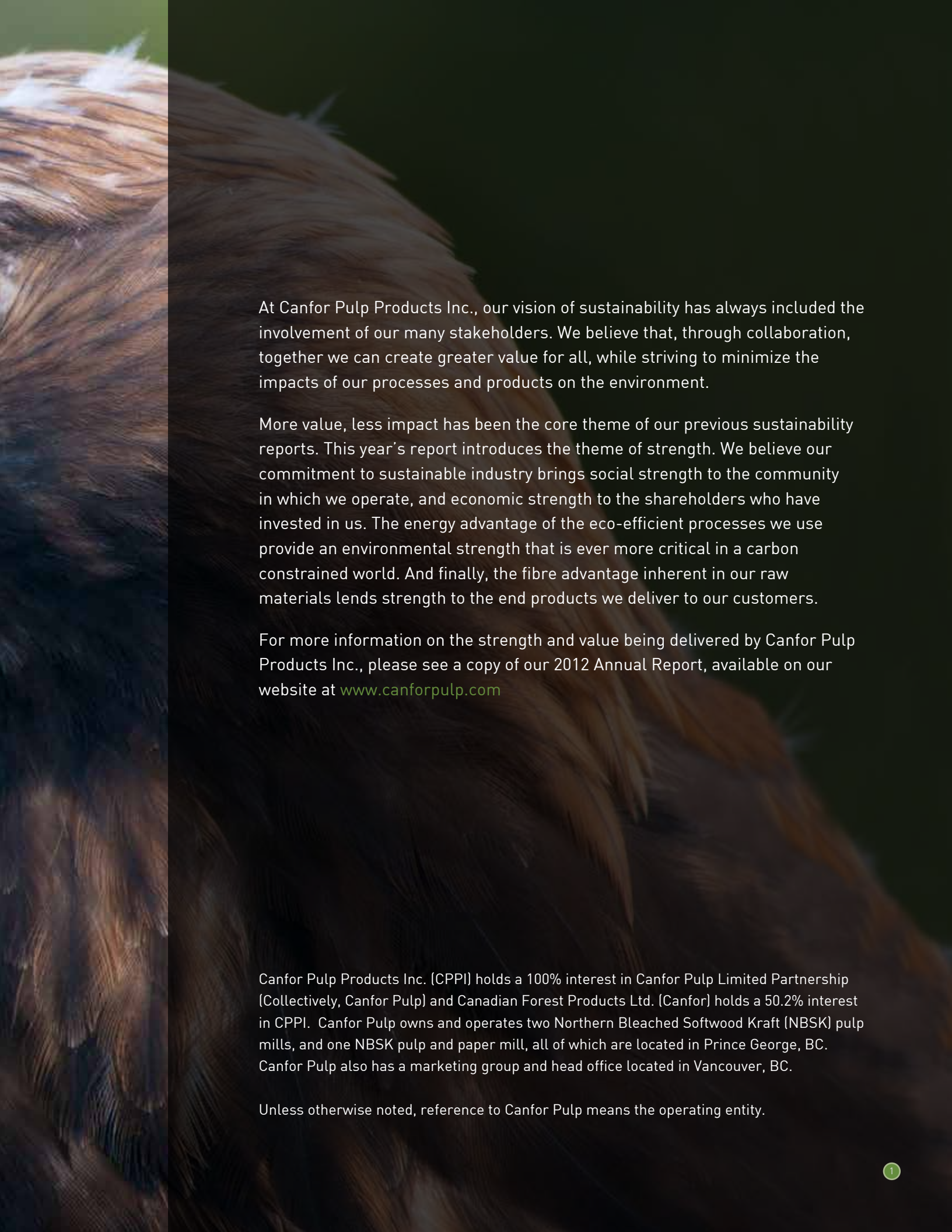
SUSTAIN ABILITY 2012

Canfor Pulp Products Inc.

STRENGTH
VALUE
IMPACT



At Canfor Pulp Products Inc., our vision of sustainability has always included the involvement of our many stakeholders. We believe that, through collaboration, together we can create greater value for all, while striving to minimize the impacts of our processes and products on the environment.

More value, less impact has been the core theme of our previous sustainability reports. This year's report introduces the theme of strength. We believe our commitment to sustainable industry brings social strength to the community in which we operate, and economic strength to the shareholders who have invested in us. The energy advantage of the eco-efficient processes we use provide an environmental strength that is ever more critical in a carbon constrained world. And finally, the fibre advantage inherent in our raw materials lends strength to the end products we deliver to our customers.

For more information on the strength and value being delivered by Canfor Pulp Products Inc., please see a copy of our 2012 Annual Report, available on our website at www.canforpulp.com

Canfor Pulp Products Inc. (CPPI) holds a 100% interest in Canfor Pulp Limited Partnership (Collectively, Canfor Pulp) and Canadian Forest Products Ltd. (Canfor) holds a 50.2% interest in CPPI. Canfor Pulp owns and operates two Northern Bleached Softwood Kraft (NBSK) pulp mills, and one NBSK pulp and paper mill, all of which are located in Prince George, BC. Canfor Pulp also has a marketing group and head office located in Vancouver, BC.

Unless otherwise noted, reference to Canfor Pulp means the operating entity.

As you read this supplement you will notice three icons keyed to **economic, environmental** and **social** relevance. Often these will overlap. We hope this visual aid will assist you in appreciating how Sustainable Enterprise addresses the whole system as well as its parts.

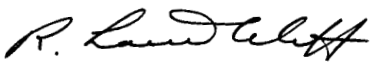
The pulp and paper industry has been impacted by many of the changes taking place in the world, be they environmental, economic or social. At Canfor Pulp, we believe we must all find new ways of doing things, of working together with all of our stakeholders, with the communities in which we work, and with the people we employ. As an industrial enterprise based on natural resources, it's imperative that we manage our business sustainably in the public interest, and in the interest of future generations.

Sustainable thinking is an integral part of the value chain at Canfor Pulp and in that respect, 2012 was a defining year for the company. A key signal of the benefits of pursuing a truly sustainable business model occurred as we began to see the benefits from capital investments in energy and environmental performance undertaken with the support of the Federal Green Transformation Program. These investments reduced our greenhouse gas footprint and improved the air quality for the community at large.

> " SUSTAINABLE THINKING IS AN INTEGRAL PART OF THE VALUE CHAIN AT CANFOR PULP "

The global forest industry faces many challenges, from climate protection to the growing shortage of resources as well as the social and economic issues within our communities. It will require the combined efforts of all of us collaborating on solutions and finding a new way forward to address these challenges.

At Canfor Pulp, our vision is clear and our commitment strong: we are building a future based on widely shared values and a drive to create solutions for the benefit of all – our business, our industry, our communities and the environment.



Ron Cliff

Chairman of the Board

MESSAGE FROM THE PRESIDENT

In last year's Sustainability Report we began a discussion about the powerful forces at work that would impact the future of the planet. Global climate change, demographic shifts and diminishing resources are changing the way we live and do business. This year, we have seen more and greater extreme weather events worldwide, global population continues to rise rapidly and native forests in many parts of the world are still being compromised. These are trends we can't ignore.

While the Canadian pulp and paper industry's sustainable business practices make it a global leader, there are still some regions of the world where systematic forest destruction continues. The United States, the European Union and Australia have responded by introducing strict controls on the import of all forest products to ensure they are harvested in full compliance with the laws of the country of harvest. Thankfully, illegal harvesting does not occur in Canada. But our customers still need to be assured that our supply chains meet the highest standards. We are pleased to include some guidance here on how Canfor Pulp is leading the way in transparency and accountability.

In this report we describe the real progress we have achieved in the past year. An example is the work we have done to improve the environmental performance of our Prince George Pulp and Specialty Paper Mill, for which we received a national award (see page 27). That work included the reduction of odour events in the City of Prince George by 60%, as well as significant gains in renewable power and energy production.

People, or course, are the foundation of everything we do. A business is only as sustainable as its ability to maintain a skilled and engaged workforce. It's well-understood that the forest products industry and the communities in which we operate face a looming shortage of skilled labour. At Canfor Pulp, we believe we have the best employees in the industry. And we continue to take strides to strengthen our retention and recruitment efforts. We are also involved in grassroots development of the workforce of the future through our Career Technical Centre, which you can read more about in this report.

The future may be uncertain. But one thing is for sure: sustainability is a moral and a business imperative. Canfor Pulp intends to be in the vanguard of the movement toward true sustainability by using our strengths to create more value with less impact.

Brett Robinson
President

OUR COMMITMENT TO TRANSPARENCY INCLUDES REPORTING ON OUR MANUFACTURING PROCESSES.

A LOOK BACK AT 2012

By far the most significant achievement for Canfor Pulp in 2012 was the completion of the energy and environmental capital programs and improvements to ambient air quality and energy efficiency that resulted. Many of the benefits arising from these investments have been obvious locally in the community, while some have benefits on a wider scale. As an example, the Northwood recovery boiler upgrade project resulted in reductions in TRS and Particulate of 90% from pre-project levels and the mill was able to reduce the number of days when supplemental natural gas was burnt from 230 days in 2011 to 34.5 in 2012. The full details are documented on page 40.

Throughout the year we have maintained industry certification in: ISO9001, ISO14001, Forest Stewardship Council Controlled Wood and Chain of Custody as well as the Program for Endorsement of Forest Certification (PEFC). We extended the certifications to include the products produced at our PG paper mill. Unfortunately we have still not been able to find a local supply for FSC SFM Certified fibre as none currently exists in our geographic area. A pilot project working with owners of small woodlots and assisting them in obtaining FSC Certification has so far only generated a small level of interest locally.

COMPLIANCE REPORT

Canfor Pulp's commitment to transparency includes reporting on our manufacturing processes.

Canfor Pulp operations were in substantial compliance with all operating Permits in 2012. While we had no major environmental issues, we were challenged with 14 minor incidents. None of these events had any significant or lasting impact in the environment. However, we regard this increase in incidents (nine more than in 2011) as a strong warning and have implemented aggressive root cause analysis. Countermeasures are completed or in progress.

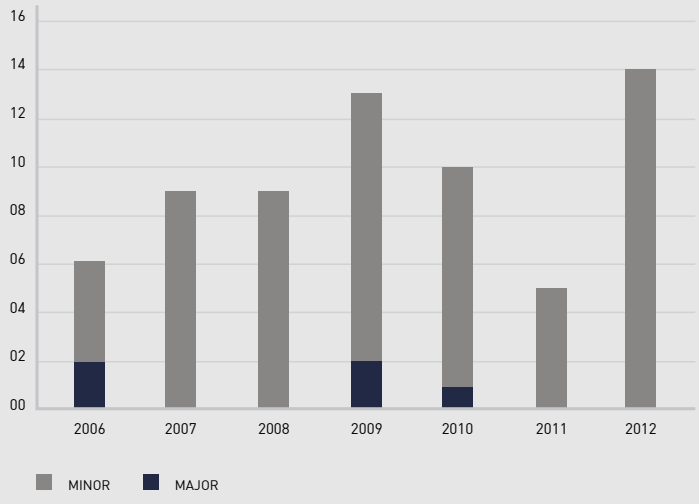
The following were the 14 incidents:

Water: No incidents

Air: Two low volume spills of refrigerant (R22) to air.

