News Release

Canfor Pulp Products Inc.

FOR IMMEDIATE RELEASE

CANFOR PULP PRODUCTS INC. ANNOUNCES FOURTH QUARTER 2012 RESULTS AND QUARTERLY DIVIDEND

February 14, 2013 - Vancouver, B.C. - Canfor Pulp Products Inc. ("CPPI") (TSX: CFX) today reported net income of $4.7 million, or $0.07 per share, for the fourth quarter of 2012, compared to a net loss of $4.6 million, or $0.06 per share, for the third quarter of 2012 and net income of $15.8 million, or $0.22 per share, for the fourth quarter of 2011. For the year ended December 31, 2012, the Company's net income was $13.7 million, or $0.14 per share, compared to $138.6 million, or $1.94 per share, for 2011.

The Company reported operating income of $10.9 million for the fourth quarter of 2012, an increase of $19.1 million from an operating loss of $8.2 million reported for the third quarter of 2012, principally as a result of improved pulp segment earnings related to higher shipments and lower unit manufacturing costs, and to a lesser extent the impact of one-time items.

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

(millions of dollars, except for per share amounts)	Q4 2012	Q3 2012	YTD 2012	Q4 2011	YTD 2011
Sales	**$ 201.9**	$ 177.7	**$ 810.4**	$ 212.7	$ 941.0
Operating income (loss)	**$ 10.9**	$ (8.2)	**$ 24.6**	$ 16.5	$ 153.4
Net income (loss)	**$ 4.7**	$ (4.6)	**$ 13.7**	$ 15.8	$ 138.6
Net income (loss) per share, basic and diluted	**$ 0.07**	$ (0.06)	**$ 0.14**	$ 0.22	$ 1.94

Results in the fourth quarter of 2012 benefited from improved operating rates with total pulp and paper production up over 43,000 tonnes, or 17%, following the extended scheduled outage and subsequent ramp ups experienced in the challenging third quarter. The higher production levels enabled the Company to increase shipment volumes and rebuild inventory levels. Unit manufacturing costs improved 12% from the previous quarter, for the most part reflecting the impact of higher production volumes as well as lower fibre costs. Operating income for the current quarter included an accounting gain of $4.0 million reflecting amendments to the Company's salaried post retirement benefit plans, while the comparative quarter included one-time costs of $3.2 million associated with new five year collective labour agreements.

Global softwood pulp markets improved slightly through the fourth quarter of 2012 with increased softwood pulp purchases from China helping to offset weaker shipments to North America and Europe. Global softwood pulp demand was up 7% from the previous quarter, mostly reflecting increased purchases from China, with global softwood pulp producer inventory levels up 2 days, to 29 days supply, compared to the end of the third quarter.

Northern Bleached Softwood Kraft ("NBSK") pulp list prices showed a modest improvement in the fourth quarter with all regions seeing increases in the US$10 to US$30 per tonne range. Compared to the previous quarter, the average list price for North America was up US$10 to US$863 per tonne. The Company's average list price to China and price to Europe were up US$30 and US$23, respectively. Overall, however, pulp sales realizations moved up only marginally in the fourth quarter of 2012 as a result of increased volumes to lower-margin regions, principally China.

The Company's paper segment results were also improved in the current quarter, reflecting reduced unit manufacturing costs and higher shipment levels, which were partially offset by lower sales realizations.

During the fourth quarter of 2012, the Company obtained a new $110 million operating loan facility replacing its previous $40 million operating loan facility. The Company's operating loans were undrawn at December 31, 2012, with $108 million available and the balance reserved for standby letters of credit.

Commenting on the fourth quarter's results, CPPI's CEO, Don Kayne, said, "After the challenges experienced in the last quarter, it was encouraging to see solid improvements in productivity, as well as some improvement in market conditions this quarter."

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, the Company announced an increase in the North American NBSK pulp list price of US$30 per tonne. There are no maintenance outages scheduled in the first quarter of 2013.

On December 6, 2012, the Company entered into an agreement with BC Hydro under the Integrated Power Offer program to upgrade the turbines at its Northwood Pulp Mill. The project is targeted for completion in the fourth quarter of 2013.

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 that 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.

Additional Information and Conference Call

A conference call to discuss the fourth quarter's financial and operating results will be held on Friday, February 15, 2013 at 7:30 AM Pacific time. To participate in the call, please dial 416-340-2216 or Toll-Free 866-226-1792. For instant replay access until March 1, 2013, please dial 800-408-3053 and enter participant pass code 7426712#. The conference call will be webcast live and will be available at www.canforpulp.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at http://www.canforpulp.com/investors/webcasts.

Forward Looking Statements

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

CPPI is a leading global supplier of pulp and paper products with operations based in the central interior of British Columbia. The Company owns and operates three mills with annual capacity to produce over one million tonnes of northern softwood market kraft pulp, 90% of which is bleached to become NBSK pulp for sale to the market, and approximately 140,000 tonnes of kraft paper. CPPI shares are traded on the Toronto Stock Exchange under the symbol CFX.

