ANNUAL REPORT 2012

Canfor Pulp Products Inc.

CANFOR PULP IS A FORWARD THINKING PULP, PAPER AND ENERGY COMPANY. WE ARE WELL-POSITIONED AS A LEADER IN OUR INDUSTRY TO FOCUS ON INNOVATION AND THE FUTURE APPLICATIONS OF OUR NORTHERN SOFTWOOD FIBRE.

At Canfor Pulp We Think Fibre Forward

CREATING SHARED VALUE

Creating a long term value proposition for all stakeholders is our vision of shared value. This encompasses operating under the framework of a sustainable enterprise, providing our customers with a secure supply and supporting the health of communities in which we operate as a good neighbour and employer. By applying these principles, we can achieve our goal of creating sustainable economic value for our shareholders.

SUSTAINABILITY

Canfor Pulp's Sustainable Enterprise model embraces environmental, social and economic considerations and is committed to the responsible and efficient use of resources to create more value. Our vision of sustainability has always included the involvement of our many stakeholders. We believe that through collaboration we can create greater value for all, while striving to minimize the impacts of our processes and products on the environment. Canfor Pulp has committed to measure and continuously improve our sustainable value and ensure that all activities are conducted with transparency and accountability. For more on this initiative please see our 2012 Sustainability Report.

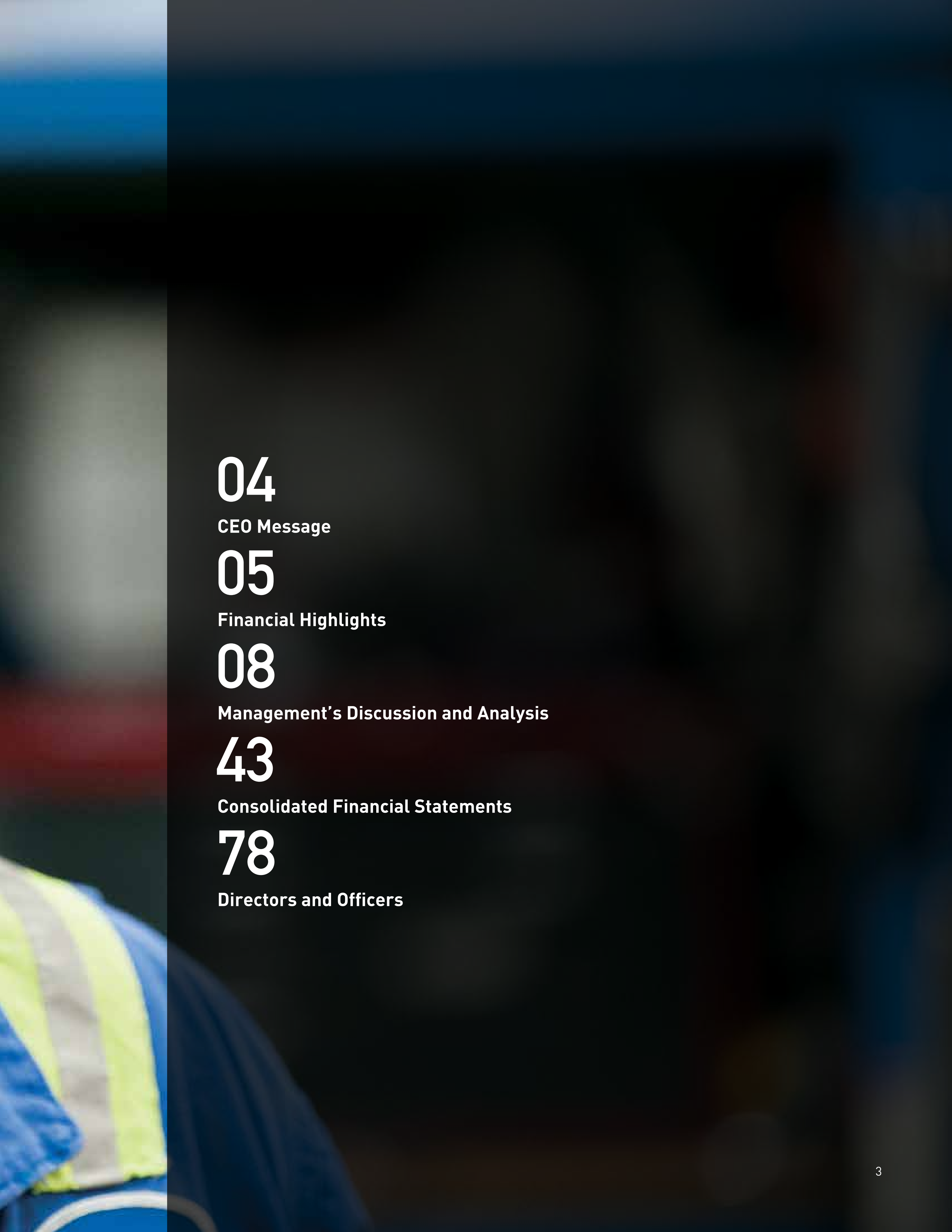
INNOVATION

Responsive to Canfor Pulp's customers and mills, Canfor Pulp Innovation (CPI) aims to extend our customer's innovation teams, creating value through partnership to drive business forward sustainably. CPI partners with global experts whose diverse capabilities are relevant to our customers' interests. CPI delivers opportunities for continuous customer and mill improvement thereby contributing to improving Canfor Pulp's premium quality and ensuring its position as a global leader in NBSK and its applications.

PRODUCT QUALITY AND OPTIMIZATION

Only by truly understanding our customer's products and operations are we able to contribute to their sustainable success. Canfor Pulp partners with internationally recognized experts to deliver training on refiner fundamentals and to support customer optimization studies. The majority of Canfor Pulp's fibre supply is provided by Canfor Corporation, one of the world's largest, most stable integrated forest products companies and our majority shareholder. This key relationship with our parent company plays a significant role in helping us maintain competitiveness while offering a premium product. We ensure secure product delivery by coordinating with transportation partners to over 200 destinations and 25 countries worldwide which ensures Canfor Pulp is the supplier of choice.


THINK
FIBRE
FORWARD



2012 LETTER TO SHAREHOLDERS

2012 was a busy year for Canfor Pulp Products Inc. (CPPI) as the Company worked hard to position the business for success through continued investments in the facilities and follow up efforts around completed projects that have the potential to deliver further benefits. During the year, we continued to improve competitiveness through capital investments and cost control while building our green energy business through incremental electricity purchase agreements now in place. In addition, we completed significant maintenance investments, a corporate restructuring effort and faced challenging global pulp market conditions.

On May 11, 2012 Canfor Corporation and CPPI Boards of Directors approved a new structure for the management of CPPI. In addition, Canfor exchanged its 50.2% interest in Canfor Pulp Limited Partnership for a 50.2% direct interest in CPPI. The change has brought the two companies closer together, focusing on integration and greater alignment in several key business areas including transportation and logistics, fibre management and procurement and finance and administration.

2012 saw the completion of our three-year, $240 million in capital spending plan which included projects funded through Green Transformation Program investments from the Government of Canada. Investments have renewed key assets, improved our top quartile cost position and continued advancing our green energy growth strategy. To that end, an upgrade of the turbines at the Northwood Pulp Mill and corresponding Energy Purchase Agreement with BC Hydro is in process, with startup anticipated by the end of 2013.

2012 was a challenging year for pulp markets. Global softwood pricing closed as it had opened the year, relatively unchanged. The benchmark North American list price for NBSK pulp averaged US $872 per tonne for 2012. More pronounced price decreases were seen for Europe and China, as a result of weak European demand which lead to strong competition for business in China.

Our 2013 focus will be on optimizing operations to achieve record production rates, and enhancing the profitability from select high-return energy and cost reduction projects.

Building from our sustainable enterprise model, we have adopted the corporate message "Think Fibre Forward". CPPI is a forward thinking pulp, paper and energy company positioned as a leader in our industry, with a keen focus on innovation and the future applications of our northern softwood fibre.

We wish to extend our thanks to our Board members for their guidance, all of our employees for their dedication, and particular appreciation to our shareholders and investors for your continuing support.

Don B. Kayne
Chief Executive Officer

FINANCIAL HIGHLIGHTS

	2012 [4]	2011 [4]	2010 [4] [5]	2009 [5] [6]	2008 [5] [6]
CANFOR PULP PRODUCTS INC.					
Sales and Income (millions of dollars)					
Sales	**$ 810.4**	$ 941.0	$ 1,001.1	$ 816.7	$ 844.6
Operating Income Before Amortization	**$ 91.7**	$ 220.2	$ 249.7	$ 61.8	$ 116.9
Operating Income	**$ 24.6**	$ 153.4	$ 183.7	$ 12.0	$ 68.7
Net Income	**$ 13.7**	$ 138.6	$ 179.0	$ 13.4	$ 46.8
Per Share/Fund Unit (dollars)					
Net Income	**$ 0.14**	$ 1.94	$ 2.51	$ 0.19	$ 0.66
Dividends/Distributions Declared	**$ 0.52**	$ 2.10	$ 2.58	$ 0.26	$ 1.36
Share/Unit Price:					
High	**$ 15.19**	$ 19.52	$ 16.70	$ 8.98	$ 12.10
Low	**$ 7.60**	$ 8.75	$ 7.47	$ 1.30	$ 2.01
Close - December 31	**$ 10.22**	$ 12.42	$ 14.36	$ 8.75	$ 3.13
Financial Position (millions of dollars)					
Total Assets	**$ 758.0**	$ 791.2	$ 853.3	$ 837.6	$ 868.9
Net Debt [1]	**$ 110.6**	$ 113.9	$ 45.2	$ 101.6	$ 159.5
Total Equity	**$ 385.7**	$ 453.7	$ 482.5	$ 529.1	$ 534.4
Net Capital Expenditures [2]	**$ 52.0**	$ 56.0	$ 12.6	$ 13.5	$ 34.7
Additional Information					
Return on Total Equity [3]	**3.3%**	29.6%	35.4%	2.5%	8.4%
Current Assets/Current Liabilities	**1.1**	2.0	2.0	2.0	1.9
Net Debt/Total Capitalization	**22.3%**	20.1%	8.6%	16.1%	23.0%

Notes:

(1) Total debt less cash and cash equivalents and temporary invesments.