Land: Ten spills to land that were contained and recovered.

Miscellaneous: Two late reports.



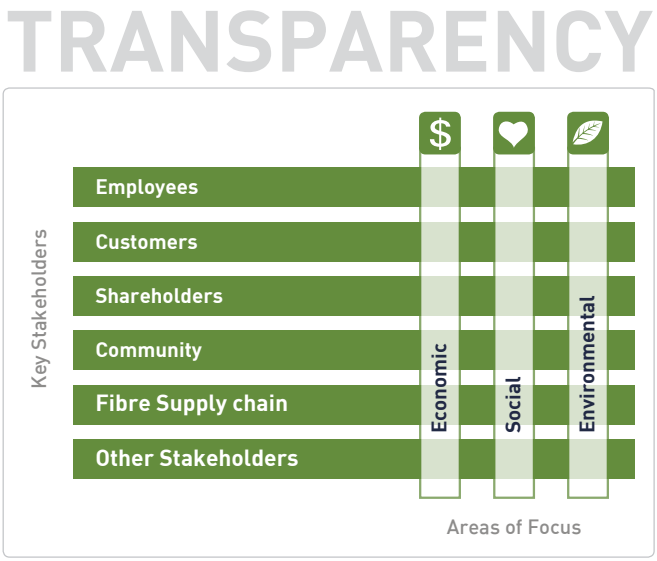
SUMMARY OF OBJECTIVES ACHIEVED DURING 2012

	Target Improvement	Progress	Summary
Total Reduced Sulphur (TRS) Monitor for The Exploration Place	Ongoing measurement of odourous TRS levels in a sensitive neighbourhood and increased public awareness of airshed matters.	At year end 2012, monitoring equipment and interactive display are nearing completion.	Expected public launch in Q2, 2013.
Ash Utilization Initiative	Determine chemistry of the various ash streams; application rates for optimum crop yield; regulatory license to apply.	CPLP wood ash meets regulatory standards for content and leach-ability; bench scale trial completed; application rates estimated.	We are now ready for the next step. Operational trials will commence as soon as regulatory license is completed.
UNBC Research Projects	Better understand factors affecting particulate matter ambient air quality in Prince George.	The inventory of fugitive dust sources and levels is now completed.	The final dispersal model is being developed. Data verification work still needed.
Effluent Temperature	Reduce heat input to the Intercon/PG Pulp Mill effluent treatment system.	The PG Boiler Feed-water Treatment project resulted in a 6.5% reduced blow-down of hot feedwater to the effluent system.	Feedwater Treatment is an important step in reducing heat inputs. Further initiatives will be implemented in 2013.
Northwood #1 Recovery Boiler Upgrade	Reduce usage of natural gas by approximately 466,000 GJ/year.	Results since startup have been positive.	Insufficient data to draw firm conclusions so far.
Prince George Mill Energy and Air System Upgrade	Increase green power production and reduce particulate emissions to less than half of current levels.	CPLP made a decision in November 2011 to suspend this project until a later date. It will now be completed by the end of 2013.	
Partnerships in Education	Developing next generation tradespeople.	CPLP and the College of New Caledonia have created a Career Techincal Centre. 285 Grade 10-12 students participated to date.	Renewed local interest in career opportunities in forest industry.

OUR OPERATING ENVIRONMENT

Canfor Pulp owns no forestry operations, cuts no trees and manages no forests. However, our responsibility for the health and sustainability of the forests we source from remains an imperative for our business.

We own and operate three mills in Prince George, British Columbia, Canada, where we convert residual fibre from local lumber mills into high-value, low-cost pulp and paper. Few other industries are so interdependent: our raw material (wood chips) is the byproduct of another industry – softwood lumber. Our end product is the raw material for other businesses – specialty papermakers, tissue producers, printers and packagers around the world. We are the middle link in this supply chain and it's vital that we constantly seek efficiencies that will benefit the sustainability of the business, the environment, and the communities in which we live and work. Achieving these efficiencies requires the focused talents of all our employees, from the mills to the Canfor Pulp Innovation centre.



If we are going to manage our business in a socially, environmentally and economically responsible manner, we must take responsibility for the entire life cycle of our forests. By acknowledging our integral place in the fibre value chain and continually seeking opportunities for partnerships where sustainable value can be recognized, we are securing the goals and objectives of our Sustainable Enterprise Strategy.

SUSTAINABLE PRODUCT DECLARATIONS

Canfor Pulp has been providing our customers with information on our environmental performance since 1998 in the form of Environmental Product Declarations (EPDs).

EPDs were originally developed to meet the compliance requirements of the ISO14001 Type III Eco-Label. Since then, they have continued to evolve to include carbon footprint and forest certification statistics. The EPDs provided all the information our customers needed for their Eco-Label, Paper Profile or Environmental Paper Assessment Tool (EPAT) reporting.

During 2012 we revised our EPD format to make it more compatible with our Sustainable Enterprise approach. The 2013 edition of our Sustainable Product Declaration will include additional information to better address the questions being raised by the EU Timber Regulation and the Australian Illegal Logging Prohibition Bill (see more details on these regulations on page 16).

THE CANFOR PULP CHAIN OF CUSTODY

Fibre from the tree species of British Columbia's Interior produces premium quality pulp and paper products and is in high demand on the global market. It is essential to the economic viability of our company, and the well-being of the many forestry-dependent communities around us, that we capture maximum value from this precious renewable resource.

However, the forests we rely on have many more uses beyond the supply of fibre. They provide carbon storage, watershed control, wildlife habitat, traditional native medicinal and artistic resources and vast recreational and tourist opportunities, to name a few. We recognize the diversity of the world in which we work, and are committed to managing our operations in a way that preserves the myriad values of this natural endowment.

The customers who purchase our pulp and paper products are concerned about the environmental footprint made by their choices. This awareness and concern is growing. Tracking the chain of custody and requiring appropriate documentation allow us to monitor wood and wood fibre products through all phases of ownership, processing and transportation. From the forest to the consumer, the integrity of the chain is verified through an independent third-party audit. Procedures for testing the chain are required in all forestry certification programs.

We're pleased to report that in 2012, 72% of the pulp we sold met the requirements of the Programme for the Endorsement of Forest Certification (PEFC) Chain of Custody and 100% was eligible for sale under the Forest Stewardship Council (FSC) Controlled Wood system. During 2012 we expanded our chains of custody to incorporate the Prince George paper mill and can now offer PEFC certified paper and FSC Mixed paper.

We are actively encouraging our suppliers to adopt FSC Forest Management procedures, though it is proving challenging in BC's pine beetle-infested forests where the FSC standards are difficult to apply. While we don't have access to FSC-certified fibre in BC at present, we continue to work with our suppliers and other forest stakeholders to develop a new standard that better reflects the forest conditions throughout the province. It remains our goal to obtain 80% of our fibre from certified sources by 2014, including a portion from FSC-certified fibre.

SUPPLY CERTAINTY

We select the sawmills from which we source wood chips for the availability of premium quality fibre and for the proximity to our three pulp mills. Doing so improves the eco-efficiency of our supply chain, while long-term fibre supply agreements and market pricing formulas ensure stability of supply.

We receive roughly two-thirds of our fibre from Canfor Forest Products Ltd., with the remainder being sourced via supply agreements with other companies. While we sometimes rely on whole logs unsuitable for lumber production for part of our fibre needs (when sawmill production is down and fibre less available, for instance) we prefer to use residuals from sawmills, which produce a superior end product.

THE ENERGY ADVANTAGE

At Canfor Pulp, we have always enjoyed what we call a Fibre Advantage. Our pulp is produced from native tree species, mainly white spruce, lodgepole pine, and sub-alpine fir, which thrive in the extreme Interior British Columbia climate and naturally develop long, slender and thin-walled cellulose fibres with high tensile strength. This makes them especially valuable for high-quality, lightweight printing papers, premium tissue, thin specialty papers, packaging and laminates. Roughly half, by weight, of the wood fibre we receive is converted into high-quality Premium Reinforcing Pulp (PRP).

The constituents of the wood fibre we receive that remain after the pulping process – lignin, hemicelluloses and other organic materials – are put to good use as well. They are converted into "carbon neutral" energy to power the manufacturing process.

Pulp and paper production will always be our core business, but in recent years this production of green energy has been growing in importance. Canfor Pulp is developing energy production capacity with the goal of becoming energy self-sufficient. This will be our true Energy Advantage.

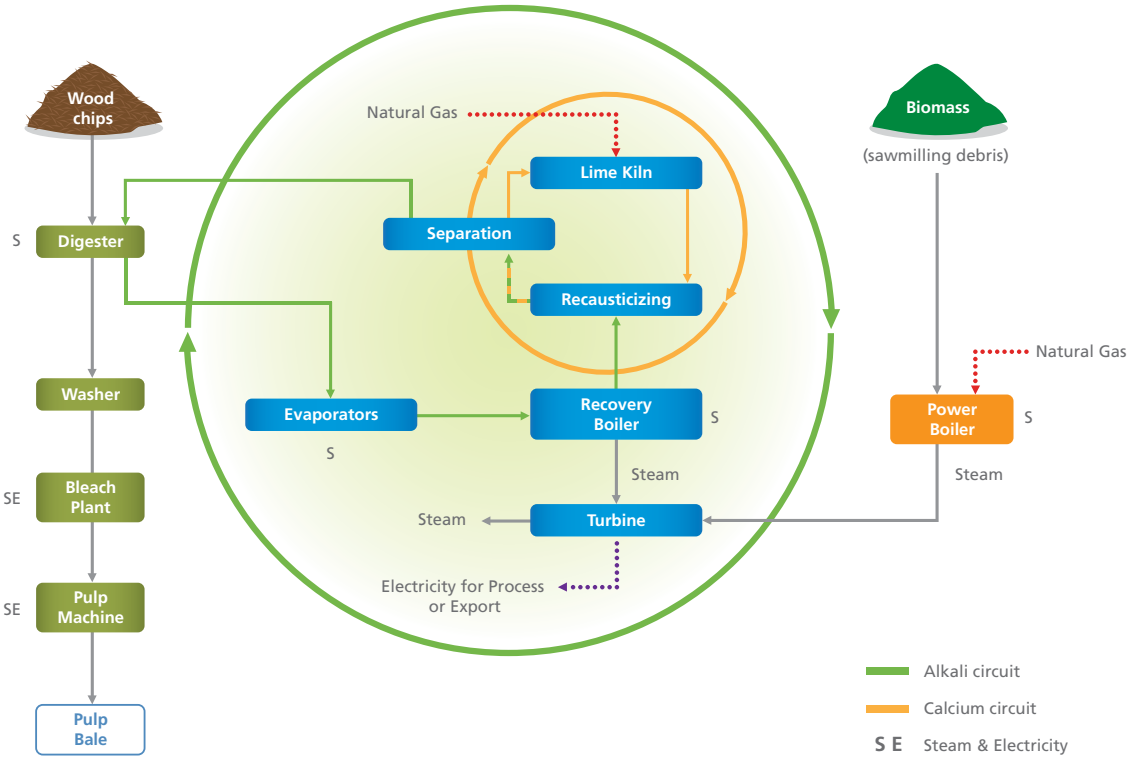
ECO-EFFICIENCY AND THE KRAFT PROCESS

A modern Kraft pulp mill operates as a large-scale bio-refinery, separating fibres from one another, and then using the non-fibrous components as fuel, minimizing waste and ecological impact. Not unlike the efficient closed-loop system of nature, the byproducts of one part of the process become the fuel for another. For more details on the Kraft Process, check out the 2010 and 2011 Sustainability Reports from Canfor Pulp. (www.canforpulp.com/Sustainability/Reports).