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Canfor Pulp Products Inc.
Fourth Quarter 2012
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended December 31, 2012 relative to the quarters ended September 30, 2012 and December 31, 2011, and the financial position of the Company at December 31, 2012. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended December 31, 2012 and 2011, as well as the 2011 annual MD&A and the 2011 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2011 (available at www.canforpulp.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to operating income before amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. 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 (loss) 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 both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by CPPI.

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

CPPI SHARE EXCHANGE

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

The discussion which follows refers to the results of the Partnership 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.

FOURTH QUARTER 2012 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)	Q4 2012	Q3 2012	YTD 2012	Q4 2011	YTD 2011
Operating income (loss) by segment:					
Pulp	**$ 6.8**	$ (8.4)	**$ 19.2**	$ 16.7	$ 157.5
Paper	**$ 6.9**	$ 5.0	**$ 19.4**	$ 3.4	$ 9.5
Unallocated	**$ (2.8)**	$ (4.8)	**$ (14.0)**	$ (3.6)	$ (13.6)
Total operating income (loss)	**$ 10.9**	$ (8.2)	**$ 24.6**	$ 16.5	$ 153.4
Add: Amortization	**$ 20.0**	$ 15.2	**$ 67.1**	$ 21.4	$ 66.8
Total operating income before amortization	**$ 30.9**	$ 7.0	**$ 91.7**	$ 37.9	$ 220.2
Add (deduct):					
Working capital movements	**$ 2.4**	$ (5.2)	**$ 12.2**	$ 1.2	$ (13.1)
Salary pension plan contributions	**$ (1.8)**	$ (1.9)	**$ (7.6)**	$ (1.8)	$ (7.9)
Other operating cash flows, net	**$ (5.7)**	$ 1.5	**$ (8.4)**	$ (3.2)	$ (0.2)
Cash from operating activities	**$ 25.8**	$ 1.4	**$ 87.9**	$ 34.1	$ 199.0
Add (deduct):					
Distributions / dividends paid	**$ -**	$ (3.6)	**$ (19.2)**	$ (22.8)	$ (181.0)
Finance expenses paid[1]	**$ (4.1)**	$ (0.2)	**$ (8.1)**	$ (3.8)	$ (7.8)
Capital additions, net[2]	**$ (11.5)**	$ (19.9)	**$ (66.8)**	$ (41.6)	$ (77.0)
Acquisition of CPPI cash on exchange	**$ -**	$ -	**$ 6.8**	$ -	$ -
Other, net	**$ -**	$ -	**$ 0.2**	$ 0.1	$ 0.6
Change in cash / operating loans	**$ 10.2**	$ (22.3)	**$ 0.8**	$ (34.0)	$ (66.2)
Average exchange rate (US$ per C$1.00)[3]	**$ 1.009**	$ 1.005	**$ 1.001**	$ 0.977	$ 1.011

[1] 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 Company's unaudited interim consolidated financial statements.
[2] Additions to property, plant and equipment are shown net of amounts received under Government funding initiatives.
[3] Source – Bank of Canada (average noon rate for the period).

The Company reported operating income of $10.9 million for the fourth quarter of 2012, an increase of $19.1 million from an operating loss of $8.2 million reported for the third quarter of 2012, principally as a result of improved pulp segment earnings related to higher shipments and lower unit manufacturing costs, and to a lesser extent the impact of one-time items.

Results in the fourth quarter of 2012 benefited from improved operating rates with total pulp and paper production up over 43,000 tonnes, or 17%, following the extended scheduled outage and subsequent ramp ups experienced in the challenging third quarter. The higher production levels enabled the Company to increase shipment volumes and rebuild inventory levels. Unit manufacturing costs improved 12% from the previous quarter, for the most part reflecting the impact of higher production volumes as well as lower fibre costs. Operating income for the current quarter included an accounting gain of $4.0 million reflecting amendments to the Company's salaried post retirement

benefit plans, while the comparative quarter included one-time costs of $3.2 million associated with new five year collective labour agreements.

Global softwood pulp markets improved slightly through the fourth quarter of 2012 with increased softwood pulp purchases from China offset by weaker shipment volumes to North America and Europe. Global softwood pulp demand was up 7% from the previous quarter, mostly reflecting increased purchases from China, with global softwood pulp producer inventory levels up 2 days, to 29 days supply, compared to the end of the third quarter.

Northern Bleached Softwood Kraft ("NBSK") pulp list prices showed a modest improvement in the fourth quarter with all regions seeing increases in the US$10 to US$30 per tonne range. Compared to the previous quarter, the average list price for North America was up US$10 to US$863 per tonne. The Company's average list price to China and price to Europe were up US$30 and US$23, respectively. Overall, however, pulp sales realizations moved up only marginally in the fourth quarter of 2012 as a result of increased volumes to lower-margin regions, principally China.

The Company's paper segment results were also improved in the current quarter, reflecting reduced unit manufacturing costs and higher shipment levels, which were partially offset by lower sales realizations.