(2) Presented net of government funding and excludes major maintenance costs.

(3) Net income divided by average equity during the year.

(4) Presented under International Financial Reporting Standards (IFRS).

(5) 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 in 2012 as described in the Company's annual consolidated financial statements.

(6) Partnership results presented under previous Canadian GAAP.

OPERATIONS

As of February 13, 2013, Canfor Pulp Products Inc. holds 100% of Canfor Pulp Limited Partnership (the Partnership). The Partnership is a leading global supplier of pulp and paper products, and operates three mills in Prince George, BC which are among the lowest cost NBSK pulp producers in Canada. The Partnership is the world's fourth largest producer of market NBSK Pulp, with a production capacity of 1.1 million tonnes, and is the leading producer of fully-bleached, high performance Kraft Paper.

Mills	Capacity	Key Products
1 Intercontinental	330,000	Pulp
2 Northwood	615,000	Pulp
3 Prince George	150,000	Pulp
3 Prince George	140,000	Kraft Paper

Other

4 Canfor Pulp Limited Partnership / Canfor Pulp Products Inc. Head Office

5 Canfor Pulp Innovation

CANFOR PULP INNOVATION

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

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

Sponsored research with an international suite of collaborators is now delivering new opportunities from our growing intellectual property portfolio.

CPI is delivering opportunities for continuous customer and mill improvements contributing to ensuring that Canfor Pulp remains a global quality and technology leader in NBSK.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This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the year ended December 31, 2012 relative to the year ended December 31, 2011, and the financial position of the Company at December 31, 2012. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2012 and 2011. The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements and to pay dividends. Operating Income before Amortization is not a generally accepted earnings measure and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, CPPI's operating income before amortization may not be directly comparable with similarly titled measures used by other companies. A reconciliation of operating income before amortization to operating income reported in accordance with IFRS is included in this MD&A.

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at February 13, 2013.

FORWARD LOOKING STATEMENTS

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

COMPANY OVERVIEW

CPPI is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 comprise the Company and its subsidiary entities including Canfor Pulp Limited Partnership ("the Partnership"). The Partnership's operations consist of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

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

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

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

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

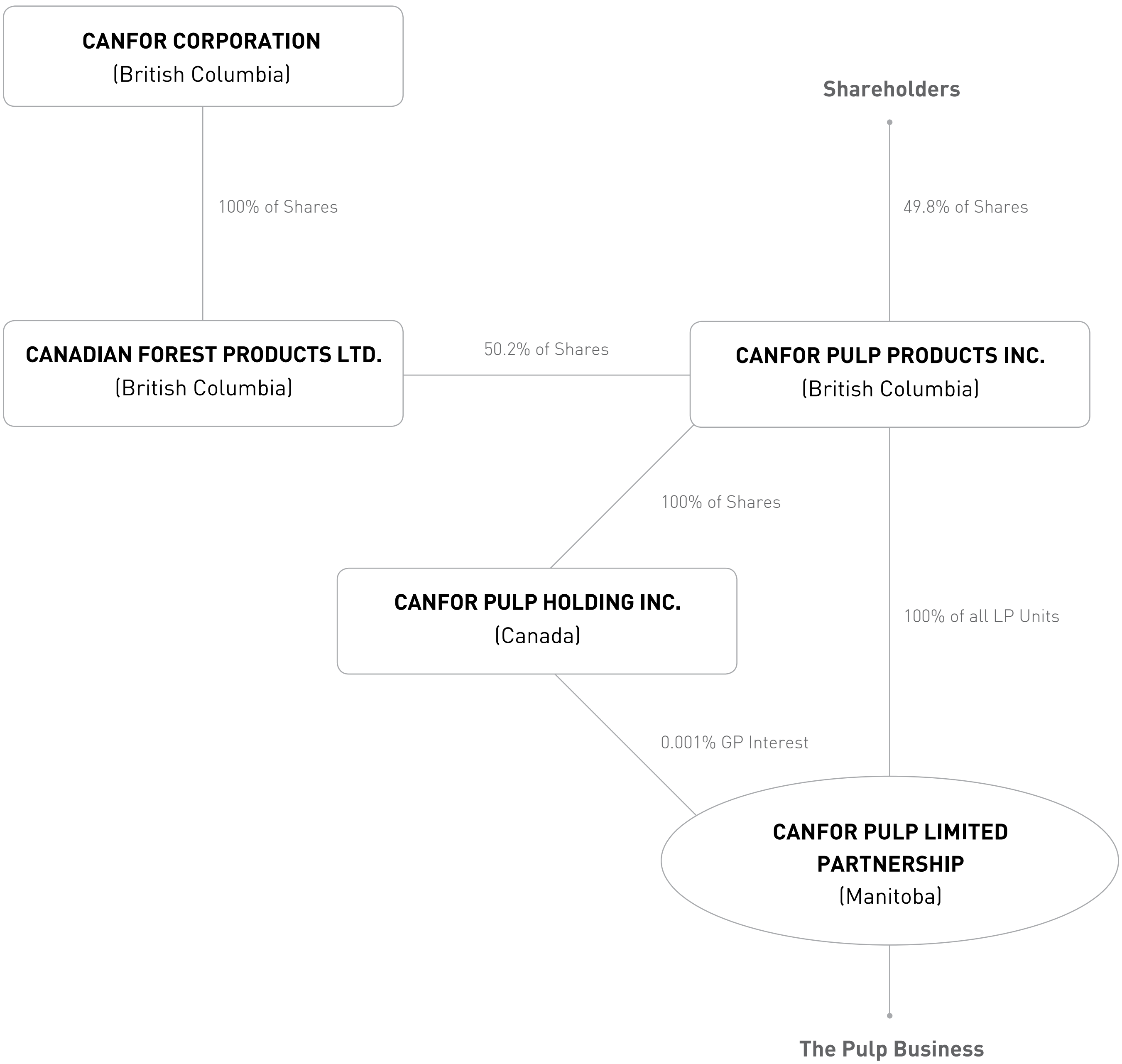
At February 13, 2013, there were a total of 71,269,790 CPPI shares issued and outstanding, and CPPI held a total of 71,270,025 units of the Partnership, representing 100.0% of the Partnership.

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

COMPANY OVERVIEW (CONTINUED)

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

SIMPLIFIED OWNERSHIP STRUCTURE



Pulp

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

The Northwood Pulp Mill is a two line mill with annual production capacity of approximately 615,000 tonnes of NBSK pulp, making it the largest NBSK pulp facility in North America. Northwood's pulp is used to make a variety of products including printing and writing paper, tissue and specialty papers and is primarily delivered to customers in North America, Europe and Asia.

The Intercontinental Pulp Mill is a single line pulp mill with annual production capacity of approximately 330,000 tonnes of NBSK pulp. Intercontinental's pulp is used to make substantially the same product as that from Northwood and is delivered to the same markets.

The Prince George Pulp and Paper Mill is an integrated two line pulp and paper mill with an annual market pulp production capacity of approximately 150,000 tonnes. The Prince George Pulp and Paper Mill supplies pulp markets in North America, Europe, Asia, and its internal paper making facilities.

Paper

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

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

Business Strategy

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

- Preserving its low-cost operating position,
- Maintaining the premium quality of its products,
- Growing its green energy business, and
- Capitalizing on attractive growth opportunities.

OVERVIEW OF 2012

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

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

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

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

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

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

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

A review of the more significant developments in 2012 follows.

MARKETS AND PRICING

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

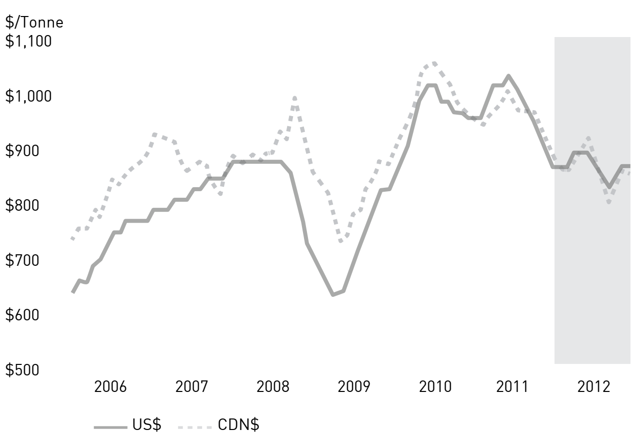
As mentioned, 2012 proved to be a challenging year for pulp markets. Weak markets at the end of 2011 continued through the first quarter of 2012 before showing some signs of moderate improvement heading into the seasonally strong spring maintenance period. However, markets failed to gain any traction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

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

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

Chart 1

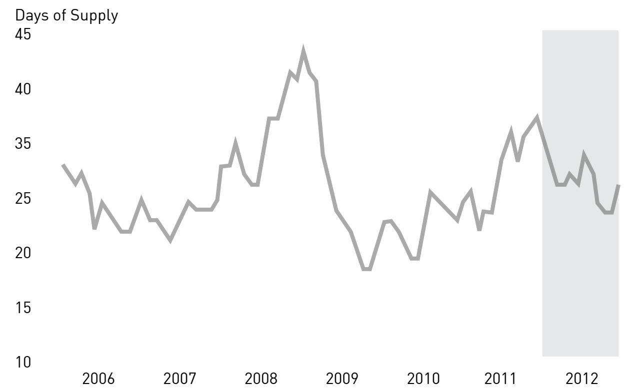
NBSK PULP LIST PRICE DELIVERED TO U.S. - IN US AND CANADIAN DOLLARS



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

Chart 2

WORLD SOFTWOOD PULP INVENTORIES



Source: Pulp and Paper Products Council

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

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

[1] Resource Information Systems, Inc.

CAPITAL AND OPERATIONS REVIEW

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

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

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

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

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

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

INTEGRATION WITH CANFOR

In mid-2012, the Company and Canfor announced leadership changes focused on integration and greater alignment in several key business areas including transportation and logistics, fibre management and procurement and finance and administration. Integration-to-date has gone very smoothly and both companies are seeing the benefits of a more collaborative and streamlined approach and from leveraging the expertise of both companies. Total cost savings of approximately $10 million are projected to be realized in 2013, to flow equally between the two entities.