Steam generated in the recovery boiler is used to generate electricity in a turbine, while the remaining steam is used to heat the process. Surplus power is used in the mill process, exported to other users or to the electricity grid. This is the core of the eco-efficient process that is a modern Kraft pulp mill.

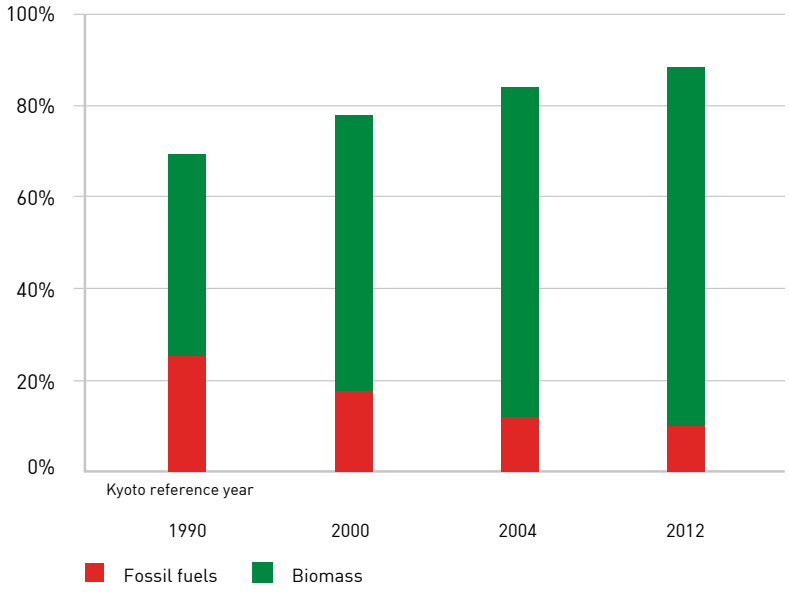
But even this process can be further optimized in the pursuit of greater efficiency and reduction of impacts. Central to many of these opportunities is the carbon-neutral nature of all forms of wood. So, for example, by sourcing additional low grade biomass debris from local sawmills and burning it as hog fuel in a power boiler, we can produce steam, which supplements that already being produced by the recovery system for use in process or for additional green power generation (see facing page).

ECO-EFFICIENCY AND THE KRAFT PROCESS



ENERGY MIX

The inherent efficiency of the Kraft process and the carbon neutral nature of wood has allowed Canfor Pulp to make significant strides in reducing our "carbon footprint" over the last two decades. By focusing attention on energy efficiency and making strategic capital investments, we have been able to reduce the proportion of our energy coming from fossil fuel sources while simultaneously increasing the amount generated from biomass.



THREE PILLARS OF SUSTAINABLE ENTERPRISE

ENVIRONMENT

OUR FORESTS OUR FUTURE

Our primary resource, the forest, possesses attributes from a spectrum of values, including economic, social, environmental, aesthetic and spiritual. Forests are major contributors to the fundamental cycles that allow life to continue on this planet, via processes such as carbon sequestration, photosynthesis, albedo effects and erosion control. They are also home to two thirds of all known species, so their role in protecting biodiversity is vital.

Stewardship of this valuable natural resource from which all of our products derive is extremely important. It is also why Canfor Pulp practices the policies it does and expects the companies it purchases fibre from to comply also. Because we don't own any forests or forest tenures, we rely entirely on others to manage the forest resources. Audits of our pulp supply chains extend to our fibre suppliers' sawmills and forest tenures. It is essential that our suppliers adhere to responsible forest management and processing and production practices. To that end, we have set minimum standards that include:

- No illegally harvested wood.
- No wood harvested in violation of traditional and civil rights.
- No wood harvested in forests where high conservation values are threatened by forest management activities.
- No wood harvested in forests being converted to plantations.
- No wood harvested in forests where genetically modified trees are planted.

In Canada most of the forest is public land. The companies that operate here recognize that, to earn a living from the forests, we must manage them sustainably. Canada has understood this for many years. All the areas that are harvested must be replanted with the same native species that were removed. Provincial governments measure compliance and impose penalties for failure to achieve full reforestation. As a result, today we have no net deforestation and no illegal logging in Canada.

Unfortunately this is not the case in all regions of the world. There are countries where extensive deforestation and illegal harvesting of forests continues. Trade in the products from these illegally harvested forests leads to degradation of natural forests, reduces biodiversity and harms local communities. It also supports corrupt and criminal activities, undermines the rule of law, and reduces government revenues. These activities reflect very poorly on the industry as a whole.

Our customers – and their customers, the ultimate users of these products – want to know they are making well-informed choices that minimize negative impacts on the Earth. So, in addition to the provincial standards above, we give preference to companies that can supply us with fibre from forest operations that are certified by either the Canadian Standards Association (CSA), Forest Stewardship Council (FSC), or the Sustainable Forestry Initiative (SFI) (see page 18). In 2012, 72% of the fibre we purchased was from these certified sources.

Our primary supplier is Canadian Forest Products Ltd., whose approach to forest management is succinctly summarized in their Sustainable Forest Management Commitments (see facing page). We are proud to be working closely with, and sourcing fibre from Canadian Forest Products.

EUROPEAN UNION TIMBER REGULATION

The European Union Timber Regulation (EUTR) came into effect on March 3, 2013. The regulation prohibits illegally harvested forest products from being placed on the market in EU member countries, and sets out mandatory procedures for those trading in forest products within the EU.

To comply with the requirements, companies that supply forest products to the European market (known as "first placers" or "operators") must demonstrate due diligence in sourcing raw materials. In order to do so, operators must understand the geographical forest region from which the materials originate and any risks in their supply chain.

This requirement to exercise due diligence does not require that the material be covered by one of the existing certification systems (e.g. FSC or PEFC). However, certification can provide much of the requisite information. At the present moment neither the FSC system nor the PEFC system provides all the assurances that the EUTR requires, but both systems are being updated to more fully comply. In the meantime, operators will still be expected to conduct their own due diligence assessment. How they approach this will depend on their business, the complexity of their supply chain, and their internal resources.

At Canfor Pulp, all of the fibre sources we use to make our pulp and paper originate from within British Columbia and Alberta, and all the forest operations from which our raw materials come are in full legal compliance with the provincial forest laws. All of our sources have been subject to a Chain of Custody Audit under the FSC system, and all of the products we make are eligible to be treated as FSC-Controlled Wood, if the customer purchasing them is in possession of an FSC Chain of Custody (see FSC Certificate RA-COC-003366/RA-CA-003366).

While a majority of our fibre sources are sawmill residuals, we still treat these as basic raw materials, and all are covered by our Chain of Custody policies. In addition, we can provide customers with PEFC-Certified pulp if they require it.

Both the FSC and PEFC systems require that we have in place audited risk assessments on all the locations from which we source our fibre. These are publicly available on the FSC database (info.fsc.org). Because the products being purchased carry certifications from FSC or PEFC, the customer can be confident that most of the requirements of the EUTR have been met, and that Canfor Pulp will continue to be diligent in ensuring it fully complies with the EUTR.

CANFOR FOREST PRODUCTS SUSTAINABLE FOREST MANAGEMENT COMMITMENTS

SUSTAINABLE FOREST MANAGEMENT
We will manage forests to maintain and enhance the long-term health of forest ecosystems, while providing ecological, economic, social and cultural opportunities for the benefit of current and future generations.
In the management of forests we will honour relevant international agreements and conventions to which Canada is a signatory.

ACCOUNTABILITY
We will be accountable to the public for managing forests to achieve current and future values. One way we will demonstrate this is by certifying our forestry operations to internationally recognized, third-party verified sustainable forest management certification standards.

ADAPTIVE MANAGEMENT
We will use adaptive management to continually improve sustainable forest management by identifying values, setting objectives and targets for the objectives, and monitoring results. We will modify management practices as necessary to achieve the desired results.

SCIENCE
We will utilize science to improve our knowledge of forests and sustainable forest management and will monitor and incorporate advances in sustainable forest management science and technology where applicable.

MULTIPLE VALUE MANAGEMENT
We will manage forests for a multitude of values, including biodiversity, timber, water, soil, wildlife, fish/riparian, visual quality, recreation, resource features and cultural heritage resources.

HEALTH AND SAFETY
We will conduct our operations in a manner which will provide a safe environment for employees, contractors, and others who use roads and forest areas we manage.

ABORIGINAL PEOPLES
We recognize and will respect Aboriginal rights, title and treaty rights when planning and undertaking forest management activities.

OPPORTUNITIES FOR PARTICIPATION
We will provide opportunities for the public, communities, other stakeholders and Aboriginal Peoples with rights and interests in sustainable forest management to participate in the development and monitoring of our Sustainable Forest Management Plans.

SCALE
We will define objectives over a variety of time intervals (temporal scales) and at spatial scales of stand, landscape and forest. This produces ecological diversity and allows for the management of a range of conditions, from early successional to old growth.

TIMBER RESOURCE
We will advocate for a continuous supply of affordable timber from legal sources in order to carry out our business of harvesting, manufacturing and marketing forest products for the sustained economic benefit of our employees, the public, communities and shareholders, today and for future generations.

FOREST LAND BASE
We will advocate for the maintenance of the forest land base as an asset for current and future generations.

