BUILDING ON OUR STRENGTHS AND VALUES

GREEN BY NATURE™

2012 ANNUAL REPORT

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CASCADES AT A GLANCE

Founded in 1964, Cascades recovers and manufactures green packaging and tissue paper products. The Corporation employs more than 12,000 men and women in more than 100 units in North America and Europe.

RECOVERY

THE LARGEST RECYCLED PAPER COLLECTOR IN CANADA

Through its extensive recovery network made up of 23 sorting centres, Cascades processes more than 1.6 million short tons of recycled papers annually.

MORE THAN 12,000 EMPLOYEES

CASCADES

Sales $3,645 million
OIBD[4] $304 million

TISSUE PAPERS

26% of sales[1]
43% of OIBD[2]
23% of assets[3]

THE NO. 1 "GREEN" TISSUE RETAIL BRAND IN CANADA

Cascades is the fourth largest North American tissue paper producer. In the away-from-home market, Cascades is the largest Canadian producer (fourth largest in the US) and has distinguished itself with its North River® and Cascades® products, which exceed the most stringent environmental standards and are certified by a large number of independent organizations.

PACKAGING PRODUCTS

74% of sales[1]
57% of OIBD[2]
77% of assets[3]

BOXBOARD EUROPE

21% of sales[1]
13% of OIBD[2]
21% of assets[3]

Global leader in boxboard production

Cascades is the second largest producer of coated recycled boxboard in Europe (when considering its association with Reno de Medici S.p.A.).

CONTAINERBOARD

32% of sales[1]
29% of OIBD[2]
40% of assets[3]

Leading recycled containerboard producer in Canada

In addition to being one of the two leading producers in Canada, Cascades is the sixth largest manufacturer of containerboard and corrugated boxes in North America.

SPECIALTY PRODUCTS

21% of sales[1]
15% of OIBD[2]
16% of assets[3]

Leading paper collector and major producer of industrial packaging, consumer product packaging and specialty papers

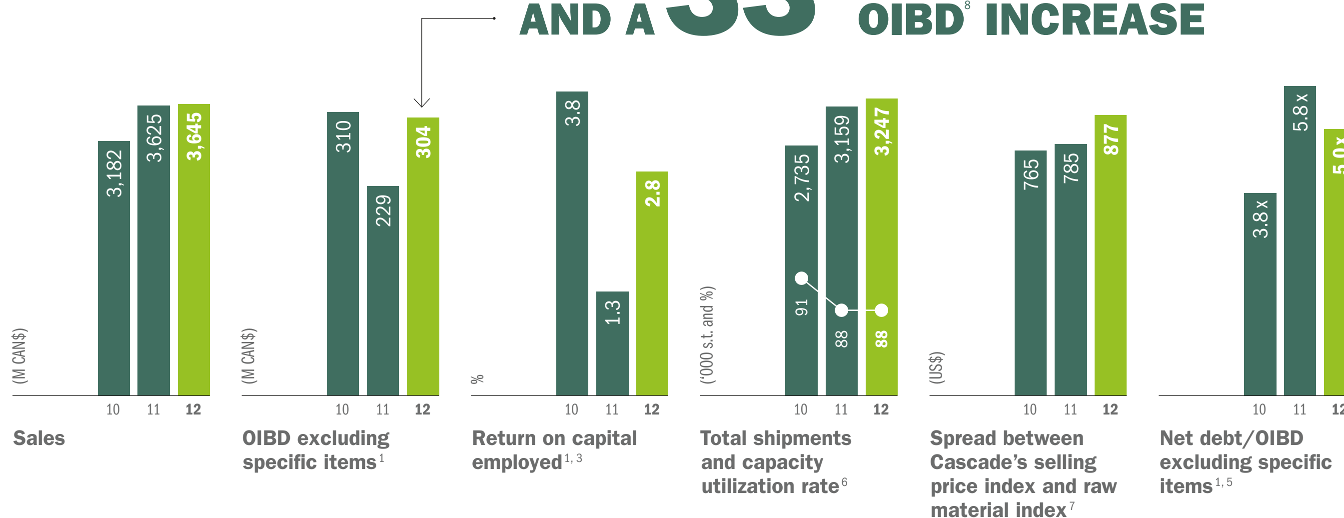
Cascades is a leading producer of recycled fine papers and papermill packaging in North America, the largest producer of honeycomb board in Canada, and a major manufacturer of cup trays and filler flats made of moulded pulp. Cascades Recovery is one of Canada's largest collectors, processors and distributors of recyclable materials.

1 *Before inter-segment eliminations.*
2 *Excluding specific items and corporate activities.*
3 *Year-end, excluding corporate activities, inter-segment eliminations, investments in associates and joint ventures and other investments.*
4 *Excluding specific items.*

FINANCIAL HIGHLIGHTS

FINANCIAL SUMMARY

(In millions of Canadian dollars, unless otherwise noted)	**2012**	2011	2010
Sales	**3,645**	3,625	3,182
Operating income before depreciation and amortization (OIBD or EBITDA)[1]	**274**	188	258
Operating income	**75**	8	103
Net earnings (loss)	**(11)**	99	41
per share	**$(0.11)**	$1.03	$0.43
Dividend per share	**$0.16**	$0.16	$0.16
Excluding specific items[1]			
Operating income before depreciation and amortization (OIBD or EBITDA)[1]	**304**	229	310
Operating income	**118**	49	155
Net earnings (loss)	**16**	(14)	80
per share	**$0.17**	$(0.14)	$0.83
Cash flow from operations (adjusted) from continuing operations[1]	**167**	133	197
Return on assets[1, 2]	**8.1%**	6.5%	10.6%
Return on capital employed[1, 3]	**2.8%**	1.3%	3.8%
Financial position (as at December 31)			
Total assets	**3,694**	3,728	3,437
Capital employed[4]	**3,224**	3,107	3,028
Net debt	**1,535**	1,485	1,397
Net debt/OIBD excluding specific items[5]	**5.0x**	5.8x	3.8x
Shareholders' equity	**978**	1,029	1,049
per share	**$10.42**	$10.87	$10.86
Working capital on sales	**12.4%**	13.2%	13.9%
Key indicators			
Total shipments (in '000 of short tons)	**3,247**	3,159	2,735
Manufacturing capacity utilization rate[6]	**88%**	88%	91%
Spread between Cascades' selling price index and raw material index (in US $)[7]	**877**	785	765
US$/CAN$	**$1.00**	$1.01	$0.97



1 See the "Supplemental Information on Non-IFRS Measures" note.

2 Return on assets is a non-IFRS measure defined as LTM OIBD excluding specific items/LTM average of total quarterly assets. See "Supplemental Information on Non-IFRS Measures."

3 Return on capital employed is a non-IFRS measure defined as the operating income after theoretical tax charges of 30%/capital employed.

4 Capital employed is defined as the average over the last twelve-month period of total assets less non-interest bearing liabilities.

5 Adjusted ratio including discontinued operations and full year consolidation of Reno de Medici and Papersource.

6 Defined as: Shipments/Practical capacity. Paper manufacturing only.

7 For more information on the indices, see notes 1 and 2 on page 12.

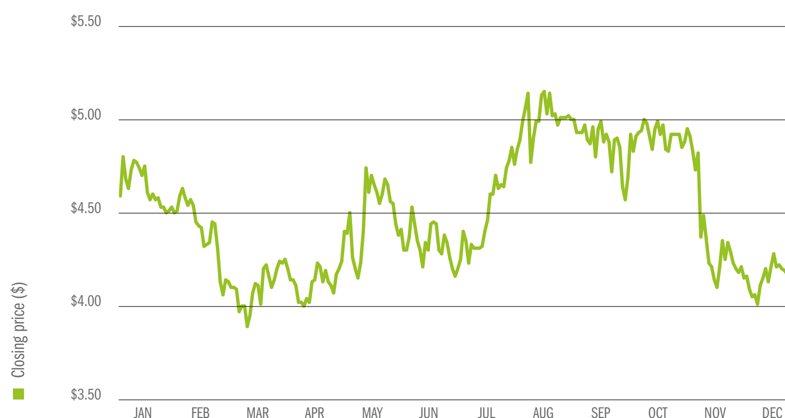
8 Excluding specific items.

Symbol **CAS – TSX**

(on the Toronto Stock Exchange)

S&P/TSX **Clean Technology Index**
S&P/TSX **Small Cap Index**
BMO **Small Cap Index**
Jantzi Social Index

Cascades share price in 2012



Common shares outstanding as at December 31, 2012
93.9 million

Market capitalization as at December 31, 2012
$385 million

Total volume traded in 2012
20.2 million shares

Intraday high in 2012
$5.18

Intraday low in 2012
$3.85

Quarterly dividend per share paid in 2012
$0.04

Corporate credit ratings as at December 31, 2012
Moody's: Ba2 (stable)
S&P: BB- (negative)

DIVIDEND YIELD OF 3.9%
AS AT DECEMBER 31, 2012

GENERAL INFORMATION

The Annual General Shareholders Meeting will be held on **Thursday, May 9, 2013 at 10:00 a.m., at the Phi Centre,** located at 407, St-Pierre Street, in Montréal (Québec). Cascades Inc.'s 2012 Annual Information Form will be available, upon request, from the Corporation's head office as of March 28, 2013.

This report is also available on our website at: **www.cascades.com**

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On peut se procurer la version française du présent rapport annuel en s'adressant au siège social de la Société à l'adresse suivante :

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Cascades inc.
404, boul. Marie-Victorin
Kingsey Falls (Québec) J0A 1B0
Canada

ALAIN LEMAIRE

President and Chief Executive Officer

MARIO PLOURDE

Chief Operating Officer

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Dear partners:

One year ago, I told you about the four pillars of our strategic plan to improve operational and financial performance: modernisation, optimisation, innovation and restructuring.

We stayed on course with those priorities in 2012 as we pursued our focused investments and restructuring initiatives.

OUR STRATEGIC PLAN'S FOUR PILLARS:

MODERNISE OPTIMISE INNOVATE RESTRUCTURE

WE INVESTED $30M IN OUR CORRUGATED BOX SECTOR IN ONTARIO THIS YEAR.

Automatic conveyors at Norampac corrugated box plant in Vaughan, Ontario.

Among last year's highlights, I should mention the continued construction of the Greenpac mill in the containerboard sector. This state-of-the-art facility will be the reference in the North American market and is the cornerstone of our primary production strategy. A few months before the expected start-up in July, we are confident that the project will come in on time and on budget. Along with our partners, we are excited and enthusiastic about participating in the official opening of this facility of impressive proportions.

The restructuring of our corrugated box sector in Ontario is also worthy of mention. We now have a production platform that positions us among the best in the region. We plan to do the same with our Canadian folding carton conversion and microlithography activities, which is why we invested in that segment in 2012. The benefits of those initiatives will be reflected in our containerboard sector results as early as this year.

Our tissue papers team successfully turned around some unprofitable plants, made major inroads with new customers and integrated Papersource, its latest acquisition completed in late 2011. The sector's OIBD[1] thus increased by 92% over 2011. The Cascades brand also benefited from an unprecedented promotional campaign, which increased visibility among our retail customers.

In Europe, the economic situation that has prevailed since July 2011 delayed some phases of our strategic plan, particularly the integration of our two operational platforms. Nonetheless, significant equipment upgrades were carried out last summer at the Cascades mill in La Rochette, France and the Reno de Medici facility in Villa Santa Lucia, Italy.

In recent years, we have better structured our approach to innovation by equipping ourselves with advanced technologies and strengthening our research team. This expertise has enabled us to innovate in both products and manufacturing processes. In some of our business lines, nearly 10% of 2012 sales came from new products and we believe the future looks even more promising.

1 Excluding specific items.

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Drummondville, Québec
Extruder (Cascades Inopak–Specialty Products Group–consumer product packaging plant)

OVER $160M INVESTED IN 2012 TO MODERNISE OUR ASSET BASE

Villa Santa Lucia, Italy
Curtain coater (Reno de Medici)

IN EUROPE,
INVESTMENTS UNDERTAKEN THIS SUMMER ALREADY CONTRIBUTE TO PROFITABILITY

AMONG THE BEST CONTAINERBOARD PLATFORMS IN EASTERN CANADA

St. Marys, Ontario
New corrugator (Norampac)

We also took advantage of the ongoing support of our banking syndicate and favourable market conditions to extend our bank credit facility and reduce our interest costs. This vote of confidence is one more step in our effort to increase performance and financial flexibility.

With nearly a half-century of sustainable practices behind us, Cascades will continue to strive for improvement and social responsibility. The year 2013 will provide the opportunity to update the sustainable development objectives that we have adopted. Our health and safety performance also deserves mention. Our statistics continue to improve thanks to our employees' hard work.

In short, our OIBD[1] grew 33% and earnings per share[1] returned to positive territory in 2012. We were expecting more given the lower cost of recycled fibres, but the recovery is genuinely under way and is expected to continue in 2013.

We are now entering a critical phase in our development. Continuing our strategic actions will present a number of technological challenges and will require sound change management. For this reason, I am proud to pass the torch to Mario Plourde in May 2013. Mario is a true Cascader who has risen through the ranks to senior management. He took an active part in developing and implementing the strategic plan that we are pursuing. His appointment reflects our desire to progress while remaining true to our corporate culture. It also reflects our intent to build on our strengths and our values. I wish him every success. He can count on my support, the depth of our management team and the dedication of our work force.

In closing, I would like to thank our employees, who are the key to our Corporation's success. My thanks also go to our shareholders, clients and business partners for their support in recent years.

Alain Lemaire
PRESIDENT AND CHIEF EXECUTIVE OFFICER

1 *Excluding specific items.*

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Dear partners:

It is both a pleasure and an honour for me to be named as successor to Alain Lemaire in the near future. I am pleased to be able to address you and share my vision for the company that I have been passionate about for nearly 30 years.

As I have worked my way up through the Corporation, I have learned that Cascades' success is based on a unique culture, fundamental values and especially the dedication and expertise of our employees, three elements that have enabled us to set ourselves apart for the past 50 years. I intend to uphold those values and will continue to work closely with all our employees to rise to the challenges that await us.

The year 2013 has begun in a global economic context similar to 2012, with relatively high recycled fibre prices, low growth in demand and continued strength of the Canadian dollar. Despite those challenges, we are convinced that the strategic actions undertaken over the past few years will enable us to improve our financial results and achieve our future objectives.

In the packaging products sector, we have been particularly active in pursuing the Greenpac project and a number of focused investments designed to modernise our converting plant network. These investments, combined with price increases announced in late 2012, the anticipated U.S. economic recovery and the introduction of solutions to production issues faced over the past year, are expected to contribute to a better performance in 2013.

In Europe, we are continuing our strategy of plant upgrades, which we initiated when we joined forces with Reno De Medici in 2008. Notwithstanding the difficult economic situation, our European packaging operations are working together which enables them to adapt quickly and hold their own, a significant asset in the current circumstances.

4 PRESIDENTS AT CASCADES SINCE ITS FOUNDATION

The Lemaire brothers in 1985

Bernard Lemaire
From the foundation until 1992

Laurent Lemaire
From 1992 to 2004

Alain Lemaire
From 2004 to 2013

Mario Plourde
From May 9, 2013

GREENPAC MILL CONSTRUCTION SITE

February 2012
Erection of the steel structure of the building. The construction of the mill required over 4,400 tonnes of steel.

March 2012
Installation of the first roof trusts. At one point, there were 600 construction workers on site totalling 1.5 million of hours worked.

June 2012
Installation of the paper machine. This machine is 600 feet long, the equivalent of four olympic swimming pools.

October 2012
Installation of the piping for the stock preparation system. More than 19 km (12 miles) of pipes have been installed since the beginning of construction.

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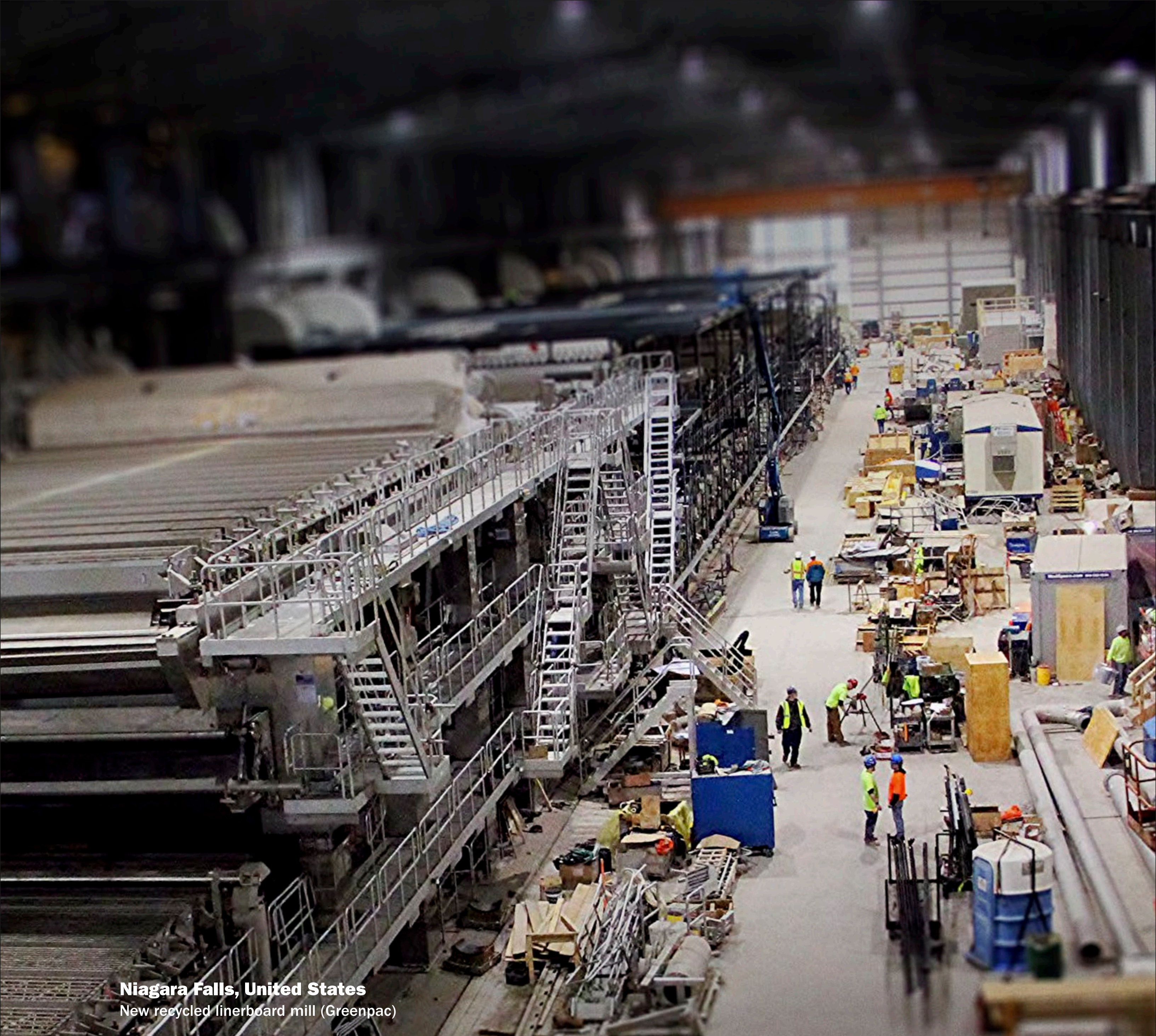


Niagara Falls, United States
New recycled linerboard mill (Greenpac)

328 INCHES WIDE

THE LARGEST AND MOST TECHNOLOGICALLY ADVANCED MACHINE OF ITS KIND IN NORTH AMERICA

Alexandre Bilodeau
Olympic Gold Medalist
Vancouver, 2010

INVESTING TO PROMOTE OUR QUALITY PRODUCTS

BUILDING A TRULY NATIONAL BRAND

The tissue paper market, for its part, remains brisk and we are enjoying continued growth. Added capacity in the sector may have an impact in the short term, however, we believe that we are well positioned to respond with productivity gains, innovations and a range of improved products. We have also initiated a program to modernise our converting assets and a number of projects will be launched in 2013 and the years ahead.

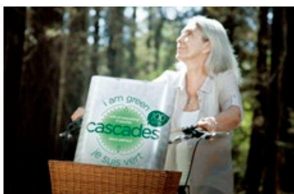
In 2013, we will step up the modernisation of our information systems and a number of facilities will be upgraded. In a fiercely competitive environment, every plant must perform. Faithful to our strategic plan, we will continue to monitor performance of facilities that are experiencing difficulty and act accordingly.

Lastly, our managers are more sensitive than ever to the importance of increasing the return on capital employed and managing working capital. We will monitor these performance indicators closely to ensure that we are moving in the right direction. We believe that the steps that we have taken in divesting ourselves of underperforming units, modernising the most promising assets and managing our capital even more rigorously will allow us to achieve the results we all expect. We will continue to evaluate strategic options in order to reduce debt leverage and ensure we retain the financing capacity to make strategic capital expenditures to optimize the long term competitive positioning of our core businesses. Our financial position can improve and our financial ratios need to compare favourably with our industry. It is important that Cascades' shares perform better on the financial markets and that we achieve a higher valuation for our Corporation.

On behalf of all the employees, I would like to conclude by thanking Alain for his 10 years at the helm of Cascades. Like his two brothers before him, he displayed vision and determination in growing Cascades through the most volatile economic period in its history.

Today, the 12,000 women and men who make up Cascades pay tribute to him and praise his commitment.

Mario Plourde
CHIEF OPERATING OFFICER



Our Tissue Papers Group launched a new campaign to promote our brand with different messages printed in rotation.