OVERVIEW OF CONSOLIDATED RESULTS – 2012 COMPARED TO 2011

Selected Financial Information and Statistics [2] (millions of dollars, except for per share amounts)		**2012**		2011
Sales	**$**	**810.4**	$	941.0
Operating income before amortization	**$**	**91.7**	$	220.2
Operating income	**$**	**24.6**	$	153.4
Foreign exchange gain (loss) on long-term debt	**$**	**2.4**	$	(2.5)
Gain (loss) on derivative financial instruments [3]	**$**	**1.7**	$	(1.6)
Net income	**$**	**13.7**	$	138.6
Net income per share, basic and diluted	**$**	**0.14**	$	1.94
ROIC [4]		**3.8%**		23.7%
Average exchange rate (US$/CDN$) [5]	**$**	**1.001**	$	1.011

2 Certain prior period amounts have been restated due to a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. Further details can be found in the "Changes in Accounting Policy" section in this document.

3 Includes gains (losses) from foreign exchange, crude oil and interest rate swap derivatives (see "Unallocated and Other Items" section for more details).

4 Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.

5 Source – Bank of Canada (average noon rate for the period).

(millions of dollars)		**2012**		2011
Operating income (loss) by segment:				
Pulp	**$**	**19.2**	$	157.5
Paper	**$**	**19.4**	$	9.5
Unallocated	**$**	**(14.0)**	$	(13.6)
Total operating income	**$**	**24.6**	$	153.4
Add: Amortization	**$**	**67.1**	$	66.8
Total operating income before amortization	**$**	**91.7**	$	220.2
Add (deduct):				
Working capital movements	**$**	**12.2**	$	(13.1)
Salary pension plan contributions	**$**	**(7.6)**	$	(7.9)
Other operating cash flows, net	**$**	**(8.4)**	$	(0.2)
Cash from operating activities	**$**	**87.9**	$	199.0
Add (deduct):				
Distributions / dividends paid	**$**	**(19.2)**	$	(181.0)
Finance expenses paid	**$**	**(8.1)**	$	(7.8)
Capital additions, net [6]	**$**	**(66.8)**	$	(77.0)
Acquisition of CPPI cash on exchange	**$**	**6.8**	$	-
Other, net	**$**	**0.2**	$	0.6
Change in cash / operating loans	**$**	**0.8**	$	(66.2)

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

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

Reported operating income for 2012 was $24.6 million, down $128.8 million from operating income of $153.4 million for 2011. The decrease in 2012 results primarily reflected significantly lower earnings from the pulp segment principally as a result of significantly weaker NBSK pulp list prices and the impacts of an extended outage at the Prince George Pulp Mill and an unscheduled outage at the Northwood Pulp Mill, resulting in lower production and shipment volumes. Results in 2011 were impacted by an extended maintenance outage at the Northwood Pulp Mill. The reduction in pulp segment earnings was partially offset by improved paper segment results principally due to lower costs for slush pulp. Operating income for the current year included one-time costs of $3.2 million associated with the new five year collective labour agreements, restructuring charges for integration related senior management changes of $1.7 million, and an accounting gain of $4.0 million reflecting amendments to the Company's salaried post retirement benefit plans in the fourth quarter of 2012.

A more detailed review of the Company's operational performance and results is provided in "Operating Results by Business Segment – 2012 compared to 2011", which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2012 COMPARED TO 2011

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

CPPI's operations include the Pulp and Paper segments.

PULP

Selected Financial Information and Statistics – Pulp

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

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

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

Overview

The Pulp segment reported operating income of $19.2 million for 2012, down $138.3 million from $157.5 million in 2011. Results in the current year were significantly impacted by lower market pulp prices, lower shipment volumes, and the impacts of the Prince George scheduled and Northwood unscheduled outages, while results in 2011 were impacted by an extended maintenance outage at the Northwood Pulp Mill. Unit manufacturing costs were up slightly reflecting lower production volumes, higher maintenance expenditures and one-time costs of $3.2 million associated with new five year collective labour agreements, partially offset by lower fibre costs. Also included in 2012's pulp segment results was $3.3 million of the accounting gain related to the post retirement plan adjustments.NBSK pulp list prices decreased significantly from the prior year, with prices to North America down US$105 to US$872 per tonne. Sales realizations were positively impacted by the 1% weaker Canadian dollar compared to the previous year.

Markets

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

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

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

Sales

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

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

Operations

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

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

[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").

PAPER

Selected Financial Information and Statistics – Paper

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

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

Overview

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

Markets

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

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

Sales

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

Operations

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

UNALLOCATED AND OTHER ITEMS

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

CORPORATE COSTS

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $14.0 million in 2012, up slightly from 2011. The increase principally reflected costs in 2012 associated with integration related changes in senior management in the third quarter of 2012, partially offset by lower accruals for performance based incentive plans. Further mitigating the increase were CPPI's share of savings from integration with Canfor which began to flow through in the fourth quarter of 2012. 2012's corporate costs also included a portion of the aforementioned accounting gain related to amendments to the Company's salaried post retirement benefit plans.

FINANCE INCOME AND EXPENSE

Net finance expense for 2012 was $11.8 million, up $0.9 million from 2011. The increase reflected costs associated with a new operating loan facility entered into in the fourth quarter of 2012 as well as reduced interest income as a result of lower cash balances through the 2012 year.

FOREIGN EXCHANGE GAIN (LOSS) ON TRANSLATION OF LONG-TERM DEBT

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

Gain (Loss) on Derivative Financial Instruments

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

For 2012, the Company recorded a net gain of $1.7 million related to its derivative financial instruments, principally reflecting realized gains on foreign exchange forward contracts and collars.

The following table summarizes the amounts of the various components for the comparable periods. Additional information on the derivative financial instruments in place at year end can be found in the "Financial Requirements and Liquidity" section, later in this document.

Gain (Loss) on Derivative Financial Instruments:

(millions of dollars)		2012		2011
Foreign exchange collars and forward contracts	$	1.7	$	(1.6)
Crude oil collars	$	-	$	0.1
Natural gas swaps	$	-	$	(0.1)
	$	1.7	$	(1.6)

Foreign exchange gain (loss) on working capital

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

Income Tax Expense

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

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

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

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

Other Comprehensive Income (Loss)

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income. For 2012, an after-tax charge of $12.5 million was charged to other comprehensive income, principally reflecting a decrease in the discount rate over the year, which fell 0.80% for defined benefit pension plans and 0.90% for other post-retirement benefit plans, offset in part by a slightly higher than expected rate of return on plan assets. In 2011, the after-tax charge was $17.7 million, also primarily reflecting a lower discount rate over that year. For more information, see the 'Employee Future Benefits' part of the 'Critical Accounting Estimates' section later in this report.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at the end of the years 2012 and 2011:

(millions of dollars, except for ratios)	2012	2011
Cash and cash equivalents	$ -	$ -
Operating working capital	133.4	140.7
Cheques issued in excess of cash on hand	(1.2)	(2.0)
Current portion of long-term debt	(109.4)	-
Distributions payable	-	(7.8)
Net working capital	22.8	130.9
Property, plant and equipment	530.8	532.0
Other long-term assets	0.4	0.6
Net assets	$ 554.0	$ 663.5
Long-term debt	$ -	$ 111.9
Retirement benefit obligations	105.1	94.8
Long-term provisions	3.6	3.1
Deferred income taxes, net	59.6	-
Non-controlling interest in the Partnership	-	226.1
Equity attributable to controlling interest in the Partnership	385.7	227.6
	$ 554.0	$ 663.5
Ratio of current assets to current liabilities	1.1 : 1	2.0 : 1
Net debt to total capitalization	22.3%	20.1%

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

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

The Company's net debt to capitalization was 22.3% at December 31, 2012 (December 31, 2011: 20.1%). The increase is explained principally by a lower total equity balance at year end for the most part reflecting the exchange transaction.

CHANGES IN FINANCIAL POSITION

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

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

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

Operating Activities

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

Financing Activities

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

Investing Activities

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

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

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

FINANCIAL REQUIREMENTS AND LIQUIDITY

Operating Loans

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

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

Debt Covenants

CPPI has leverage and interest coverage ratios calculated by reference to earnings before interest, taxes, depreciation and amortization and other non-cash items. Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was in compliance with all its debt covenants for the year ended December 31, 2012.

2013 Projected Capital Spending and Debt Repayments

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

Derivative Financial Instruments

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

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

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

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

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

Commitments

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

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

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

- The Company has an Energy agreement with BC Hydro for the sale of power production that exceeds a committed amount from the cogeneration project at the Prince George Pulp and Paper Mill. Under the agreement, the Company is required to post a standby letter of credit as security in annually decreasing amounts as a minimum required amount of electricity is generated. As of December 31, 2012, the Company had no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of $7.5 million was issued to BC Hydro as security for future power generation commitments.
- Contractual commitments totaling $9.9 million, principally related to the construction of capital assets. This relates mostly to work on the turbine project at the Northwood Pulp Mill.
- The Company's asset retirement obligations represent estimated undiscounted future payments of $7.2 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 6 to 39 years which have been discounted at risk free rates ranging from 1.6% to 2.4%. The estimated discounted value is $3.3 million (2011 – $3.1 million) and the amount is included in long-term provisions.
- Obligations to pay pension and other post-employment benefits, for which a liability of $105.1 million was recorded at December 31, 2012 (2011 – $94.8 million). As at December 31, 2012, CPPI estimated that it would make total contribution payments of $9.5 million to its defined benefit plans in 2013.
- Purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.
- On December 6, 2012, the Company secured both an LDA and an EPA with BC Hydro as part of the Integrated Power Offer program, which provides for the commitment to electrical load displacement and the sale of incremental power production at the Northwood Pulp Mill commencing April 1, 2014. Under the LDA, the Company receives a facilitated

government grant called the Transmission Service Rate Incentive upon completion of the project and is provided in exchange for the standby letter of credit as performance security in annually decreasing amounts as the minimum required amount of electricity is generated. Under the EPA, the Company is required to post a separate standby letter of credit as performance security for the term of the agreement. The total outstanding performance security for both agreements is the greater of the required performance security under the EPA or LDA until the performance security for the LDA is completely eliminated on the fifth anniversary of the project. As of December 31, 2012, the Company had no repayment obligations under the terms of both agreements and two standby letters of credit in the amounts of $0.8 million for the EPA and $0.1 million for the LDA were issued to BC Hydro as performance security for future power generation commitments.

TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

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

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION [9]

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

[9] Certain prior period amounts have been restated due to a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. Further details can be found in the "Changes in Accounting Policy" section in this document.

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

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

10 Further information on operating cash flows can be found in the Company annual consolidated financial statements.

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

THREE-YEAR COMPARATIVE REVIEW

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

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

[13] Included in 2012 CPPI dividends declared per share was a $0.22 per share dividend declared in May 2012 which was paid to non-Canfor shareholders as Canfor had waived its right to receive the dividend as part of the exchange, 2010 and 2011 amounts represent Canfor Pulp Limited Partnership distributions declared per Partnership unit.

SUBSEQUENT EVENT

On February 13, 2013, the Board of Directors reinstated the Company's dividend, declaring a quarterly dividend of $0.05 per share, payable on March 5, 2013 to shareholders of record on February 26, 2013.

In addition, reflecting the Company's current corporate structure and its latest outlook for 2013, the Board projects it will declare further quarterly dividends of $0.05 per share through the balance of 2013, but will review the issuance of dividends on a quarterly basis.

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

Overview of Operating Results

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

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

PULP

Selected Financial Information and Statistics - Pulp

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

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

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

Overview

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

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

Markets

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

Sales

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

Operations

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

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

PAPER

Selected Financial Information and Statistics – Paper

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

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

15 World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the PPPC.

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

Overview

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

Markets

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

Sales

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

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

Operations

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

UNALLOCATED AND OTHER ITEMS

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

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

Net finance expense for the fourth quarter of 2012 was $3.4 million, an increase of $0.6 million compared to the fourth quarter of 2011, primarily reflecting costs associated with a new operating loan facility entered into in the fourth quarter of 2012. The finance expense for each period principally represents interest expense on long-term debt and stand-by fees for the Company's operating loans, as well as the finance expense relating to the Company's defined benefit post-retirement benefit plans.

The Company recorded a foreign exchange translation loss on its US dollar denominated debt of $1.3 million for the fourth quarter of 2012, as a result of the weakening of the Canadian dollar against the US dollar, which fell by just over 1% between the respective quarter ends. In the fourth quarter of 2011, a strengthening of the Canadian dollar resulted in a translation gain of $2.4 million.

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

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

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

OUTLOOK

Pulp Markets

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

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

Paper Markets

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

CRITICAL ACCOUNTING ESTIMATES

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

Employee Future Benefits

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

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

The actuarial assumptions used in measuring CPPI's defined benefit plan are as follows:

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

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

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

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

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

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

Asset Retirement Obligations

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

Asset Impairments

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

Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates there is no requirement to write-down the Company's finished goods inventories, which are carried at cost at December 31, 2012.

CHANGES IN ACCOUNTING POLICY

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

Consolidation and interests in other entities

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

- IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvements with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.
- IFRS 11, *Joint Arrangements*, redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. The new Standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers.* IFRS 11 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.
- IFRS 12, *Disclosure of Interests in Other Entities*, carries forward existing disclosure requirements and introduces additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.
- There have been amendments to existing standards, including IAS 27 (2011), *Separate Financial Statements*, and IAS 28 (2011), *Investments in Associates and Joint Ventures*. IAS 27 (2011) addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 (2011) sets out the equity accounting for joint ventures and associates, once the assessment of the arrangement has been made under IFRS 11. The amendments to IAS 27 and IAS 28 are not expected to have a material impact on amounts recorded in the financial statements of the Company.

Employee benefits

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

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

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

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

Other standards and amendments

- IFRS 9, *Financial Instruments*, addresses classification and measurement of financial assets and financial liabilities, and is effective January 1, 2015, with earlier adoption permitted. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.
- IFRS 13, *Fair Value Measurement*, clarifies that fair value is the price that would be received on sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.
- IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. IAS 1 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

RISKS AND UNCERTAINTIES

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

Capital Requirements

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2012 were approximately $88.7 million of which approximately $1.1 million was incurred under qualifying projects under the Canadian Federal Government's Green Transformation Program and $2.2 million funded under other government programs. The Company anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Competitive Markets

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

Currency Exchange Risk

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

Cyclicality of Product Prices

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

Dependence on Canfor

Approximately 59% of the fibre currently used by the Company is derived from the Fibre Supply Agreement with Canfor. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Dependence on Key Customers

In 2012, the Company's top five customers accounted for approximately 34% of its pulp sales. The Company is therefore dependent on these customers. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Dividends

For 2013, CPPI projects it will declare quarterly dividends of $0.05 per share through 2013, reflecting its latest outlook for the year and corporate structure. There is no assurance that dividends will be maintained at this level and the market value of CPPI shares may fluctuate depending on the amount of dividends paid in the future. The Board retains the discretion to change the policy at any time and reviews the policy on a quarterly basis.

Employee Future Benefits

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

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

Through its pension funding requirements, the Company through Canfor, is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities.

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

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

Environmental Laws, Regulations and Compliance

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

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. The provision for these future environmental remediation expenditures was $3.3 million as of December 31, 2012. It is possible that the Company could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact the Company's financial condition or preclude the Company from making capital expenditures that would otherwise benefit the Company's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Company.

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

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

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

(a) Credit risk:
Credit risk is the risk of financial loss to CPPI if a customer, bank or third party to a derivative instrument fails to meet its contractual obligations.

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

CPPI utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 83% of the outstanding trade receivables are covered under credit insurance.
In addition, CPPI requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. At December 31, 2012, CPPI trade accounts receivable balance reflected a $40.1 million reduction due to discounting of letters of credit. CPPI's trade receivable balance at December 31, 2012 was $61.6 million. At December 31, 2012, approximately 95% of the trade accounts receivable balance was within CPPI's established credit terms.

(b) Liquidity risk:
Liquidity risk is the risk that CPPI will be unable to meet its financial obligations on a current basis. CPPI manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities, and use of the bank credit facility to meet short-term working capital requirements.

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

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

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

(i) Interest Rate risk:
CPPI is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates and through its operating lease commitments.

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

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

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

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

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

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

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

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

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

Earnings Sensitivities

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2013 Business Plan forecast production and year end foreign exchange rates, are set out in the following table:

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

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

Governmental Regulation

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

Increased Production Capacity

The Company currently faces substantial competition in the pulp industry and may face increased competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Company's business, financial condition, results of operations and cash flows.

Maintenance Obligations and Facility Disruptions

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

Native Land Claims

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

Raw Material Costs

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's Fibre Supply Agreement with Canfor contains a pricing formula that currently results in the Company paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current pricing under the agreement expires August 31, 2013, and is being reviewed and may be amended as necessary to ensure it is reflective of market conditions. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs.

Transportation Services

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

Work Stoppages

Any labour disruptions and any costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. The Company ratified new five year collective agreements with the CEP (Communications, Energy and Paperworkers Union) and PPWC (Pulp, Paper and Woodworkers of Canada) during 2012. Both agreements expire on April 30, 2017. Any future inability to negotiate acceptable contracts could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers.

OUTSTANDING SHARE DATA

At February 13, 2013, there were 71,269,790 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ending December 31, 2012, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the year ended December 31, 2012 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2012, the CEO and CFO have concluded that these controls are operating effectively.

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

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

February 13, 2013

Don B. Kayne
Chief Executive Officer

Alan Nicholl
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canfor Pulp Products Inc.

We have audited the accompanying consolidated financial statements of Canfor Pulp Products Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, the consolidated statements of other comprehensive income (loss), the consolidated statements of changes in equity, and the consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canfor Pulp Products Inc. and its subsidiaries as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
February 13, 2013

CANFOR PULP PRODUCTS INC.
CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)	As at December 31, 2012	As at December 31, 2011
ASSETS		(Note 24)
Current assets		
Accounts receivable - Trade	$ 61.6	$ 70.8
- Green Transformation Program (Note 7)	-	19.7
- Other (Note 20)	22.8	20.7
Inventories (Note 5)	134.1	141.6
Prepaid expenses and other assets	8.3	5.8
Total current assets	226.8	258.6
Property, plant and equipment (Note 6)	530.8	532.0
Other long-term assets	0.4	0.6
Total assets	$ 758.0	$ 791.2
LIABILITIES		
Current liabilities		
Cheques issued in excess of cash on hand	$ 1.2	$ 2.0
Accounts payable and accrued liabilities (Note 8)	93.4	117.9
Current portion of long-term debt (Note 10)	109.4	-
Distributions payable	-	7.8
Total current liabilities	204.0	127.7
Long-term debt (Note 10)	-	111.9
Retirement benefit obligations (Note 11)	105.1	94.8
Other long-term provisions	3.6	3.1
Deferred income taxes, net (Note 15)	59.6	-
Total liabilities	$ 372.3	$ 337.5
EQUITY		
Share capital (Note 13)	$ 525.3	$ 294.9
Retained earnings (deficit)	(139.6)	(67.3)
Non-controlling interest in the Partnership (Note 24)	-	226.1
Total equity	$ 385.7	$ 453.7
Total liabilities and equity	$ 758.0	$ 791.2

Subsequent Event (Note 25)