Don Kayne
Chief Executive Officer
May 2012

FOREST CERTIFICATION

Independent forest certification provides a stamp of approval, showing customers they are buying products from forests managed to comprehensive environmental, social, and economic standards.

Independent third-party auditors issue a certificate only after a review to determine, among other things, that long term harvests are sustainable, there is no unauthorized or illegal logging, wildlife habitat is preserved, and soil quality is maintained.

At Canfor Pulp we encourage our suppliers to adopt one of the following internationally recognized standards: Canadian Standards Association (CSA), Forest Stewardship Council (FSC), or the Sustainable Forestry Initiative® (SFI). All three of these programs set high standards forest companies must meet, above and beyond British Columbia's already tough regulatory requirements.

The Canadian forest industry was an early adopter of forestry certification with the result that over 40% of all the certified forest land in the world today is in Canada. The growth in certification worldwide is illustrated below.

CERTIFICATION STANDARDS

The CSA (Canada's National Sustainable Forest Management Standard), FSC (Forest Stewardship Council) and SFI (Sustainable Forestry Initiative) forest certification programs were each developed for specific circumstances and needs. They are similar but do have differences.

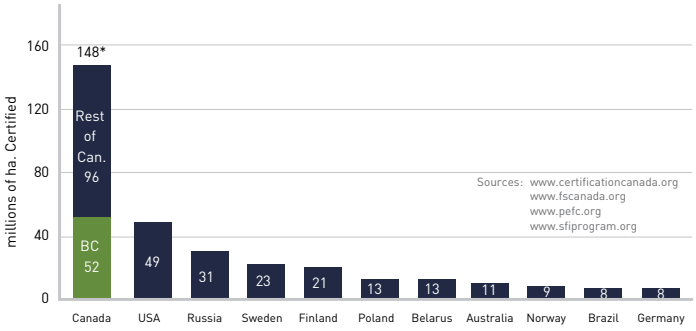
CSA is only applied in Canada, largely on government-owned forest lands, and was written to complement tough policies, guidelines and government oversight already in place for the public forests in Canada.

FSC was established as a response to concerns over global deforestation and is applied on public and private lands, large or small, worldwide. It includes requirements that may not already be in place in developing countries lacking a strong environmental and social framework.

SFI is applied in Canada and the United States on both public and private lands and its requirements recognize the strong legal framework in place in North America. It incorporates outreach and training requirements for suppliers of wood bought from non-program participants.

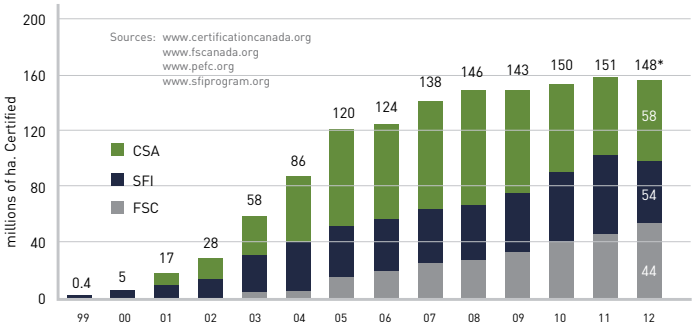
All three of the standards promote responsible forest management through the conservation of biological diversity, maintenance of wildlife habitat/ species diversity, protection of special sites, soil and water, and sustainable harvest levels.

Canadian Certification in the Global Context 2012 Year-end - all systems



* Double counting of areas certified to more than 1 standard has been removed.

SFM Certification in Canada 1999 - 2012



THE CANADIAN BOREAL FOREST AGREEMENT

In May 2010, the Forest Products Association of Canada (FPAC) and nine leading environmental groups, including Greenpeace and Forest Ethics, signed the largest conservation agreement the world has ever seen. The Canadian Boreal Forest Agreement (CBFA) encompasses more than 72 million hectares of public forests licensed to FPAC-member companies across Canada, and demonstrates a concrete commitment among stakeholders to work together, both in the marketplace and on the ground, to ensure sustainable forest management.

Considerable progress was made in 2012 towards meeting the ambitious goals of this complex and world-leading agreement. Work did not proceed as quickly as expected, however. Unfortunately, one of the nine environmental signatories, Greenpeace, determined the rate of progress was too slow for them and decided to leave the process.

All the remaining groups – including Forest Ethics, David Suzuki Foundation, Canopy, Canadian Parks and Wilderness Society and The Nature Conservancy – remain involved in the process, and jointly made a commitment to speed up progress. These eight environmental groups and foundations along with the members of FPAC remain committed to the promise made to Canadians, to rural communities, to the environment and the marketplace.

The landmark Boreal Forest Initiative demonstrates that Canada is once again showing leadership by proving that collaborative solutions that benefit both the economy and the environment can be achieved. Despite not using fibre sourced from Boreal forests in its products, Canfor Pulp is an active participant in the CBFA process and we will continue to work on this important initiative until the job is done.

For more information on this historic agreement go to: http://canadianborealforestagreement.com/

CANADA'S BOREAL FOREST

Radio tagging

Radio tracking

THE UPPER FRASER WHITE STURGEON

The unique Upper Fraser White Sturgeon, like its genetically distinct cousin, the Nechako White Sturgeon, is on Schedule 1 of the Species at Risk Act (SARA). These two endangered species – the largest freshwater fish in Canada – are receiving special attention to help identify how to protect, restore and manage their habitats in the hopes of avoiding extinction.

Since 2007 the Lheidli T'enneh First Nation Fisheries Program has been leading the work, with funding from Canfor Pulp. Their focus is on tracking radio-tagged sturgeon to identify potential critical/important habitats. The survey has been primarily conducted using a jet boat, and it tracks tagged sturgeon to provide a picture of preferred habitats over a range of conditions and seasons, as well as migratory behaviours.

However, the picture is not quite complete because there cannot be a boat on the river at all times. Ideally, stationary shore-based telemetry receivers supplement the data collected by boat. At this time, there are no such stations in the Upper Fraser study area.

There are, however, five stations on the Nechako River, which feeds into the Fraser. These fixed stations are also funded by Canfor Pulp through the Nechako White Sturgeon Recovery Initiative. The stations provide an important mechanism for documenting movements of fish between the upper Fraser and Nechako rivers and interpreting mobile telemetry survey results from the upper Fraser. There are presently plans to install a sixth fixed telemetry station at the confluence of the Fraser and Nechako rivers.

The combination of the fixed telemetry station monitoring, mobile telemetry and tagging work has led us to refine our understanding of what habitats are important to white sturgeon and which habitats may be critical to spawning or over-wintering.

The results of work completed in 2012 will guide ongoing and future efforts to refine our understanding of critical habitats and their locations, including planned spawn monitoring studies.

MESSAGE FROM CANFOR'S SENIOR VP, ENERGY, ENVIRONMENT, TRANSPORTATION AND SOURCING

In 2006, the Prince George area pulp and paper operations of Canadian Forest Products Ltd. (CFP) became a separate company, now Canfor Pulp Products Inc., or Canfor Pulp. But CFP remains the largest supplier of wood fibre and is also the largest single owner in Canfor Pulp. The working relationship between our two companies has remained close and this relationship has been further strengthened in 2012 with the operational amalgamation of the executive leadership of both companies.

CFP is committed to sustainable forest management of the lands we manage and advocacy for these principles in areas where we source logs from private suppliers. We utilize third party auditors to verify our sustainable management goals. Strategies are properly implemented on these areas and utilize a continuous improvement model to improve our performance both environmentally and economically. CFP has attained Canadian Standards Association (CSA) forest certification for the forest operations that supply fibre to Canfor Pulp. This certification is recognized internationally under the Programme for the Endorsement of Forest Certification schemes (PEFC).

In 2012, CFP acquired the woodlands and sawmill assets in the Kootenay region of British Columbia from Tembec Inc. With this acquisition, CFP added the Forest Stewardship Council (FSC) certification for the acquired tenures to its forest operations group. This currently allows CFP to provide lumber products certified by CSA, FSC or the Sustainable Forestry Initiative (SFI) to our global customers.

CFP and Canfor Pulp are members of the Forest Products Association of Canada and remain active participants in the Canadian Boreal Forest Agreement (CBFA), a landmark agreement between environmental and conservation groups and the majority of the Canadian forest industry. Work on this important initiative is targeted to deliver bilaterally endorsed proposals to governments for enhanced conservation outcomes, while also improving economic and community outcomes. The pace of activity under this agreement has accelerated and bilateral plans are nearing completion in the priority areas. For additional details on the CBFA see page 19.

The relationship between CFP and Canfor Pulp is a key element in maximizing the value of every tree we harvest. CFP delivers chips and sawmill residuals to Canfor Pulp, in addition to whole log chips derived from logs that are unsuited to the production of lumber. Because these products are derived from certified forests, Canfor Pulp can in turn demonstrate to their customers that the pulp, paper and energy they produce are derived from sustainably managed forests.

CFP will continue to work with partners, including Canfor Pulp, to ensure that users of our raw materials and end users of Canfor Pulp products maintain forest certification and chain of custody schemes that meet customer and society expectations.

M. Feldinger
Senior VP, Energy, Environment, Transportation & Sourcing

THE AIR WE BREATHE

FPInnovations was retained to do a monitoring study to measure levels of odour (mainly Total Reduced Sulphur, or TRS) and fine particulates (smoke, dust, etc.) before and after the Prince George Odour Reduction Project and Northwood Recovery Boiler Upgrade (for details see page 40).

As part of that study, two temporary monitoring stations were set up to provide an assessment of the project impacts. With the completion of the monitoring study in October 2012, these stations were decommissioned. However, through the course of the study it became apparent that The Exploration Place monitor was serving a number of extremely important needs, both strategic and educational:

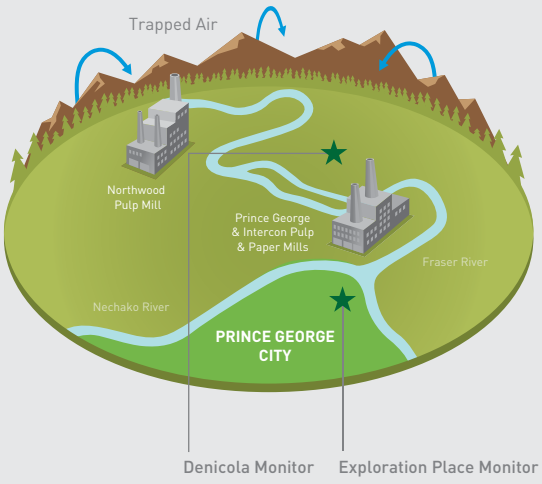
- The site is in line with a neighbourhood in close proximity to several emission sources.
- The low profile of The Exploration Place allows us to measure odour and meteorological conditions much closer to ground than the alternative monitor located downtown at Plaza 400.
- Communicating airshed science to members of the community is consistent with the mandate of this science-based facility.