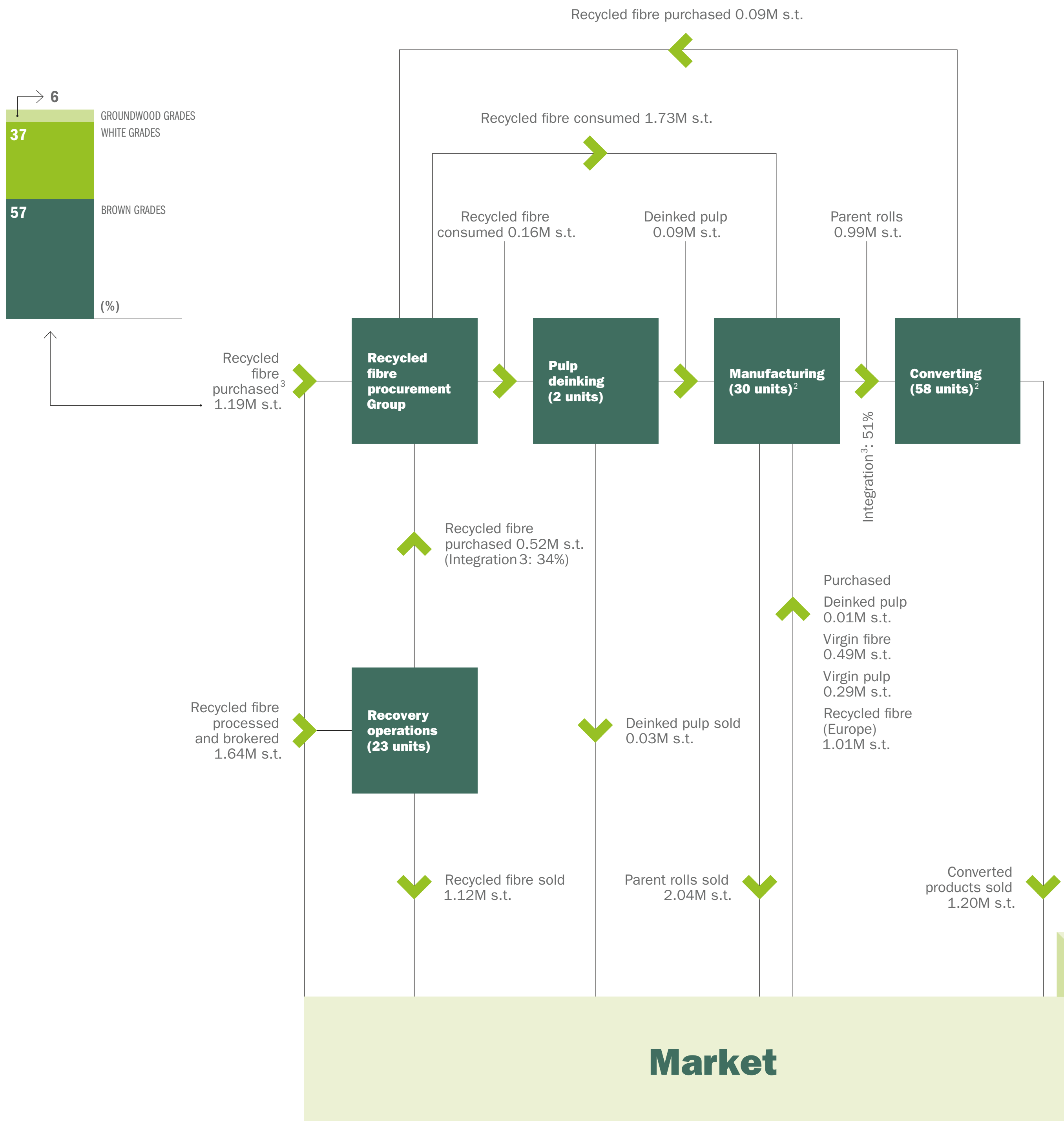
I am from here
I am soft
I am green
I am unique
I am responsible
I am proud
I am natural
I am brilliant

TO UNDERSTAND OUR CORPORATION AND OUR RESULTS

Our Closed-Loop System™

Cascades' business model has significantly evolved throughout the years. From a manufacturer of paper and board primarily, the Corporation has emerged as the largest collector of recycled papers in Canada, as well as one of North America's major converters of corrugated packaging containers, folding cartons, tissue papers and several specialized products.

In fact, Cascades is now an integrated corporation, both upstream and downstream. It can, therefore, offer its customers a full range of converted products, as well as on-site recycled material collection. This is what we call the "**closed-loop system**[1]".



1 2012 data including 100% of Reno de Medici.

2 Including the integrated manufacturing and converting tissue paper units.

3 North America only.

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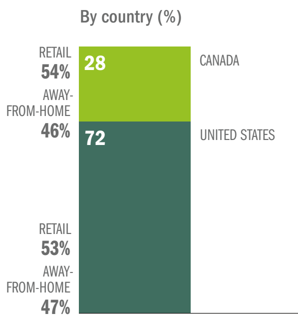
A BALANCED MODEL
IN HEALTHY SECTORS

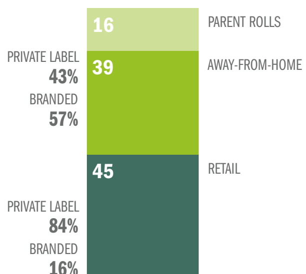
Illustrative distribution of our sales

Tissue Papers

By country (%)

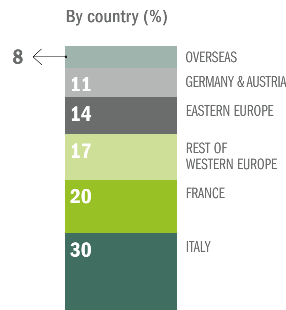


By market (%)

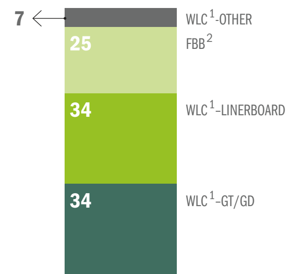


Boxboard Europe

By country (%)

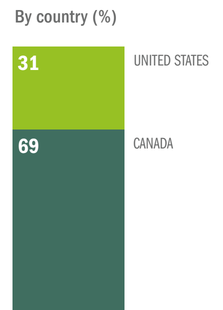


By product (%)

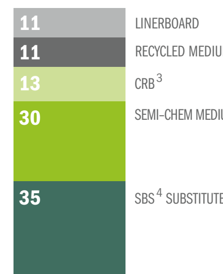


Containerboard

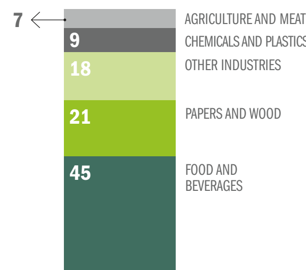
By country (%)



By product-manufacturing (%)

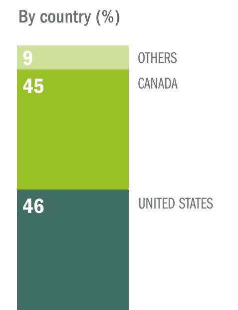


By industry-corrugated boxes (%)



Specialty Products

By country (%)



By segment (%)

1 *WLC = White-lined chipboard*
2 *FBB = Folding boxboard*
3 *CRB = Coated recycled boxboard*
4 *SBS = Solid bleached sulfate board*

BUSINESS DRIVERS

As a packaging product and tissue paper company, our financial results are largely driven by the following factors:

SALES +

- Selling prices
- Demand for packaging products and tissue papers, mainly made of recycled fibres
- Foreign exchange rates
- Population growth
- Industrial production
- Product mix, substitution and innovation

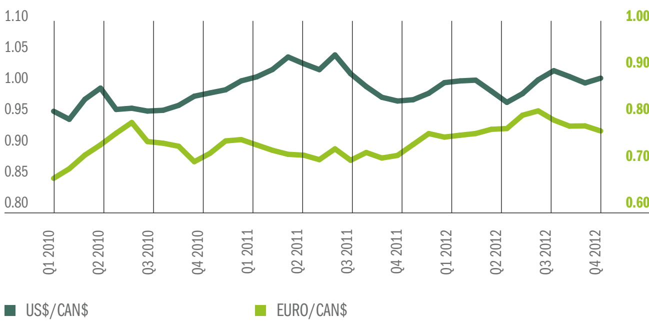
COSTS –

- Fibre prices and availability (recycled papers, virgin and woodchips) and production recipes
- Foreign exchange rates
- Energy prices, mainly electricity and natural gas
- Labour
- Freight
- Chemical product prices
- Capacity utilization rates and production downtime

EXCHANGE RATES

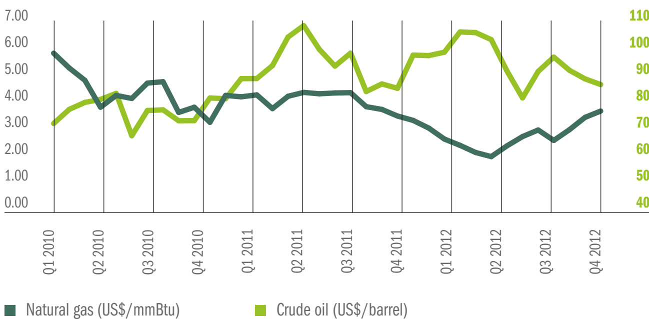
Cascades' results are impacted by fluctuations of the Canadian dollar against the Euro and the U.S. dollar. For the year 2012, the average value of the Canadian dollar against the American dollar was 1% lower than the average in 2011. Each $0.01 change of the Canadian dollar against its US counterpart has an impact of $6 million on our annual OIBD.

Against the Euro, however, our currency gained 7% during the year compared to 2011.



ENERGY PRICES

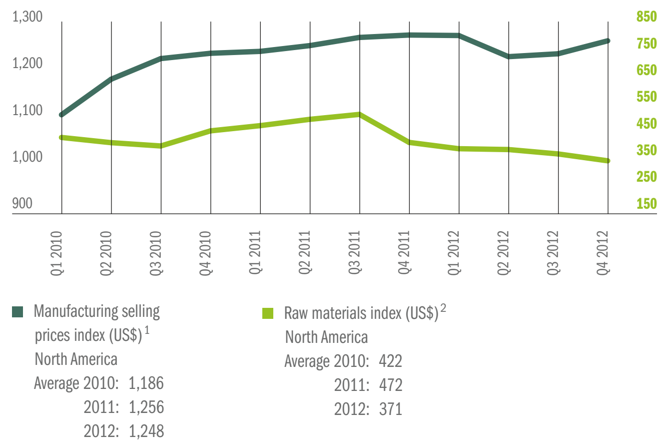
With regards to energy costs, shale gas extraction continues to have a significant impact on the price of natural gas and the annual average gas price decreased by 31% in 2012 compared to 2011. In the case of crude oil, the average price increased slightly by 1% in 2012 compared to 2011.



MANUFACTURING SELLING PRICES AND RAW MATERIAL COSTS

For the year 2012, the selling price index of our manufacturing activites in North America decreased slightly by 1%. The average price of our tissue paper products was 1% lower than in 2011 due to an unfavourable product mix. The price increase in the containerboard sector only started to be effective at the end of the year resulting in similar average manufacturing prices compared to last year. Due to soft demand, our North American boxboard prices have decreased by 1%, in line with the industry's reference prices. Likewise, the price of specialty papers were lower by 2% due to market conditions. Finally, the economic environment in Europe and its negative impact on boxboard demand in 2012 resulted in lower average selling prices compared to those realized during the previous year.

With regards to raw materials costs, after reaching new heights in 2011, the price of all major categories of recycled fibre used by Cascades has decreased and our index lost 21% of its value in 2012 compared to 2011. More specifically, the reference price of the recycled paper grade most widely consumed by Cascades (old corrugated containers) decreased by 22% while the cost of office papers, mainly used in the tissue paper market, decreased by 34%. The price of hardwood bleached kraft pulp decreased by 7%.



1 The Cascades North American selling prices index represents an approximation of the Corporation's manufacturing selling prices in North America (excluding converting). It is weighted according to shipments and is based on publication prices. It includes some of Cascades' main products, for which prices are available in PPI Pulp & Paper Week magazine and the Cascades Tissue Index. This index should only be used as a trend indicator, as it may differ from our actual selling prices and our product mix. The only non-manufacturing prices reflected in the index are those for tissue. In fact, the tissue pricing indicator, which is blended into the Cascades North American selling prices index, is the Cascades tissue paper selling prices index, which represents a mix of primary and converted products.

2 The Cascades North American raw materials index is based on publication prices and the average weighted cost paid for some of our manufacturing raw materials, namely recycled fibre, virgin pulp and woodchips, in North America. It is weighted according to purchase volume (in tons). This index should only be used as a trend indicator, and it may differ from our actual manufacturing purchasing costs and our purchase mix.

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SENSITIVITY TABLE[1]

The following table provides a quantitative estimate of the impact on Cascades' annual operating income before depreciation and amortization (OIBD) of potential changes in the prices of our main products, the costs of certain raw materials and energy, as well as the CAN$/US$ exchange rate, assuming, for each price change, that all other variables remain constant. This is based on Cascades' 2012 manufacturing and converting external shipments and consumption numbers.

However, it is important to note that this table does not consider the risk management hedging instruments used by the Corporation. In fact, Cascades' hedging policies and portfolios (see "Risk Factors" section) should also be considered in order to fully analyze the Corporation's sensitivity to the highlighted factors.

With regards to the CAN$/US$ exchange rate, we do not consider Cascades' indirect sensitivity. This sensitivity refers to the fact that some of Cascades' selling prices and raw material costs in Canada are based on reference prices and costs in U.S. dollars converted into Canadian dollars. In other words, the exchange rate fluctuation can have a direct influence on sales and purchases in Canada by Canadian facilities. However, because this fluctuation is difficult to measure precisely, we do not include it in the following table.

	SHIPMENTS/ CONSUMPTION ('000 SHORT TONS, '000 MMBTU FOR NATURAL GAS)	CHANGE	OIBD IMPACT (IN MILLIONS OF CAN$)
SELLING PRICE (MANUFACTURING AND CONVERTING)[2]			
North America			
Containerboard	1,195	US$25/s.t.	**29**
Specialty Products (specialty papers only)	385	US$25/s.t.	**10**
Tissue Papers	565	US$25/s.t.	**14**
	2,145		**53**
Europe			
Boxboard	1,105	€25/s.t.	**36**
	3,250		**89**
RAW MATERIALS[2]			
Recycled papers			
North America			
Brown grades (OCC and others)	1,100	US$15/s.t.	**(16)**
Groundwood grades (ONP and others)	110	US$15/s.t.	**(2)**
White grades (SOP and others)	675	US$15/s.t.	**(10)**
	1,885		**(28)**
Europe			
Brown grades (OCC and others)	725	€15/s.t.	**(14)**
Groundwood grades (ONP and others)	175	€15/s.t.	**(3)**
White grades (SOP and others)	110	€15/s.t.	**(2)**
	1,010		**(19)**
	2,895		**(47)**
Virgin pulp			
North America	200	US$30/s.t.	**(6)**
Europe	90	€30/s.t.	**(4)**
	290		**(10)**
Natural gas			
North America	6,870	US$1.00/mmBtu	**(7)**
Europe	4,400	€1.00/mmBtu	**(6)**
	11,270		**(13)**
Exchange rate[3]			
Sales less purchase in US$ from Canadian operations		CAN$/US$ 0.01 change	**(5)**
U.S. subsidiaries translation		CAN$/US$ 0.01 change	**(1)**
			(6)

1 Sensitivity calculated according to 2012 volumes or consumption, and with an exchange rate of CAN$/US$1.00 and CAN$/€1.30, excluding hedging programs and the impact of related expenses such as discounts, commissions on sales and profit sharing.

2 Based on 2012 external manufacturing and converting shipments, as well as 2012 fibre and pulp consumption. Excluding closures of units realized during the year.

3 As an example, from CAN$/US$1.00 to CAN$/US$0.99.

MANAGEMENT'S DISCUSSION & ANALYSIS

Financial Overview – 2012

After posting OIBD excluding specific items of $229 million in 2011, the Corporation encountered many challenges during the year over which it did not have control as we continued to face challenging business conditions due to the high competitiveness in all markets in which our different groups are involved. This has led to a general decline in our average selling prices specifically for our boxboard operations in Europe. However, during the year, we benefited from a significant decrease in our raw materials costs that allowed us to add $115 million to our OIBD. Indeed, after historical heights for recycled fiber prices during the third quarter of 2011, they declined by 21% in 2012. We also started the implementation of an increase of $50/s.t of our selling price in our Containerboard operations during the fourth quarter of 2012. Finally, actions taken during the year in accordance with our strategic plan should increase our profitability in the near term (see the "Significant facts and developments" section for more details).

For the year, the Corporation posted a net loss of $11 million, or $0.11 per share, compared to net earnings of $99 million, or $1.03 per share in 2011 which includes the gain on the sale of Dopaco. Excluding specific items, which are discussed in detail on pages 21 to 24, we posted net earnings of $16 million or $0.17 per share during the year, compared to a net loss of $14 million or $0.14 per share in 2011. Sales during the year increased by $20 million, or 1%, to reach $3.645 billion, compared to $3.625 billion in 2011. The Corporation recorded an operating income of $75 million during the year, compared to $8 million in 2011. Excluding specific items, operating income increased by $69 million to $118 million during the year compared to $49 million in 2011 (see "Supplemental Information on Non-IFRS Measures" for reconciliation of these amounts).

FORWARD-LOOKING STATEMENTS AND SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

The following is the annual financial report and management's discussion and analysis ("MD&A") of the operating results and financial position of Cascades Inc. ("Cascades" or "the Corporation") and should be read in conjunction with the Corporation's consolidated financial statements and accompanying notes for the years ended December 31, 2012 and 2011. Information contained herein includes any significant developments as at March 11, 2013, the date on which the MD&A was approved by the Corporation's Board of Directors. For additional information, readers are referred to the Corporation's Annual Information Form ("AIF"), which is published separately. Additional information relating to the Corporation is also available on SEDAR at www.sedar.com.

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of Cascades' current results and to assess the Corporation's future prospects. Accordingly, certain statements herein, including statements regarding future results and performance, are forward-looking statements within the meaning of securities legislation based on current expectations. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, decreases in demand for the Corporation's products, the prices and availability of raw materials, changes in the relative values of certain currencies, fluctuations in selling prices and adverse changes in general market and industry conditions. This MD&A also includes price indices, as well as variance and sensitivity analyses that are intended to provide the reader with a better understanding of the trends related to our business activities. These items are based on the best estimates available to the Corporation.

The financial information contained herein, including tabular amounts, is expressed in Canadian dollars unless otherwise specified, and is prepared in accordance with International Financial Reporting Standards (IFRS). Unless otherwise indicated or if required by the context, the terms "we," "our" and "us" refer to Cascades Inc. and all of its subsidiaries and joint ventures. The financial information included in this analysis also contains certain data that are not measures of performance under IFRS ("non-IFRS measures"). For example, the Corporation uses operating income before depreciation and amortization or operating income before depreciation and amortization excluding specific items (OIBD or OIBD excluding specific items) because it is the measure used by management to assess the operating and financial performance of the Corporation's operating segments. Moreover, we believe that OIBD is a measure often used by investors to assess a Corporation's operating performance and its ability to meet debt service requirements. OIBD has limitations as an analytical tool, and you should not consider this item in isolation, or as a substitute for an analysis of our results as reported under IFRS. These limitations include the following:

- OIBD excludes certain income tax payments that may represent a reduction in cash available to us.
- OIBD does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments.
- OIBD does not reflect changes in, or cash requirements for, our working capital needs.
- OIBD does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt.
- Although depreciation and amortization expenses are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and OIBD does not reflect any cash requirements for such replacements.
- The specific items excluded from OIBD, operating income (loss), net earnings (loss) and cash flow from operation include mainly charges for impairment of assets, charges for facility or machine closures, gain or loss on acquisitions or sales of business units, accelerated depreciation and amortization due to restructuring measures and unrealized gain or loss on financial instruments that do not qualify for hedge accounting. Although we consider these items to be non-recurring and less relevant to evaluating our performance, some of these items will continue to take place and will reduce the cash available to us.

Because of these limitations, OIBD should not be used as a substitute for net earnings or cash flows from operating activities as determined in accordance with IFRS, nor is it necessarily indicative of whether or not cash flow will be sufficient to fund our cash requirements. In addition, our definitions of OIBD may differ from those of other companies. Any such modification or reformulation may be significant. A reconciliation of OIBD to net earnings (loss) from continuing operations and to net cash provided by (used in) operating activities, which we believe to be the closest IFRS performance and liquidity measures to OIBD, is set forth in the "Supplemental Information on Non-IFRS Measures" section.

SIGNIFICANT FACTS AND DEVELOPMENTS

i. On April 2, 2012, the Corporation announced the acquisition of Bird Packaging Limited's containerboard converting and warehousing facilities located in Guelph, Kitchener and Windsor, in Ontario. This acquisition allowed the Containerboard Group to broaden its market reach in Ontario by integrating plants that benefit from an excellent reputation amongst their customers and to add a team of skilled people.

ii. On April 25, 2012, the Corporation announced the consolidation of the Containerboard Group corrugated product plants in Ontario, translating into an investment of $30 million in the Vaughan, St. Marys, Etobicoke and Belleville plants to modernize manufacturing equipment and increase production capacity, profitability and productivity. The consolidation resulted in the permanent closure of three plants, in Mississauga, in North York and in Peterborough, specialized in converting corrugated products. Production from these plants has been redirected to other converting plants in Ontario.

iii. On September 5, 2012, the Corporation announced major investments in some of its folding carton and microlithography plants of its Containerboard Group, in Ontario and Québec. With a total investment of $22 million, the Montréal, Mississauga, Winnipeg and Cobourg plants will benefit from the installation of new modern equipment that will optimize their production and efficiency. Concurrently with this investment program, the Lachute folding carton plant will be closed at the latest by the end of the first quarter of 2013, and its production volume will be gradually transferred to other facilities.

iv. In the fourth quarter of 2012, our Containerboard activities started implementing price increases for its manufacturing and converting products. These price increases were gradually implemented at the end of 2012. The 2013 results of this segment should benefit from the full impact of these price increases.

v. In 2012, the Corporation invested US$34 million ($34 million) (including a bridge loan of US$15 million ($15 million)) in Greenpac Mill LLC (Greenpac) in relation to the construction of a recycled containerboard mill in New York State, (USA), in partnership with third parties. Once completed as planned, it is anticipated to increase the Corporation's market share in the containerboard industry and will confirm its position as one of the industry leaders. The Greenpac mill will be built for an estimated cost of US$430 million on property located adjacent to its existing containerboard mill in Niagara Falls, NY. Greenpac will manufacture a light-weight linerboard made with 100% recycled fibers on a single machine measuring 328 inches (8.33 meters) wide with an annual production capacity of 540,000 short tons. This machine will be one of the largest in North America and will include numerous technological advances, making it a unique project in North America. So far, the project is on time and on budget, including the planned contingencies. Production is planned to begin in July 2013. Financing for the project was finalized in June 2011 and the Corporation's interest in the project is 59.7% as at December 31, 2012. At the end of 2012, the total contribution by the Corporation is US$99 million. Except for the bridge loan, this investment is accounted for using the equity method.

vi. In 2007, the Corporation entered into a combination agreement with RdM, a publicly traded Italian corporation that is the second largest recycled boxboard producer in Europe. The combination agreement was amended in 2009 and provides, among other things, that RdM and Cascades are granted an irrevocable call option or put option, respectively, to purchase two European virgin boxboard mills belonging to Cascades (the "Virgin Assets"). RdM had a call option to be exercised 120 days after delivery of the Virgin Assets financial statements for the year ended December 31, 2011, by Cascades to RdM. This option was not exercised by RdM and has expired. Cascades may exercise its put option 120 days after delivery of the Virgin Assets financial statements for the year ended December 31, 2012, by Cascades to RdM. At this time, it is not expected that we will exercise this put option. The Corporation is also granted the right to require that the entire put option price, as the case may be, be paid in newly issued common shares of RdM.

vii. In addition to this agreement, the Corporation entered, in 2010, into a put and call agreement with Industria E Innovazione ("Industria") whereby Cascades had the option to buy 9.07% of the shares of RdM (100% of the shares held by Industria) for €0.43 per share between March 1, 2011 and December 31, 2012. Industria also has the option of requiring the Corporation to purchase its shares for €0.41 per share between January 1, 2013 and March 31, 2014. On April 7, 2011, the acquisition of RdM shares on the open market for a total interest of 40.95%, combined with the enforceable call option, triggered the business combination of RdM into Cascades. As a result, the Corporation started to fully consolidate the results and financial position of RdM on that date with a non-controlling interest of 59.05%. Prior to the second quarter of 2011, our share of the results of RdM was accounted for using the equity method. The call option was not exercised by the corporation and following the review of the impacts of IFRS 10, we concluded that the Corporation will continue to fully consolidate RdM as at January 1, 2013. Our share in the equity of RdM stood at 48.54% as at December 31, 2012.The Corporation is expecting the put option held by Industria to be exercised after the first quarter of 2013. If exercised, the put option will require the Corporation to pay an amount of €14 million ($18 million).