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

APPROVED BY THE BOARD

S.E. Bracken-Horrocks

R. Lawrence Cliff

Director, S.E. Bracken-Horrocks

Director, R.L. Cliff

CANFOR PULP PRODUCTS INC.
CONSOLIDATED STATEMENTS OF INCOME

(millions of Canadian dollars, except per share data)	Year ended December 31, 2012	Year ended December 31, 2011
Sales (Note 20)	**$ 810.4**	$ 941.0
Costs and expenses		
Manufacturing and product costs (Note 20)	**576.0**	579.5
Freight and other distribution costs	**116.4**	116.0
Amortization	**67.1**	66.8
Selling and administration costs	**24.6**	25.3
Restructuring and severance costs	**1.7**	-
	785.8	787.6
Operating income	**24.6**	153.4
Finance expense, net (Note 14)	**(11.8)**	(10.9)
Foreign exchange gain (loss) on long-term debt	**2.4**	(2.5)
Gain (loss) on derivative financial instruments (Note 23)	**1.7**	(1.6)
Foreign exchange gain (loss) on working capital	**(1.2)**	1.0
Net income before income taxes	**15.7**	139.4
Income tax expense (Note 15)	**(2.0)**	(0.8)
Net income	**$ 13.7**	$ 138.6
Net income attributable to:		
Controlling interest in the Partnership	**$ 9.4**	$ 69.7
Non-controlling interest in the Partnership (Note 24)	**4.3**	68.9
Net income	**$ 13.7**	$ 138.6
Net income per common share: (in dollars)		
Attributable to controlling interest in the Partnership		
- Basic and diluted (Note 16)	**$ 0.14**	$ 1.94

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

CANFOR PULP PRODUCTS INC.
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS) AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

(millions of Canadian dollars)	Year ended December 31, 2012	Year ended December 31, 2011
Net income	**$ 13.7**	$ 138.6
Other comprehensive income (loss)		
Defined benefit plan actuarial losses	**(16.6)**	(17.7)
Income tax recovery on defined benefit plan actuarial losses (Note 15)	**4.1**	-
Other comprehensive income (loss), net of tax	**(12.5)**	(17.7)
Total comprehensive income	**$ 1.2**	$ 120.9
Total comprehensive income (loss) attributable to:		
Controlling interest in the Partnership	**$ (3.1)**	$ 60.8
Non-controlling interest in the Partnership (Note 24)	**4.3**	60.1
Total comprehensive income	**$ 1.2**	$ 120.9

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian dollars)	2012	2011
Share capital		
Balance at beginning of year	**$ 294.9**	$ 294.9
Exchange transaction (Note 24)	**230.4**	-
Balance at end of year (Note 13)	**$ 525.3**	$ 294.9
Retained earnings (deficit)		
Balance at beginning of year	**$ (67.3)**	$ (52.9)
Exchange transaction (Note 24)	**(57.8)**	-
Net income excluding amount attributable to non-controlling interests in the Partnership	**9.4**	69.7
Defined benefit plan actuarial losses excluding amount attributable to non-controlling interest in the Partnership, net of tax	**(12.5)**	(8.9)
Dividends/distributions declared excluding amounts attributable to non-controlling interest in the Partnership	**(11.4)**	(75.2)
Balance at end of year	**$ (139.6)**	$ (67.3)
Total equity attributable to equity holders of the Company	**$ 385.7**	$ 227.6
Non-controlling interest in the Partnership		
Balance at beginning of year	**$ 226.1**	$ 240.5
Net income attributable to non-controlling interests in the Partnership	**4.3**	68.9
Defined benefit plan actuarial losses attributable to non-controlling interest in the Partnership	**-**	(8.8)
Distributions to non-controlling interest in the Partnership	**-**	(74.5)
Exchange transaction (Note 24)	**(230.4)**	-
Balance at end of year	**$ -**	$ 226.1
Total equity	**$ 385.7**	$ 453.7

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

CANFOR PULP PRODUCTS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)	**Year ended December 31, 2012**	Year ended December 31, 2011
Cash generated from (used in):		
Operating activities		
Net income	**$ 13.7**	$ 138.6
Items not affecting cash:		
Amortization	**67.1**	66.8
Income tax expense (Note 15)	**2.0**	0.8
Foreign exchange (gain) loss on long-term debt	**(2.4)**	2.5
Changes in mark-to-market value of derivative financial instruments	**0.4**	(1.8)
Employee future benefits	**(1.9)**	2.2
Net finance expense (Note 14)	**11.8**	10.9
Other, net	**0.3**	0.2
Salary pension plan contributions	**(7.6)**	(7.9)
Income taxes paid, net	**(7.7)**	(0.2)
Net change in non-cash working capital (Note 17)	**12.2**	(13.1)
	87.9	199.0
Financing activities		
Dividends / distributions paid	**(19.2)**	(181.0)
Finance expenses paid	**(8.1)**	(7.8)
	(27.3)	(188.8)
Investing activities		
Additions to property, plant and equipment	**(87.6)**	(68.5)
Expenditures under Green Transformation Program	**(1.1)**	(87.6)
Reimbursements under Green Transformation Program (Note 7)	**19.7**	75.6
Other government grants received	**2.2**	3.5
Acquisition of CPPI cash on exchange (Note 24)	**6.8**	-
Other, net	**0.2**	0.6
	(59.8)	(76.4)
Increase (decrease) in cash and cash equivalents*	**0.8**	(66.2)
Cash and cash equivalents at beginning of year*	**(2.0)**	64.2
Cash and cash equivalents at end of year*	**$ (1.2)**	$ (2.0)

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

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

1. REPORTING ENTITY

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of the Company's registered office is 1700 – 666 Burrard Street, Vancouver, British Columbia, Canada V6C 2X8. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 comprise the Company and its subsidiary entities including Canfor Pulp Limited Partnership ("the Partnership"). The Partnership's operations consist of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

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 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 (Note 24).

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

The consolidated financial statements ("the financial statements") at December 31, 2012 include the accounts of CPPI, the Partnership and its subsidiaries (together referred to as "CPPI" or "the Company"). Prior to March 2, 2012, Canfor held a direct controlling interest in the Partnership. For all periods ending prior to March 2, 2012, the financial statements present the financial position, results of operations, and cash flows of the Pulp Business from the perspective of Canfor's controlling interest in the Pulp Business as if operated as a stand-alone partnership entity subject to Canfor control. 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 24).

The financial statements prior to March 2, 2012 have been prepared on a Partnership entity basis. Accordingly, no recognition has been made for income taxes related to Partnership income in the financial statements prior to March 2, 2012. The tax attributes of the Partnership's net assets flowed directly to the partners.

2. BASIS OF PREPARATION

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 13, 2013.

Basis of measurement

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

- Derivative financial instruments are measured at fair value;
- Financial instruments classified as fair value through profit and loss are measured at fair value;
- Asset retirement obligations are measured at the discounted value of expected future cash flows; and
- The retirement benefit obligation recognized in the balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets.

Use of estimates and judgments

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

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

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

- Note 11 – Employee Future Benefits; and
- Note 12 – Asset Retirement Obligations.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Cash and cash equivalents

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

Financial instruments

Non-derivative financial instruments

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

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

Available-for-sale financial assets - Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. Currently, CPPI does not have any assets included in this category.

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

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

Derivative financial instruments

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

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

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

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

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

Government assistance

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

Asset impairment

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

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

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

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

Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

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

Provisions

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

Asset retirement obligations

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

Revenue recognition

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

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

Income taxes

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

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

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

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

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

The financial statements prior to March 2, 2012 have been prepared on a Partnership entity basis. Accordingly, no recognition has been made for income taxes related to Partnership income in the financial statements prior to March 2, 2012.

Foreign currency translation

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

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

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

Segment reporting

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

4. CHANGES IN ACCOUNTING POLICY

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

Accounting standards issued and not applied
Unless otherwise noted, the following new or revised standards and amendments as adopted by the IASB are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. These new and revised accounting standards have not yet been adopted by CPPI and the Company does not plan to early adopt any of these standards.

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

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

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

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

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

Employee benefits

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

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

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

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

Other standards and amendments

- IFRS 9, *Financial Instruments*, addresses classification and measurement of financial assets and financial liabilities, and is effective January 1, 2015, with earlier adoption permitted. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

- IFRS 13, *Fair Value Measurement*, clarifies that fair value is the price that would be received on sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

- IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. IAS 1 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

5. INVENTORIES

(millions of Canadian dollars)	As at December 31, 2012	As at December 31, 2011
Pulp	$ 59.4	$ 64.1
Paper	18.2	17.0
Wood chips	10.9	16.0
Materials and supplies	45.6	44.5
	$ 134.1	$ 141.6

In 2012, costs of raw materials, consumables and changes in finished products recognized as manufacturing and product costs amounted to $305.5 million (2011 - $312.2 million).

6. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Land and improvements	Buildings, machinery & equipment	Asset retirement landfill	Construction in Progress	Major Overhauls	Total
Cost						
Balance at January 1, 2011	$ 5.4	$ 1,356.1	$ 2.3	$ 3.7	$ 37.0	$ 1,404.5
Additions[1]	-	-	(0.2)	86.4	-	86.2
Disposals	-	(16.4)	-	-	(27.2)	(43.6)
Transfers	-	44.9	-	(75.3)	30.4	-
Balance at December 31, 2011	$ 5.4	$ 1,384.6	$ 2.1	$ 14.8	$ 40.2	$ 1,447.1
Additions [1]	-	-	-	66.2	-	66.2
Disposals	-	(14.0)	-	-	(11.8)	(25.8)
Transfers	-	50.9	-	(65.0)	14.1	-
Balance at December 31, 2012	$ 5.4	$ 1,421.5	$ 2.1	$ 16.0	$ 42.5	$ 1,487.5
Amortization						
Balance at January 1, 2011	$ -	$ (867.0)	$ (0.9)	$ -	$ (23.1)	$ (891.0)
Amortization for the year	-	(50.2)	-	-	(16.5)	(66.7)
Disposals	-	15.4	-	-	27.2	42.6
Balance at December 31, 2011	$ -	$ (901.8)	$ (0.9)	$ -	$ (12.4)	$ (915.1)
Amortization for the year	-	(44.4)	-	-	(22.7)	(67.1)
Disposals	-	13.7	-	-	11.8	25.5
Balance at December 31, 2012	$ -	$ (932.5)	$ (0.9)	$ -	$ (23.3)	$ (956.7)
Carrying amounts						
At January 1, 2011	$ 5.4	$ 489.1	$ 1.4	$ 3.7	$ 13.9	$ 513.5
At December 31, 2011	$ 5.4	$ 482.8	$ 1.2	$ 14.8	$ 27.8	$ 532.0
At December 31, 2012	**$ 5.4**	**$ 489.0**	**$ 1.2**	**$ 16.0**	**$ 19.2**	**$ 530.8**

[1] Net of capital expenditures financed by the federal government-funded Green Transformation Program and other government grants.