For these reasons Canfor Pulp has purchased a permanent monitor for installation at The Exploration Place. (for details see sidebar below).

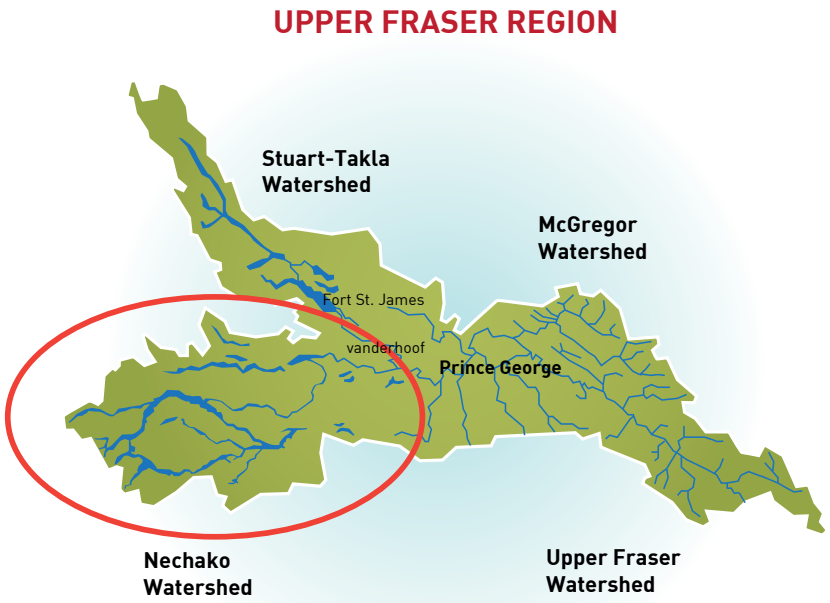
THE TRS MONITORING PROJECT

The city of Prince George is located in a bowl-shaped basin at the confluence of the Fraser and Nechako Rivers. This natural land form greatly influences the airshed and significantly increases the challenges in maintaining air quality in the region. Within the airshed the two most significant kinds of contaminants under these conditions are particulates (smoke, road dust, etc.) and odour (mainly Total Reduced Sulphur, or TRS).

To assist in better monitoring of the air quality overall and of the contribution of different sources to the airshed, we have purchased equipment to continuously monitor it. The equipment will monitor TRS, wind speed & direction, temperature and humidity and will be installed at The Exploration Place, a local Science Centre. An interactive display will be set up inside the facility to allow users to explore airshed emission levels and trends, study airshed science and to have access to the real time data being collected by the roof mounted sensors. The sensors will be part of the provincial air quality monitoring program.



UNDERSTANDING THE WATER RESOURCE



British Columbia's climate has changed over the last 100 years. It will continue to experience change as we anticipate warmer and wetter conditions in the future. Upward shifts in local air temperature and rainfall will drive changes in water resources. These will in turn influence the magnitude and timing of both low and high stream flows in any given watershed. Many watersheds will see accelerated snowmelt and increased seasonal water levels in the winter. The result will be unbalanced conditions within local watersheds.

The Nechako watershed, located in central BC, has a drainage area of 47,100 square kilometres. This watershed forms the second largest tributary of the Fraser River, the province's highest volume river during its annual discharge.

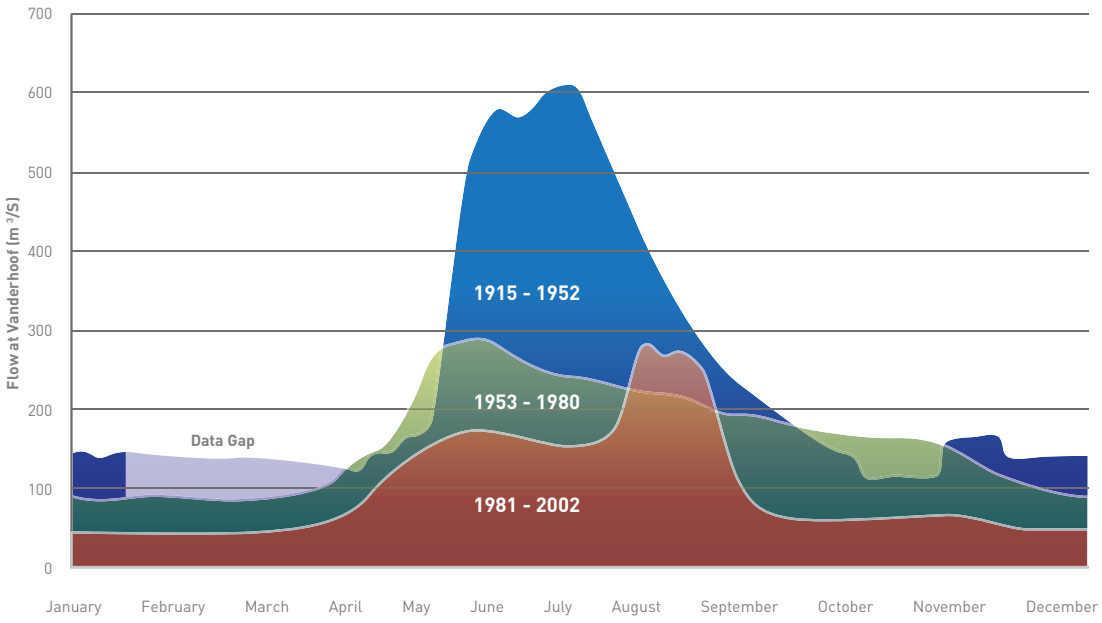
Canfor Pulp operates three mills in Prince George. One of these, the Intercontinental Mill, draws its water from the Nechako River to make bleached softwood Kraft pulp. Even though the mill's consumption of water represents well under one percent of the river's volume, it is important for us to understand the hydrology of the Nechako watershed and the factors impacting it.

The Nechako is a highly productive salmon and white sturgeon river, with both fish species playing a vital role in the lives of local First Nations and other communities. Freshwater extracted from the Nechako River and its tributaries is used in many industries (e.g. agriculture, forestry, and mining). The Nechako River is also a valuable and important drainage system due to its ecological attributes and the benefits the system provides to the human population.

The Nechako watershed is located in a region that is suffering from one of the worst rates of climate change – possibly up to three times the global average rate – a factor directly linked to the outbreak of the most significant recorded epidemic of the Mountain Pine Beetle (MPB). Approximately 85% of the watershed is covered by forest, a significant portion of which has been infested by the MPB.

The result has been extensive tree mortality and increased harvesting of dead pine trees in affected areas. Known effects of forest removal in snowmelt-dominated areas include increases in annual and seasonal water yields, increases in peak discharge magnitude, increased sedimentation rates, modified low flows and locally-rising water tables. These stresses are impacting the Nechako watershed and will create new pressures on the long-term sustainability of water resources. We are already seeing reduced flows in the river (see below), with a noticeable reduction during a time period that coincides with the warming climate and the MPB epidemic.

Variables such as the snowpack, air temperature and river flow may exhibit trends that are important for managers of sustainable water resources to understand. At Canfor Pulp, we are working with local experts from the University of Northern British Columbia to improve our understanding and determine how to sustain this valuable resource for all.



MEASURING OUR IMPACT

The traditional means of measuring impacts on a river from an industrial facility involves looking at factors such as volumes, effluent temperature, oxygen depletion, and suspended solids levels. In most jurisdictions worldwide, permits are issued that require compliance with stringent guidelines.

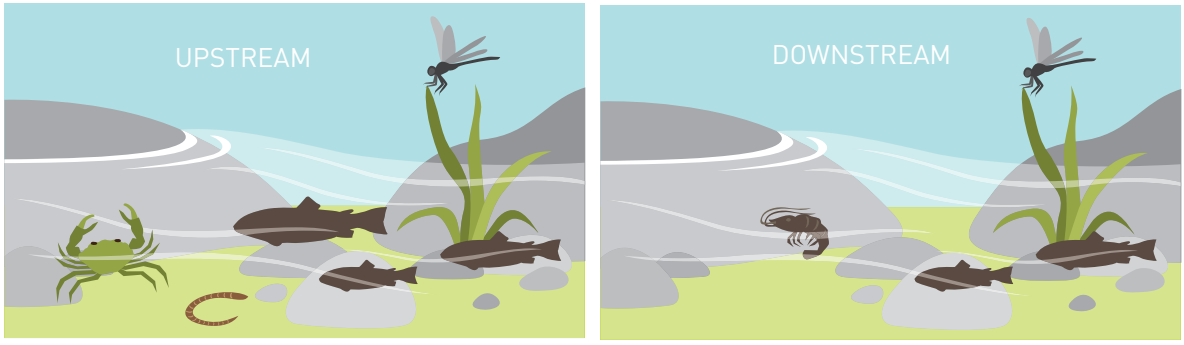
In Canada, pulp mills are also required to measure the overall toxicity of effluent on fish and other organisms. Surprisingly, this isn't the case in many regions of the world. For the past 20 years, mills in Canada have had the further requirement to monitor the more subtle effects of effluent on the environment. If negative effects are detected then the cause must be eliminated.

Canada led the world with the introduction of this Environmental Effects Monitoring (EEM) legislation in 1992. Combined with the toxicity testing, the EEM program ensures that Canadian pulp and paper facilities operate with minimal impacts on their water sources. The EEM program looks for potential effects on the population of fish and benthic invertebrates that make up the ecosystem in which the fish live. It also looks at whether chemicals have accumulated in the tissue of the fish.

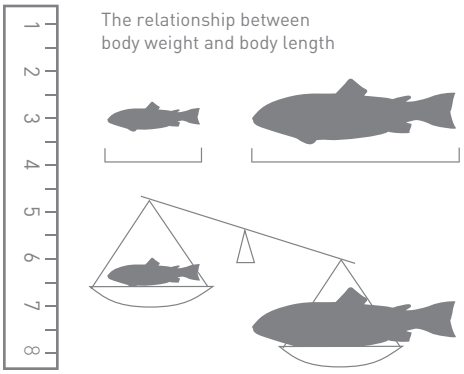
We're proud of the exceptional results we've achieved in past testing: our three pulp mills and one paper mill have shown possible mild enrichment and operate in full compliance with these strict regulations.

HOW THE POTENTIAL EFFECTS ARE MEASURED

ARE THERE CHANGES IN THE BENTHIC INVERTEBRATE COMMUNITY?



ARE THERE CHANGES IN THE CONDITION OR HEALTH OF THE FISH POPULATION?