Compared to the fourth quarter of 2011, operating income was down $5.6 million, principally reflecting lower pulp segment results. Lower pulp earnings reflected lower market pulp prices and a 3% stronger Canadian dollar, partially offset by higher shipment volumes and lower unit manufacturing costs. Mitigating the weaker results in the pulp segment were improved earnings from the paper segment.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of dollars unless otherwise noted)	Q4 2012	Q3 2012	YTD 2012	Q4 2011	YTD 2011
Sales	**$ 168.2**	$ 144.8	**$ 675.0**	$ 179.1	$ 802.9
Operating income before amortization	**$ 25.8**	$ 5.9	**$ 82.4**	$ 37.1	$ 220.5
Operating income (loss)	**$ 6.8**	$ (8.4)	**$ 19.2**	$ 16.7	$ 157.5
Average pulp price delivered to U.S. – US$[4]	**$ 863**	$ 853	**$ 872**	$ 920	$ 977
Average price in Cdn$	**$ 855**	$ 849	**$ 871**	$ 942	$ 966
Production – pulp (000 mt)	**260.5**	220.6	**955.7**	245.7	996.7
Shipments – pulp (000 mt)	**246.6**	214.4	**961.8**	231.0	978.5
Marketed on behalf of Canfor	**51.2**	54.5	**214.8**	44.3	210.1

[4] 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, an improvement of $15.2 million from an operating loss of $8.4 million for the previous quarter, but down $9.9 million from the fourth quarter of 2011. Results in the current quarter were impacted by lower unit manufacturing costs and higher shipment volumes, both reflecting improved operations in the quarter. Market pulp production increased approximately 40,000 tonnes in the quarter due to increased operating days and higher overall operating rates following the extended scheduled outage and subsequent ramp ups experienced in the third quarter. Included in both quarters' results were certain one-time costs: the current quarter results included $3.3 million of an accounting gain related to post retirement plan adjustments, while the third quarter of 2012 included one-time costs of $3.2 million associated with new five year collective labour agreements. For the 2012 year as a whole, the operating income was $19.2 million, down $138.3 million from $157.5 million in 2011.

NBSK pulp list prices showed a small improvement in all regions in the fourth quarter of 2012, with prices to North America up US$10 to US$863 per tonne, but this was largely offset by a lower-value regional sales mix.

Lower operating earnings compared to the fourth quarter of 2011 reflected lower global market pulp prices, as NBSK pulp list prices were down in all regions, with prices to North America declining US$57, or 6%, per tonne and similar decreases seen for Europe and China. Sales realizations were also negatively impacted by a 3% stronger Canadian dollar compared to the fourth quarter of 2011. Higher shipment volumes and a 7% reduction in unit manufacturing costs, reflecting lower fibre costs and the impact of higher production volumes, helped to mitigate the impact of reduced sales realizations. Other contributing factors included the aforementioned post retirement benefit accounting gain in the current quarter.

Markets

Global softwood pulp demand increased 7% compared to the third quarter of 2012 and was up 3% for the full year 2012 compared to 2011[5]. 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. At the end of December 2012, World 20[6] softwood pulp producer inventories increased 2 days from the end of the third quarter, to 29 days of supply, but were down 7 days compared to December 2011 inventories. Global demand for printing and writing papers decreased 2% in 2012 as compared to 2011[5].

Sales

The Company's pulp shipments in the fourth quarter of 2012 were 247,000 tonnes, an increase of approximately 32,000 tonnes, or 15%, from the previous quarter. Compared to the fourth quarter of 2011, shipments were up 16,000 tonnes, or 7%. For the most part, the increased shipments relative to both comparative periods reflected higher production volumes coupled with higher levels of purchases by Chinese consumers.

Global softwood pulp pricing saw a small increase through the current quarter. The North America NBSK pulp list price averaged US$863 per tonne for the quarter, up US$10, or 1%, from the third quarter of 2012, while CPPI's average list price to China and price to Europe were up US$30 and US$23, respectively, over the same period. Overall, however, pulp sales realizations moved up only marginally in the fourth quarter mostly as a result of increased volumes to lower-margin regions, principally China.

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 price decreased US$57 per tonne, or 6%. 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 current quarter were a higher proportion of shipments to China.

Operations

Pulp production in the fourth quarter of 2012 was 261,000 tonnes, up approximately 40,000 tonnes, or 18%, from the previous quarter and up almost 15,000 tonnes, or 6%, compared to the fourth quarter of 2011. The increase in production compared to the third quarter of 2012 reflected a reduction in scheduled outages and improved operating rates following the extended scheduled outage at the Company's Prince George Pulp Mill in the previous quarter along with improved operating rates at other facilities.

Pulp unit manufacturing costs decreased 8% from the previous quarter of 2012, with higher production volumes coupled with lower fibre costs, in part due to lower-cost sawmill residual chips, and chemical costs, partially offset by higher maintenance expense and a seasonal increase in energy costs. The previous quarter's costs also included one-time costs associated with the new five year collective labour agreements.

Compared to the fourth quarter of 2011, unit manufacturing costs decreased 7%, 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 current quarter reflected lower-cost sawmill residual chips, where prices are linked to NBSK pulp sales realizations, as well as a reduction in higher-cost whole log chips.