KEY PERFORMANCE INDICATORS

In order to achieve our long-term objectives while also monitoring our action plan, we use several key performance indicators, including the following:

	2010	2011					2012				
	TOTAL	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
OPERATIONAL											
Total shipments (in '000 of s.t.)[1]											
Packaging											
Containerboard	1,612	383	352	328	309	1,372	**302**	**297**	**298**	**297**	**1,194**
Boxboard Europe[2]	212	57	318	269	253	897	**278**	**286**	**260**	**280**	**1,104**
Specialty Products[3]	393	97	98	95	87	377	**98**	**97**	**99**	**91**	**385**
	2,217	537	768	692	649	2,646	**678**	**680**	**657**	**668**	**2,683**
Tissue Papers[4]	518	124	134	130	125	513	**130**	**146**	**147**	**141**	**564**
Total	2,735	661	902	822	774	3,159	**808**	**826**	**804**	**809**	**3,247**
Integration rate											
Packaging											
Containerboard (North America)	55%	53%	53%	55%	52%	53%	**54%**	**58%**	**58%**	**57%**	**56%**
Tissue Papers	56%	58%	57%	58%	69%	60%	**72%**	**68%**	**68%**	**69%**	**69%**
Manufacturing capacity utilization rate											
Packaging											
Containerboard	93%	92%	89%	89%	93%	91%	**88%**	**85%**	**86%**	**86%**	**86%**
Boxboard Europe	87%	93%	94%	86%	84%	88%	**92%**	**95%**	**86%**	**93%**	**92%**
Specialty Products (paper only)	82%	80%	79%	78%	69%	77%	**78%**	**77%**	**79%**	**72%**	**77%**
Tissue Papers[5]	93%	91%	93%	90%	87%	90%	**94%**	**98%**	**97%**	**94%**	**96%**
Total	91%	90%	90%	87%	86%	88%	**89%**	**90%**	**87%**	**88%**	**88%**
Energy cons.[6] - GJ/ton	11.11	12.64	10.65	10.50	12.90	11.38	**11.86**	**11.18**	**10.89**	**11.71**	**11.41**
Work accidents[7] - OSHA frequency rate	4.93	4.50	4.70	4.50	4.30	4.50	**3.20**	**3.80**	**4.60**	**3.50**	**3.78**
FINANCIAL											
Return on assets[8]											
Packaging											
Containerboard	12%	11%	9%	7%	6%	6%	**7%**	**7%**	**7%**	**7%**	**7%**
Boxboard Europe	7%	9%	9%	8%	7%	7%	**7%**	**6%**	**6%**	**6%**	**6%**
Specialty Products	13%	11%	10%	8%	7%	7%	**7%**	**8%**	**8%**	**9%**	**9%**
Tissue Papers	15%	14%	13%	12%	11%	11%	**11%**	**15%**	**17%**	**19%**	**19%**
Consolidated return on assets	10.6%	9.9%	8.7%	7.4%	6.5%	6.5%	**7.1%**	**7.6%**	**7.5%**	**8.1%**	**8.1%**
Return on capital employed[9]	3.8%	3.4%	2.6%	2.1%	1.3%	1.3%	**1.9%**	**2.3%**	**2.3%**	**2.8%**	**2.8%**
Working capital[10]											
In millions of $, at end of period	503	526	565	564	510	510	**536**	**549**	**524**	**455**	**455**
% of sales[11]	13.9%	14.5%	14.4%	14.5%	13.2%	13.2%	**14.2%**	**14.7%**	**14.3%**	**12.4%**	**12.4%**

1 Shipments do not take into account the elimination of business sector intercompany shipments.
2 Starting in the second quarter of 2011, shipments take into account the full consolidation of RdM.
3 Industrial packaging and specialty papers shipments.
4 Starting in the fourth quarter of 2011, shipments take into account the acquisition of Papersource.
5 Defined as: Manufacturing internal and external shipments/Practical capacity.
6 Average energy consumption for manufacturing mills only, excluding RdM.
7 Excluding RdM, Papersource and Bird Packaging.
8 Return on assets is a non-IFRS measure defined as the last twelve months ("LTM") OIBD excluding specific items/LTM Average of total assets. It includes or excludes significant business acquisitions and disposals respectively of the last twelve months.
9 Return on capital employed is a non-IFRS measure and is defined as the after-tax (30%) amount of the LTM operating income excluding specific items/average LTM Capital employed. Capital employed is defined as the total assets less accounts payable and accrued liabilities. It includes or excludes significant business acquisitions and disposals respectively of the last twelve months.
10 Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less accounts payable and accrued liabilities. It includes or excludes significant business acquisitions and disposals respectively of the last twelve months.
11 % of sales = Working capital end of period/LTM sales. It includes or excludes significant business acquisitions and disposals respectively of the last twelve months.

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HISTORICAL FINANCIAL INFORMATION

	2010					2011					**2012**
In millions of Canadian dollars, unless otherwised noted	TOTAL	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Sales											
Packaging											
Containerboard	1,459	344	333	317	299	1,293	**284**	**300**	**299**	**306**	**1,189**
Boxboard Europe	207	62	256	221	206	745	**204**	**208**	**181**	**198**	**791**
Specialty Products	786	202	219	224	206	851	**202**	**209**	**197**	**183**	**791**
Inter-segment sales	(100)	(27)	(28)	(27)	(22)	(104)	**(18)**	**(19)**	**(17)**	**(14)**	**(68)**
	2,352	581	780	735	689	2,785	**672**	**698**	**660**	**673**	**2,703**
Tissue Papers	853	199	218	221	233	871	**229**	**255**	**253**	**242**	**979**
Inter-segment sales and Corporate activities	(23)	(6)	(7)	(9)	(9)	(31)	**(10)**	**(9)**	**(7)**	**(11)**	**(37)**
	3,182	774	991	947	913	3,625	**891**	**944**	**906**	**904**	**3,645**
Operating income (loss)											
Packaging											
Containerboard	77	(4)	4	(1)	(24)	(25)	**8**	**(1)**	**7**	**(29)**	**(15)**
Boxboard Europe	(2)	3	13	(2)	(4)	10	**4**	**–**	**(1)**	**(2)**	**1**
Specialty Products	36	1	2	2	(17)	(12)	**5**	**8**	**8**	**2**	**23**
	111	–	19	(1)	(45)	(27)	**17**	**7**	**14**	**(29)**	**9**
Tissue Papers	45	–	7	8	37	52	**21**	**26**	**24**	**21**	**92**
Corporate activities	(53)	(6)	(5)	–	(6)	(17)	**(9)**	**(4)**	**(2)**	**(11)**	**(26)**
	103	(6)	21	7	(14)	8	**29**	**29**	**36**	**(19)**	**75**
OIBD excluding specific items[1]											
Packaging											
Containerboard	170	19	20	27	19	85	**21**	**23**	**26**	**25**	**95**
Boxboard Europe	8	5	17	10	10	42	**13**	**11**	**7**	**11**	**42**
Specialty Products	63	7	12	13	2	34	**11**	**15**	**15**	**8**	**49**
	241	31	49	50	31	161	**45**	**49**	**48**	**44**	**186**
Tissue Papers	90	10	16	18	28	72	**33**	**39**	**35**	**31**	**138**
Corporate activities	(21)	(4)	(3)	11	(8)	(4)	**(6)**	**(4)**	**(5)**	**(5)**	**(20)**
	310	37	62	79	51	229	**72**	**84**	**78**	**70**	**304**
Net earnings (loss)	41	(8)	122	(20)	5	99	**6**	**7**	**5**	**(29)**	**(11)**
Excluding specific items[1]	80	1	(9)	(2)	(4)	(14)	**4**	**7**	**7**	**(2)**	**16**
Net earnings (loss) per share (in dollars)											
Basic	$0.43	$(0.08)	$1.27	$(0.21)	$0.05	$1.03	**$0.06**	**$0.08**	**$0.05**	**$(0.30)**	**$(0.11)**
Basic, excluding specific items[1]	$0.83	$0.01	$(0.09)	$(0.02)	$(0.04)	$(0.14)	**$0.04**	**$0.08**	**$0.07**	**$(0.02)**	**$0.17**
Cash flow from operations (adjusted) including discontinued operations[1]	243	22	14	60	35	131	**48**	**37**	**42**	**34**	**161**
Cash flow from discontinued operations (adjusted)[1]	(50)	(7)	2	–	–	(5)	**–**	**–**	**–**	**–**	**–**
Cash flow from continuing operations (ajusted)[1]	193	15	16	60	35	126	**48**	**37**	**42**	**34**	**161**
Excluding specific items[1]	197	15	17	61	40	133	**48**	**40**	**44**	**35**	**167**
Net Debt[2]	1,397	1,445	1,298	1,370	1,485	1,485	**1,524**	**1,585**	**1,542**	**1,535**	**1,535**
Cascades North American US$ selling price index (2005 index = 1,000)[3]	1,186	1,238	1,250	1,267	1,272	1,257	**1,271**	**1,227**	**1,233**	**1,260**	**1,248**
Cascades North American US$ raw materials index (2005 index = 300)[3]	421	471	494	512	410	472	**387**	**384**	**368**	**343**	**371**
US$/CAN$	$0.97	$1.01	$1.03	$1.02	$0.98	$1.01	**$1.00**	**$0.99**	**$1.01**	**$1.01**	**$1.00**
Natural Gas Henry Hub—US$/mmBtu	$4.39	$4.10	$4.31	$4.19	$3.55	$4.04	**$2.74**	**$2.22**	**$2.81**	**$3.40**	**$2.79**

Sources: Bloomberg and Cascades.

1 See "Supplemental information on non-IFRS measures."

2 Defined as total debt less cash and cash equivalents.

3 See notes 1 and 2 on page 12.

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SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

Net earnings (loss), a performance measure defined by IFRS, is reconciled below with operating income, operating income excluding specific items and operating income before depreciation and amortization excluding specific items:

(in millions of Canadian dollars)	2012	2011
Net earnings (loss) attributable to Shareholders	**(11)**	99
Net loss (earnings) from discontinued operations	**5**	(114)
Net loss attributable to non-controlling interest	**(7)**	(3)
Share of earnings of associates and joint ventures	**(2)**	(14)
Recovery of income taxes	**(2)**	(56)
Foreign exchange gain on long-term debt and financial instruments	**(8)**	(4)
Financing expense	**100**	100
Operating income	**75**	8
Specific items:		
Gain on acquisitions, disposals and others	**(1)**	(48)
Inventory adjustment resulting from business acquisitions	**–**	10
Impairment charges	**29**	59
Restructuring costs	**7**	8
Unrealized loss (gain) on financial instruments	**(5)**	12
Accelerated depreciation due to restructuring measures	**13**	–
	43	41
Operating income—excluding specific items	**118**	49
Depreciation and amortization, excluding specific items	**186**	180
Operating income before depreciation and amortization—excluding specific items	**304**	229

The following table reconciles net earnings (loss) and net earnings (loss) per share with net earnings (loss) excluding specific items and net earnings (loss) per share excluding specific items:

	NET EARNINGS (LOSS)		NET EARNINGS (LOSS) PER SHARE[1]	
(in millions of Canadian dollars, except amount per share)	2012	2011	2012	2011
As per IFRS	**(11)**	99	**$(0.11)**	$1.03
Specific items:				
Gain on acquisitions, disposals and others	**(1)**	(48)	**$(0.01)**	$(0.55)
Inventory adjustment resulting from business acquisitions	**–**	10	**–**	$0.08
Impairment charges	**29**	59	**$0.23**	$0.45
Restructuring costs	**7**	8	**$0.05**	$0.06
Unrealized loss (gain) on financial instruments	**(5)**	12	**$(0.04)**	$0.11
Accelerated depreciation due to restructuring measures	**13**	–	**$0.10**	–
Foreign exchange gain on long-term debt and financial instruments	**(8)**	(4)	**$(0.07)**	$(0.04)
Share of earnings of associates, joint ventures and non-controlling interest	**(3)**	(3)	**$(0.03)**	$(0.03)
Included in discontinued operations, net of tax	**5**	(108)	**$0.05**	$(1.13)
Tax effect on specific items and other tax adjustments[1]	**(10)**	(39)	**–**	$(0.12)
	27	(113)	**$0.28**	$(1.17)
Excluding specific items	**16**	(14)	**$0.17**	$(0.14)

1 *Specific amounts per share are calculated on an after-tax basis. Per share amounts of line item "Tax effect on specific items and other tax adjustments" only include the effect of tax adjustments.*

The following table reconciles cash flow provided by operating activities with cash flow from operations (adjusted) excluding specific items:

(in millions of Canadian dollars)	2012	2011
Cash flow provided by operating activities	**203**	104
Changes in non-cash working capital components	**(42)**	22
Cash flow (adjusted) from operations	**161**	126
Specific items, net of current income tax		
Restructuring costs	**6**	7
Excluding specific items	**167**	133

The following table reconciles cash flow provided by operating activities with operating income and operating income before depreciation and amortization:

(in millions of Canadian dollars)	2012	2011
Cash flow provided by operating activities	**203**	104
Changes in non-cash working capital components	**(42)**	22
Depreciation and amortization	**(199)**	(180)
Income taxes paid	**17**	2
Net financing expense paid	**99**	97
Gain on acquisitions, disposals and others	**1**	48
Impairment charges and other restructuring costs	**(30)**	(60)
Unrealized gain (loss) on financial instruments	**5**	(12)
Others	**21**	(13)
Operating income	**75**	8
Depreciation and amortization	**199**	180
Operating income before depreciation and amortization	**274**	188

FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2012, COMPARED TO THE YEAR ENDED DECEMBER 31, 2011

SALES

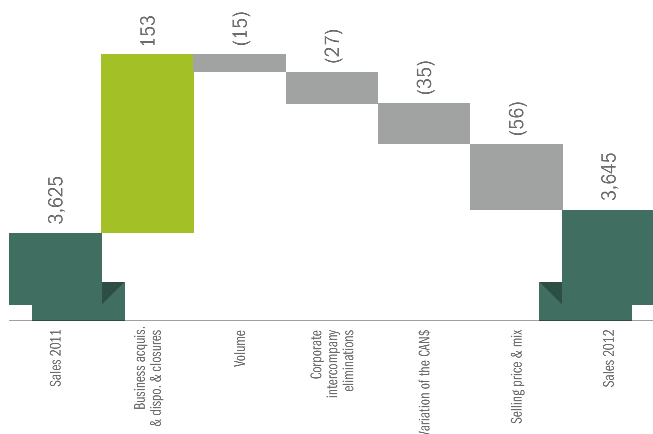
Sales increased by $20 million to $3.645 billion in 2012 compared to $3.625 billion in 2011 resulting mainly from the various acquired businesses and by the full consolidation of RdM but were partly offset by the impact of closed plants, lower selling prices and the 7% increase of the Canadian dollar against the Euro. Total shipments increased by 3%. Excluding the impact of business acquisitions, disposals and closures, our shipments were down by 2% compared to 2011.

OPERATING INCOME FROM CONTINUING OPERATIONS

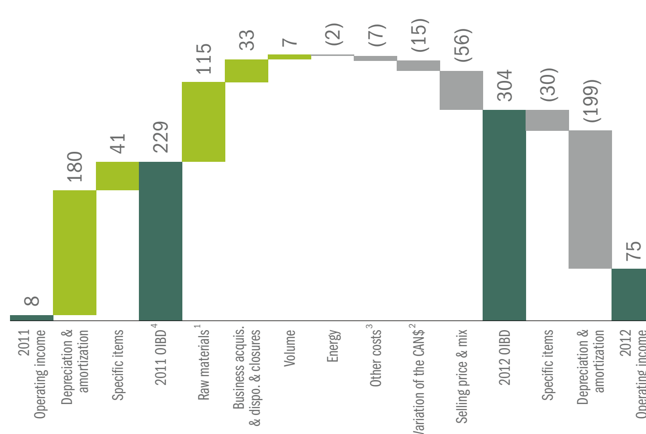
The Corporation generated an operating income of $75 million in 2012 compared to $8 million in 2011, resulting mainly from lower raw materials costs and the net positive effect of the acquired, disposed and closed plants. These positive impacts were partly offset by lower selling prices and product mix changes, the 7% increase of the Canadian dollar against the Euro, as well as higher costs, namely labour, freight and selling and administration costs. Also, back in 2011, we recorded a foreign exchange gain of approximately $14 million on the US$ consideration received from the sale of Dopaco. The operating income margin for 2012 increased to 2%, compared to 0.2% in 2011. Excluding specific items, the operating income increased by $69 million to $118 million in 2012 compared to $49 million in 2011.

The main variances in sales and operating income in 2012 compared to 2011 are shown below:

Sales ($M)



Operating income ($M)



1 *The impacts of these estimated costs are based on production costs per unit, which are affected by yield, product mix changes and purchase and transfer prices. In addition to market pulp and recycled fiber, they include purchases of external boards and parent rolls for the converting sector, and other raw materials such as plastics and woodchips.*

2 *The estimated impact of the exchange rate is based only on the Corporation's export sales less purchases that are impacted by exchange rate fluctuations, mainly the CA$/US$ variation. It also includes the impact of the exchange rate on the Corporation's working capital items and cash position.*

3 *Cost improvements and other items include the impact of variable costs based on production costs per unit, which are affected by downtimes, efficiencies and product mix changes. It also includes all other costs, such as repair and maintenance, selling and administration, profit-sharing and change in operating income for operating units that are not in the manufacturing and converting sectors. Operating income of businesses acquired or disposed of is also included.*

4 *Excluding specific items.*

The operating income variance analysis by segment is shown in each business segment review (refer to pages 26 to 33).

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SPECIFIC ITEMS INCLUDED IN OPERATING INCOME AND DISCONTINUED OPERATIONS

The Corporation incurred some specific items in 2012 and 2011 that adversely or positively affected its operating results. We believe that it is useful for readers to be aware of these items, as they provide a measure of performance with which to compare the Corporation's results between periods, notwithstanding these specific items.

The reconciliation of the specific items by business group is as follows:

						2012
(in millions of Canadian dollars)	Container-board	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	(15)	1	23	92	(26)	75
Depreciation and amortization	79	37	26	46	11	199
Operating income (loss) before depreciation and amortization	64	38	49	138	(15)	274
Specific items:						
Gain on acquisitions, disposals and others	(1)	–	–	–	–	(1)
Impairment charges	25	3	–	–	1	29
Restructuring costs	6	1	–	–	–	7
Unrealized loss (gain) on financial instruments	1	–	–	–	(6)	(5)
	31	4	–	–	(5)	30
Operating income (loss) before depreciation and amortization—excluding specific items	95	42	49	138	(20)	304
Accelerated depreciation due to restructuring measures	12	–	–	1	–	13
Operating income (loss)—excluding specific items	28	5	23	93	(31)	118

						2011
(in millions of Canadian dollars)	Container-board	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	(25)	10	(12)	52	(17)	8
Depreciation and amortization	70	32	28	41	9	180
Operating income (loss) before depreciation and amortization	45	42	16	93	(8)	188
Specific items:						
Loss (gain) on acquisitions, disposals and others	1	(12)	1	(37)	(1)	(48)
Inventory adjustment resulting from business acquisitions	–	6	–	4	–	10
Impairment charges	33	–	15	11	–	59
Restructuring costs	5	1	2	–	–	8
Unrealized loss on financial instruments	1	5	–	1	5	12
	40	–	18	(21)	4	41
Operating income (loss) before depreciation and amortization—excluding specific items	85	42	34	72	(4)	229
Operating income (loss)—excluding specific items	15	10	6	31	(13)	49

LOSS (GAIN) ON ACQUISITIONS, DISPOSALS AND OTHERS

In 2012 and 2011, the Corporation recorded the following losses and gains:

(in millions of Canadian dollars)	2012	2011
Net gain related to business acquisitions	–	(48)
Gain on disposal of property, plant and equipment	(1)	(7)
Loss on disposal of businesses	–	7
	(1)	(48)

2012

On March 23, the Containerboard Group sold a vacant piece of land located next to the Vaudreuil corrugated containerboard plant and recorded a gain of $1 million on the disposal.

2011

On March 1, the Corporation sold its European containerboard mill located in Avot-Vallée, France, for a total consideration of €10 million ($14 million) including the debt assumed by the acquirer in the amount of €5 million ($7 million) and the selling price balance of €5 million ($7 million) which is receivable over a maximum of three years. The Corporation recorded a loss of $2 million on the disposal.

On April 7, the Corporation purchased outstanding shares of RdM on the open market which triggered a business acquisition. A net gain of €9 million ($12 million) resulted from this transaction.

Also during the second quarter, our Specialty Products Group recorded a loss of $1 million resulting from the business acquisition of NorCan Flexible Packaging Inc., in which the Corporation did hold 50% of the outstanding shares (56.5% as at December 31, 2012).

On June 23, the Corporation sold two of its boxboard facilities, namely the Versailles mill located in Connecticut and the Hebron converting plant located in Kentucky for a total consideration of US$20 million ($20 million) in which US$5 million ($5 million) has been received net of transaction fees paid of $1 million. The consideration also includes a balance of sale price of US$10 million ($10 million) and the fair value of US$4 million ($4 million) for natural gas contracts agreements concluded with the acquirer as part of the transaction. The balance of sale price of US$10 million ($10 million) is receivable over four years. The Corporation realized a loss of $8 million before income taxes.

In June, the Corporation completed the sale of a piece of land in Montréal, Québec, pertaining to a corrugated converting plant closed in 2005, for a cash consideration of $9 million. A gain of $7 million was recorded on the disposal.

On September 20, the Corporation announced the closure and sale of the land and building housing its containerboard mill located in Burnaby, British Columbia. The closure resulted in a $3 million gain on the reversal of an environmental provision.