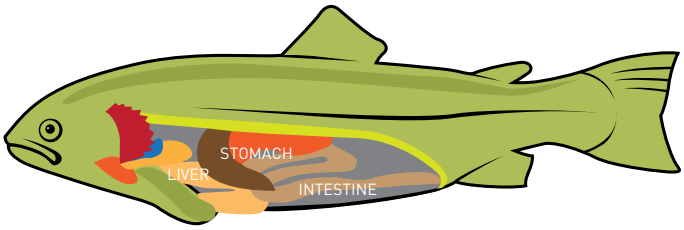


The relationship between body weight and body length

NUTRITION AND REPRODUCTION

Liver weight provides insight to the feeding habits of a fish, and how much food is available to a fish.

Reproductive organ weight helps measure how much extra food is available to a fish – extra energy is stored to increase breeding success.



AWARD-WINNING SUSTAINABILITY

We are happy to report that Canfor Pulp's Prince George Pulp and Specialty Paper Mill has been so successful in making environmental improvements that it has been recognized with the National Environmental Strategy Award from the Pulp and Paper Technical Association of Canada.

The award recognized the significant improvements to environmental performance achieved by the mill over the past decade. Key projects contributing to these improvements included:

- The Increased Biofuel Power project, which saw the production of an additional 7,560 megawatt hours (MWh) of renewable energy.
- The Boiler Feedwater Treatment project, which will enable an increase in renewable power in the order of 6,170MWh/year, and will save an estimated 500 GJ/day in heat loss to the effluent treatment system.
- As a result of the Prince George Odour Reduction Project, the city of Prince George experienced a 60% reduction in detectable odour events in the 12 months following project completion.

In presenting the award to Canfor Pulp's Environment Manager Glenda Waddell, the Assistant Deputy Minister for the Canadian Forest Service, Tom Rosser, had this to say about Canfor Pulp's efforts: "Canfor Pulp has demonstrated long-term concerted efforts to reduce its impact on the community with respect to air emissions and other environmental impacts over the years leading to overwhelming positive response from residents, air quality groups and local government."

Pictured with Glenda are Greg Hay (Executive Director PAPTAC) on the left and Tom Rosser to the right.

Canfor Pulp is honoured to have received this award, and we want to thank all those who have contributed to making the Prince George Pulp and Specialty Paper Mill an example for the nation, including our employees, FPInnovations, Natural Resources Canada and the BC Ministry of Environment.

THE MANY USES FOR PULP AND PAPER

TEA BAGS: Teabag filter papers are designed using a blend of abaca, cellulose fibres, and synthetic fibers. The excellent infusion while guaranteeing high retention of fine tea particles is due to the web structure. Teabag filter papers can be converted into all designs and formats for use in the consumer household market or catering business. Canfor Pulp has been an important partner for supplying fibres that best complement the unique properties of the annual fibres used in these products.

WE STRIVE TO BE THE EMPLOYER OF CHOICE IN OUR COMMUNITIES AND WITHIN OUR INDUSTRY.

SOCIAL

WORKPLACE OF CHOICE

Canfor Pulp directly employs 1159 people, most of whom work at our three pulp and paper mills in Prince George, British Columbia, with a relatively small staff in our Vancouver offices. The mills in Prince George are unionized, with approximately 74% of the workforce represented by two unions: Communication, Energy and Paperworkers of Canada (CEP) and the Pulp, Paper and Woodworkers of Canada (PPWC). The rest of the workforce is comprised of people performing managerial, professional, technical, and administration functions.

Canfor Pulp also provides employment to several hundred temporary employees and contractors during its maintenance operations. And in 2012 Canfor Pulp employed 45 summer students, 9 co-op students and two interns. Student programs provide an opportunity for young people to gain work experience in an industrialized work environment while pursuing their education.

We strive to be the employer of choice in our communities and within our industry. Part of achieving that goal is to nurture an engaged workforce, committed to the economic and social sustainability of the enterprise.

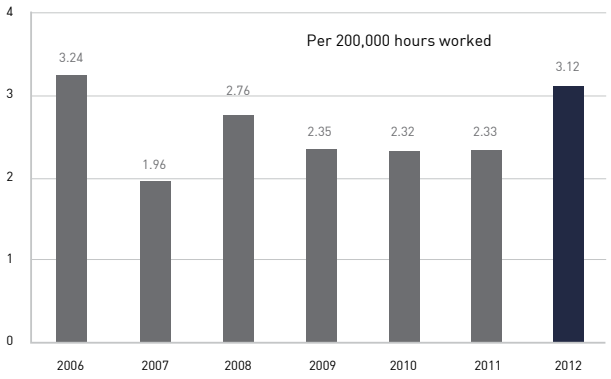
In 2011, Canfor Pulp conducted an employee engagement survey to ascertain employees' satisfaction with the levels of engagement with the company. Work continued in 2012 to increase the level of engagement with all of our employees, managers and contractors. And, after approximately three months of collaborative bargaining in 2012, we successfully achieved a new five-year collective agreement with the PPWC and CEP. The agreement was reached without any disruption in the operations of the company. We believe this is a testament to the ongoing collaborative manner in which we work with our employees and their unions, and to the ongoing engagement we have with our employees.

SAFETY FIRST

People are, of course, our most valuable resource. The safety and well-being of those who make the mills run is our number one concern. Our operations have well-developed safety programs and active Occupational Health and Safety (OH&S) Committees, which focus on continual improvement to eliminate workplace incidents. We are constantly striving to improve our OH&S programs.

In 2012, Canfor Pulp achieved a medical incident rate (MIR) of 3.12. This rate is higher than 2011 and certainly not at the level we would hope. However, this increased rate results from a higher level of minor medical aid incidents only.

MEDICAL INCIDENT RATE



THE MANY USES FOR PULP AND PAPER

DÉCOR PAPERS: Décor paper is a high-tech specialty paper for decorative surfaces of wood-based panels used in the production of furniture, laminate flooring and other elements of interior architecture. Developed in the 1930s, it had its big breakthrough in the 1950s. Today laminates offer an almost infinite design variety and surfaces with great mechanical and chemical resistance.

The various technical characteristics of the paper influence production efficiency as well as quality and design of the end products. Canfor Pulp has been a long-term partner of décor paper producers to meet the growing demand.

CANFOR PULP IN THE COMMUNITY

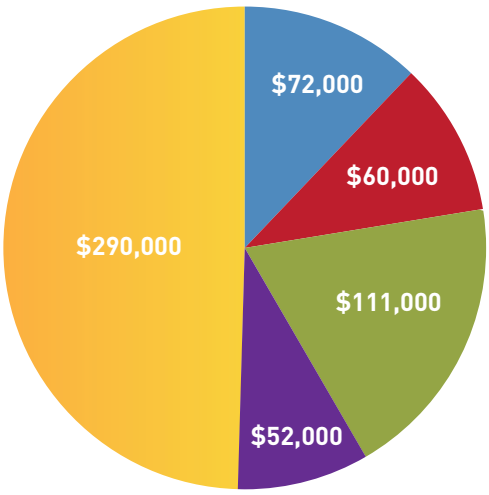
Canfor Pulp actively works to support community goals wherever we do business. We help communities with scholarships, support for non-profit societies, youth groups, community centres, health care initiatives, and in many other ways. During 2012 we donated over $300,000 to various initiatives.

Canfor Pulp continues to be a strong supporter of education. We contribute to colleges, universities, and trade and technical schools. In 2012, Canfor Pulp continued to work closely with the College of New Caledonia to enhance the supply of skilled workers for our operations.

Canfor Pulp also continued its partnership with School District 57 and the College of New Caledonia to sponsor 16 students in the Career Technical Centre (CTC) program (see page 33 for a description of the CTC).

This innovative program provides high school students in grade 11 and 12 with an opportunity to pursue their first-year apprenticeship in the trade of their choice, while completing their high school graduation. During their work experience at Canfor Pulp, the CTC students worked alongside tradespeople, and gained "hands-on" experience in their chosen trade. We are currently looking at expanding this program for 2013.

It's not just the corporation that lends its support to the community. Canfor Pulp employees also take community support personally, and actively participate in programs such as United Way campaigns and many other regional and local charitable initiatives.



THE GREENEST WORKFORCE

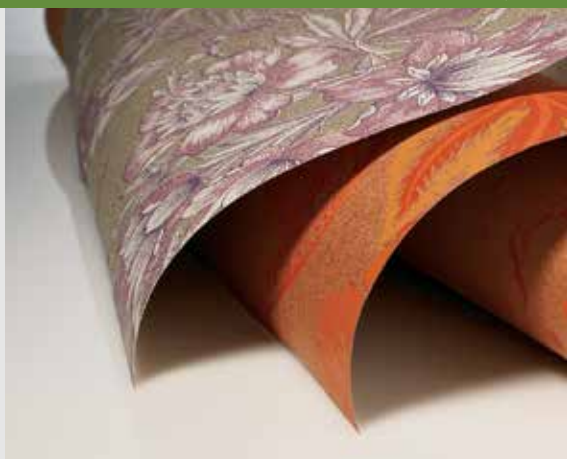
The forest products industry understands the value of a renewable natural resource and it is always striving to find smart new ways to do more with wood fibre. If you want to go green with your future, make a very good living, and thrive on the benefits of having a positive impact on your future, the environment and your life, join Canada's forest products industry.

It's a career choice that offers something for everyone. Whether you're interested in a trade that's in high demand, such as being an industrial electrician, or if you have a PhD and want to do cutting-edge research for the aerospace industry, you can find yourself, and your future, in the forest products industry.

Best of all, Canada's forest industry communities offer a quality of life that's unparalleled: affordable cost of living and attractive real estate, access to the great outdoors, tight-knit communities, short commutes, and the elusive work and home life balance.

THE MANY USES FOR PULP AND PAPER

WALL COVERS: Designers and professional decorators are constantly looking for new ways to create appealing interiors through style, colours, patterns and unique materials. Wallpaper is one way to obtain a vast range of inspiring materials for creative wall decoration. Canfor Pulp has been collaborating with manufacturers of wall covers for many years to provide cellulose with the required fibre properties that, in combination with synthetic fibres, provide features such as washability, peelability and excellent printability.



PARTNERSHIPS IN EDUCATION

Canfor Pulp takes pride in its unique local partnership with the education sector in Northern British Columbia. We have developed relationships with school boards in the communities in which we operate, as well as with the College of New Caledonia. The strengths of these relationships have been reinforced by the introduction of the Career Technical Centre, which is becoming a proving ground in the development of the crucial next generation of tradespeople.

The Career Technical Centre, or CTC, allows Grade 11 and 12 students to gain apprenticeship experience while still in secondary school. Under this model they receive a one-year credit towards an apprenticeship in their chosen field through a combination of college classroom time and work experience at our Canfor Pulp mills.