[5] As reported by Pulp and Paper Products Council ("PPPC") statistics.
[6] 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.

Paper

Selected Financial Information and Statistics – Paper

(millions of dollars unless otherwise noted)	Q4 2012	Q3 2012	YTD 2012	Q4 2011	YTD 2011
Sales	**$ 33.7**	$ 32.8	**$ 134.6**	$ 33.5	$ 136.6
Operating income before amortization	**$ 7.9**	$ 5.9	**$ 23.2**	$ 4.4	$ 13.1
Operating income	**$ 6.9**	$ 5.0	**$ 19.4**	$ 3.4	$ 9.5
Production – paper (000 mt)	**35.4**	31.9	**130.2**	33.5	136.5
Shipments – paper (000 mt)	**32.0**	30.6	**129.0**	30.2	127.6

Overview

Operating income for the paper segment was $6.9 million for the fourth quarter of 2012, an increase of $1.9 million from the previous quarter and up $3.5 million from the fourth quarter of 2011. For the 2012 year, operating income was $19.4 million, an improvement of $9.9 million compared to 2011.

Compared to the third quarter of 2012, higher production volumes resulted in lower unit manufacturing costs and increased shipments. Unit sales realizations for paper products were down 2%, primarily related to a lower percentage of prime bleached sales in the current quarter.

Compared to 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 almost 1,500 tonnes from the previous quarter and 2,000 tonnes higher than 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 compared to 85% in the previous quarter, but were relatively unchanged from the fourth quarter of 2011.

Unit sales realizations for paper products were down 2% from the third quarter of 2012 and down 5% from the same period in the prior year. The more significant decrease compared to the fourth quarter of 2011 related primarily to lower bleached paper prices into export markets, principally Europe and China, and the 3% strengthening of the Canadian dollar.

Operations

Paper production in the fourth quarter of 2012 was 35,400 tonnes, up 3,500 tonnes from the previous quarter and up almost 2,000 tonnes compared to the same period in 2011. The increased production primarily reflected higher operating rates in the current period.

Paper unit manufacturing costs were 7% lower than the prior quarter as a result of lower costs for slush pulp and the impact of higher production volumes.

Compared to the fourth quarter of 2011, unit manufacturing costs were significantly lower, principally reflecting lower costs for slush pulp.

Unallocated Items

(millions of dollars)	Q4 2012	Q3 2012	YTD 2012	Q4 2011	YTD 2011
Corporate costs	**$ (2.8)**	$ (4.8)	**$ (14.0)**	$ (3.6)	$ (13.6)
Finance expense, net	**$ (3.4)**	$ (2.8)	**$ (11.8)**	$ (2.8)	$ (10.9)
Foreign exchange gain (loss) on long-term debt	**$ (1.3)**	$ 3.9	**$ 2.4**	$ 2.4	$ (2.5)
Gain (loss) on derivative financial instruments	**$ (0.1)**	$ 1.9	**$ 1.7**	$ 1.5	$ (1.6)
Foreign exchange gain (loss) on working capital	**$ 0.3**	$ (1.5)	**$ (1.2)**	$ (1.3)	$ 1.0

Corporate costs were $2.8 million for the fourth quarter of 2012, down $2.0 million from the previous quarter and down $0.8 million from the fourth quarter of 2011. The reduction in the current quarter primarily reflected the costs in the previous quarter related to changes in senior management as a result of the integration of CPPI and Canfor Corporation. A portion of the decrease from both comparative periods also reflected part 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, a $0.6 million increase compared to both the previous quarter and 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 comparative periods, a strengthening of the Canadian dollar resulted in translation gains of $3.9 million and $2.4 million, respectively.

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	Q3 2012	YTD 2012	Q4 2011	YTD 2011
Foreign exchange collars and forward contracts	**$ (0.2)**	$ 1.8	**$ 1.7**	$ 1.4	$ (1.6)
Crude oil collars	**$ 0.1**	$ 0.1	**$ -**	$ 0.1	$ 0.1
Natural gas swaps	**$ -**	$ -	**$ -**	$ -	$ (0.1)
	$ (0.1)	$ 1.9	**$ 1.7**	$ 1.5	$ (1.6)

Other Comprehensive Income (Loss)

In the fourth quarter of 2012, the Company recorded an after-tax charge to the statements of other comprehensive income (loss) of $1.7 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The charge reflects a reduction in the discount rate used to value the plans offset in part by a slightly higher than expected rate of return on plan assets for the period. In the previous quarter a charge of $4.7 million was recorded, reflecting a reduction in discount rates offset slightly by a higher than expected rate of return on plan assets for the period. An after-tax loss of $5.0 million was recorded in the fourth quarter of 2011.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios)	Q4 2012	Q3 2012	YTD 2012	Q4 2011	YTD 2011
Increase (decrease) in cash and cash equivalents	**$ 3.2**	$ (15.3)	**$ 0.8**	$ (34.0)	$ (66.2)
Operating activities	**$ 25.8**	$ 1.4	**$ 87.9**	$ 34.1	$ 199.0
Financing activities	**$ (11.1)**	$ 3.2	**$ (27.3)**	$ (26.6)	$ (188.8)
Investing activities	**$ (11.5)**	$ (19.9)	**$ (59.8)**	$ (41.5)	$ (76.4)
Ratio of current assets to current liabilities			**1.1: 1**		2.0 : 1
Net debt to capitalization			**22.3%**		20.9%