7. GREEN TRANSFORMATION PROGRAM

In October 2009, the Canadian federal government announced the introduction of a Pulp and Paper Green Transformation Program (the "Program") designed to reimburse funds spent by Canadian pulp producers on qualifying energy and environmental capital projects. CPPI was allocated $122.2 million with an additional $44.8 million of Partnership funded expenditure for a total of $167.0 million on qualifying expenditures under this program. By the end of 2011, CPPI had spent its full allocation under the Program most of which related to the installation of a recovery boiler and a precipitator upgrade at its Northwood pulp mill. CPPI received the remaining reimbursements totalling $19.7 million in 2012 (2011 - $75.6 million).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Trade payables and accrued liabilities	**$ 42.5**	$ 62.9
Accrued payroll and related liabilities	**32.7**	33.5
Other	**18.2**	21.5
	$ 93.4	$ 117.9

9. OPERATING LOANS

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Operating loan facility	**$ 110.0**	$ 40.0
Bridge loan credit facility (maximum $30.0 million)	**-**	19.7
Facility for BC Hydro letter of credit	**7.5**	10.4
Total operating loans	**117.5**	70.1
Drawn	**-**	-
Letters of credit (for general business purposes)	**(1.7)**	(0.5)
BC Hydro letter of credit	**(7.5)**	(10.4)
Total available operating loans	**$ 108.3**	$ 59.2

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, amortization and certain other non-cash items, and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. In the fourth quarter of 2012, CPLP entered into a new $110.0 million operating loan facility replacing its previous $40.0 million operating loan facility. The new facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. The maturity date of the new facility is November 13, 2016.

During 2012, the Company terminated its $30.0 million bridge loan credit facility in conjunction with the completion of the Canadian Federal Government Green Transformation Program. The facility was used to fund timing differences between expenditures and reimbursements for projects funded by the Program. The Company has a separate facility with a maturity date of November 30, 2013 to cover a $7.5 million standby letter of credit issued to BC Hydro.

As at December 31, 2012, the Company was in compliance with all covenants relating to their operating loans.

10. LONG-TERM DEBT

CPPI has the following long-term debt, all of which is unsecured:

Summary of long-term debt

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Canfor Pulp Limited Partnership		
US$110 million, interest at 6.41%, repayable November 30, 2013	**$ 109.4**	$ 111.9
Less: current portion	**109.4**	-
Long-term portion	**$ -**	$ 111.9

The note agreement contains covenants in relation to earnings before interest, taxes, depreciation, and amortization ("EBITDA"), including a maximum allowable debt:EBITDA leverage ratio and a minimum required EBITDA:interest coverage ratio.

As at December 31, 2012, the Company was in compliance with all covenants relating to the long-term debt.

Fair value of long-term total debt

The fair value of total long-term debt at December 31, 2012 was $113.6 million (2011 – $117.4 million). The fair value was determined using prevailing market rates for long-term debt with similar characteristics and risk profiles.

Scheduled long-term debt repayments and interest payments

The Company will make a scheduled debt repayment of $109.4 million and interest repayment of $7.0 million in 2013.

11. EMPLOYEE FUTURE BENEFITS

The Company, in participation with Canfor, has several funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and certain hourly employees. The defined benefit plans are based on years of service and final average salary. CPPI's other post-retirement benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for 2012 were $18.1 million (2011 – $17.9 million), consisting of cash contributed by CPPI to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans.

Defined benefit plans

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

In 2012, CPPI had two registered defined benefit plans for which actuarial valuations are performed every three years. The most recent actuarial valuation for funding purposes of CPPI's single largest pension plan was as of December 31, 2010, and the next required plan valuation is currently scheduled for December 31, 2013.

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

Defined Benefit Plan Assets

(millions of Canadian dollars)	**2012** Pension Benefit Plans	**2012** Other Benefit Plans	2011 Pension Benefit Plans	2011 Other Benefit Plans
Fair market value of plan assets				
Beginning of year	**$ 72.3**	**$ -**	$ 64.7	$ -
Actual return on plan assets	**8.7**	**-**	1.4	-
CPPI contributions	**7.8**	**1.6**	7.9	1.4
Employee contributions	**0.2**	**-**	0.2	-
Benefit payments	**(1.7)**	**(1.6)**	(1.9)	(1.4)
End of year	**$ 87.3**	**$ -**	$ 72.3	$ -

Plan assets consist of the following:	**As at December 31, 2012**	As at December 31, 2011
	Percentage of Plan Assets	Percentage of Plan Assets
Asset category		
Equity securities	**66%**	61%
Debt securities	**33%**	39%
Other	**1%**	-%
	100%	100%

Defined Benefit Plan Obligations

(millions of Canadian dollars)	**2012** Pension Benefit Plans	**2012** Other Benefit Plans	2011 Pension Benefit Plans	2011 Other Benefit Plans
Accrued benefit obligation				
Beginning of year	**$ 86.5**	**$ 70.9**	$ 75.5	$ 58.5
Current service cost	**3.1**	**1.5**	2.9	1.1
Interest cost	**4.4**	**3.7**	4.2	3.3
Employee contributions	**0.2**	**-**	0.2	-
Benefit payments	**(1.7)**	**(1.6)**	(1.9)	(1.4)
Plan amendment gain	**-**	**(5.3)**	-	-
Actuarial loss	**8.3**	**11.2**	5.6	9.5
Other	**-**	**(0.5)**	-	(0.1)
End of year	**$ 100.8**	**$ 79.9**	$ 86.5	$ 70.9

The total obligation for the defined benefit plan of $100.8 million (2011 - $86.5 million) is wholly or partly funded. At December 31, 2012 the total obligation for the other benefit plans of $79.9 million (2011 - $70.9 million) is unfunded.

Reconciliation of Funded Status of Benefit Plans to Amounts Recorded in the Financial Statements

(millions of Canadian dollars)	**December 31, 2012** Pension Benefit Plans	**December 31, 2012** Other Benefit Plans	December 31, 2011 Pension Benefit Plans	December 31, 2011 Other Benefit Plans
Fair market value of plans assets	**$ 87.3**	**$ -**	$ 72.3	$ -
Accrued benefit obligation	**(100.8)**	**(79.9)**	(86.5)	(70.9)
Funded status of plans – surplus (deficit)	**$ (13.5)**	**$ (79.9)**	$ (14.2)	$ (70.9)
Unamortized past service costs	**-**	**(1.3)**	-	-
Accrued benefit liability	**$ (13.5)**	**$ (81.2)**	$ (14.2)	$ (70.9)
Pension bridge benefits	**(9.5)**	**-**	(9.0)	-
Other pension plans	**(0.9)**	**-**	(0.7)	-
Total accrued benefit liability, net	**$ (23.9)**	**$ (81.2)**	$ (23.9)	$ (70.9)

The following table shows the experience adjustments arising on plan liabilities and assets as a result of the differences between actuarial assumptions made at the beginning of the year and the actual experience during the year:

(millions of Canadian dollars)	**2012** Pension Benefit Plans	**2012** Other Benefit Plans	2011 Pension Benefit Plans	2011 Other Benefit Plans
Experience gain (loss) arising on plan liabilities	**$ 0.3**	**$ -**	$ 1.2	$ 0.1
Experience gain (loss) arising on plan assets	**$ 3.5**	**$ -**	$ (3.7)	$ -

Components of pension cost

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

(millions of Canadian dollars)	**2012** Pension Benefit Plans	**2012** Other Benefit Plans	2011 Pension Benefit Plans	2011 Other Benefit Plans
Recognized in net income				
Current service cost	**$ 3.1**	**$ 1.5**	$ 2.9	$ 1.1
Interest cost	**4.4**	**3.7**	4.2	3.3
Expected return on plan assets	**(5.3)**	**-**	(5.0)	-
Plan amendment gain	**-**	**(4.0)**	-	-
Other	**-**	**(0.5)**	-	(0.1)
Total, included in staff costs	**$ 2.2**	**$ 0.7**	$ 2.1	$ 4.3
Recognized in other comprehensive income				
Actuarial loss (gain) immediately recognized	**$ 4.9**	**$ 11.2**	$ 9.3	$ 9.5
Total pension cost recognized in other comprehensive income	**$ 4.9**	**$ 11.2**	$ 9.3	$ 9.5

The expected return on plan assets is determined by taking into account the expected returns on the assets based on the Company's current investment policy.

Significant assumptions

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

	December 31, 2012 Pension Benefit Plans	**December 31, 2012** Other Benefit Plans	December 31, 2011 Pension Benefit Plans	December 31, 2011 Other Benefit Plans
Accrued benefit obligations at reporting date:				
Discount rate	**4.20%**	**4.40%**	5.00%	5.30%
Rate of compensation increases	**3.00%**	**n/a**	3.00%	n/a
Benefit costs for year ended December 31:				
Discount rate	**5.00%**	**5.30%**	5.50%	5.75%
Expected return on plan assets	**7.00%**	**n/a**	7.00%	n/a
Future salary increases	**3.00%**	**n/a**	3.00%	n/a

Assumed health care cost trend rates

(weighted average assumptions)	**December 31, 2012**	December 31, 2011
Initial health care cost trend rate	**6.28%**	6.33%
Ultimate health care cost trend rate	**4.50%**	4.50%
Year ultimate rate is reached	**2029**	2029

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one percentage point change in assumed health care cost trend rates would have the following effects for 2012:

(millions of Canadian dollars)	1% Increase	1% Decrease
Effect on accrued benefit obligation	$ 15.2	$ 11.9
Effect on the aggregate service and interest cost	$ 1.3	$ 1.0

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

As at December 31, 2012, CPPI estimates that it will make contribution payments of $9.5 million to its defined benefit plans in 2013.

Historical information

The historical information below includes both funded and unfunded pension benefit plans in aggregate.