Canfor Pulp accepts each of the sixteen students who participate yearly in this program for a one-month work term. We also provide one week of certified industrial safety and equipment training that can be used in any workplace. More importantly, students live the industrial workplace culture during their work term, and develop important linkages and mentoring opportunities with today's tradespeople.

The program has been taken a step further since it began. In order for students to be able to access the CTC, younger students needed to be introduced to the possibility of trades opportunities available to them. So, working in conjunction with the Council of Forest Industries, an idea was developed to build a tour to showcase trades in the workplace, including the opportunity to talk to tradespeople at the worksite.

The program is targeted at students who are keenly interested in learning more about trades. Since its inception in 2006, it has seen 285 students from across the Central Interior of British Columbia take part and has been embraced by school districts, teachers, students and parents alike.

BEING ECONOMICALLY VIABLE IS A KEY PART OF BEING SUSTAINABLE.

ECONOMIC

2012 ECONOMIC HIGHLIGHTS FOR CANFOR PULP

Being economically viable is a key part of being sustainable. It ensures that we remain a supplier customers can count on, improve our environmental performance and re-invest for the future. We saw positive business results in 2012, maintaining our reputation as a sound investment, a good employer and a reliable partner.

- Reported net income of $13.7 million or $0.14 per share on sales of $810.4 million.
- Generated operating income before amortization of $91.7 million.
- Completed qualifying capital investment under the Canadian Federal Government's Pulp and Paper Green Transformation Program, totaling $167.0 million over the past three years, of which $44.8 million was funded by the Company, and the remainder from the program.
- Entered into an Energy Purchase Agreement (EPA) and Load Displacement Agreement (LDA) secured with BC Hydro to upgrade the turbines at the Northwood Pulp Mill.

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SELECTED ANNUAL INFORMATION

(millions of dollars except volumes and per unit amounts, unaudited)	**2012**	2011[1]	2010[1]
Sales volume - major products			
Pulp - thousands of metric tonnes	**961.8**	978.5	1,039.0
Paper - thousands of metric tonnes	**129.0**	127.6	144.7
Sales by segment ($)			
Pulp	**675.0**	802.9	857.2
Paper	**134.6**	136.6	142.6
Unallocated	**0.8**	1.5	1.3
Total sales	**810.4**	941.0	1,001.1
Total operating income ($)	**24.6**	153.4	183.7
Total operating income before amortization ($)	**91.7**	220.2	249.7
Net income ($)	**13.7**	138.6	179.0
Net income per share, basic and diluted	**0.14**	1.94	2.51

For full details on the performance of the company please refer to our Annual Report, available as a .pdf file from www.canforpulp.com.

[1] Amounts represent the balances and results for Canfor Pulp Limited Partnership, as a result of the accounting treatment of the acquisition of Canfor Pulp Limited Partnership as described in the Company's annual consolidated financial statements.

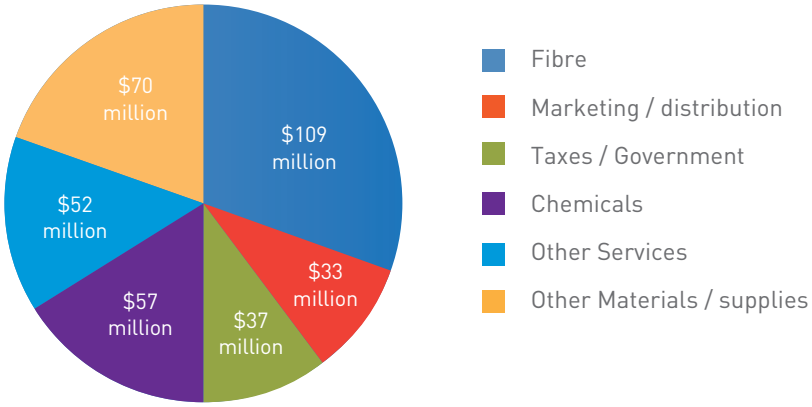
CANFOR PULP ECONOMIC BENEFITS TO BC

Employee Payroll	$	147 million
Pensioners	$	12 million
Property taxes	$	10 million
Goods and services purchased in BC	$	348 million
	$	517 million

HEALTHY INDUSTRY, SUSTAINABLE ECONOMY

Canfor Pulp directly contributed over 500 million dollars to the British Columbia economy in 2012. This contribution is especially significant in the Prince George region, but the impacts extend far beyond the city limits, as our employees and the many companies with which we work come from all over the region. Our property tax contributions help to support schools, parks, emergency services, health care, and other important programs.

BREAKDOWN OF GOODS AND SERVICES PURCHASED IN BC



MESSAGE FROM SEAN CURRAN, VP SALES AND MARKETING

Businesses have to design, make, and market products in more sustainable ways in order to survive in a future defined by scarce resources, expensive energy, and more exacting customers.

At Canfor Pulp, we recognize there is an increasing convergence of the demand for more sustainable products with the traditional need for product and process innovation. That's why we're driving innovation on all fronts in the industry. For example, our Canfor Pulp Innovation Centre will be key to our success meeting those demands, and therefore earning a competitive advantage.

Integrating sustainability throughout the entire value chain will be one of the major challenges of the future, and we're dedicated to working closely with our partners to achieve this goal.

THE NORTHWOOD GREEN TRANSFORMATION PROJECT HAS FUNDAMENTALLY IMPROVED THE LONG-TERM VIABILITY OF THE MILL.

INVESTMENT AND TRANSFORMATION

PULP AND PAPER GREEN TRANSFORMATION PROGRAM

2012 UPDATE

The Federal Government Pulp and Paper Green Transformation Program (the Program) laid the groundwork for a greener, more sustainable future for Canada's pulp and paper sector by supporting innovation and environmentally-friendly investments in areas such as energy efficiency and renewable energy production. It allowed pulp and paper mills in Canada to further reduce their greenhouse gas emissions while helping to position them as leaders in the production of clean renewable energy from forest biomass.

Firms had until March 31, 2012 to draw on funding to finance approved capital projects that offered demonstrable environmental benefits, such as improvements to their energy efficiency or their capacity to produce alternative energy. The Program was capped at $1 billion.

CANFOR PULP AND PAPER GREEN TRANSFORMATION PROJECTS

Canfor Pulp Limited Partnership completed a number of projects that improved the environmental performance, energy efficiency, and increased renewable power generation at the Prince George operations. These projects were all eligible under the terms of the Program.

CANFOR PULP AND PAPER GREEN TRANSFORMATION PROJECTS

Prince George Pulp Mill Odour Reduction Project

In the late 1980s, odour reduction technologies implemented at pulp mills in the Prince George air shed decreased Total Reduced Sulfur (TRS) levels by 80%. A scientific study identified that the opportunity for a further 60% reduction existed through the management of low level sources. The Prince George Pulp Mill Odour Reduction Project was completed in May 2011 . The analysis of the benefits, measured by concentration of TRS, indicates that the target ambient levels have in fact been achieved.

Local community stakeholder groups and citizens are providing strong positive feedback indicating that they have noticed a marked improvement in the odour levels in the community. In addition, there is a marked improvement in the working environment within the mill.

Increased Biofuel Power Generation Project

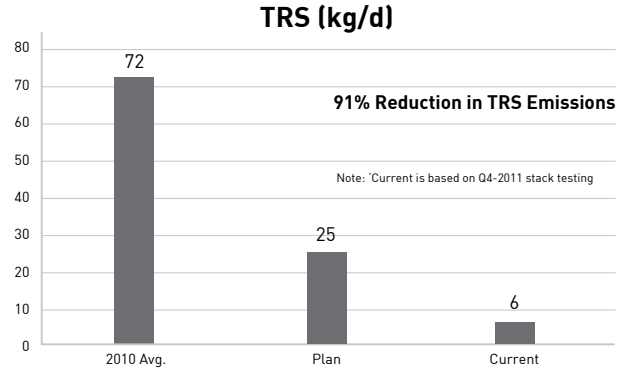
The Prince George Pulp Mill digester is currently underutilized. By better balancing brown stock production between the Prince George and Intercontinental Pulp Mills, this capacity could be utilized to produce more pulp and additional black liquor per year. As a biofuel in the recovery boilers, this black liquor could generate an additional 4,504 MWh of electrical power per year through the existing steam-driven turbine generator, thus increasing green power generation from the site.

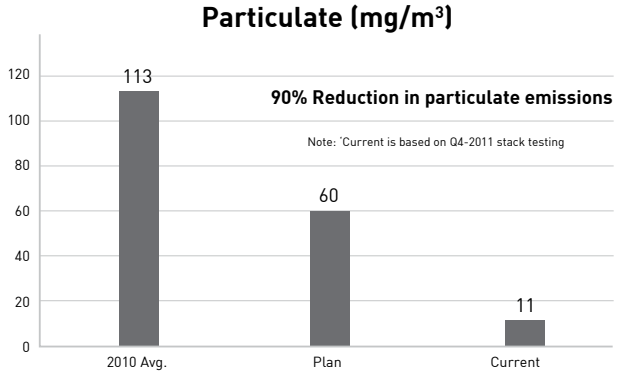
The project was completed in December 2010. In 2011, the project enabled an average transfer of 27 ADt/d of pulp production from Prince George Pulp Mill to the Intercontinental Mill. The increased pulp production also produced more black liquor for use to generate additional power from the PG condensing turbo-generator. The resulting black liquor was equivalent to an increase in power generation of approximately 8,397 MWh/y relative to the initial target of 4,504 MWh/y, reducing our need for externally generated power.

Northwood Pulp Mill Green Transformation Project

The Northwood Pulp Mill Green Transformation Project represented fundamental improvements to the energy efficiency, environmental performance, and long-term viability of the Northwood Pulp Mill.

The Northwood #1 Recovery Boiler was the largest single point source of pulp mill odour in Prince George. The proposed Northwood Pulp Mill Green Transformation Project completed upgrades to several systems associated with the #1 Recovery Boiler process to "Best Achievable Technology." A key environmental benefit of the project was the anticipated reduction of odourous TRS compounds by 70% from pre-project levels. This project also promised a number of other important environmental benefits, including reduction of particulate emissions from the #1 Recovery Boiler by 50% and reduced fossil fuel (natural gas) consumption. Dust collected from the precipitator and chemicals recovered in the #1 Recovery Boiler are recycled in the production process, so no additional solid waste is expected to result from the upgrade. These expected benefits were fully achieved (see below).





Natural gas consumption has also been reduced. However, it is difficult to isolate these reductions from those achieved in other projects targeting natural gas consumption.

PG Pulp and Paper Mill Energy Upgrade Project

The PG Mill Green Transformation Project originally included the installation of a precipitator on the #1 Power Boiler and upgrades to the mill boiler feed water system. In November 2011, the project scope was amended to focus solely on the feed water system upgrade. Canfor Pulp deferred the #1 Power Boiler Precipitator Project and is currently in the process of renewing approvals to reinitiate that project and complete the construction scope.