Changes in Financial Position

Cash generated from operating activities was $25.8 million in the fourth quarter of 2012, up from $1.4 million generated in the third quarter. The increase resulted largely from higher operating earnings. Also contributing to the increase was higher cash generated from working capital movements, principally related to property insurance and taxes paid in the previous quarter, offset in part by higher accounts receivable in part reflecting the improved pricing in the fourth quarter. Compared to the fourth quarter of 2011, cash generated from operating activities was down by $8.3 million, principally reflecting lower operating earnings.

Financing activities used cash of $11.1 million in the current quarter, compared to cash generated of $3.2 million in the previous quarter and cash used of $26.6 million in the fourth quarter of 2011. The current quarter cash flows included repayment of the $7.0 million drawn on the Company's operating bank loans in the previous quarter. In the immediately preceding quarter, financing cash outflows also included dividends of $3.6 million, representing dividends declared and paid during the quarter. In the fourth quarter of 2011, distributions paid to unitholders was $22.8 million. Finance payments in the current quarter were $4.1 million, principally relating to interest payments on the Company's debt. Finance payments in the third quarter of 2012 were $0.2 million primarily reflecting standby fees for the Company's operating loans, while finance payments in the fourth quarter of 2011 were at a similar level to the current quarter.

Cash used in investing activities in the current quarter was comprised of $12.8 million of capital expenditures slightly offset by $1.3 million in cash received from the Green Transformation Program and other government grants. Capital expenditures in the current quarter included equipment received related to the scheduled 2013 upgrades to the Northwood Pulp Mill turbines, as well as maintenance capital related to outages and payments related to previous period projects.

Liquidity and Financial Requirements

At December 31, 2012, CPPI had cheques issued in excess of cash on hand of $1.2 million. During 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. No amounts were drawn on the new bank facility, except for $1.7 million reserved for several standby letters of credit. In addition, the Company has a separate facility with a maturity date of November 30, 2013, to cover the $7.5 million standby letter of credit issued to BC Hydro under a power generation agreement.

CPPI has US$110.0 million of senior debt that is scheduled for repayment on November 30, 2013. This debt is in the form of unsecured US dollar private placement notes and bears interest at 6.41%.

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

Dividends

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 that 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.

OUTLOOK

Pulp

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, the Company announced an increase in the North American NBSK pulp list price of US$30 per tonne to US$900 per tonne.

There are no maintenance outages planned for the first quarter of 2013.

Paper

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.

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)			**As at December 31, 2012**		As at December 31, 2011 (Note 11)
ASSETS					
Current assets					
Accounts receivable	- Trade	**$**	**61.6**	$	70.8
	- Green Transformation Program		**-**		19.7
	- Other (Note 12)		**22.8**		20.7
Inventories (Note 2)			**134.1**		141.6
Prepaid expenses and other assets			**8.3**		5.8
Total current assets			**226.8**		258.6
Property, plant and equipment			**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			**93.4**		117.9
Current portion of long-term debt (Note 3(b))			**109.4**		-
Distributions payable			**-**		7.8
Total current liabilities			**204.0**		127.7
Long-term debt (Note 3(b))			**-**		111.9
Retirement benefit obligations			**105.1**		94.8
Other long-term provisions			**3.6**		3.1
Deferred income taxes, net (Note 6)			**59.6**		-
Total liabilities		**$**	**372.3**	$	337.5
EQUITY					
Share capital (Note 11)		**$**	**525.3**	$	294.9
Retained earnings (deficit)			**(139.6)**		(67.3)
Non-controlling interests in the Partnership (Note 11)			**-**		226.1
Total equity		**$**	**385.7**	$	453.7
Total liabilities and equity		**$**	**758.0**	$	791.2

Subsequent Event (Note 13)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks" *"R.L. Cliff"*