(millions of Canadian dollars)	**2012**	2011	2010
Fair value of the plan assets	**$ 87.3**	$ 72.3	$ 64.7
Present value of the defined benefit obligation	**(180.7)**	(157.4)	(134.0)
Pension bridge benefits	**(9.5)**	(9.0)	(9.9)
Other pension plans	**(0.9)**	(0.7)	(0.6)
Unamortized past service costs	**(1.3)**	-	-
Funded status of the plans - deficit	**(105.1)**	(94.8)	(79.8)
Experience gain arising on plan liabilities	**$ 0.3**	$ 1.3	$ 0.1
Experience gain (loss) arising on plan assets	**$ 3.5**	$ (3.7)	$ 1.3

Defined contribution and other plans

The total cost recognized in 2012 for CPPI's defined contribution plans was $1.2 million (2011 - $1.0 million).

CPPI contributes to a pulp industry pension plan providing pension benefits. This plan is accounted for as defined contribution plan. Contributions to this plan, not included in the cost recognized for defined contribution plan above, amounted to $6.7 million in 2012 (2011 - $6.7 million).

Employee future benefit plan amendments

During the fourth quarter of 2012, the Company amended the salaried post retirement benefit plans for certain CPPI employees and retirees. The amendments reduce the Company's retirement benefit obligation by $5.3 million (before tax). As a result of the plan amendments, CPPI recognized a gain of $4.0 million (before tax) for vested past-service costs and deferred a gain of $1.3 million (before tax) for unvested past-service costs. The deferred gain will be recognized on a straight line basis over the vesting period.

Other

CPPI's total employee benefits expense includes salaries and wages, future employee benefits and terminations as applicable. The total employee benefit expenses for the year ended December 31, 2012 was $0.2 million (2011- $0.2 million).

12. ASSET RETIREMENT OBLIGATIONS

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2012 and 2011:

(millions of Canadian dollars)		**2012**		2011
Asset retirement obligations at beginning of year	**$**	**3.1**	$	3.1
Accretion expense		**0.2**		-
Asset retirement obligations at end of year	**$**	**3.3**	$	3.1

CPPI's asset retirement obligations represent estimated undiscounted future payments of $7.2 million to remediate the landfills at the end of their useful lives. The payments are expected to occur at periods ranging from 6 to 39 years and have been discounted at risk-free rates ranging from 1.6% to 2.4%.

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

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations.

The asset retirement obligations balance is included in other long-term provisions on the balance sheet.

13. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued and Fully Paid

(millions of Canadian dollars, except number of shares)	**2012**		2011	
	Number of Shares	**Amount**	Number of Shares	Amount
Common shares, beginning of year	**35,776,483**	**$ 294.9**	35,776,483	$ 294.9
Exchange transaction (Note 24)	**35,493,307**	**230.4**	-	-
Common shares at end of year	**71,269,790**	**$ 525.3**	35,776,483	$ 294.9

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

14. FINANCE EXPENSE, NET

(millions of Canadian dollars)	**2012**	2011
Finance expense	**$ (12.0)**	$ (11.3)
Less: Interest income	**0.2**	0.4
Finance expense, net	**$ (11.8)**	$ (10.9)

Finance expense, net is comprised of:

(millions of Canadian dollars)	**2012**	2011
Short-term finance expense, net	**$ (1.3)**	$ (0.8)
Long-term finance expense, net	**(10.5)**	(10.1)
Finance expense, net	**$ (11.8)**	$ (10.9)

For the year ended December 31, 2012, short-term finance expense, net is comprised of stand-by fees for operating loans and letter of credit charges of $1.5 million (2011 - $1.2 million), offset by interest income on cash and cash equivalents of $0.2 million (2011 - $0.4 million). Long-term finance expense, net relates substantially to interest expense on long-term debt of $7.1 million (2011 - $7.0 million), employee future benefit expense of $3.2 million (2011 - $2.9 million), and accretion expense related to the Company's asset retirement obligations of $0.2 million (2011 - $0.2 million).

15. INCOME TAXES

Income tax expense includes current tax expense on income for the March 2, 2012 to December 31, 2012 period. Prior to the Exchange on March 2, 2012, taxes were minimal reflecting the non-taxable status of the Partnership (Note 24).

(millions of Canadian dollars)		2012
Current	$	(1.4)
Deferred		(0.6)
Income tax recovery (expense)	$	(2.0)

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

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

In addition to the amounts recorded to net income, a tax recovery of $4.1 million was recorded to other comprehensive income for the year ended December 31, 2012 in relation to actuarial losses on defined benefit employee compensation plans.

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

(millions of Canadian dollars)		As at December 31, 2012
Deferred income tax assets		
Retirement benefit obligations	$	26.0
Other		1.6
	$	27.6
Deferred income tax liabilities		
Depreciable capital assets	$	(84.9)
Unrealized foreign exchange gains on debt (current)		(2.0)
Other		(0.3)
		(87.2)
Total deferred income taxes, net	$	(59.6)

16. EARNINGS PER SHARE

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. The issuance of the new shares as a result of the exchange transaction led to an increase in the weighted average number of shares outstanding, with 71,269,790 outstanding as of December 31, 2012 (Note 24).

	Year ended December 31, 2012	Year ended December 31, 2011
Weighted average number of common shares	**65,257,263**	35,776,483

17. NET CHANGE IN NON-CASH WORKING CAPITAL

(millions of Canadian dollars)	**2012**	2011
Accounts receivable	**$ 10.9**	$ 32.5
Inventories	**7.4**	(18.1)
Prepaid expenses and other assets	**(2.5)**	5.2
Accounts payable and accrued liabilities	**(3.6)**	(32.7)
Net decrease (increase) in non-cash working capital	**$ 12.2**	$ (13.1)

18. RELATED PARTY TRANSACTIONS

The Company depends on Canfor to provide approximately 59% (2011 - 54%) of its fibre supply as well as to provide certain key business and administrative services as described below. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor.

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

The Company purchased wood chips and hog fuel from Canfor sawmills in the amount of $108.1 million in 2012 (2011 - $122.2 million).

Effective July 1, 2006, the Partnership entered into a services agreement under which Canfor provides certain business and administrative services to the Partnership. Total value of the services increased in 2012 to $3.7 million (2011 - $3.3 million) reflecting the integration of various finance and administrative services. These amounts are included in manufacturing and product costs and selling and administration costs.

Effective July 1, 2006, the Partnership entered into an incidental services agreement with Canfor, under which the Partnership provides certain business and administrative services to Canfor. Total value of the services provided in 2012 was $2.3 million (2011 - $2.0 million), included as a cost recovery in manufacturing and product costs and selling and administration costs.

The Company markets bleached chemi-thermo mechanical pulp production from Canfor's Taylor Pulp Mill ("Taylor") for which it earned commissions totaling $1.9 million in 2012 (2011 – $1.9 million), included in sales. The Company also purchased chemi-thermo mechanical pulp from Taylor for resale totaling $0.3 million in 2012 (2011 – $0.4 million). The Company sold NBSK pulp to Taylor for packaging use totaling $3.0 million in 2012 (2011 – $3.0 million).

The Company purchased wood chips from Lakeland Mills Ltd., in which Canfor has a 33.3% interest. In 2012, CPPI purchased $2.6 million (2011 - $11.5 million) in wood chips, which are included in manufacturing and product costs.

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

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**$ 12.9**	$ 18.2
Lakeland	**-**	0.9
Included in trade and other accounts receivable:		
Products marketed for Canfor	**$ 4.4**	$ 3.2
Canfor [1]	**3.0**	-

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

Key Management Personnel

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

(millions of Canadian dollars)	**2012**	2011
Short-term benefits	**$ 5.1**	$ 4.5
Post-employment benefits	**0.5**	0.4
Restructuring costs	**1.7**	-
	$ 7.3	$ 4.9

Other Related Parties

Post-employment benefit plans

During the year, CPPI made contributions to certain post-employment benefit plans for the benefit of CPPI employees. Note 11 Employee Future Benefits contains further details.

19. 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.

Sales to the largest customer represented approximately 10.6% (2011 – 10.0%) of pulp segment sales.

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

(millions of Canadian dollars)	Pulp	Paper	Unallocated	Elimination Adjustment	Total
Year 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)	**$ 19.2**	**19.4**	**(14.0)**	**-**	**$ 24.6**
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**
Year ended December 31, 2011					
Sales to external customers	$ 802.9	136.6	1.5	-	$ 941.0
Sales to other segments	$ 87.9	-	-	(87.9)	$ -
Operating income (loss)	$ 157.5	9.5	(13.6)	-	$ 153.4
Amortization	$ 63.0	3.6	0.2	-	$ 66.8
Capital expenditures [1]	$ 152.2	2.8	1.1	-	$ 156.1
Identifiable assets	$ 702.5	63.8	24.9	-	$ 791.2

[1] Capital expenditures represent cash paid for capital assets during the period and include capital expenditures financed by the federal government-funded Green Transformation Program and other government grants.

Geographic information

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

(millions of Canadian dollars)	**2012**	2011
Sales by location of customer		
Canada	**$ 51.9**	$ 40.0
United States	**253.4**	274.7
Europe	**92.8**	144.0
Asia	**374.9**	442.0
Other	**37.4**	40.3
	$ 810.4	$ 941.0

20. INSURANCE CLAIM RECEIVABLE

During the second quarter of 2012, an incident at the Northwood Pulp Mill resulted in an unscheduled shutdown and subsequent repairs. The Company recognized a property damage insurance receivable of $5.6 million, which substantially offset the additional maintenance costs related to this incident. This amount was included as a reduction in Manufacturing and Product Costs in the income statement for the year ended December 31, 2012.

The Company recognized a business interruption insurance receivable of $9.7 million, less a deductible of $5.0 million, to recover the estimated impact of year to date lost production. The net insurance proceeds of $4.7 million, was included in Sales for the year ended December 31, 2012.

As at December 31, 2012, the total insurance receivable amount, net of advances received, of $6.3 million is included within Other Accounts Receivable.

21. COMMITMENTS

At the end of the year, CPPI had contractual commitments for the construction of capital assets for $9.9 million (2011 - $6.2 million). These commitments are expected to be settled over the following year.

CPPI has committed to operating leases for property, plant and equipment. As at December 31, 2012 and 2011, the future minimum lease payments under these operating leases were as follows:

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Within one year	**$ 2.0**	$ 1.7
Between one and five years	**2.0**	1.7
Total	**$ 4.0**	$ 3.4

During the year ended December 31, 2012, $3.0 million (2011 - $3.6 million) was recognized as an expense in the income statement in respect of operating leases.