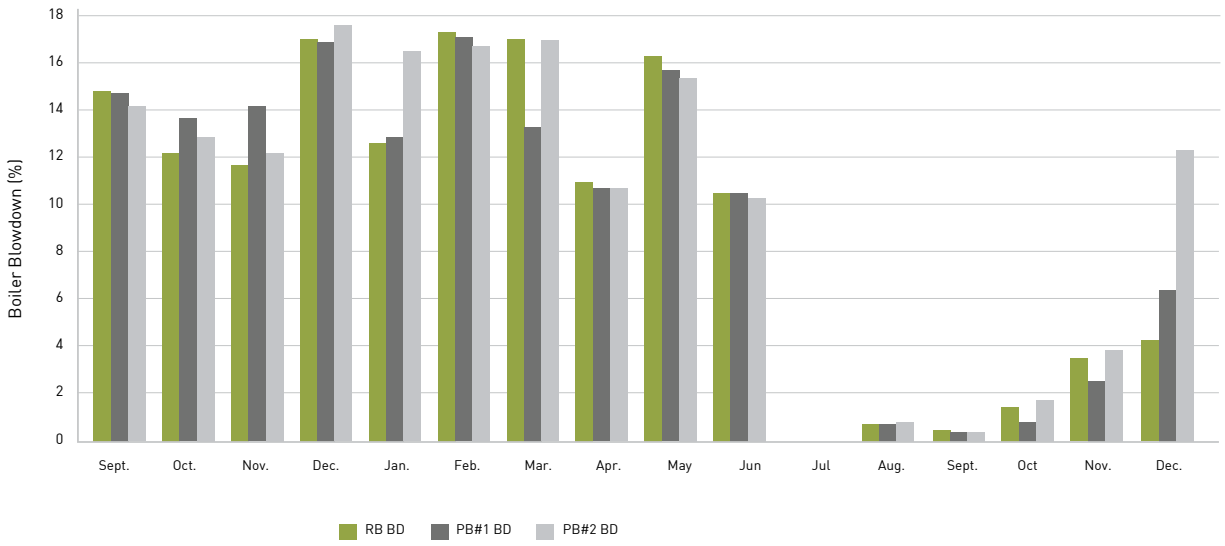
Upgrade PG Pulp Mill Boiler Feed Water System

Water for the PG Mill is obtained from the Nechako River for steam production in the boilers. To prevent the accumulation of undesirable materials, a significant portion of the heated water is released as "blow down," resulting in heat and water losses.

By improving water quality through a boiler feed water system upgrade, it was estimated that boiler blow down rates would be reduced to 1.5% from a pre-project average of 8%. This would represent an improved energy efficiency of approximately 650,000 GJ/year. The reduction in the blow down rate was also predicted to decrease the effluent outfall temperature by 0.5°C. Other benefits included reduced chemical treatment costs, and increased green power generation from reduced turbine generator fouling at the PG Pulp Mill.

The project was completed in July 2012 and is fully operational. The project demonstrated results as envisioned, with blow down rates at target levels, thus resulting in the expected improvements in energy efficiency. However, due to issues with boiler feed water chemistry controls, blow down rates increased substantially from October to December. The feed water quality from the new equipment is still excellent and measures are being taken to improve control and ensure that blow down rates are returned to the levels initially projected and achieved in August and September (see below).

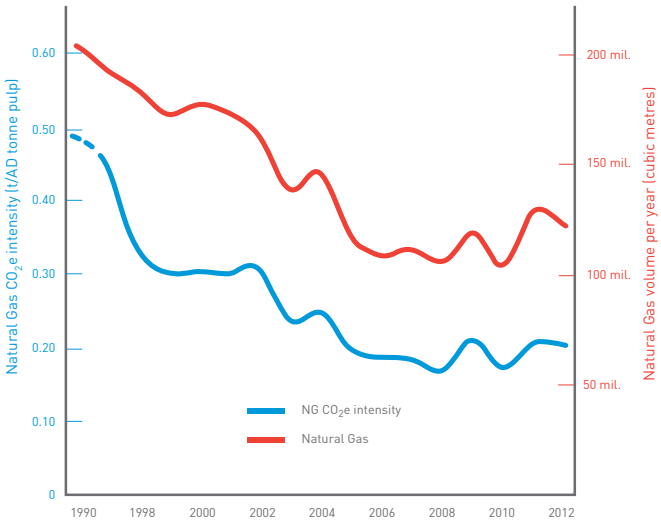
PGPP Feed Water System Upgrade



GHG AND NATURAL GAS REDUCTIONS

We have been reducing natural gas consumption at our mills consistently for over two decades, and while the major savings have already been achieved, more opportunities can still be found. As described elsewhere in this report, several projects were optimized during 2012 that led directly to decreased natural gas consumption relative to earlier years. During 2012 an outage at the Northwood Pulp Mill due to the unscheduled shutdown of one of the facility's recovery boilers has hindered the improvement that would have otherwise been seen. The improving trend following the boiler repairs is projected to continue through 2013.

CANFOR PULP & PAPER (all mills)



REDUCTIONS IN GHG EMISSIONS SINCE 1990

	Absolute Basis	Intensity Basis*
Canfor mills (pulp & paper)	40%	57%
Original Canadian Kyoto target	6 %	-

"Intensity Basis" refers to emissions per tonne of pulp or paper produced.

CANFOR PULP INNOVATION

Canfor Pulp places a high value on research and development. Our current program reflects our company's strategic focus on applied research targeting margin improvement and tangible cost-savings for our organization, but it goes further than that. At the heart of Canfor Pulp Innovation's (CPI) mandate is the drive to enhance the company's entire value chain – delivering the right chip, optimized for the right mill, producing the optimal premium reinforcing pulp, with minimal impacts, delivered to the right customer.

But innovation doesn't stop there. It extends to the ways we optimize inventories and minimize freight costs for our customers. It includes the ways we engage our stakeholders to bring about meaningful change in our practices for the benefit of the environment. Whether seeking ways to improve technical aspects of our production or reduce our impact on the environment, we will continue to encourage innovation throughout our organization in the future, and the implementation of world-leading forestry practices.

TAPPING OUR NORTHERN TALENT

Modelling Air Pollutants in Prince George from Industrial and Other Sources

As we read elsewhere in this report, air quality in the Prince George region is an ongoing challenge. CPI is working with a team of provincial scientists and researchers to better understand the factors affecting particulate matter ambient air quality in the region over time. This work is being supported by the CPI grants program (see sidebar). This year the inventory of fugitive dust sources and levels has been completed and will now be used to model the dispersion patterns. A final report on the inventory and dispersion modeling will be prepared for the Prince George Air Improvement Roundtable research working group and for Canfor Pulp.

AOX Reduction – Environmental Improvement and Cost Savings

AOX or absorbable organic halide is a chemical assessment of the chloride content discharged in effluents after pulp bleaching. While the validity of this assessment has been criticized as scientifically inaccurate in its assessment of the effects on water-borne organisms, regulators continue to use this test because it is simple to administer. Irrespective of the various arguments, AOX minimization requires mills to continuously assess opportunities to reduce bleaching chemical use with the added benefit of reducing costs.

CPI is heavily engaged in these activities and in collaboration with our mill engineers we have identified two technical developments offering considerable promise. They are characterized by ease of application, low capital cost and significant operating cost savings through reducing the overall level of chlorine dioxide required early in the bleaching sequence to fully bleach our pulp.

CANFOR PULP GRANTS PROGRAM

The Canfor Pulp Grants Program was conceived to foster the philosophy of "Open Innovation" at Canfor Pulp Innovation (CPI). It combines three key elements: in-house expertise for commercially sensitive activities, contract research for time sensitive activities, and research partnerships for longer-term-higher-risk activities.

The program supports higher risk university research activities in the areas of manufacturing excellence, with a cash award of $25,000 per year for three years, plus in-kind support from CPI and Canfor Pulp. Current partners include the University of British Columbia, University of UBC Okanagan, and the University of Northern British Columbia.

Open Innovation has enabled CPI to access a broader range of global expertise across a range of strategic activities, in novel ways. Since its inception it has delivered almost 2.5 times the value of the initial investment, and is growing.

The benefits for the grants program to Canfor Pulp are significant. In addition to directly supporting research in strategically important areas, it raises CPI's and Canfor Pulp's profile on the UNBC, UBCO and UBC campuses; it introduces enthusiastic young minds to the opportunities offered by Canfor Pulp and the broader pulp and paper sector; it enables CPI and Canfor Pulp access to novel technologies and techniques in support of other programs and needs; and it is contributing to the developing portfolio of carefully selected intellectual property for future use.

LOOKING AHEAD TO 2013

In 2012, Canfor Pulp began to realize substantial benefits from recent strategic capital investments. More renewable energy is being generated now, lower heat losses are occurring and lower emissions to air are taking place. Our processes have become more eco-efficient, they require less external electricity and fuel and the airshed is cleaner. The benefits we have achieved are indeed social, economic and environmental in their range.

Our priority goal for 2013 is to stabilize and optimize these systems to ensure that the benefits achieved become our new normal. We will also be giving priority to building our Energy Advantage in 2012, by further developing the "green energy" component of our business.

We will continue our efforts to address the looming shortage of skilled labour. At Canfor Pulp, we already believe that we have the best employees in the industry. We will take further strides to strengthen our retention and recruitment efforts to ensure this continues to be the case.

We anticipate that 2013 will see more attention being paid internationally to the connection between rising greenhouse gas levels and deforestation. Forests and oceans together are absorbing half of the manmade greenhouse gases, which helps minimize their effect in the atmosphere. What that means is that, in essence, we have been enjoying a 50% discount on the effects of anthropogenic greenhouse gases for years. No one knows how long this can continue in the face of continuing deforestation and illegal logging. What we do know is that it can't be forever. We expect the introduction by many international jurisdictions of regulations pertaining to the legality as well as the sustainability of forest products will focus attention on the inherent security, sustainability and legality of products from Canadian forests. Canfor Pulp will be working closely with our customers and their customers to assist them in making their legal supply chain decisions.

In 2012, we saw the first local woodlot operation apply for certification under the British Columbia FSC SFM standard. During 2013 we may see fibre from this source making its way to our pulp mills. This first FSC-certified fibre will be extremely limited in volume and we will treat it as a pilot project. We will certainly be encouraging other local woodlot operators to follow suit during 2013.

And finally, this past year saw Canfor Pulp and Canadian Forest Products announce leadership changes focused on integration and greater alignment of the companies in several key business areas. To date, integration has gone very smoothly and we expect to see the benefits of this more collaborative and streamlined approach bear even more fruit during 2013.

Please visit us at www.canforpulp.com/sustainability

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