Director, S.E. Bracken-Horrocks Director, R.L. Cliff

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

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2012	2011	12 months ended December 31, 2012	2011
Sales (Note 12)	**$ 201.9**	$ 212.7	**$ 810.4**	$ 941.0
Costs and expenses				
Manufacturing and product costs (Note 12)	**136.4**	140.0	**576.0**	579.5
Freight and other distribution costs	**28.8**	27.8	**116.4**	116.0
Amortization	**20.0**	21.4	**67.1**	66.8
Selling and administration costs	**5.8**	7.0	**24.6**	25.3
Restructuring and severance costs	**-**	-	**1.7**	-
	191.0	196.2	**785.8**	787.6
Operating income	**10.9**	16.5	**24.6**	153.4
Finance expense, net	**(3.4)**	(2.8)	**(11.8)**	(10.9)
Foreign exchange gain (loss) on long-term debt	**(1.3)**	2.4	**2.4**	(2.5)
Gain (loss) on derivative financial instruments (Note 5)	**(0.1)**	1.5	**1.7**	(1.6)
Foreign exchange gain (loss) on working capital	**0.3**	(1.3)	**(1.2)**	1.0
Net income before income taxes	**6.4**	16.3	**15.7**	139.4
Income tax expense (Note 6)	**(1.7)**	(0.5)	**(2.0)**	(0.8)
Net income	**$ 4.7**	$ 15.8	**$ 13.7**	$ 138.6
Net income attributable to:				
Controlling interest in the Partnership	**$ 4.7**	$ 8.0	**$ 9.4**	$ 69.7
Non-controlling interest in the Partnership (Note 11)	**-**	7.8	**4.3**	68.9
Net income	**$ 4.7**	$ 15.8	**$ 13.7**	$ 138.6
Net income per common share: (in dollars)				
Attributable to controlling interest in the Partnership				
- Basic and diluted (Note 7)	**$ 0.07**	$ 0.22	**$ 0.14**	$ 1.94

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

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

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2012	3 months ended December 31, 2011	12 months ended December 31, 2012	12 months ended December 31, 2011
Net income	**$ 4.7**	$ 15.8	**$ 13.7**	$ 138.6
Other comprehensive income (loss)				
Defined benefit plan actuarial losses (Note 4)	**(2.3)**	(5.0)	**(16.6)**	(17.7)
Income tax recovery on defined benefit plan actuarial losses (Note 6)	**0.6**	-	**4.1**	-
Other comprehensive income (loss), net of tax	**(1.7)**	(5.0)	**(12.5)**	(17.7)
Total comprehensive income	**$ 3.0**	$ 10.8	**$ 1.2**	$ 120.9
Total comprehensive income (loss) attributable to:				
Controlling interest in the Partnership	**$ 3.0**	$ 5.5	**$ (3.1)**	$ 60.8
Non-controlling interest in the Partnership (Note 11)	**-**	5.3	**4.3**	60.1
Total comprehensive income	**$ 3.0**	$ 10.8	**$ 1.2**	$ 120.9

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2012	3 months ended December 31, 2011	12 months ended December 31, 2012	12 months ended December 31, 2011
Share capital				
Balance at beginning of period	**$ 525.3**	$ 294.9	**$ 294.9**	$ 294.9
Exchange transaction (Note 11)	**-**	-	**230.4**	-
Balance at end of period	**$ 525.3**	$ 294.9	**$ 525.3**	$ 294.9
Retained earnings (deficit)				
Balance at beginning of period	**$ (142.6)**	$ (61.0)	**$ (67.3)**	$ (52.9)
Exchange transaction (Note 11)	**-**	-	**(57.8)**	-
Net income excluding amount attributable to non-controlling interest in the Partnership	**4.7**	8.0	**9.4**	69.7
Defined benefit plan actuarial losses excluding amount attributable to non-controlling interest in the Partnership, net of tax	**(1.7)**	(2.5)	**(12.5)**	(8.9)
Dividends/distributions declared excluding amount attributable to non-controlling interest in the Partnership	**-**	(11.8)	**(11.4)**	(75.2)
Balance at end of period	**$ (139.6)**	$ (67.3)	**$ (139.6)**	$ (67.3)
Total equity attributable to equity holders of the Company	**$ 385.7**	$ 227.6	**$ 385.7**	$ 227.6
Non-controlling interest in the Partnership				
Balance at beginning of period	**$ -**	$ 232.5	**$ 226.1**	$ 240.5
Net income attributable to non-controlling interest in the Partnership	**-**	7.8	**4.3**	68.9
Defined benefit plan actuarial losses attributable to non-controlling interest in the Partnership	**-**	(2.5)	**-**	(8.8)
Distributions to non-controlling interest in the Partnership	**-**	(11.7)	**-**	(74.5)
Exchange transaction (Note 11)	**-**	-	**(230.4)**	-
Balance at end of period	**$ -**	$ 226.1	**$ -**	$ 226.1
Total equity	**$ 385.7**	$ 453.7	**$ 385.7**	$ 453.7