BC Hydro Agreements

The Company's Energy agreement with BC Hydro provides for the sale of power production that exceeds a committed amount from the cogeneration project at the Prince George Pulp and Paper Mill. Under the Cogeneration Agreement with BC Hydro, if the cogeneration project generates less than the commitment in any year and the shortfall cannot be made up by excess generation in prior years or excess generation in the subsequent year, the Company is required to pay BC Hydro an amount equal to the uncorrected shortfall as a ratio of the annual requirement. Under the agreement, the Company is required to post a standby letter of credit as security in annually decreasing amounts as the minimum required amount of electricity is generated. As of December 31, 2012, the Company has no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of $7.5 million (2011 - $10.4 million) has been issued to BC Hydro.

In the fourth quarter of 2012, the Company secured a Load Displacement Agreement ("LDA") and an Energy Purchase Agreement ("EPA") with BC Hydro as part of the Integrated Power Offer program, which provides for the commitment for electrical load displacement and the sale of incremental power production at the Northwood Pulp Mill commencing April 1, 2014. Under the LDA and the EPA agreements the Company is required to post stand by letters of credit as performance security for the term of the agreement. As of December 31, 2012, the Company had no repayment obligations under the terms of both agreements and two standby letters of credit in the amounts of $0.8 million for the EPA and $0.1 million for the LDA, which were issued to BC Hydro as performance security for future power generation commitments.

22. FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial Risk Management

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

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

Credit risk:

Credit risk is the risk of financial loss to CPPI if a customer, bank or third party to a derivative instrument fails to meet its contractual obligations.

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

CPPI utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. As at December 31, 2012, approximately 83% (2011 - 88%) of the outstanding trade receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. At December 31, 2012, CPPI had reduced the trade accounts receivable balance by $40.1 million (2011 – $27.9 million) due to discounting of letters of credit. CPPI's trade receivable balance at December 31, 2012 was $61.6 million (2011 - $70.8 million). At December 31, 2012, approximately 95% of the trade accounts receivable balance was within CPPI's established credit terms (2011 – 98%).

Liquidity risk:
Liquidity risk is the risk that CPPI will be unable to meet its financial obligations on a current basis. CPPI manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities, and use of the bank credit facility to meet short-term working capital requirements.

At December 31, 2012, CPPI had accounts payable and accrued liabilities of $93.4 million (2011 - $117.9 million), cheques issued in excess of cash on hand of $1.2 million (2011 - $2.0 million), and current long-term debt obligations of $109.4 million (2011 - nil), all of which fall due for payment within one year of the balance sheet date. At December 31, 2012, the Company had $117.5 million of unsecured operating loan facilities, which were undrawn, except for $9.2 million reserved for several standby letters of credit.

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

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

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

Changes in the market interest rates do not have a significant impact on CPPI's results of operations due to the short-term nature of the respective financial assets and obligations. CPPI utilizes interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. At December 31, 2012, CPPI had $105.0 million in fixed interest rate swaps with interest rates ranging from 2.37% to 2.59% with maturities between 2014 and 2015. The Company had no interest rate swaps at December 31, 2011.

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $0.5 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable); (ii) gain (loss) of approximately $1.1 million in relation to long-term debt denominated in US dollars at year end.

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses. The Company enters into US dollar forward sale contracts to reduce exposure to fluctuations in US exchange rates on US dollar denominated accounts receivable and accounts payable balances.

CPPI had the following foreign exchange derivatives at December 31, 2012 and 2011:

	As at December 31, 2012		As at December 31, 2011	
	Notional Amount	**Exchange Rates**	Notional Amount	Exchange Rates
US Dollar Forwards	**(millions of US dollars)**	**(range of rates, per dollar)**	(millions of US dollars)	(range of rates, per dollar)
0-12 months US Dollar Forward Contracts	**$ 2.5**	**$ 0.9941**	$ 56.0	$ 1.0112 - 1.0470

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

The Company may periodically use derivative instruments to mitigate commodity price risk.

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

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

As at December 31, 2012, the Company had 48.0 thousand barrels of WTI oil collars, which will be settled in 2013, with weighted average protection of $84.60 per barrel and topside of $97.50 per barrel.

As at December 31, 2011, the Company had 58.0 thousand barrels of WTI oil collars with weighted average protection of $82.97 per barrel and topside of $108.28 per barrel.

Capital management

CPPI's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure, that ensure adequate liquidity to maintain and develop the business through the commodity price cycle, taking into account future capital requirements and debt retirement obligations. In addition, CPPI works with relevant stakeholders to ensure the safety of its operations and employees, and remain in compliance with all environmental regulations.

CPPI is comprised of net debt and shareholder's equity:

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Total Debt	**$ 109.4**	$ 111.9
Cheques issued in excess of cash on hand	**1.2**	2.0
Less: Cash and cash equivalents	**-**	-
Net debt	**$ 110.6**	$ 113.9
Total equity	**385.7**	453.7
	$ 496.3	$ 567.6

CPPI's long-term debt and short-term credit facility agreements contain leverage and interest ratio covenants as described in Note 10 to these financial statements.

23. FINANCIAL INSTRUMENTS

Classification and measurement of financial instruments

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

Derivative instruments are measured at fair value. IFRS 7, *Financial Instruments: Disclosures*, 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 following table summarizes CPPI's financial instruments at December 31, 2012 and 2011, and shows the level within the fair value hierarchy in which they have been classified (for financial instruments measured at fair value):

(millions of Canadian dollars)	Fair Value Hierachy Level	**As at December 31, 2012**	As at December 31, 2011
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	**$ 0.1**	$ 0.4
Loans and receivables			
Accounts receivable (excluding derivatives)	n/a	**84.3**	110.8
		$ 84.4	$ 111.2
Financial liabilities			
Other liabilities			
Cheques issued in excess of cash on hand	n/a	**$ 1.2**	$ 2.0
Accounts payable and accrued liabilities (excluding derivatives)	n/a	**93.4**	117.9
Long-term debt – including current portion	n/a	**109.4**	111.9
		$ 204.0	$ 231.8

Derivative financial instruments

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs and interest rates. At December 31, 2012, the fair value of derivative financial instruments was a net asset of $0.1 million (2011 – net asset of $0.4 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2012 and 2011:

(millions of Canadian dollars)	**2012**	2011
Foreign exchange collars and forward contracts	**$ 1.7**	$ (1.6)
Crude oil collars	**-**	0.1
Natural gas swaps	**-**	(0.1)
Gain (loss) on derivative financial instruments	**$ 1.7**	$ (1.6)

The following table summarizes the fair market value of the derivative financial instruments included in the balance sheets at December 31, 2012 and 2011:

(millions of Canadian dollars)	**As at December 31, 2012**	As at December 31, 2011
Foreign exchange collars and forward contracts	**$ -**	$ 0.3
Crude oil collars	**0.1**	0.1
Total asset (all current)	**$ 0.1**	$ 0.4

24. ACQUISITION OF INTEREST IN CANFOR PULP LIMITED PARTNERSHIP

As a result of the Exchange described in Note 1, 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 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, along with the comparative periods, 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 year ended December 31, 2012. Canfor's interest in the Pulp Business was deemed to acquire CPPI on March 2, 2012, as a result of the transaction non-controlling interest of $230.4 million was eliminated and 35,493,307 shares in the amount of $230.4 million were deemed issued and included in share capital.

The consolidated financial statements include the balance sheets, statements of income, statements of other comprehensive income, statements of changes in equity, and cash flows of CPPI, the Partnership and the subsidiaries of those entities from March 2, 2012.

Management estimates that the fair value of CPPI's assets and liabilities approximate their carrying values at March 2, 2012 (note – CPPI's investment in the Partnership eliminates upon consolidation). Excluding the investment in the Partnership, the carrying values of the assets and liabilities of CPPI at March 2, 2012 were as follows:

(millions of Canadian dollars)		As at March 2, 2012
Assets acquired:		
Cash and cash equivalents	$	6.8
Liabilities assumed:		
Due to Canfor Pulp Limited Partnership	$	0.1
Income taxes payable	$	0.2
Deferred income tax liability	$	31.4

As a result of the exchange there was no change in control for the Pulp Business. The difference between the carrying value of the non-controlling interest and the assets and liabilities acquired was recognized directly in equity as a charge to retained earnings (deficit).

(millions of Canadian dollars)		Total
Cash	$	6.8
Deferred taxes	$	(63.2)
Income taxes payable	$	(1.3)
Other liabilities	$	(0.1)
Charge to retained earnings (deficit) as at March 2, 2012	$	(57.8)

25. SUBSEQUENT EVENT

On February 13, 2013, the Board of Directors reinstated the Company's dividend, declaring a quarterly dividend of $0.05 per share, payable on March 5, 2013 to shareholders of record on February 26, 2013.

DIRECTORS AND OFFICERS

DIRECTORS

PETER J.G. BENTLEY, O.C., LL.D. [2, 3, 4, 5]
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Vancouver, British Columbia

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Retired Partner of PricewatehouseCoopers, LLP
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WILLIAM W. STINSON [2, 5]
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Vice President, Human Resources
Delta, British Columbia

SEAN CURRAN
Vice President, Sales and Marketing
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MARTIN PUDLAS
Vice President, Operations
Prince George, British Columbia

1 Member of the Audit Committee

2 Member of the Joint Capital Expenditure Committee

3 Member of the Environmental,
Health and Safety Committee

4 Member of the Corporate Governance Committee

5 Member of the Management Resources
and Compensation Committee

6 Member of the Pension Committee

COMPANY INFORMATION

ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Canfor Pulp Products Inc. will be held at the Prince George Playhouse, 2833 Recreation Place, Prince George, British Columbia on Wednesday, May 1, 2013 at 11:30 a.m.

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company
Vancouver, Calgary, Regina, Winnipeg,
Toronto, Montreal and Halifax

STOCK LISTING

Toronto Stock Exchange
Symbol: CFX

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Canfor Pulp Products Inc. also produces an Annual Information Form. To obtain this publication visit the website www.canforpulp.com

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