On November 1, the Corporation announced that it had finalized the acquisition of 50% of the shares that it did not hold in its affiliated company Papersource Converting Mill Corp (Papersource), located in Granby, Québec. Cash consideration for the transaction is $60 million. A gain of $37 million resulted from this transaction.

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IMPAIRMENT CHARGES AND RESTRUCTURING COSTS

The following impairment charges and restructuring costs were recorded in 2012 and 2011:

	2012		2011	
(in millions of Canadian dollars)	IMPAIRMENT CHARGES	RESTRUCTURING COSTS	IMPAIRMENT CHARGES	RESTRUCTURING COSTS
Containerboard Group	25	6	33	5
Boxboard Europe Group	3	1	–	1
Specialty Products Group	–	–	15	2
Tissue Papers Group	–	–	11	–
Corporate activities	1	–	–	–
	29	7	59	8

2012

The Containerboard Group reviewed the recoverable value of its Mississauga manufacturing mill, and impairment charges of $21 million on fixed assets and $2 million on intangible assets were recorded due to difficult market conditions. The Containerboard Group also recorded additional impairment charges totalling $2 million on its Burnaby mill and Le Gardeur converting plant which were closed in 2011.

On April 25, the Corporation announced the closure of its North York, Peterborough and Mississauga units in Ontario. These plants are part of the Containerboard Group. These closures resulted in the recognition of an onerous contract and severance provisions totalling $7 million. On September 5, 2012, the Corporation announced the closure of its Lachute folding carton plant, part of the Containerboard Group, which is expected to occur at the end of the first quarter of 2013. This resulted in the recognition of severance provisions totalling $2 million and a curtailment gain on pension plan amounting to $2 million.

During the year, the Containerboard Group recorded a $1 million reversal of an environmental provision with regards to its Burnaby manufacturing mill closed in 2011.

The Boxboard Europe Group reviewed the recoverable value of its temporarily closed Magenta manufacturing mill, and recorded impairment charges of $2 million on fixed assets and $1 million on spare parts. It also recorded a severance provision of $1 million.

The Corporation also recorded an impairment charge of $1 million in its corporate activities due to the reevaluation of notes receivable from business disposals realized in 2011.

2011

In the Containerboard Group, the Corporation recorded an impairment charge of $8 million for its closed boxboard mill located in Toronto, Ontario and for its converting plant in Lachute, Québec, due to difficult market conditions. For the same reason, the group recorded an impairment charge of $2 million on customer relationships.

The closure of its Leominster converting plants in the New England region of the US and of Le Gardeur in Québec resulted in closure and restructuring costs totalling $3 million. On September 20, 2011, the Corporation announced the closure of its Burnaby mill located in British Columbia. Closure and restructuring costs of $2 million were recorded.

In addition, the Corporation announced on September 20, the closure of its Burnaby mill located in British Columbia and that it had reached an agreement to sell the land and the building. An impairment charge of $8 million was recorded. Fair value less cost to sell was determined based on the selling price of assets. The Corporation also reviewed the recoverable amount of its Trenton manufacturing mill due to difficult market conditions, and an impairment charge of $15 million was recorded.

In Boxboard Europe, the Corporation recorded closure and restructuring costs of $1 million, following the closure of one production line in RdM.

In the Specialty Products Group, the Corporation closed its old East Angus pulping equipment in Québec and recorded an impairment charge of $3 million for recording the equipment at salvage value and recorded closure and restructuring costs totalling $2 million. The Corporation reviewed the recoverable value of its St-Jérôme fine paper mill, due to challenging market conditions and an impairment charge of $11 million was recorded. The Corporation recorded an additional $1 million impairment charge on other fixed assets for the same reason.

The Tissue Papers Group reviewed the recoverable amount of its Toronto manufacturing mill, and an impairment charge of $9 million was recorded due to difficult market conditions. In addition, impairment charges of $2 million were recorded on fixed assets for the same reason.

DERIVATIVE FINANCIAL INSTRUMENTS

In 2012, financial instruments not designated as hedging instruments contributed to net earnings for $5 million. The gain includes a $5 million gain on financial instruments on currency hedging as well as on commodities such as electricity, natural gas and recovered paper.

In 2011, the Corporation recorded an unrealized loss of $12 million on certain financial instruments not designated as hedging instruments. The loss includes a $7 million loss on financial instruments for currency hedging as well as on commodities such as electricity, natural gas and recovered paper. It also includes a $5 million loss resulting from a put and call agreement reached between the Corporation and Industria E Innovazione (see the "Significant facts and developments" section for more details on this agreement).

INVENTORY ADJUSTMENT RESULTING FROM BUSINESS ACQUISITION

As a consequence of the allocation of the combination value on the RdM and Papersource transactions, 2011 operating results were reduced by $10 million since the inventory acquired at the time of the combination was recognized at fair value and no profit was recorded on its subsequent sale.

DISCONTINUED OPERATIONS

In May 2011, the Corporation completed the sale of Dopaco Inc. and Dopaco Canada Inc. (collectively Dopaco), its converting business for the quick-service restaurant industry, to Reynolds Group Holdings Limited. The Corporation retained liability for certain pending litigation, namely a claim of damages in relation to the contamination of a site previously used by Dopaco. In 2012, the Corporation recorded a provision of $2 million (net of related income tax of $1 million) regarding this claim. Following the settlement of this claim, the Corporation paid $2 million and we estimate the remaining provision to be sufficient to cover further costs related to this claim. In 2012, the Corporation also recorded income tax adjustment of $3 million relating to the finalization of the income tax on the Dopaco gain. Results of discontinued operations in 2011 mainly include the Dopaco results until the date of its disposal on May 2, 2011. They also include the net gain on the disposal of $110 million. In 2011, the Corporation also incurred a loss of $2 million following the agreement of a health benefit plan prior to the sale.

ACCELERATED DEPRECIATION DUE TO RESTRUCTURING MEASURES

On April 25, 2012, the Corporation announced, in the Containerboard Group, the closure of its North York and Peterborough units as well as the OCD plant in Mississauga. These closures resulted in accelerated depreciation of $3 million due to the revaluation of the remaining useful life and residual value of some equipment.

That same group also reviewed the useful life and residual value of its Trenton's steam reformer and recorded accelerated depreciation totalling $9 million.

On August 13, 2012, the Corporation announced the closure of its Tissue Papers Group plant located in Scarborough and reviewed the useful life and residual value of its assets which resulted in accelerated depreciation of $1 million.

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Business Highlights

Over the past two years, the Corporation completed several transactions (closure or sale of certain operating units and acquisitions) in order to optimize its asset base and streamline its cost structure.

The following transactions that occurred in 2012 and 2011 should be taken into consideration when reviewing the overall or segmented analysis of the Corporation's results:

CLOSURES, RESTRUCTURING AND DISPOSALS

2012

CONTAINERBOARD GROUP

On April 25, the Corporation announced the permanent closure of three converting corrugated products plants, in Mississauga, in North York and Peterborough, Ontario.

On September 5, the Corporation announced the closure of its folding carton plant located in Lachute, Québec.

SPECIALTY PRODUCTS GROUP

On February 22, the Corporation announced the permanent closure of its honeycomb packaging facility, located in Toronto.

TISSUE PAPERS GROUP

On August 13, the Corporation announced the permanent closure of one of its Scarborough converting plants (McNicoll Street), in Toronto.

2011

CONTAINERBOARD GROUP

On March 1, the Corporation sold its European containerboard mill located in Avot-Vallée, France.

On March 10, the Group announced the closure of its Leominster converting plant and the consolidation of its New England (USA) converting activities. The Leominster plant was closed in May and operations have been transferred to other containerboard converting plants. Furthermore, on June 23, the Corporation sold its Versailles mill and its Hebron converting activities.

On September 20, the Corporation announced the closure of its containerboard mill located in Burnaby, British Columbia. The closure took effect in December 2011 and the production was redirected to other Containerboard Group facilities. The Burnaby mill, land and building were sold on October 17.

On October 12, the Group announced the closure of its Le Gardeur converting plant. The operations have been transferred to other containerboard converting plants.

BUSINESS ACQUISITIONS

2012

CONTAINERBOARD GROUP

On April 1, the Corporation acquired Bird Packaging Limited's converting and warehousing facilities located in Guelph, Kitchener and Windsor, in Ontario.

2011

BOXBOARD EUROPE GROUP

On April 7, the Corporation reached a share ownership of 40.95% in RdM, a recycled boxboard manufacturing leader based in Europe. Since the second quarter, the Corporation has fully consolidated RdM with a non-controlling interest, as at December 31, of 55.69% considering its ownership of 44.31%. In 2012, the Corporation acquired an additional 4.23% of RdM's outstanding shares on the open market. The Corporation's share in the equity of RdM stood at 48.54% as at December 31, 2012, with a corresponding non-controlling interest of 51.46%.

SPECIALTY PRODUCTS GROUP

On April 6, the Corporation acquired the flexible film activities of NorCan Flexible Packaging Inc., based in Ontario. The total interest held in the subsidiary was at 50% at that time (56.5% as at December 31, 2012) of outstanding shares (due to effective control, this investment is consolidated) with a non-controlling interest of 50% (43.5% as at December 31, 2012).

On May 31, the Corporation acquired the recovery and recycling activities of Genor Recycling Services Limited, based in Ontario.

On September 15, the Corporation acquired the uncoated partition board manufacturing assets of Packaging Dimensions Inc., located in Illinois, US.

TISSUE PAPERS GROUP

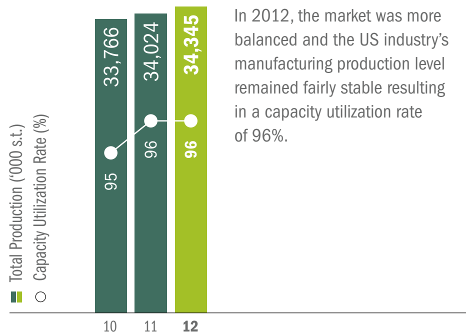
On November 1, the Group announced that it had finalized the acquisition of 50% of the shares that it did not hold in its affiliated company Papersource Converting Mill Corp (Papersource), located in Granby, Québec.

Please refer to notes 5 and 6 of the consolidated financial statements on pages 71 to 74 for more details on business disposals and acquisitions.

PACKAGING PRODUCTS CONTAINERBOARD

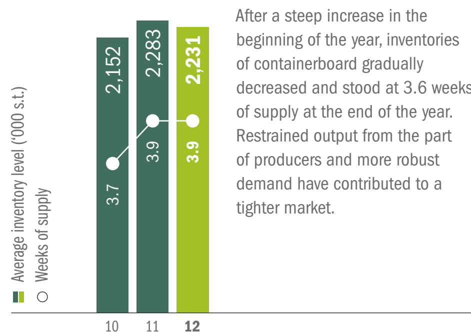
Our Industry

U.S. containerboard industry production and capacity utilization rate[1]



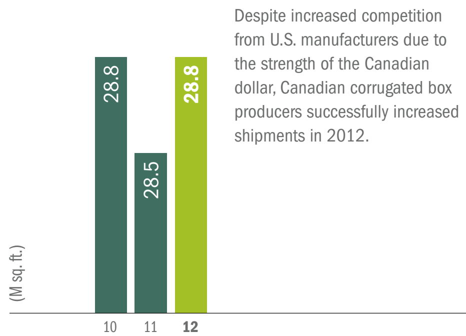
In 2012, the market was more balanced and the US industry's manufacturing production level remained fairly stable resulting in a capacity utilization rate of 96%.

U.S. containerboard inventories at box plants and mills[2]



After a steep increase in the beginning of the year, inventories of containerboard gradually decreased and stood at 3.6 weeks of supply at the end of the year. Restrained output from the part of producers and more robust demand have contributed to a tighter market.

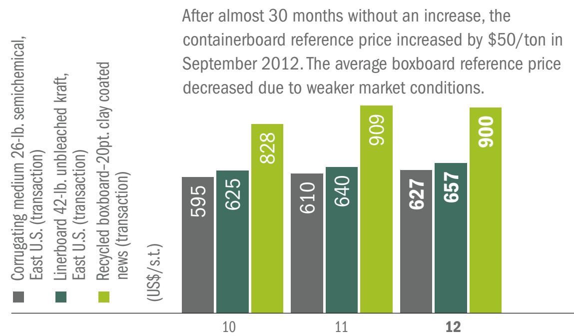
Canadian corrugated box industry shipments[3]



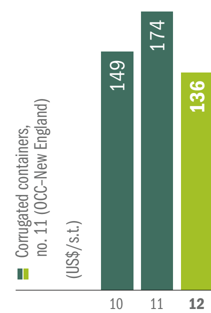
Despite increased competition from U.S. manufacturers due to the strength of the Canadian dollar, Canadian corrugated box producers successfully increased shipments in 2012.

Reference prices–Containerboard[1]

After almost 30 months without an increase, the containerboard reference price increased by $50/ton in September 2012. The average boxboard reference price decreased due to weaker market conditions.



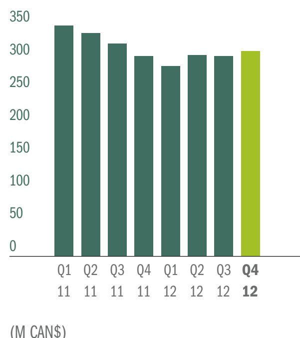
Reference prices–Recycled fibre[1]



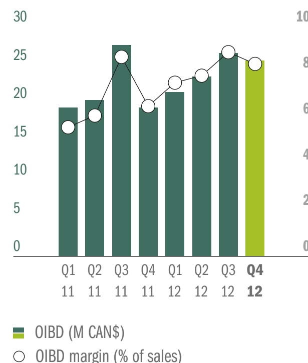
1 *Source: RISI*
2 *Source: Fiber Box Association*
3 *Source: Paper Packaging Canada*

Our Performance

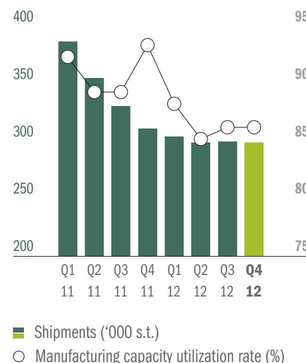
Sales



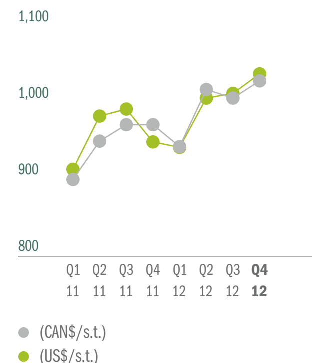
OIBD and OIBD margin (excluding specific items)



Shipments and manufacturing capacity utilization rate



Average selling price



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	2011	2012	CHANGE IN %
Shipments[1] ('000 s.t.)	1,372	1,194	-13%
Average Selling Price[2] (CDN$/unit)	943	995	6%
Average Selling Price[2] (US$/unit)	953	995	4%
Sales (M$)	1,293	1,189	-8%
Operating loss (M$) (as reported)	(25)	(15)	40%
Operating Income (M$) (excluding specific items)	15	28	87%
OIBD (M$) (as reported)	45 — 3% of sales	64 — 5% of sales	42%
OIBD (M$) (excluding specific items)	85 — 7% of sales	95 — 8% of sales	12%

1 *Shipments do not take into account the elimination of business sector intercompany shipments.*

2 *Average selling price is a weighted average of virgin and recycled containerboard shipments.*

Shipments decreased by 13%, or 178,000 s.t. to 1,194,000 s.t. in 2012 compared to 1,372,000 in 2011. When excluding the effects of acquired, disposed and closed businesses, the decline is reduced to 4% or 54,000 s.t. The good performance of the corrugated products and folding cartons units, which managed to respectively increase their volume by 1% and 5% (same plants basis), was not sufficient to counterbalance the 12% (same plant basis) external shipments decrease of the primary mills. The containerboard mills production difficulties during the year resulted in an 8% volume reduction while the 18% decrease in the boxboard sector came mainly from one mill developing and testing new products following the loss of an important client in the beginning of 2012.

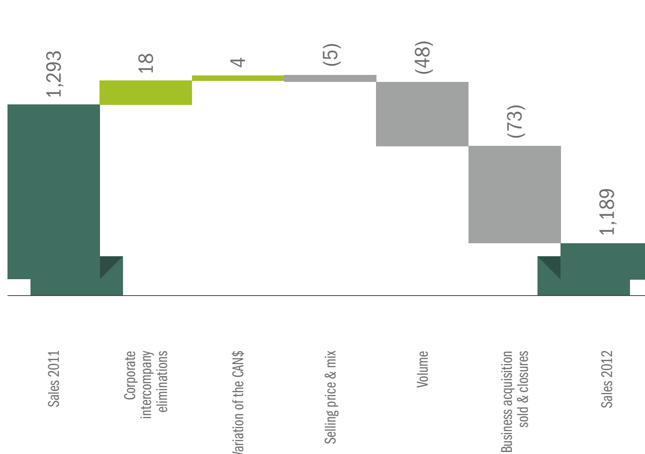
The total **average selling price** went up by $52, or 6%, to $995 per short ton in 2012 compared to $943 in 2011. During 2012, the proportion of our converting shipments compared to the manufacturing shipments has increased due to several plant closures as stated in the "business highlights" section on page 25. The boxboard mills registered a lower selling price during the year and sold more lower grade products. As for the containerboard mills, with the price increase that was announced in the beginning of the fourth quarter and a favourable foreign exchange rate, they were able to maintain their 2011 average selling price. On the converting side, average selling price went down by 1.7% in the corrugated products sector, a good performance considering that the Canadian industry recorded a decrease of 2.6%. The high competition in the folding carton business translated to a decrease of 1.2% in the average selling price of our plants. The total average selling price, on a comparative basis, had a negative impact of $5 million. The price increase announce in the fourth quarter of 2012 is gradually being implemented for the corrugated products and is expected to be fully effective at the end of the first quarter of 2013 with full impact on results in the second quarter.

As a result, the Containerboard Group's **sales** decreased by $104 million, or 8%, to $1,189 million in 2012 compared to $1,293 in 2011. Closed and sold plants accounted for $91 million of the decrease while lower volume removed $48 million of sales. On the other hand, the acquisition of Bird Packaging partly offset the decrease for $18 million. On a same plant basis, containerboard and boxboard sales decreased by 3% and 22% respectively.

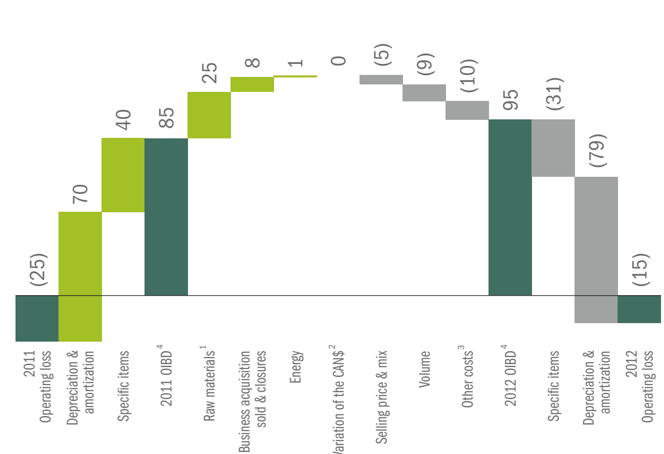
Excluding specific items, **operating income** stood at $28 million in 2012 compared to $15 million in 2011, an increase of $13 million. Lower raw materials costs added $25 million of operating income while other costs, namely chemicals, labour and freight, partly offset the increase by $10 million. The primary mills saw their average raw material cost decrease by 30$/s.t. following the recycled fibre price decline. All the variable costs were negatively impacted by higher converting products sold versus primary manufacturing rolls. The reduction in volume described above also took away $9 million of operating income. Finally, the acquisition of Bird Packaging during the year contributed $3 million to operating income, and sold and closed plants allowed a $5 million increase.

The main variances in sales and operating loss for the Containerboard Group are shown below:

Sales ($M)



Operating loss ($M)



For notes 1 to 4, see definition on page 20.

The Corporation incurred some specific items in 2012 and 2011 that adversely or positively affected its operating results. Please refer to pages 21 to 24 for more details and reconciliation.

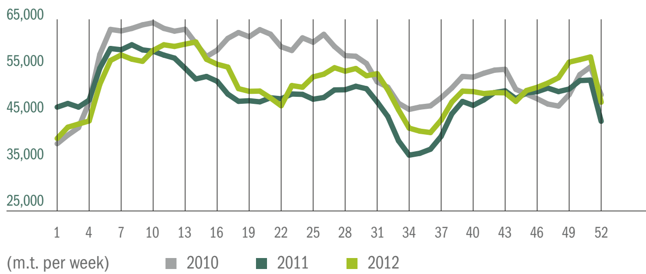
PACKAGING PRODUCTS BOXBOARD EUROPE

Our Industry

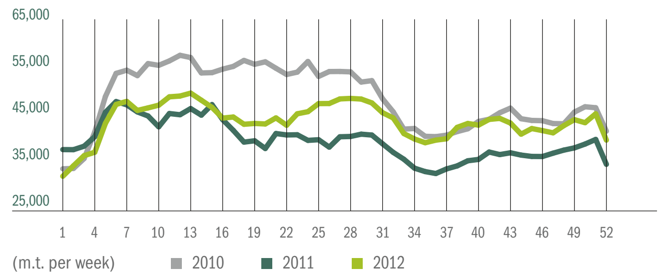
European industry's order inflow of coated boxboard from Europe[1]

In Europe, demand for both coated virgin and recycled boxboard grades was average. The year ended on a more positive note for recycled grades, the white-lined chipboard (WLC) market being slightly more balanced due to closures. As for the virgin duplex market, additional folding boxboard (FBB) production capacity had a negative impact.

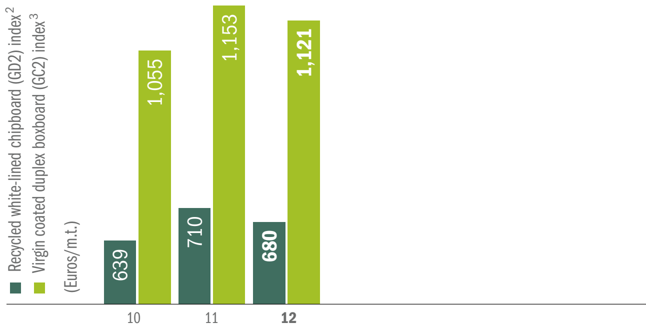
Coated recycled boxboard industry's order inflow from Europe[1]
(White-lined chipboard (WLC)—5-week weekly moving average)



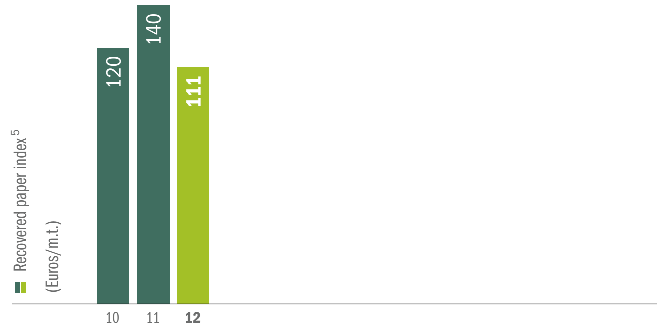
Virgin coated duplex boxboard industry's order inflow from Europe[1]
(Folding boxboard (FBB)—5-week weekly moving average)



Reference prices–Boxboard Europe[4]



Reference prices–Recycled fibre in Europe[4, 5]



1 Source: CEPI Cartonboard

2 The Cascades recycled white-lined chipboard selling prices index represents an approximation of Cascades' recycled grade selling prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe and EUWID prices for white-lined chipboard.