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2012	3 months ended December 31, 2011	12 months ended December 31, 2012	12 months ended December 31, 2011
Cash generated from (used in):				
Operating activities				
Net income	**$ 4.7**	$ 15.8	**$ 13.7**	$ 138.6
Items not affecting cash:				
Amortization	**20.0**	21.4	**67.1**	66.8
Income tax expense	**1.7**	0.5	**2.0**	0.8
Foreign exchange (gain) loss on long-term debt	**1.3**	(2.4)	**(2.4)**	2.5
Changes in mark-to-market value of derivative financial instruments	**(0.2)**	(3.7)	**0.4**	(1.8)
Employee future benefits (Note 4)	**(4.1)**	0.3	**(1.9)**	2.2
Net finance expense	**3.4**	2.8	**11.8**	10.9
Other, net	**-**	-	**0.3**	0.2
Salary pension plan contributions	**(1.8)**	(1.8)	**(7.6)**	(7.9)
Income taxes paid, net	**(1.6)**	-	**(7.7)**	(0.2)
Net change in non-cash working capital (Note 8)	**2.4**	1.2	**12.2**	(13.1)
	25.8	34.1	**87.9**	199.0
Financing activities				
Decrease in operating bank loans	**(7.0)**	-	**-**	-
Dividends / distributions paid	**-**	(22.8)	**(19.2)**	(181.0)
Finance expenses paid	**(4.1)**	(3.8)	**(8.1)**	(7.8)
	(11.1)	(26.6)	**(27.3)**	(188.8)
Investing activities				
Additions to property, plant and equipment	**(12.8)**	(40.2)	**(87.6)**	(68.5)
Expenditures under Green Transformation Program	**-**	(26.6)	**(1.1)**	(87.6)
Reimbursements under Green Transformation Program	**0.7**	25.2	**19.7**	75.6
Other government grants received	**0.6**	-	**2.2**	3.5
Acquisition of CPPI cash on exchange (Note 11)	**-**	-	**6.8**	-
Other, net	**-**	0.1	**0.2**	0.6
	(11.5)	(41.5)	**(59.8)**	(76.4)
Increase (decrease) in cash and cash equivalents*	**3.2**	(34.0)	**0.8**	(66.2)
Cash and cash equivalents at beginning of period*	**(4.4)**	32.0	**(2.0)**	64.2
Cash and cash equivalents at end of period*	**$ (1.2)**	$ (2.0)	**$ (1.2)**	$ (2.0)

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

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

Canfor Pulp Products Inc.
Notes to the Condensed Consolidated Financial Statements
(unaudited, millions of Canadian dollars unless otherwise noted)

1. Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, 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 (see Note 11).

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 condensed consolidated interim 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 (see Note 11).

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.

These interim financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these interim financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2011, available at www.canforpulp.com or www.sedar.com.

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

Change 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 three months ended December 31, 2012 and twelve months ended December 31, 2012 is an increase in operating income and net finance expense of $0.8 million and $3.2 million, respectively (2011 - $0.7 million and $2.9 million, respectively). 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.

2. 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

3. Operating Loans and Long-Term Debt

(a) Available 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, depreciation, amortization and certain other non-cash items, and is based on the 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 the third quarter of 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 ("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 its operating loans.

(b) Long-Term Debt

At December 31, 2012, the fair value of the Company's long-term debt, which was measured at its amortized cost of $109.4 million (US$110.0 million), was $113.6 million (2011-$117.4 million). The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

4. Employee Future Benefits

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. At the end of each interim reporting period, the Company estimates movements in its accrued benefit liabilities based upon movements in discount rates and the rates of return on plan assets, as well as any significant changes to the plans. Adjustments are also made for payments made and current service and interest costs.

For the twelve months ended December 31, 2012, $16.6 million (before tax) was charged to other comprehensive income. The charge reflects a reduction in the discount rate used to value the plan obligations offset slightly by a higher than expected rate of return on plan assets for the period. For the three months ended December 31, 2012, the charge was $2.3 million (before tax). For the twelve months ended December 31, 2011, a pre-tax amount of $17.7 million was charged to other comprehensive income principally reflecting a decrease in the discount rate over the period. For the three months ended December 31, 2011 the pre-tax charge was $5.0 million.

During the fourth quarter of 2012, the Company amended the salaried post retirement benefit plans for certain CPPI employees and retirees. The amendments reduced the Company's retirement benefit obligation by $5.3 million (before tax). As a result of the plan amendments, CPPI recognized an accounting 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.

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.

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

Pension Benefit Plans	
Discount rate	
December 31, 2012	**4.20%**
September 30, 2012	4.30%
December 31, 2011	5.00%
September 30, 2011	5.00%
January 1, 2011	5.50%
Rate of return on plan assets	
12 months ended December 31, 2012	**9.50%**
9 months ended September 30, 2012	6.60%
12 months ended December 31, 2011	2.50%
9 months ended September 30, 2011	(2.50)%
Other Benefit Plans	
Discount rate	
December 31, 2012	**4.40%**
September 30, 2012	4.50%
December 31, 2011	5.30%
September 30, 2011	5.40%
January 1, 2011	5.75%

5. 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 December 31, 2012 (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 three and twelve months ended December 31, 2012 and 2011:

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars)	**2012**	2011	**2012**	2011
Foreign exchange collars and forward contracts	**$ (0.2)**	$ 1.4	**$ 1.7**	$ (1.6)
Crude oil collars	**0.1**	0.1	**-**	0.1
Natural gas swaps	**-**	-	**-**	(0.1)
	$ (0.1)	$ 1.5	**$ 1.7**	$ (1.6)

The following table summarizes the fair value of the derivative financial instruments included in the balance sheet 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
Net current asset (liability)	**$ 0.1**	$ 0.4

6. 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 11).

(millions of Canadian dollars)	**3 months ended December 31, 2012**	**12 months ended December 31, 2012**
Current	**$ (2.0)**	**$ (1.4)**
Deferred	**0.3**	**(0.6)**
Income tax expense	**$ (1.7)**	**$ (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)	**3 months ended December 31, 2012**	**12 months ended December 31, 2012**
Income tax expense at statutory rate 2012 – 25.0%	**$ (1.6)**	**$ (3.9)**
Add (deduct):		
Tax recovery (expense) at rates other than statutory rate	**0.1**	**(0.1)**
Permanent difference from capital gains and other non-deductible items	**(0.2)**	**0.2**
Permanent difference – exchange transaction	**-**	**0.9**
Tax included in equity – exchange transaction	**-**	**0.9**
Income tax expense	**$ (1.7)**	**$ (2.0)**

In addition to the amounts recorded to net income, a tax recovery of $0.6 million was recorded to other comprehensive income for the three month period ended December 31, 2012 in relation to the actuarial losses on defined benefit employee compensation plans. For the twelve months ended December 31, 2012, the related tax recovery was $4.1 million.

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)**

7. 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. As a result of the exchange transaction and the application of reverse acquisition accounting, the CPPI shares relating to the non-controlling interest shareholders were not included until March 2, 2012. This transaction led to an increase in the weighted average number of shares outstanding, with 71,269,790 shares outstanding as at December 31, 2012. The issuance of the new shares as a result of the exchange was accompanied by a corresponding increase in CPPI's investment in the Partnership and as a result there is no dilution of CPPI's net income per share.

	3 months ended December 31,		12 months ended December 30,	
	2012	2011	**2012**	2011
Weighted average number of common shares	**71,269,790**	35,776,483	**65,257,263**	35,776,483

8. Net Change in Non-Cash Working Capital

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars)	**2012**	2011	**2012**	2011
Accounts receivable	**$ (1.7)**	$ 41.8	**$ 10.9**	$ 32.5
Inventories	**(1.5)**	(9.4)	**7.4**	(18.1)
Prepaid expenses and other assets	**6.9**	3.6	**(2.5)**	5.2
Accounts payable and accrued liabilities	**(1.3)**	(34.8)	**(3.6)**	(32.7)
Net decrease (increase) in non-cash working capital	**$ 2.4**	$ 1.2	**$ 12.2**	$ (13.1)

9. Segment Information

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

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

(millions of Canadian dollars)		Pulp	Paper	Unallocated	Elimination Adjustment		Consolidated
3 months ended December 31, 2012							
Sales to external customers	**$**	**168.2**	**33.7**	**-**	**-**	**$**	**201.9**
Sales to other segments	**$**	**18.0**	**-**	**-**	**(18.0)**	**$**	**-**
Operating income (loss)	**$**	**6.8**	**6.9**	**(2.8)**	**-**	**$**	**10.9**
Amortization	**$**	**19.0**	**1.0**	**-**	**-**	**$**	**20.0**
Capital expenditures[1]	**$**	**12.3**	**0.3**	**0.2**	**-**	**$**	**12.8**
3 months ended December 31, 2011							
Sales to external customers	$	179.1	33.5	0.1	-	$	212.7
Sales to other segments	$	19.9	-	-	(19.9)	$	-
Operating income (loss)	$	16.7	3.4	(3.6)	-	$	16.5
Amortization	$	20.4	1.0	-	-	$	21.4
Capital expenditures[1]	$	66.0	0.7	0.1	-	$	66.8
12 months ended December 31, 2012							
Sales to external customers	**$**	**675.0**	**134.6**	**0.8**	**-**	**$**	**810.4**
Sales to other segments	**$**	**67.2**	**-**	**-**	**(67.2)**	**$**	**-**
Operating income (loss)	**$**	**19.2**	**19.4**	**(14.0)**	**-**	**$**	**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**
12 months 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 federal government-funded Green Transformation Program and other government grants.

10. 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.

The transactions with Canfor are consistent with the transactions described in the December 31, 2011 audited consolidated financial statements of CPPI and the Partnership and are based on agreed upon amounts between the parties.

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

(millions of Canadian dollars)	3 months ended December 31, **2012**	2011	12 months ended December 31, **2012**	2011
Transactions				
Canfor – purchase of wood chips and other	**$ 25.7**	$ 29.6	**$ 104.9**	$ 119.0

(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.

11. Acquisition of Interest in Canfor Pulp Limited Partnership

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

The transaction was accounted for as a reverse acquisition under IFRS, with Canfor's interest in the Pulp Business being the acquirer for accounting purposes and CPPI the acquiree for accounting purposes. The Pulp Business is continuing to operate under CPPI, the legal parent. The financial statements have been presented, 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 has 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 twelve months ended December 31, 2012. Canfor's interest in the Pulp Business was deemed to acquire CPPI on March 2, 2012, and 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 condensed 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)

12. Insurance Claim Receivable

During the second quarter of 2012, an incident at the Northwood Pulp Mill resulted in an unscheduled shutdown and subsequent repairs. 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 in the second quarter of 2012 and in the twelve months 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. Of the net insurance proceeds of $4.7 million, $3.7 million was included in Sales in the second quarter of 2012 and an additional $1.0 million was included in the third quarter of 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.

13. 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.