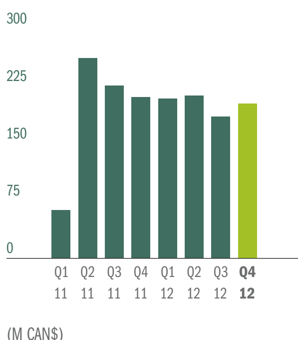
3 The Cascades virgin coated duplex boxboard selling prices index represents an approximation of Cascades' virgin grade selling prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe and EUWID prices for coated duplex boxboard.

4 Source: RISI

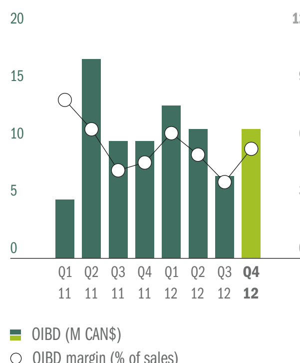
5 The Cascades recovered mixed paper and board sorted prices index represents an approximation of Cascades' recovered paper purchase prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe and EUWID prices for recovered mixed paper and board. This index should only be used as a trend indicator and may differ from our actual purchasing costs and our purchase mix.

Our Performance

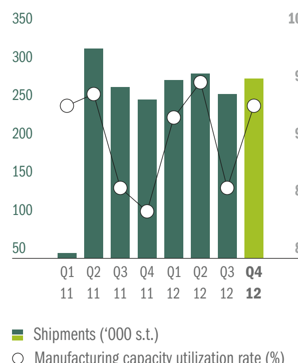
Sales



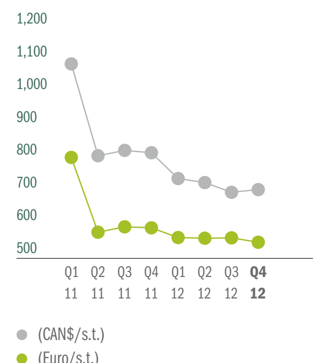
OIBD and OIBD margin (excluding specific items)



Shipments and manufacturing capacity utilization rate



Average selling price



	2011	2012	CHANGE IN %
Shipments[1] ('000 s.t.)	897	1,104	23%
Average Selling Price[2] (CDN$/unit)	831	717	-14%
Average Selling Price[2] (Euro€/unit)	604	558	-8%
Sales (M$)	745	791	6%
Operating Income (M$) (as reported)	10	1	-90%
Operating Income (M$) (excluding specific items)	10	5	-50%
OIBD (M$) (as reported)	42 6% of sales	38 5% of sales	-10%
OIBD (M$) (excluding specific items)	42 6% of sales	42 5% of sales	–

1 Shipments do not take into account the elimination of business sector intercompany shipments.

2 Average selling price include RdM recycled boxboard activities starting in the second quarter of 2011. Average selling price is a weighted average of virgin and recycled boxboard shipments.

Shipments increased by 23%, or 207,000 s.t. to 1,104,000 s.t. in 2012 compared to 897,000 in 2011. The increase is coming mainly from the full consolidation of RdM in the second quarter of 2011. Shipments of RdM increased by 217,000 s.t. in 2012 compared to 2011 and the virgin plants shipments decreased by 10,000 s.t. On a comparative basis, total shipments decreased by 21,000 s.t. or 2% mainly due to a contraction of demand in Europe in general.

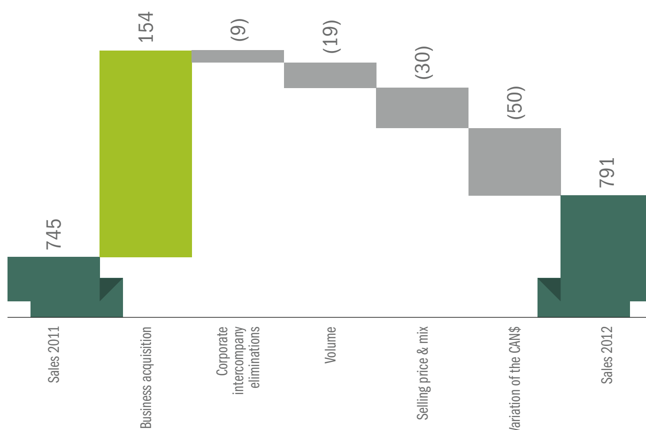
The **average selling price** in Canadian dollar was down by $114, or 14%, to $717 per short ton in 2012 compared to $831 in 2011. The 7% increase of the Canadian dollar against the Euro explained a major part of the decrease. A competitive market environment combined with lower demand resulted in a selling price decrease of €46, or 8%, to €558 in 2012 compared to €604 in 2011. The recycled boxboard activities (RdM) average selling price is down by €29, or 5%, to €512 in 2012 compared to €541 in 2011. The virgin boxboard activities average selling price is down by €25, or 3%, to €781 in 2012 compared to €806 in 2011.

As a result, Boxboard Europe's **sales** increased by $46 million, or 6%, to $791 million in 2012 compared to $745 million in 2011. The full consolidation of RdM, that started in the second quarter of 2011, added $154 million of sales. On the other hand, the 7% increase of the Canadian dollar against the Euro and the lower average selling price and volume removed $50 million, $30 million and $19 million respectively.

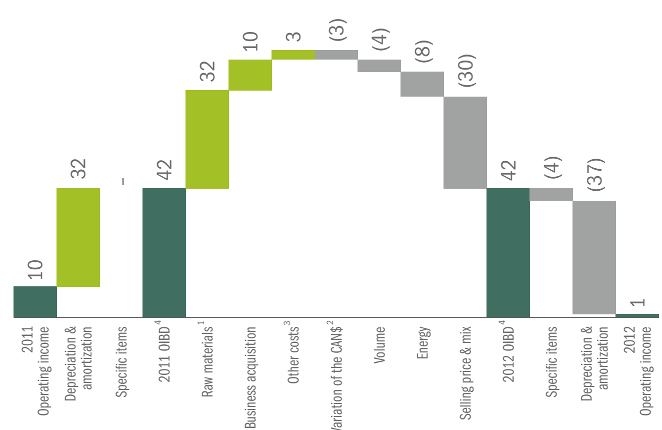
Excluding specific items, **operating income** stood at $5 million in 2012 compared to $10 million in 2011, a decrease of $5 million. The average selling price reduction and unfavourable product mix combined with higher energy costs removed, respectively, $30 million and $8 million of operating income while lower raw materials costs partly offset the increase and added $32 million. Recovered paper costs were lower in 2012 by €28, or 16%, to €150 per s.t. in 2012 compared to €178 per s.t. in 2011.

The main variances in sales and operating income for the Boxboard Europe Group are shown below:

Sales ($M)



Operating income ($M)



For notes 1 to 4, see definition on page 20.

The Corporation incurred some specific items in 2012 and 2011 that adversely or positively affected its operating results. Please refer to pages 21 to 24 for more details and reconciliation.

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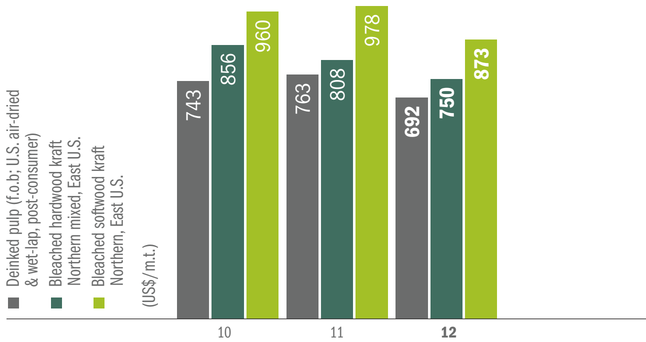
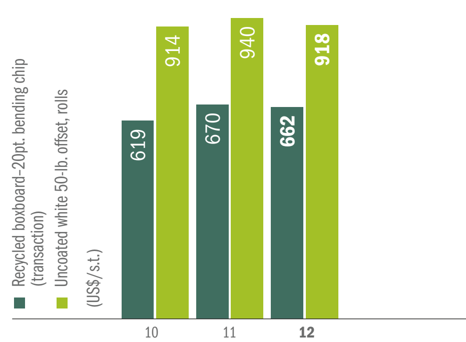
PACKAGING PRODUCTS SPECIALTY PRODUCTS

Our Industry

Reference prices–Market pulp[1]



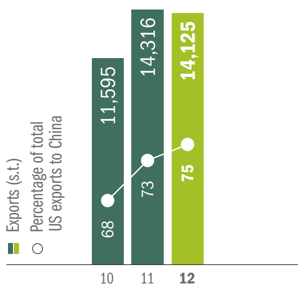
Reference prices–Specialty papers[1]



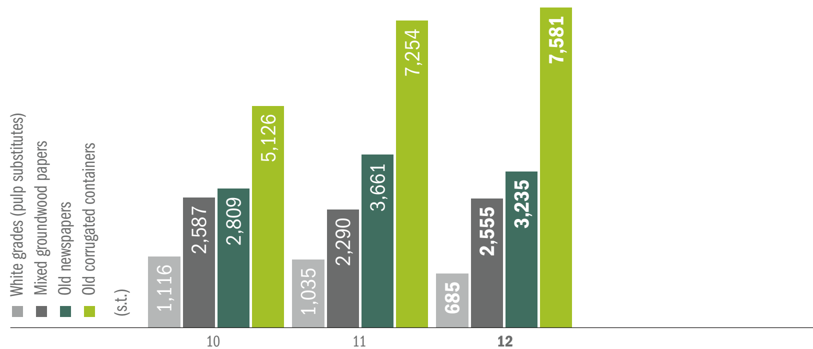
U.S recycled fibre exports to China[1]

Our Specialty Products Group is impacted by the recovered paper market and Asian demand plays an important role in shipments and pricing dynamics. In 2012, Chinese imports from the United States decreased by 1%. Pulp substitutes and old newsprint grades represented most of the decrease, with exports being lower by 34% and 12% respectively over 2011. Old corrugated containers exports increased by 4% in 2012 afer having increased by 42% in the preceding year. Mixed recycled papers experienced an increase in exports of 12% in 2012 after having declined by 11% in 2011 compared to 2010.

Total US exports of recycled papers to China–All grades



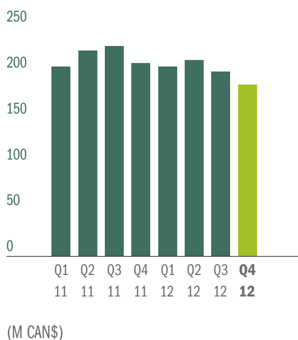
Major grades exported by the US



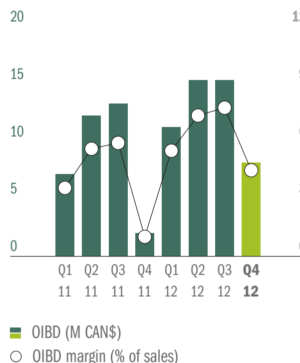
1 *Source: RISI*

Our Performance

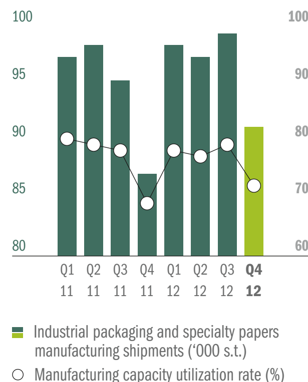
Sales



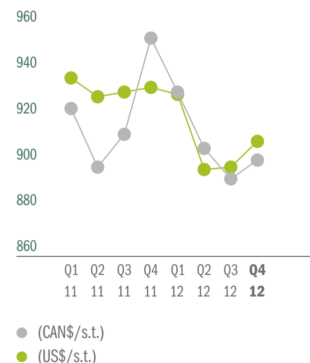
OIBD and OIBD margin (excluding specific items)



Industrial packaging and specialty papers manufacturing shipments and manufacturing capacity utilization rate



Average industrial packaging and specialty papers manufacturing selling price



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	2011	2012	CHANGE IN %
Shipments[1] ('000 s.t.)	377	385	2%
Average Selling Price[2] (CDN$/unit)	920	908	-1%
Average Selling Price[2] (US$/unit)	930	908	-2%
Sales (M$)	851	791	-7%
Operating Income (loss) (M$) (as reported)	(12)	23	292%
Operating Income (M$) (excluding specific items)	6	23	283%
OIBD (M$) (as reported)	16 2% of sales	49 6% of sales	206%
OIBD (M$) (excluding specific items)	34 4% of sales	49 6% of sales	44%

1 *Industrial packaging and specialty papers shipments only. Shipments do not take into account the elimination of business sector intercompany shipments.*

2 *Average selling price includes shipments of industrial packaging and specialty papers sectors only.*

Shipments increased by 2%, or 8,000 s.t. to 385,000 s.t. in 2012 compared to 377,000 s.t. in 2011. The Industrial Packaging sector shipments increased by 9,500 s.t., or 14% to 75,000 s.t. in 2012 compared to 65,500 s.t. in 2011 following the acquisition of two plants. On a comparative basis, shipments were stable between 2012 and 2011.

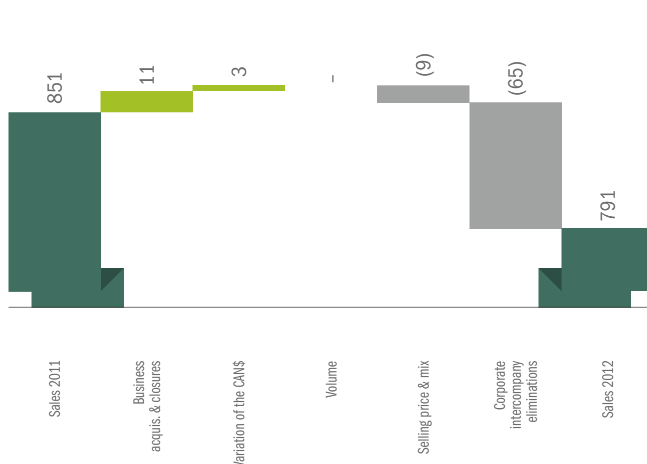
The **average selling price** for specialty papers only, was down by $12, or 1%, to $908 per short ton in 2012 compared to $920 in 2011. A change in product mix and challenging market conditions mostly explain this selling price decrease.

As a result, the Specialty Products Group's **sales** decreased by $60 million, or 7%, to $791 million in 2012 compared to $851 million in 2011. Business acquisitions and closures added $11 million while lower selling prices and mix removed $9 million. A decrease in the recovery paper prices explained most of the negative impact on sales as our recovery activities are included in this business segment.

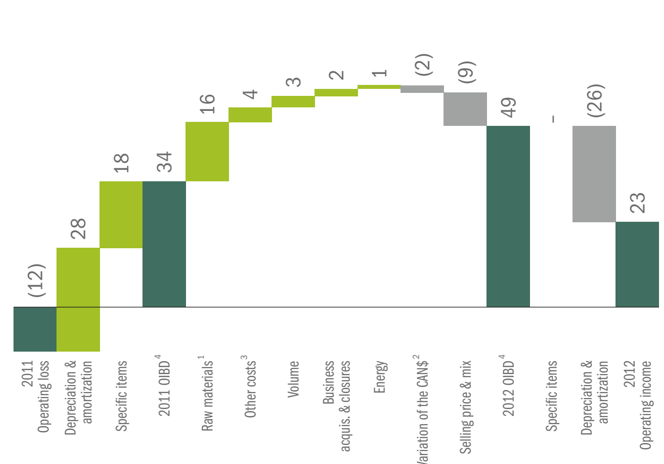
Excluding specific items, **operating income** stood at $23 million in 2012 compared to $6 million in 2011, an increase of $17 million. Lower raw materials costs added $16 million of operating income. Our specialty papers sector has mostly benefited from cost improvements and lower raw materials costs. Better volume and an increase in selling prices had a positive impact on profitability in our consumer products packaging sector.

The main variances in sales and operating income (loss) for the Specialty Products Group are shown below:

Sales ($M)



Operating income (loss) ($M)



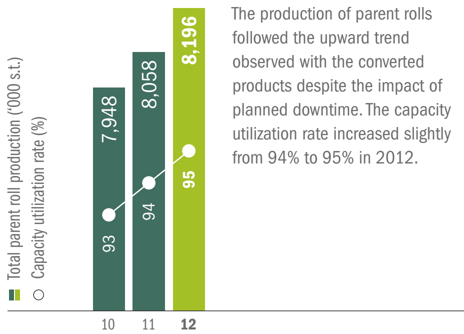
For notes 1 to 4, see definition on page 20.

The Corporation incurred some specific items in 2012 and 2011 that adversely or positively affected its operating results. Please refer to pages 21 to 24 for more details and reconciliation.

TISSUE PAPERS

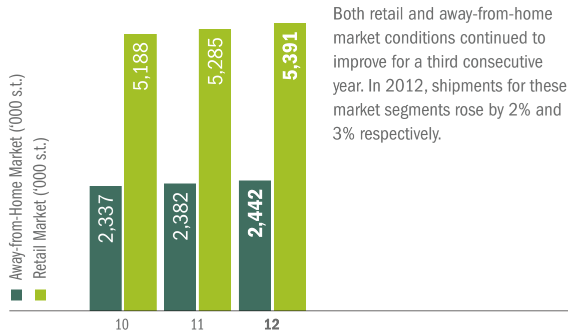
Our Industry

U.S. tissue paper industry production (parent rolls) and capacity utilization rate[1]



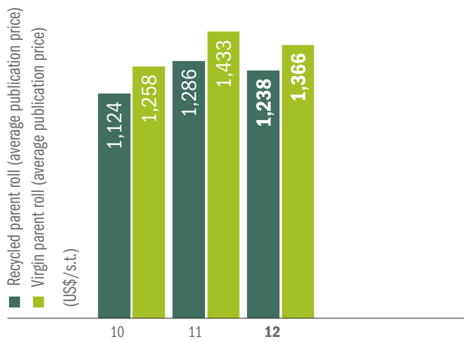
The production of parent rolls followed the upward trend observed with the converted products despite the impact of planned downtime. The capacity utilization rate increased slightly from 94% to 95% in 2012.

U.S. tissue paper industry converted product shipments[1]

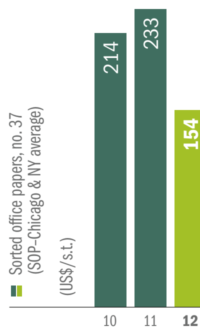


Both retail and away-from-home market conditions continued to improve for a third consecutive year. In 2012, shipments for these market segments rose by 2% and 3% respectively.

Reference prices–Parent rolls[1]



Reference prices–Recycled fibre[1]

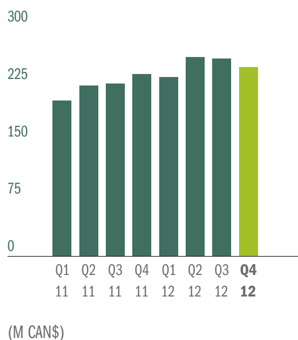


1 Source: RISI

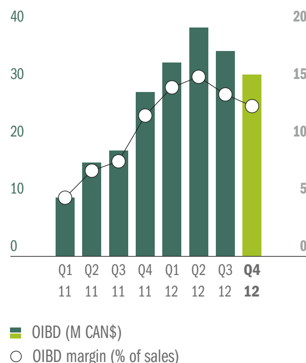
2 The Cascades tissue paper selling prices index represents a mix of primary and converted products, and is based on the product mix at the end of 2006.

Our Performance

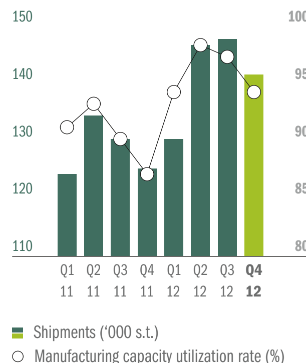
Sales



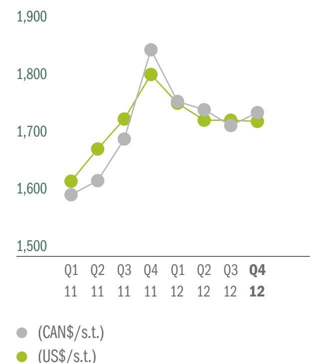
OIBD and OIBD margin (excluding specific items)



Shipments and manufacturing capacity utilization rate



Average selling price[2]



	2011	2012	CHANGE IN %
Shipments[1] ('000 s.t.)	513	564	10%
Average Selling Price (CDN$/unit)	1,697	1,737	2%
Average Selling Price (US$/unit)	1,713	1,738	1%
Sales (M$)	871	979	12%
Operating Income (M$) (as reported)	52	92	77%
Operating Income (M$) (excluding specific items)	31	93	200%
OIBD (M$) (as reported)	93 11% of sales	138 14% of sales	48%
OIBD (M$) (excluding specific items)	72 8% of sales	138 14% of sales	92%

1 Shipments do not take into account the elimination of business sector intercompany shipments.

Shipments increased by 10%, or 51,000 s.t. to 564,000 s.t. in 2012 compared to 513,000 s.t. in 2011. The manufacturing external shipments declined by 35,000 s.t., or 18%, to 168,000 s.t. in 2012 compared to 203,000 s.t. in 2011. The 2012 decline is mainly due to higher internal shipments following the Papersource acquisition which was partially offset by the basic products shipments increase due to mills productivity improvement. The converting shipments increased by 85,000, or 27%, to 396,000 s.t. in 2012 compared to 311,000 s.t. in 2011. The total increase is mainly due to the Papersource acquisition and a solid growth on the US market.

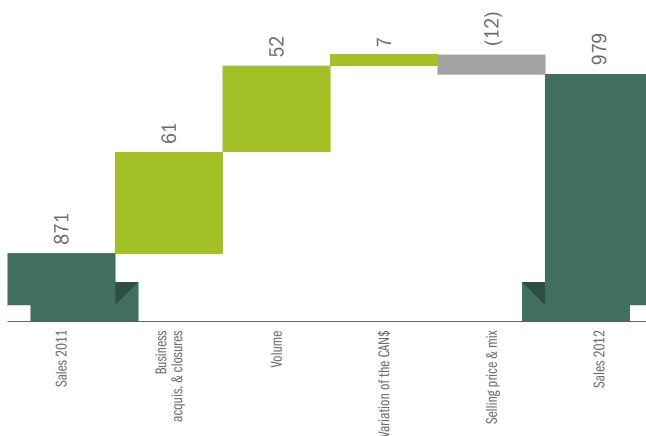
The **average selling price** was up by $40 or 2% to $1,737 per short ton in 2012 compared to $1,697 in 2011. The favourable impact on the average selling price was mainly due to the addition of product sold resulting from the acquisition of Papersource. This increase was partly offset by an unfavourable integration rate and an unfavourable market mix (more in the Away from Home segment compared to Retail). The integration rate and market mix, excluding the impact of business acquisition, resulted in a $12 million negative impact on the selling price in 2012.

As a result, the Tissue Papers Group's **sales** increased by $108 million, or 12%, to $979 million in 2012 compared to $871 million in 2011. The acquisition of Papersource in the fourth quarter of 2011 added $61 million of sales on a comparative basis and higher volume also added $52 million. On the other hand, the lower average selling price, as explained above, partly offset the increase by $12 million.

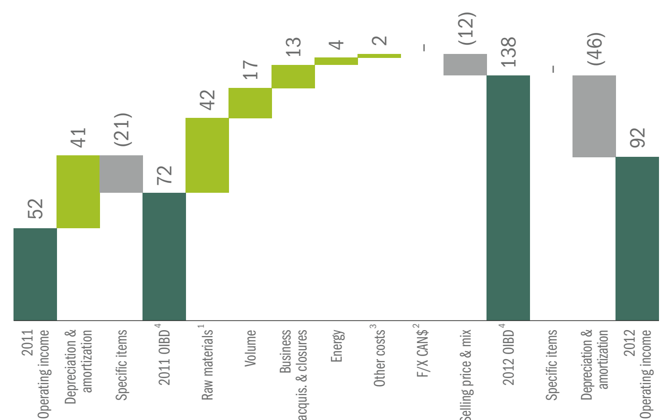
Excluding specific items, the **operating income** stood at $93 million in 2012 compared to $31 million in 2011, an increase of $62 million. Lower raw materials prices, higher volume and the acquisition of Papersource added, respectively, $42 million, $17 million and $13 million. From an operation point of view, the other cost improvement is mainly driven by a significant reduction of volume converted by third parties. This reduction is mainly due to a better overall internal productivity in our mills combined with the success of our optimization programs for our less performing units.

The main variances in sales and operating income for the Tissue Papers Group are shown below:

Sales ($M)



Operating Income ($M)



For notes 1 to 4, see definition on page 20.

The Corporation incurred some specific items in 2012 and 2011 that adversely or positively affected its operating results. Please refer to pages 21 to 24 for more details and reconciliation.

Corporate Activities

Operating loss in 2012 includes an unrealized gain of $6 million on financial instruments compared to a loss of $5 million in 2011. In 2012, it also includes an impairment charge of $1 million due to the reevaluation of notes receivable from 2011 business disposals.

As well, for 2011, operating loss, includes a foreign exchange gain of $3 million on working capital items following the rapid depreciation of the Canadian dollar at the end of the third quarter combined with foreign exchange gain in the amount of approximately $14 million in the third quarter on the US$ consideration received from the sale of Dopaco.

In 2013, the corporate activities should incur additional expenses related to its ERP system transformation, as costs associated with the implementation activities will not be capitalized.

Other Items Analysis

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased to $199 million (including $13 million of accelerated depreciation due to restructuring measures) during 2012 compared to $180 million in 2011. The increase comes from the accelerated depreciation for restructuring measures taken, for the acquisition of Papersource which increased the expense by $5 million and from the full consolidation of RdM that started during the second quarter of 2011, which increased the expense by $3 million in the year. The impairment charges recorded at the end of 2011 decreased the depreciation and amortization expense but these have been offset by capital investments completed during the year.

FINANCING EXPENSE

The financing expense remained stable at $100 million in 2012. The disposal of the Dopaco assets in May 2011 led to a decrease in financing expense. These were however offset by the effect of the full consolidation of RdM which started in the second quarter of 2011, the acquisition of Papersource and Bird Packaging and the capital investment made during the year. The Corporation amended its revolving credit facility during the second half of 2012 resulting in lower financing costs in the fourth quarter and for future periods.

FOREIGN EXCHANGE LOSS (GAIN) ON LONG-TERM DEBT AND FINANCIAL INSTRUMENTS

In 2012, the Corporation recorded a gain of $8 million on its US$-denominated debt and related financial instruments (2011—$4 million gain). The gain is composed of a gain of $4 million on its 2013 and 2017 foreign exchange forward contracts not designated as hedging instruments (2011—$7 million gain) and a gain of $4 million on our US$-denominated long-term debt net of our net investment hedge in the U.S. and forward exchange contracts designated as hedging instruments (2011—$3 million loss).

RECOVERY OF INCOME TAXES

In 2012, the Corporation recorded an income tax recovery of $2 million for an effective tax rate of 13%. There is no major event explaining the difference versus the statutory tax rate except the fact that foreign exchange on long-term debt and financial instruments is taxable at 50%.

The effective tax rate and current income taxes are affected by the results of certain subsidiaries and joint ventures located in countries, notably the United States, France and Italy, where the income tax rate is higher than in Canada. The normal effective tax rate is expected to be in the range of 26% to 35%. In fact the weighted average applicable tax rate is 28.5%.

SHARE OF EARNINGS OF ASSOCIATES AND JOINT VENTURES

The share of results of associates and joint ventures is partly represented by our 34.85% interest in Boralex Inc. ("Boralex"), a Canadian public corporation that is a major electricity producer and whose core business is the development and operation of power stations that generate renewable energy, with operations in the northeastern United States, Canada and France. It also includes the results of our joint ventures, including our interest in RdM until the first quarter of 2011. During the second quarter of 2011, the Corporation started to fully consolidate RdM and consequently ceased to record its share of results (please refer to notes 6 and 9 of the consolidated financial statements for more details).

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NET EARNINGS (LOSS)

In 2012, the Corporation posted a net loss of $11 million, or $0.11 per share, compared to net earnings of $99 million, or $1.03 per share in 2011. After excluding the specific items, the Corporation realized net earnings of $16 million, or $0.17 per share in 2012, compared to a net loss of $14 million, or $0.14 per share in 2011.

Liquidity and Capital Resources

CASH FLOWS FROM CONTINUING OPERATING ACTIVITIES

Continuing operating activities generated $203 million in liquidity in 2012, compared to $104 million in 2011. This increase is mainly attributable to the higher OIBD excluding specific items of 33%, or 75 million, to $304 million compared to last year ($229 million). Changes in non-cash working capital components generated $42 million in funds in 2012, compared to a use of $22 million in 2011. The improvement in working capital is mainly due to the reduction of accounts receivables and raw materials inventory. The Corporation is monitoring its working capital requirements and implementing measures to reduce its capital needs. The Corporation is also proactive with regards to its raw material supply strategy given volatile market conditions.

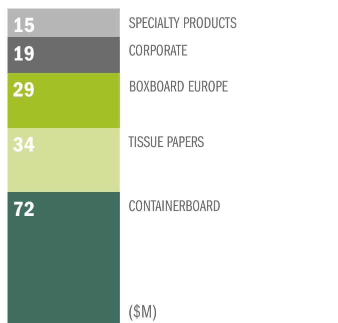
Cash flow from continuing operating activities, excluding the change in non-cash working capital components, stood at $161 million in 2012, compared to $126 million in 2011. This cash flow measure is significant, since it positions the Corporation to pursue its capital expenditures program and reduce its indebtedness.

INVESTING ACTIVITIES FROM CONTINUING OPERATIONS

Investment activities in 2012 required total cash resources of $213 million for capital expenditure projects, net of disposals of $141 million, other assets and investments in associates and joint ventures of $58 million and $14 million invested on business acquisition.

PURCHASES OF PROPERTY, PLANT AND EQUIPMENT

Capital expenditure projects paid for in 2012 amounted to $161 million. New capital expenditure projects in 2012 amounted to $169 million. Capital expenditures by sector were as follows:



The major capital projects completed or initiated in 2012 are as follows:

CONTAINERBOARD

$20 million as part of the major investments announced in the consolidation of the corrugated products sector in Ontario at the Vaughan, St-Mary's and Etobicoke plants in order to increase the production capacity, productivity and profitability.

$10 million at our Cabano containerboard mill, in Québec, to increase its production capacity.

$9 million as part of the major investments announced in the folding carton and microlithography operations at the Montréal plant that will increase productivity and efficiency.

$5 million at our Mississauga boxboard mill, in Ontario, for a new lithographic wide format press that will improve production capacity, profitability and productivity.

$3 million for motorized conveyors in our Drummondville, Québec, plant, which will automate the processes and reduce production costs, waste and risk of accidents.

$2 million for a head box and control dilution system at our Jonquière, Québec, plant, which will improve productivity and the quality of the board.

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BOXBOARD EUROPE

$7 million for a curtain coater at the RdM Villa Santa Lucia plant, in Italy, which will improve productivity and $1 million for the replacement of a turbine, that will improve the energy consumption.

$5 million, at La Rochette, in France, for a shoe press to improve dryness of the board before the entry into the dryer section. This will improve quality, safety, productivity and reduce the energy consumption.

SPECIALTY PRODUCTS

$5 million for a new extruder in our Industrial packaging plant in France, which will increase our production capacity and offer a wider variety of products.

$1 million for a new baler in our recovery and recycling plant in Winnipeg, Manitoba, to improve productivity and reduce waste.

$1 million at our St-Jérôme, Québec, fine papers plant for a restructuring program in order to transfer grades.

TISSUE PAPERS

$7 million for a new converting production line at our Papersource plant in Québec, which will increase our capacity and productivity.

$6 million for a new bath production line at our Pennsylvania plant that will increase productivity, allow for a greater variety of pack designs and reduce maintenance costs.

$2 million for a new gear driven winder, at our Toronto plant, to improve flexibility, reduce production stoppage and reduce labor costs.

$1 million to install two fine screens between the disperser and the flotation cell at our Kingsey Falls plant, in Québec, for the deinking process that will allow a greater productivity.

CORPORATE

$6 million in energy efficiency projects in various plants in order to reduce our ecological footprint and to save on energy costs.

$4 million for new tractors and trailers in our transport division in order to increase the transportation capacity. These tractors are built to reduce pollutant emissions and are more fuel efficient.

$2 million to extend the capacity of one of our warehouse, in Brossard, Québec, to facilitate and optimize the logistics for our various customers in the Montréal's area.

DISPOSALS

In 2012, the major proceeds on disposal of property, plant and equipment were as follows:

The Containerboard Group sold its land and building of the closed Toronto boxboard mill for a consideration of $12 million.

The Specialty Products Group sold a building located next to the NorCan site, in Mississauga, for $3 million.

The Group also sold a vacant piece of land in Vaudreuil, Québec, for $2 million.

The Boxboard Europe Group sold some property, plant and equipment held for sale for $2 million.

The Tissue Papers Group sold two buildings in the United States for $1 million.

INCREASE IN OTHER ASSETS AND INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

In 2012, the Corporation also invested in other assets and made investments in associates and joint ventures for $58 million. The main investments are as follows:

$29 million for the modernization of our financial information system to an ERP information technology system of which $9 million is financed through a loan agreement and will be reimbursed over a period of three years.

US$34 million ($34 million), including a bridge loan of US$15 million ($15 million), for our Greenpac project (see "Significant facts and developments" section for more details) in our Containerboard Group's manufacturing segment.

BUSINESS ACQUISITION

$14 million paid for the acquisition of Bird Packaging. The Corporation also assumed $3 million of debt and recorded $8 million of capital-lease obligations following the purchase price allocation (see page 73 for more details).

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FINANCING ACTIVITIES FROM CONTINUING OPERATIONS

UNSECURED SENIOR NOTES

On November 20, 2012, the Corporation repurchased US$5 million of it's 7.25% unsecured senior notes for an amount of US$5 million ($5 million). Also, on March 1, 2012, the Corporation repurchased US$3 million of its 6.75% unsecured senior notes for an amount of US$3 million ($3 million). No gain or loss resulted from these transactions.

The Corporation also redeemed 773,386 of its common shares on the open market in 2012, pursuant to a normal-course issuer bid, for an amount of $3 million.

In 2012, we continued to increase our ownership in RdM by acquiring 4.23% of the outstanding shares for an amount of $3 million. Our ownership, excluding any other agreements, stood at 48.54% as at December 31, 2012. As we fully consolidated RdM as of the second quarter of 2011, the purchase of these shares is considered an acquisition of non-controlling interest and accounted for as an equity transaction.

Including the $15 million in dividends paid out in 2012, financing activities from continuing operations generated $22 million in liquidity.

Consolidated Financial Position

AS AT DECEMBER 31, 2012, 2011 AND 2010

The Corporation's financial position and ratios are as follows:

(in millions of Canadian dollars, unless otherwise noted)	**2012**	2011	2010
Working capital[1]	**455**	510	503
% of sales[2]	**12.4%**	13.2%	13.9%
Bank loans and advances	**80**	90	42
Current portion of long-term debt	**60**	49	401
Long-term debt	**1,415**	1,358	960
Total debt	**1,555**	1,497	1,403
Equity attributable to Shareholders	**978**	1,029	1,049
Total equity attributable to Shareholders and total debt	**2,533**	2,526	2,452
Ratio of total debt/total equity attributable to Shareholders and total debt	**61.4%**	59.3%	57.2%
Shareholders' equity per share (in dollars)	**$10.42**	$10.87	$10.86

1 *Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less trade and other payables.*
2 *% of sales = Working capital end of period/LTM sales. Starting in the second quarter of 2011, it excludes the results of Dopaco and includes RdM.*

Liquidity available via the Corporation's credit facilities, along with the expected cash flow generated by its operating activities, will provide sufficient funds to meet its financial obligations and to fulfill its capital expenditure program. Capital expenditure requests for 2013 are initially approved at approximately $175 million. This amount is subject to change depending on the Corporation's operating results and on general economic conditions. As at December 31, 2012, the Corporation had $321 million (net of letters of credit in the amount of $28 million) available through its $750 million credit facility.

In 2012, the Corporation issued $18 million in new letters of credits related to the Greenpac project which should remain in place until the completion of the project which is expected in the third quarter of 2013. At this time, we can anticipate approximately $9 million will be drawn on these letters of credits to fund the project.

In 2012, the Corporation amended its revolving credit facility. The changes resulted in future lower financing costs and on extended maturity to February 2016. Financials covenants were unchanged.

PENSION LIABILITIES

The Corporation's future employee benefits assets and liabilities amounted to $598 million and $843 million respectively as at December 31, 2012. These liabilities include an amount of $120 million for post-retirement benefits other than pension plans and $51 million for pension plans, which do not require any funding by the Corporation until they are paid to the employees. This amount is not expected to increase, as the Corporation is reviewing its benefits program to phase out some of them for the majority of future and current employees.

With regards to pension plans, the Corporation's risk is limited, as only approximately 25% of its active employees are subject to a defined benefit contribution pension plan while the remaining employees are part of the Corporation's defined contribution plans, such as group RRSPs or 401 (K). As at December 31, 2012, 45% of the Corporation pension plans that are subject to an actuarial valuation have been re-evaluated. Where applicable, Cascades used the measurement relief allowed by law in order to reduce the impact of its increased current contributions.

Considering the assumptions used and the asset ceiling limit, the deficit status for accounting purposes of its pension plans amounted to $138 million as at December 31, 2012, compared to $125 million in 2011. The 2012 pension plan expense was $4 million and the cash outflow was $26 million. Due to the new accounting standard IAS19 effective in 2013, the expense for these pension plans is expected to increase by $15 million in 2013. As for the cash flow requirement, these pension plans are expected to require a contribution of approximately $28 million in 2013. Finally, on a consolidated basis, the solvency ratio of the Corporation's pension plans is 80% as of December 31, 2011 and is expected to stay at this level as at December 31, 2012.

In September 2011, the Canadian Institute of Actuaries issued an Educational Note. This Educational Note offers advice to pension actuaries who are hired to provide guidance to a pension plan sponsor on the selection of the discount rate for a Canadian pension plan under Canadian, U.S., or international accounting standards. After analyzing the recently announced guidance, the Corporation has decided to retain the current methodology. In addition, recent relief measures allowed by law may have a significant impact on our cash flow requirements if not pursued in the future.

In anticipation of the new accounting standard IAS 19, the Corporation amended its bank covenant calculation in February 2013, to exclude the impact of this change.

COMMENTS ON THE FOURTH QUARTER OF 2012

In comparison to 2011, sales decreased by $9 million, or 1%, to $904 million in the fourth quarter of 2012, compared to $913 million in the same period of 2011 resulting from lower selling prices that were totally offset by the 5% increase in our shipments. The increase of the Canadian dollar against the Euro of 7% brought a negative impact on our sales but was partly offset by the net impact of our business acquisitions and closures.

The operating income excluding specific items was $22 million in the fourth quarter of 2012, compared to nil in the same period of 2011. Lower recycled fiber costs and higher volume as well as the contribution of business acquisitions and disposals were partly offset by the negative impacts of selling prices and mix. On a segmented basis, our tissue papers, containerboard and speciality products operations posted better results while our boxboard operations in Europe remained stable. When including specific items, the operating loss amounted to $19 million in comparison to an operating loss of $14 million in the same period of last year.

Net loss excluding specific items amounted to $2 million or $0.02 per share in the fourth quarter of 2012 compared to net loss of $4 million or $0.04 per share for the same period last year. Including specific items, net loss was $29 million or $0.30 per share compared to a net earnings of $5 million or $0.05 per share for the same quarter in 2011.

The Corporation incurred some specific items in the fourth quarters of 2012 and 2011 that adversely or positively affected its operating results which are detailed below.

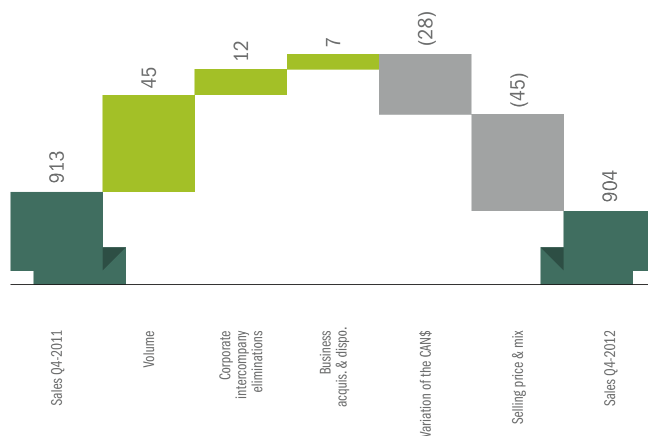
The reconciliation of the specific items by business group is as follows:

	FOR THE 3-MONTH PERIOD ENDED DECEMBER 31, 2012					
(in millions of Canadian dollars)	Container-board	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	(29)	(2)	2	21	(11)	(19)
Depreciation and amortization	28	10	6	11	3	58
Operating income (loss) before depreciation and amortization	(1)	8	8	32	(8)	39
Specific items:						
Impairment charges	23	3	–	–	1	27
Restructuring costs	2	1	–	–	–	3
Unrealized loss (gain) on financial instruments	1	(1)	–	(1)	2	1
	26	3	–	(1)	3	31
Operating income (loss) before depreciation and amortization—excluding specific items	25	11	8	31	(5)	70
Accelerated depreciation due to restructuring measures	10	–	–	–	–	10
Operating income (loss)—excluding specific items	7	1	2	20	(8)	22

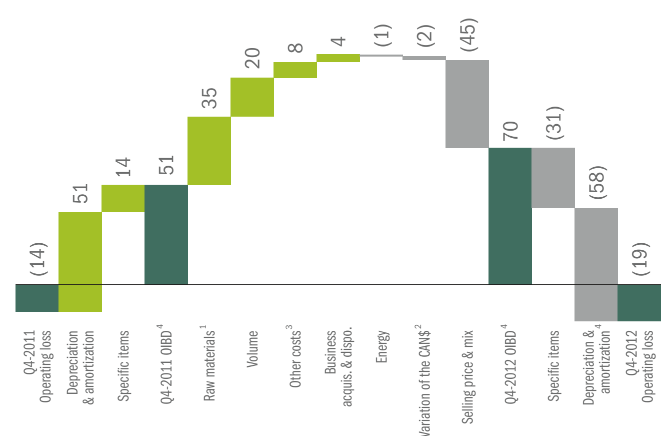
(in millions of Canadian dollars)	Container-board	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
	FOR THE 3-MONTH PERIOD ENDED DECEMBER 31, 2011					
Operating income (loss)	(24)	(4)	(17)	37	(6)	(14)
Depreciation and amortization	17	11	7	13	3	51
Operating income (loss) before depreciation and amortization	(7)	7	(10)	50	(3)	37
Specific items:						
Gain on disposals and others	–	–	–	(37)	(1)	(38)
Inventory adjustment resulting from business acquisition	–	–	–	4	–	4
Impairment charges	22	–	12	10	–	44
Restructuring costs	2	1	–	–	–	3
Unrealized loss (gain) on financial instruments	2	2	–	1	(4)	1
	26	3	12	(22)	(5)	14
Operating income (loss) before depreciation and amortization—excluding specific items	19	10	2	28	(8)	51
Operating income (loss)—excluding specific items	2	(1)	(5)	15	(11)	–

The main variances in sales and operating loss in the fourth quarter of 2012 compared to the same period in 2011 are shown below:

Sales ($M)



Operating loss ($M)



For notes 1 to 4, see definition on page 20.

Near-Term Outlook

Looking ahead in the near-term, 2013 will be an important year for Cascades. In addition to the start-up of Cascades' largest project to date, Greenpac, we should benefit from other strategic initiatives we undertook over the last two years. In North America, industry fundamentals remain positive for our two core sectors. Demand in the tissue papers sector continues to be robust despite ongoing capacity additions. In the containerboard sector, the corrugated box price increase is gradually being implemented and is expected to be fully effective at the end of the first quarter with a full impact during the second quarter. In North America, we do not expect a significant move in the price of recovered papers in the beginning of the year. The situation is different in Europe and presents significant uncertainty in relation to costs and market conditions.

Capital Stock Information

As at December 31, 2012, issued and outstanding capital stock consisted of 93,882,445 common shares (94,647,165 as at December 31, 2011), and 6,534,700 stock options were issued and outstanding (5,693,429 as at December 31, 2011). In 2012, 1,361,314 options were issued, 8,666 options were exercised, 137,994 options were forfeited and 373,383 options expired. As at March 11, 2013, issued and outstanding capital stock consisted of 93,886,776 common shares and 6,488,200 stock options.

Contractual Obligations and Other Commitments

The Corporation's principal contractual obligations and commercial commitments relate to outstanding debt, leases and purchase obligations for its normal business operations. The following table summarizes these obligations as at December 31, 2012:

CONTRACTUAL OBLIGATIONS

Payment due by period (in millions of Canadian dollars)	TOTAL	YEAR 2013	YEARS 2014 AND 2015	YEARS 2016 AND 2017	THEREAFTER
Long-term debt and capital-leases, including capital and interests	1,947	145	231	1,248	323
Leases	94	27	36	19	12
Pension plans and other post-employment benefits	555	64	126	98	267
Total contractual obligations	2,596	236	393	1,365	602

Transactions with Related Parties

The Corporation has also entered into various agreements with its joint-venture partners, significantly influenced companies and entities that are affiliated with one or more of its directors for the supply of raw materials, including recycled paper, virgin pulp and energy as well as the supply of unconverted and converted products, and other agreements entered into in the normal course of business. Aggregate sales by the Corporation to its joint-venture partners and other affiliates totalled $99 million and $174 million for 2012 and 2011 respectively. Aggregate sales to the Corporation from its joint-venture partners and other affiliates came to $76 million and $75 million for 2012 and 2011 respectively.

Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and disclosure of contingencies at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates, including those related to environmental costs, employee future benefits, collectibility of accounts receivable, financial instruments, contingencies, income taxes, useful life and residual value of property, plant and equipment and impairment of property, plant and equipment and intangible assets. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

(A) IMPAIRMENT OF LONG LIVED ASSETS, INTANGIBLE ASSETS AND GOODWILL

In determining the recoverable amount of an asset or a CGU, the Corporation uses several key assumptions, based on external information on the industry when available, and including production levels, selling prices, volume, raw material costs, foreign exchange rates, growth rates, discounting rates and capital spending.

The Corporation believes such assumptions to be reasonable. These assumptions involve a high degree of judgment and complexity and reflect management's best estimates based on available information at the assessment date. In addition, products are commodity products; therefore, pricing is inherently volatile and often follows a cyclical pattern.

DESCRIPTION OF SIGNIFICANT IMPAIRMENT TESTING ASSUMPTIONS

GROWTH RATES

The assumptions used were based on the Corporation's internal budget. Revenues, operating margins and cash flows were projected for a period of five years, and a perpetual long-term growth rate was applied thereafter. In arriving at its forecasts, the Corporation considered past experience, economic trends such as gross domestic product growth and inflation, as well as industry and market trends.

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DISCOUNT RATES

The Corporation assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represents a weighted average cost of capital ("WACC") for comparable companies operating in similar industries of the applicable CGU, group of CGUs or reportable segment, based on publicly available information.

FOREIGN EXCHANGE RATES

Foreign exchange rates are determined using the banks' average forecast for the first two years of forecasting. For the three following years, the Corporation uses the last five years' historical average of the foreign exchange rate.

Considering the sensitivity of the key assumptions used, there is measurement uncertainty since adverse changes in one or a combination of the Corporation's key assumptions could cause a significant change in the carrying amounts of these assets.

(B) INCOME TAXES

The Corporation is required to estimate the income taxes in each jurisdiction in which it operates. This includes estimating a value for existing tax losses based on the Corporation's assessment of its ability to use them against future taxable income before they expire. If the Corporation's assessment of its ability to use the tax losses proves inaccurate in the future, more or less of the tax losses might be recognized as assets, which would increase or decrease the income tax expense and, consequently, affect the Corporation's results in the relevant year.

(C) EMPLOYEE BENEFITS

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on years of service and management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected health-care costs. The accrued benefit obligation is evaluated using the market interest rate at the evaluation date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed annually.

CRITICAL JUDGMENTS IN APPLYING THE CORPORATION'S ACCOUNTING POLICIES

SUBSIDIARIES AND EQUITY ACCOUNTED INVESTMENTS

Significant judgment is applied in assessing whether certain investment structures result in control, joint control or significant influence over the operations of the investment. Management's assessment of control, joint control or significant influence over an investment will determine the accounting treatment for the investment.

The Corporation owns 48.54% of outstanding shares of Reno de Medici S.p.A. (''RdM") and had an exercisable call option to purchase an additional 9.07% of the shares of RdM as at December 31, 2012. As such, the Corporation fully consolidates, since April 7, 2011, RdM with a non-controlling interest of 51.46% as at December 31, 2012.

The Corporation has a 59.7% interest in an associate ("Greenpac"). Because the Corporation does not have the power to govern or jointly govern the financial and operating policies of Greenpac, it is accounted for as an associate.

New Accounting Standards Not Yet Adopted

RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED

IFRS 9—FINANCIAL INSTRUMENTS

IFRS 9 was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39, Financial Instruments: Recognition and Measurement, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss insofar as they do not clearly represent a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in the statement of "Other comprehensive income".

In December 2011, the effective date of IFRS 9 was deferred to years beginning on or after January 1, 2015. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10, 11, 12 AND 13

In May 2011, the IASB issued the following standards which have not yet been adopted by the Corporation. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 10—CONSOLIDATION

IFRS 10 requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The Corporation evaluated this standard and there is no impact on the consolidated financial statements.

IFRS 11—JOINT ARRANGEMENTS

IFRS 11 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. Under existing IFRS, entities have the choice of proportionately consolidating or equity accounting for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The Corporation evaluated this standard and there is no impact on the consolidated financial statements.

IFRS 12—DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Corporation evaluated this standard and it resulted in no impact on the consolidated financial statements. However, more information will be required in the notes to the financial statements.

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IFRS 13—FAIR VALUE MEASUREMENT

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Corporation evaluated this standard and there is no impact on the consolidated financial statements.

IAS 19—EMPLOYEE BENEFITS

IAS 19 has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in the statement of other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the Corporation's current accounting policy. Past service costs (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit costs will be split between: (i) the cost of benefits accrued in the current period (service costs) and benefit changes (past service costs, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on the risk/cost sharing feature, and expanded disclosures. The Corporation evaluated this standard and financing expense for the year ended December 31, 2012, would increase by $15 million ($11 million after related income tax). Other comprehensive income would increase by $11 million (net of income tax of $4 million). There is no impact on the employee benefit asset and liability and deferred income tax asset and liability. For the quarter ending March 31, 2013, the Corporation will retroactively change its consolidated financial statements.

IAS 1—PRESENTATION OF FINANCIAL STATEMENTS

IAS 1 has been amended to require entities to separate items presented in the statement of other comprehensive income into two groups based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Corporation evaluated this standard and there is no financial impact although it will result in a different presentation of the consolidated statement of comprehensive income.

AMENDMENTS TO OTHER STANDARDS

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. The Corporation evaluated these changes and there is no impact on the consolidated financial statements.

IFRS 7—FINANCIAL INSTRUMENTS DISCLOSURES

IFRS 7 requires disclosure of both gross and net information about financial instruments eligible for offset in the balance sheet and financial instruments subject to masternetting arrangements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, Financial Instruments: Presentation to clarify the existing requirements for offsetting financial instruments in the balance sheet. The amendments to IAS 32 are effective as of January 1, 2014. The Corporation is evaluating this standard and no significant impact is expected on the consolidated financial statements.

Controls and Procedures

EVALUATION OF THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's President and Chief Executive Officer and the Vice-President and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICOFR) as defined in National Instrument 52-109 "Certification of Disclosure in Issuer's Annual and Interim Filings" in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

The DC&P have been designed to provide reasonable assurance that material information relating to the Corporation is made known to the President and Chief Executive Officer and the Vice-President and Chief Financial Officer by others and that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have concluded, based on their evaluation, that the Corporation's DC&P were effective as at December 31, 2012 to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Corporation.

The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have assessed the effectiveness of the ICOFR as at December 31, 2012, based on the framework established in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, they have concluded that the Corporation's ICOFR were effective as at December 31, 2012 and expect to certify the Corporation's annual filings with the U.S. Securities and Exchange Commission on Form 40-F, as required by the United States Sarbanes Oxley Act.

During the quarter ended December 31, 2012, there were no changes to the Corporation's ICOFR that have materially affected, or are reasonably likely to materially affect, its ICOFR.

Risk Factors

As part of its ongoing business operations, the Corporation is exposed to certain market risks, including risks ensuing from changes in selling prices for its principal products, costs of raw materials, interest rates and foreign currency exchange rates, all of which impact the Corporation's financial position, operating results and cash flows. The Corporation manages its exposure to these and other market risks through regular operating and financing activities and, on a limited basis, through the use of derivative financial instruments. We use these derivative financial instruments as risk management tools, not for speculative investment purposes. The following is a discussion of key areas of business risks and uncertainties that we have identified, and our mitigating strategies. The risk areas below are listed in no particular order, as risks are evaluated based on both severity and probability. Readers are cautioned that the following is not an exhaustive list of all the risks we are exposed to, nor will our mitigation strategies eliminate all risks listed.

a) The markets for some of the Corporation's products tend to be cyclical in nature and prices for some of its products, as well as raw materials and energy costs, may fluctuate significantly, which can adversely affect its business, operating results, profitability and financial position.

The markets for some of the Corporation's products, particularly containerboard and boxboard, are highly cyclical. As a result, prices for these types of products and for its two principal raw materials, recycled paper and virgin fibre, have fluctuated significantly in the past and will likely continue to fluctuate significantly in the future, principally due to market imbalances between supply and demand. Demand is heavily influenced by the strength of the global economy and the countries or regions in which Cascades does business, particularly Canada and the United States, the Corporation's two primary markets. Demand is also influenced by fluctuations in inventory levels held by customers and consumer preferences. Supply depends primarily on industry capacity and capacity utilization rates. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand, which can potentially cause downward price pressure. Industry participants may also, at times, add new capacity or increase capacity utilization rates, potentially causing supply to exceed demand and exerting downward price pressure. Depending on market conditions and related demand, Cascades may have to take market-related downtime. In addition, the Corporation may not be able to maintain current prices or implement additional price increases in the future. If Cascades is not able to do so, its revenues, profitability and cash flows could be adversely affected. In addition, other participants may introduce new capacity or increase capacity utilization rates, which could also adversely affect the Corporation's business, operating results and financial position. Prices for recycled and virgin fibre also fluctuate considerably. The costs of these materials present a potential risk to the Corporation's profit margins, in the event that it is unable to pass along price increases to its customers on a timely basis. Although changes in the price of recycled fibre generally correlate with changes in the price of products made from recycled paper, this may not always be the case. If Cascades wasn't able

to implement increases in the selling prices for its products to compensate for increases in the price of recycled or virgin fibre, the Corporation's profitability and cash flows would be adversely affected. In addition, Cascades uses energy, mainly natural gas and fuel oil, to generate steam, which it then uses in the production process and to operate machinery. Energy prices, particularly for natural gas and fuel oil, have continued to remain very volatile. Cascades continues to evaluate its energy costs and consider ways to factor energy costs into its pricing. However, if energy prices were to increase, the Corporation's production costs, competitive position and operating results would be adversely affected. A substantial increase in energy costs would adversely affect the Corporation's operating results and could have broader market implications that could further adversely affect the Corporation's business or financial results.

To mitigate price risk, our strategies include the use of various derivative financial instrument transactions, whereby it sets the price for notional quantities of old corrugated containers, electricity and natural gas.

Additional information on our North American raw material, electricity and natural gas hedging programs as at December 31, 2012, is set out below:

NORTH AMERICAN FINISHED PRODUCTS AND RAW MATERIALS HEDGING

	OLD CORRUGATED CONTAINERS	SORTED OFFICE PAPER
Quantity hedge	25,000 s.t.	21,000 s.t.
% of annual consumption hedged	3%	5%
Average prices	US$111/s.t.	US$185/s.t.
Fair value as at December 31, 2012 (in millions of Canadian dollars)	(0.2)[1]	(0.3)

1 *Based on various indexes.*

NORTH AMERICAN ELECTRICITY HEDGING

	UNITED STATES	CANADA
Electricity consumption	27%	73%
Electricity consumption in a regulated market	50%	75%
% of consumption hedged in a deregulated market (2013)	21%	48%
Average prices (2013–2017)	US$0.041/KWh	$0.029/KWh
Fair value as at December 31, 2012 (in millions of Canadian dollars)	(0.3)	(0.6)

NORTH AMERICAN NATURAL GAS HEDGING

	UNITED STATES	CANADA
Natural gas consumption	33%	67%
% of consumption hedged (2013)	50%	64%
Average prices (2013–2017)	US$5.66/mmBtu	$5.18/GJ
Fair value as at December 31, 2012 (in millions of Canadian dollars)	(6.4)	(19.6)

b) Cascades faces significant competition and some of its competitors may have greater cost advantages or be able to achieve greater economies of scale or be able to better withstand periods of declining prices and adverse operating conditions, which could negatively affect the Corporation's market share and profitability.

The markets for the Corporation's products are highly competitive. In some of its markets in which Cascades competes, particularly in tissue and boxboard, it competes with a small number of other producers. In some businesses, such as the containerboard industry, competition tends to be global. In others, such as the tissue industry, competition tends to be regional. In the Corporation's packaging products segment, it also faces competition from alternative packaging materials, such as vinyl, plastic and styrofoam, which can lead to excess capacity, decreased demand and pricing pressures. Competition in the Corporation's markets is primarily based on price as well as customer service and the quality, breadth and performance characteristics of its products. The Corporation's ability to compete successfully depends on a variety of factors, including:

- its ability to maintain high plant efficiencies, operating rates and lower manufacturing costs;
- the availability, quality and cost of raw materials, particularly recycled and virgin fibre, and labour; and
- the cost of energy.

Some of the Corporation's competitors may, at times, have lower fibre, energy and labour costs, and less restrictive environmental and governmental regulations to comply with than Cascades does. For example, fully integrated manufacturers, which are those whose requirements for pulp or other fibre are met fully from their internal sources, may have some competitive advantages over

manufacturers that are not fully integrated, such as Cascades, in periods of relatively high raw materials pricing, in that the former are able to ensure a steady source of these raw materials at costs that may be lower than prices in the prevailing market. In contrast, competitors that are less integrated than Cascades may have cost advantages in periods of relatively low pulp or fibre prices because they may be able to purchase pulp or fibre at prices lower than the costs the Corporation incurs in the production process. Other competitors may be larger in size or scope than Cascades is, which may allow them to achieve greater economies of scale on a global basis or allow them to better withstand periods of declining prices and adverse operating conditions. In addition, there has been an increasing trend among the Corporation's customers towards consolidation. With fewer customers in the market for the Corporation's products, the strength of its negotiating position with these customers could be weakened, which could have an adverse effect on its pricing, margins and profitability.

To mitigate competition risk, Cascades' targets are to offer quality products that meet customers' needs at competitive prices and to provide good customer service.

c) Because of the Corporation's international operations, it faces political, social and exchange rate risks that can negatively affect its business, operating results, profitability and financial condition.

Cascades has customers and operations located outside Canada. In 2012, sales outside Canada represented approximately 62% of the Corporation's consolidated sales, including 38% in the United States. In 2012, 33% of sales from Canadian operations were made to the United States.

The Corporation's international operations present it with a number of risks and challenges, including:

- the effective marketing of its products in other countries;
- tariffs and other trade barriers; and
- different regulatory schemes and political environments applicable to the Corporation's operations, in areas such as environmental and health and safety compliance.

In addition, the Corporation's consolidated financial statements are reported in Canadian dollars, while a portion of its sales is made in other currencies, primarily the U.S. dollar and the Euro. The appreciation of the Canadian dollar against the U.S. dollar over the last few years has adversely affected the Corporation's reported operating results and financial condition. This had a direct impact on export prices and also contributed to reducing Canadian dollar prices in Canada, because several of the Corporation's product lines are priced in U.S. dollars. However, a substantial portion of the Corporation's debt is also denominated in currencies other than the Canadian dollar. The Corporation has senior notes outstanding and also some borrowings under its credit facility that are denominated in U.S. dollars and in Euros in the amount of US$794 million and €105 million respectively.

Moreover, in some cases, the currency of the Corporation's sales does not match the currency in which it incurs costs, which can negatively affect the Corporation's profitability. Fluctuations in exchange rates can also affect the relative competitive position of a particular facility, where the facility faces competition from non-local producers, as well as the Corporation's ability to successfully market its products in export markets. As a result, the continuing appreciation of the Canadian dollar can affect the profitability of the Corporation's facilities, which could lead Cascades to shut down facilities either temporarily or permanently, all of which could adversely affect its business or financial results.

To mitigate the risk of currency rises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations, which are partially covered by purchases and debt, management has implemented a policy for managing foreign exchange risk against the relevant functional currency.

The Corporation uses various foreign-exchange forward contracts and related currency option instruments to anticipate sales net of purchases, interest expenses and debt repayment. Gains or losses from the derivative financial instruments designated as hedges are recorded under "Other comprehensive income (loss)" and are reclassified under earnings in accordance with the hedge items.

Additional information on our North American foreign exchange hedging program is set out below:

NORTH AMERICAN FOREIGN EXCHANGE HEDGING[1]

Sell contracts and options:	**2013**	2013[2]	2014	2017
Total amount in millions of U.S. dollars	**37.5**	246	5	400
Estimated% of Sales, net of expenses from Canadian operations	**14%**	N/A	2%	N/A
Estimated% of US$ denominated debt	**N/A**	N/A	N/A	80%
Average rate (CAN$)	**1.0310**	1.1817	1.0426	1.0243
Fair value as at December 31, 2012 (in millions of Canadian dollars)	**2.0**	(46.0)	0.0	0.0

1 See note 27 of the consolidated financial statements for more details on derivatives.

2 In February 2013, the Corporation entered into new contracts to differ to 2017 and 2020 some of the contracts maturing in 2013. An amount of approximately $15 million is expected to be paid in 2013 for the remaining contracts.

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d) The Corporation's operations are subject to comprehensive environmental regulations and involve expenditures that may be material in relation to its operating cash flow.

The Corporation is subject to environmental laws and regulations imposed by the various governments and regulatory authorities in all countries in which it operates. These environmental laws and regulations impose stringent standards on the Corporation regarding, among other things:

- air emissions;
- water discharges;
- use and handling of hazardous materials;
- use, handling and disposal of waste; and
- remediation of environmental contamination.

The Corporation is also subject to the U.S. Federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") as well as to other applicable legislation in the United States, Canada and Europe that holds companies accountable for the investigation and remediation of hazardous substances. The Corporation's European subsidiaries are also subject to the Kyoto Protocol, aimed at reducing worldwide CO2 emissions. Each unit has been allocated emission rights ("CO2 quota"). On a calendar-year basis, the Corporation must buy the necessary credits to cover its deficit, on the open market, if its emissions are higher than quota.

The Corporation's failure to comply with applicable environmental laws, regulations or permit requirements may result in civil or criminal fines, penalties or enforcement actions. These may include regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, the installation of pollution control equipment or remedial actions, any of which could entail significant expenditures. It is difficult to predict the future development of such laws and regulations, or their impact on future earnings and operations, but these laws and regulations may require capital expenditures to ensure compliance. In addition, amendments to, or more stringent implementation of, current laws and regulations governing the Corporation's operations could have a material adverse effect on its business, operating results or financial position. Furthermore, although Cascades generally tries to plan for capital expenditures relating to environmental and health and safety compliance on an annual basis, actual capital expenditures may exceed those estimates. In such an event, Cascades may be forced to curtail other capital expenditures or other activities. In addition, the enforcement of existing environmental laws and regulations has become increasingly strict. The Corporation may discover currently unknown environmental problems or conditions in relation to its past or present operations, or may face unforeseen environmental liabilities in the future. These conditions and liabilities may:

- require site remediation or other costs to maintain compliance or correct violations of environmental laws and regulations; or
- result in governmental or private claims for damage to person, property or the environment.

Either of these could have a material adverse effect on the Corporation's financial condition or operating results.

Cascades may be subject to strict liability and, under specific circumstances, joint and several (solidary) liability for the investigation and remediation of soil, surface and groundwater contamination, including contamination caused by other parties, on properties that it owns or operates, and on properties where the Corporation or its predecessors have arranged for the disposal of regulated materials. As a result, the Corporation is involved from time to time in administrative and judicial proceedings and inquiries relating to environmental matters. The Corporation may become involved in additional proceedings in the future, the total amount of future costs and other environmental liabilities of which could be material.

To date, the Corporation is in compliance, in all material respects, with all applicable environmental legislation or regulations. However, we expect to incur ongoing capital and operating expenses in order to achieve and maintain compliance with applicable environmental requirements.

EMISSIONS MARKET

The Corporation is exposed to the emissions trading market and has to hold carbon credits equivalent to its emissions. Depending on circumstances, the Corporation may have to buy credits on the market or could sell some in the future. These transactions would have no significant effect on the financial position of the Corporation and it is not anticipated that it will change in the future.

e) Cascades may be subject to losses that might not be covered in whole or in part by its insurance coverage.

Cascades carries comprehensive liability, fire and extended coverage insurance on most of its facilities, with policy specifications and insured limits customarily carried in its industry for similar properties. The cost of the Corporation's insurance policies has increased over the past few years. In addition, some types of losses, such as losses resulting from wars, acts of terrorism or natural disasters, are generally not insured because they are either uninsurable or not economically practical. Moreover, insurers have recently become more reluctant to insure against these types of events. Should an uninsured loss or a loss in excess of insured limits occur, Cascades

could lose capital invested in that property, as well as the anticipated future revenues derived from the manufacturing activities conducted on that property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any such loss could adversely affect its business, operating results or financial condition.

To mitigate the risk subject to insurance coverage, the Corporation reviews its strategy annually with the Board of Directors and is seeking different alternatives to achieve more efficient forms of insurance coverage, at the lowest costs possible.

f) Labour disputes could have a material adverse effect on the Corporation's cost structure and ability to run its mills and plants.

As at December 31, 2012, the Corporation had approximately 12,000 employees, of whom approximately 10,000 were employees of its Canadian and United States operations. Approximately 44% of the Corporation's employees are unionized under 43 separate collective bargaining agreements. In addition, in Europe, some of the Corporation's operations are subject to national industry collective bargaining agreements that are renewed on an annual basis. The Corporation's inability to negotiate acceptable contracts with these unions upon expiration of an existing contract could result in strikes or work stoppages by the affected workers and increased operating costs as a result of higher wages or benefits paid to union members. If the unionized workers were to engage in a strike or another form of work stoppage, Cascades could experience a significant disruption in operations or higher labour costs, which could have a material adverse effect on its business, financial condition, operating results and cash flow. Of the Corporation's 43 collective bargaining agreements in North America, 16 will expire in 2013 and 9 more in 2014. The Corporation generally begins the negotiation process several months before agreements are due to expire and is currently in the process of negotiating with the unions where the agreements have expired or will soon expire. However, Cascades may not be successful in negotiating new agreements on satisfactory terms, if at all.

g) Cascades may make investments in entities that it does not control and may not receive dividends or returns from those investments in a timely fashion or at all.

Cascades has established joint ventures, made minority interest investments and acquired significant participations in subsidiaries in order to increase its vertical integration, enhance customer service and increase efficiencies in its marketing and distribution in the United States and other markets. The Corporation's principal joint ventures, minority investments and significant participations in subsidiaries:

- three 50%-owned joint ventures with Sonoco Products Corporation, of which two are in Canada and one in the United States, that produce specialty paper packaging products such as headers, rolls and wrappers;
- a 73%-owned subsidiary, Cascades Recovery Inc., a Canadian operator of wastepaper recovery and recycling operations;
- a 34.85% interest in Boralex Inc., a Canadian public corporation and a major electricity producer whose core business is the development and operation of power stations that generate renewable energy, with operations in Canada, the northeastern United States and France; and
- a 48.54%-owned subsidiary, RdM, a European manufacturer of recycled boxboard.
- A 59.7% interest in Greenpac Mill LLC, a new American corporation that will manufacture a light-weight linerboard made with 100% recycled fibers. The production is planned to begin in July 2013.

Apart from Cascades Recovery, RdM and NorCan, Cascades does not have effective control over these entities. The Corporation's inability to control entities in which it invests may affect its ability to receive distributions from those entities or to fully implement its business plan. The incurrence of debt or entrance into other agreements by an entity not under the Corporation's control may result in restrictions or prohibitions on that entity's ability to pay distributions to the Corporation. Even where these entities are not restricted by contract or by law from paying dividends or making distributions to Cascades, the Corporation may not be able to influence the making or timing of these dividends or distributions. In addition, if any of the other investors in a non-controlled entity fails to observe its commitments, the entity may not be able to operate according to its business plan or Cascades may be required to increase its level of commitment. If any of these events were to transpire, the Corporation's business, operating results, financial condition and ability to make payments on the Notes could be adversely affected.

In addition, the Corporation has entered into various shareholder agreements relating to its joint ventures and equity investments. Some of these agreements contain "shotgun" provisions, which provide that if one shareholder offers to buy all the shares owned by the other parties to the agreement, the other parties must either accept the offer or purchase all the shares owned by the offering shareholder at the same price and conditions. Some of the agreements also provide that in the event that a shareholder is subject to bankruptcy proceedings or otherwise defaults on any indebtedness, the non-defaulting parties to that agreement are entitled to invoke the shotgun provision or sell their shares to a third party. The Corporation's ability to purchase the other shareholders' interests in these joint ventures if they were to exercise these shotgun provisions could be limited by the covenants in the Corporation's credit

facility and the indenture. In addition, Cascades may not have sufficient funds to accept the offer or the ability to raise adequate financing should the need arise, which could result in the Corporation having to sell its interests in these entities or otherwise alter its business plan.

On September 13, 2007, we entered into a Combination Agreement with RdM, a publicly traded Italian corporation that is the second largest recycled boxboard producer in Europe. The Combination Agreement was amended on June 12, 2009. It provides, among other things, that RdM and Cascades are granted an irrevocable call option or put option, respectively, to purchase two European virgin boxboard mills of Cascades (the "Virgin Assets"). RdM may exercise its call option 120 days after delivery of Virgin Assets Financials for the year ended December 31, 2011, by Cascades to RdM. This option was not exercised by RdM and has expired. Cascades may exercise its put option 120 days after delivery of Virgin Assets Financials for the year ended December 31, 2012, by Cascades to RdM. At this time, it is not expected that this put option will be exercised. The call option price shall be equal to 6.5 times the 2011 audited EBITDA of the Virgin Assets as per the Virgin Assets Financials at December 31, 2011. The put option price shall be equal to 6 times the 2012 audited EBITDA of the Virgin Assets as per the Virgin Assets Financials for the year ended December 31, 2012. Cascades Europe is also granted the right to require that all of the call option price or put option price, as the case may be, be paid in newly issued ordinary shares of RdM.

In 2010, the Corporation entered into a put and call agreement with Industria E Innovazione ("Industria") whereby Cascades had the option to buy 9.07% of the shares of RdM (100% of the shares held by Industria) for €0.43 per share between March 1, 2011 and December 31, 2012. Industria also has the option of requiring the Corporation to purchase its shares for €0.41 per share between January 1, 2013 and March 31, 2014. The Corporation is expecting this put option to be exercised after the first quarter of 2013. If exercised, the put option will require the Corporation to pay an amount of $18 million (€14 million).

h) Acquisitions have been and are expected to continue to be a substantial part of the Corporation's growth strategy, which could expose the Corporation to difficulties in integrating the acquired operation, diversion of management time and resources, and unforeseen liabilities, among other business risks.

Acquisitions have been a significant part of the Corporation's growth strategy. Cascades expects to continue to selectively seek strategic acquisitions in the future. The Corporation's ability to consummate and to effectively integrate any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on its resources and, to the extent necessary, its ability to obtain financing on satisfactory terms, if at all. Acquisitions may expose the Corporation to additional risks, including:

- difficulty in integrating and managing newly acquired operations and in improving their operating efficiency;
- difficulty in maintaining uniform standards, controls, procedures and policies across all of the Corporation's businesses;
- entry into markets in which Cascades has little or no direct prior experience;
- the Corporation's ability to retain key employees of the acquired Corporation;
- disruptions to the Corporation's ongoing business; and
- diversion of management time and resources.

In addition, future acquisitions could result in Cascades incurring additional debt to finance the acquisition or possibly assuming additional debt as part of it, as well as costs, contingent liabilities and amortization expenses. The Corporation may also incur costs and divert management attention for potential acquisitions that are never consummated. For acquisitions Cascades does consummate, expected synergies may not materialize. The Corporation's failure to effectively address any of these issues could adversely affect its operating results, financial condition and ability to service debt, including its outstanding senior notes.

Although Cascades generally performs a due diligence investigation of the businesses or assets that it acquires, and anticipates continuing to do so for future acquisitions, the acquired business or assets may have liabilities that Cascades fails or is unable to uncover during its due diligence investigation and for which the Corporation, as a successor owner, may be responsible. When feasible, the Corporation seeks to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, the financial resources of the indemnitor or warrantor, or other reasons.

i) The Corporation undertakes impairment tests, which could result in a write-down of the value of assets and, as a result, have a material adverse effect.

IFRS requires that Cascades regularly undertake impairment tests of long-lived assets and goodwill to determine whether a write-down of such assets is required. A write-down of asset value as a result of impairment tests would result in a non-cash charge that reduces the Corporation's reported earnings. Furthermore, a reduction in the Corporation's asset value could have a material adverse effect on the Corporation's compliance with total debt to capitalization tests under its current credit facilities and, as a result, limit its ability to access further debt capital.

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j) Certain Cascades insiders collectively own a substantial percentage of the Corporation's common shares.

Messrs. Bernard, Laurent and Alain Lemaire ("the Lemaires") collectively own 32.4% of the common shares as at December 31, 2012, and there may be situations in which their interests and the interests of other holders of common shares will not be aligned. Because the Corporation's remaining common shares are widely held, the Lemaires may be effectively able to:

- elect all of the Corporation's directors and, as a result, control matters requiring Board approval;
- control matters submitted to a shareholder vote, including mergers, acquisitions and consolidations with third parties, and the sale of all or substantially all of the Corporation's assets; and
- otherwise control or influence the Corporation's business direction and policies.

In addition, the Lemaires may have interests in pursuing acquisitions, divestitures or other transactions that, in their judgment, could enhance the value of their equity investment, even though the transactions might involve increased risk to the holders of the common shares.

k) If Cascades is not successful in retaining or replacing its key personnel, particularly if the Lemaires do not stay active in the Corporation's business, its business, financial condition or operating results could be adversely affected.

The Lemaires are key to the Corporation's management and direction. Although Cascades believes that the Lemaires will remain active in the business and that Cascades will continue to be able to attract and retain other talented personnel and replace key personnel should the need arise, competition in recruiting replacement personnel could be significant. However, the appointment of Mario Plourde, in February 2011, as the new Chief Operating Officer (COO) is a part of the transition process. The new COO has more than 25 years of seniority within the Corporation. Cascades does not carry key man insurance on the Lemaires or on any other members of its senior management.

l) Risks relating to the Corporation's indebtedness and liquidity.

The significant amount of the Corporation's debt could adversely affect its financial health and prevent it from fulfilling its obligations under its outstanding indebtedness. The Corporation has a significant amount of debt. As of December 31, 2012, it had $1.555 billion in outstanding debt on a consolidated basis, including capital-lease obligations. The Corporation also had $321 million available under its revolving credit facility. On the same basis, its consolidated ratio of total debt to capitalization as of December 31, 2012, was 61.4%. The Corporation's actual financing expense for 2012 was $100 million. Cascades also has significant obligations under operating leases, as described in its audited consolidated financial statements that are incorporated by reference herein.

On September 4, 2012, the Corporation announced that it had entered into an agreement with its banking syndicate to extend an to extend and amend certain conditions of its existing $750 million revolving credit facility. The amendment provides that the term of the facility will be extended by one year to February 2016 and that the applicable pricing grid will be adjusted to better reflect market conditions. As a result, outstanding borrowing costs will be reduced by 37.5 basis points at the Corporation's current credit rating. The other existing financial conditions will remain unchanged.

In 2009, the Corporation refinanced a portion of its long-term debt to extend its maturity profile from 2013 to 2016, 2017 and 2020.

The Corporation has outstanding senior notes rated by Moody's Investor Service ("Moody's") and Standard & Poor's ("S&P").

The following table reflects the Corporation's secured debt rating/corporate rating/unsecured debt rating as at the date on which this MD&A was approved by the Board of Directors, and the evolution of these ratings compared to past years:

Credit Rating (outlook)	MOODY'S	STANDARD & POOR'S
2004	Ba1/Ba2/Ba3 (stable)	BBB-/BB+/BB+ (negative)
2005–2006	Ba1/Ba2/Ba3 (stable)	BB+/BB/BB- (negative)
2007	Baa3/Ba2/Ba3 (stable)	BBB-/BB/BB- (stable)
2008	Baa3/Ba2/Ba3 (negative)	BB+/BB-/B+ (negative)
2009–2010	Baa3/Ba2/Ba3 (stable)	BB+/BB-/B+ (stable)
2011	Baa3/Ba2/Ba3 (stable)	BB+/BB-/B+ (positive)
2012	**Baa3/Ba2/Ba3 (stable)**	**BB+/BB-/B+ (negative)**

This facility is in place with a core group of highly rated international banks. The Corporation may decide to enter into certain derivative instruments to reduce interest rates and foreign exchange exposure.

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The Corporation's leverage could have major consequences for holders of its common shares. For example, it could:

- make it more difficult for the Corporation to satisfy its obligations with respect to its indebtedness;
- increase the Corporation's vulnerability to competitive pressures and to general adverse economic or market conditions and require it to dedicate a substantial portion of its cash flow from operations to servicing debt, reducing the availability of its cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit its flexibility in planning for, or reacting to, changes in its business and industry; and
- limit its ability to obtain additional sources of financing.

Cascades may incur additional debt in the future, which would intensify the risks it now faces as a result of its leverage as described above. Even though we are substantially leveraged, we and our subsidiaries will be able to incur substantial additional indebtedness in the future. Although our credit facility and the indentures governing the notes restrict us and our restricted subsidiaries from incurring additional debt, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we and they now face as a result of our leverage could intensify.

The Corporation's operations are substantially restricted by the terms of its debt, which could limit its ability to plan for or react to market conditions, or to meet its capital needs. The Corporation's credit facilities and the indenture governing its senior notes include a number of significant restrictive covenants. These covenants restrict, among other things, the Corporation's ability to:

- borrow money;
- pay dividends on stock or redeem stock or subordinated debt;
- make investments;
- sell capital stock in subsidiaries;
- guarantee other indebtedness;
- enter into agreements that restrict dividends or other distributions from restricted subsidiaries;
- enter into transactions with affiliates;
- create or assume liens;
- enter into sale and leaseback transactions;
- engage in mergers or consolidations; and
- enter into a sale of all or substantially all of our assets.

These covenants could limit the Corporation's ability to plan for or react to market conditions, or to meet its capital needs. The Corporation's current credit facility contains other, more restrictive covenants, including financial covenants that require it to achieve certain financial and operating results and maintain compliance with specified financial ratios. The Corporation's ability to comply with these covenants and requirements may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance.

The restrictive covenants contained in the Corporation's senior note indenture along with the Corporation's credit facility do not apply to its joint ventures. However, for financial reporting purposes, Cascades consolidates these entities' results and financial position based on its proportionate ownership interest.

The Corporation's failure to comply with the covenants contained in its credit facility or its senior note indenture, including as a result of events beyond its control or due to other factors, could result in an event of default that could cause accelerated repayment of the debt. If Cascades is not able to comply with the covenants and other requirements contained in the indenture, its credit facility or its other debt instruments, an event of default under the relevant debt instrument could occur. If an event of default does occur, it could trigger a default under its other debt instruments, Cascades could be prohibited from accessing additional borrowings and the holders of the defaulted debt could declare amounts outstanding with respect to that debt, which would then be immediately due and payable. The Corporation's assets and cash flow may not be sufficient to fully repay borrowings under its outstanding debt instruments. In addition, the Corporation may not be able to refinance or restructure the payments on the applicable debt. Even if the Corporation were able to secure additional financing, it may not be available on favourable terms. A significant or prolonged downtime in general business and difficult economic conditions may affect the Corporation's ability to comply with its covenants and could require it to take actions to reduce its debt or to act in a manner contrary to its current business objectives.

m) Cascades is a holding corporation and depends on its subsidiaries to generate sufficient cash flow to meet its debt service obligations.

Cascades is structured as a holding corporation, and its only significant assets are the capital stock or other equity interests in its subsidiaries, joint ventures and minority investments. As a holding corporation, Cascades conducts substantially all of its business through these entities. Consequently, the Corporation's cash flow and ability to service its debt obligations are dependent on the earnings of its subsidiaries, joint ventures and minority investments, and the distribution of those earnings to Cascades, or on loans, advances or other payments made by these entities to Cascades. The ability of these entities to pay dividends or make other payments

or advances to Cascades will depend on their operating results and will be subject to applicable laws and contractual restrictions contained in the instruments governing their debt. In the case of the Corporation's joint ventures and minority investments, Cascades may not exercise sufficient control to cause distributions to itself. Although its credit facility and the indenture respectively limit the ability of its restricted subsidiaries to enter into consensual restrictions on their ability to pay dividends and make other payments to the Corporation, these limitations do not apply to its joint ventures or minority investments. The limitations are also subject to important exceptions and qualifications. The ability of the Corporation's subsidiaries to generate cash flow from operations that is sufficient to allow the Corporation to make scheduled payments on its debt obligations will depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of the Corporation's control. If the Corporation's subsidiaries do not generate sufficient cash flow from operations to satisfy the Corporation's debt obligations, Cascades may have to undertake alternative financing plans, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. Refinancing may not be possible, and any assets may not be able to be sold, or, if they are sold, Cascades may not realize sufficient amounts from those sales. Additional financing may not be available on acceptable terms, if at all, or the Corporation may be prohibited from incurring it, if available, under the terms of its various debt instruments in effect at the time. The Corporation's inability to generate sufficient cash flow to satisfy its debt obligations, or to refinance its obligations on commercially reasonable terms, would have an adverse effect on its business, financial condition and operating results. The earnings of the Corporation's operating subsidiaries and the amount that they are able to distribute to the Corporation as dividends or otherwise may not be adequate for the Corporation to service its debt obligations.

n) Risks related to the common shares.

The market price of the common shares may fluctuate, and purchasers may not be able to resell the common shares at or above the purchase price. The market price of the common shares may fluctuate due to a variety of factors relative to the Corporation's business, including announcements of new developments, fluctuations in the Corporation's operating results, sales of the common shares in the marketplace, failure to meet analysts' expectations, general conditions in all of our segments, or the worldwide economy. In recent years, the common shares, the stock of other companies operating in the same sectors and the stock market in general have experienced significant price fluctuations, which have been unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the common shares will not continue to experience significant fluctuations in the future, including fluctuations that are unrelated to the Corporation's performance.

o) Cash-flow and fair-value interest rate risks.

As the Corporation has no significant interest-bearing assets, its earnings and operating cash flows are substantially independent of changes in market interest rates.

The Corporation's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Corporation to a cash-flow interest rate risk. Borrowings issued at a fixed rate expose the Corporation to a fair-value interest rate risk.

p) Credit risk.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with creditworthy financial institutions.

The Corporation is exposed to credit risk on accounts receivable from its customers. In order to reduce this risk, the Corporation's credit policies include the analysis of a customer's financial position and a regular review of its credit limits. The Corporation also believes that no particular concentration of credit risks exists due to the geographic diversity of its customers and the procedures in place for managing commercial risks. Derivative financial instruments include an element of credit risk, should the counterparty be unable to meet its obligations.

q) Enterprise Resource Planning (ERP) implementation.

The Corporation decided to modernize its financial information system with the implementation of an integrated Enterprise Resource Planning (ERP) system. The Corporation identified the risks associated with said project and adopted a step-by-step plan to address any risks related to the implementation process. The Corporation dedicated a project team, required corporate oversight with the appropriate skills and knowledge and retained the services of consultants to provide expertise and training. Supported by senior management and key personnel, the Corporation undertook a detailed analysis of its requirements during 2010, and in November of 2010 successfully completed a pilot project in one of its plant. The project team has finalized a detailed blueprint for its manufacturing and some of its converting operations and implemented the solution in some business units as of December 31, 2012. The project team is continuing to review the blueprint and programming related to its remaining converting operations and to evaluate its deployment strategy for the coming years, including the human and capital resources required for the project.

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MANAGEMENT'S REPORT TO THE SHAREHOLDERS OF CASCADES INC.

March 11, 2013

The accompanying consolidated financial statements are the responsibility of the management of Cascades Inc., and have been reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and include certain estimates that reflect management's best judgment.

Management is also responsible for all other information included in this Annual Report and for ensuring that this information is consistent with the Corporation's consolidated financial statements and business activities.

The Management of the Corporation is responsible for the design, establishment and maintenance of appropriate internal controls and procedures for financial reporting, to ensure that financial statements for external purposes are fairly presented in conformity with IFRS. Such internal control systems are designed to provide reasonable assurance on the reliability of the financial information and the safeguarding of assets.

External and internal auditors have free and independent access to the Audit Committee, which comprises outside independent directors. The Audit Committee, which meets regularly throughout the year with members of management and the external and internal auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, whose report is provided below.

Alain Lemaire
PRESIDENT AND CHIEF EXECUTIVE OFFICER—KINGSEY FALLS, CANADA

Allan Hogg
VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER—KINGSEY FALLS, CANADA

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CASCADES INC.

March 11, 2013

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers LLP [1]

CHARTERED PROFESSIONAL ACCOUNTANTS—MONTRÉAL, CANADA

1 *FCPA auditor, FCA, public accountancy permit No. A108517*

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CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)	NOTE	**DECEMBER 31, 2012**	DECEMBER 31, 2011
Assets			
Current assets			
Cash and cash equivalents		**20**	12
Accounts receivable	7 and 15	**513**	535
Current income tax assets		**22**	24
Inventories	8 and 15	**497**	516
Financial assets	27	**15**	6
Assets held for sale		**–**	12
		1,067	1,105
Long-term assets			
Investments in associates and joint ventures	9	**222**	219
Property, plant and equipment	10 and 15	**1,659**	1,703
Intangible assets	11	**200**	185
Financial assets	27	**13**	25
Other assets	12	**70**	44
Deferred income tax assets	18	**128**	119
Goodwill and others	11	**335**	328
		3,694	3,728
Liabilities and Equity			
Current liabilities			
Bank loans and advances		**80**	90
Trade and other payables	13	**551**	539
Current income tax liabilities		**1**	2
Current portion of provisions for contingencies and charges	14	**6**	5
Current portion of financial liabilities and other liabilities	16 and 27	**74**	20
Current portion of long-term debt	15	**60**	49
		772	705
Long-term liabilities			
Long-term debt	15	**1,415**	1,358
Provisions for contingencies and charges	14	**33**	33
Financial liabilities	27	**36**	111
Other liabilities	16	**264**	249
Deferred income tax liabilities	18	**80**	107
		2,600	2,563
Equity attributable to Shareholders			
Capital stock	19	**482**	486
Contributed surplus	20	**16**	14
Retained earnings		**567**	615
Accumulated other comprehensive loss	21	**(87)**	(86)
		978	1,029
Non-controlling interest		**116**	136
Total equity		**1,094**	1,165
		3,694	3,728

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

Approved by the Board of Directors

Alain Lemaire
DIRECTOR

Robert Chevrier
DIRECTOR

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CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the years ended December 31 (in millions of Canadian dollars, except per share amounts and number of shares)	NOTE	2012	2011
Sales		**3,645**	3,625
Cost of sales and expenses	22		
Cost of sales (including depreciation and amortization of $199 million; 2011—$180 million)		**3,157**	3,247
Selling and administrative expenses		**382**	362
Gain on acquisitions, disposals and others	24	**(1)**	(48)
Impairment charges and restructuring costs	25	**36**	67
Foreign exchange loss (gain)		**2**	(19)
Loss (gain) on derivative financial instruments	27	**(6)**	8
		3,570	3,617
Operating income		**75**	8
Financing expense	26	**100**	100
Foreign exchange gain on long-term debt and financial instruments		**(8)**	(4)
Share of earnings of associates and joint ventures	9	**(2)**	(14)
Loss before income taxes		**(15)**	(74)
Recovery of income taxes	18	**(2)**	(56)
Net loss from continuing operations including non-controlling interest for the year		**(13)**	(18)
Net earnings (loss) from discontinued operations for the year	5	**(5)**	114
Net earnings (loss) including non-controlling interest for the year		**(18)**	96
Net loss attributable to non-controlling interest		**(7)**	(3)
Net earnings (loss) attributable to Shareholders for the year		**(11)**	99
Net loss from continuing operations per common share			
Basic		**$(0.06)**	$(0.16)
Diluted		**$(0.06)**	$(0.16)
Net earnings (loss) per common share			
Basic		**$(0.11)**	$1.03
Diluted		**$(0.11)**	$1.02
Weighted average basic number of common shares outstanding		**94,157,726**	96,013,220
Net earnings (loss) attributable to Shareholders:			
Continuing operations		**(6)**	(15)
Discontinued operations	5	**(5)**	114
Net earnings (loss)		**(11)**	99

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31 (in millions of Canadian dollars)	NOTE	2012	2011
Net earnings (loss) including non-controlling interest for the year		**(18)**	96
Other comprehensive income (loss)			
Translation adjustments	20		
Change in foreign currency translation of foreign subsidiaries		**(13)**	(18)
Change in foreign currency translation related to net investment hedging activities		**9**	(6)
Income taxes		**(1)**	1
Cash flow hedges	20		
Change in fair value of foreign exchange forward contracts		**6**	(11)
Change in fair value of interest rate swaps		**(7)**	(23)
Change in fair value of commodity derivative financial instruments		**4**	(11)
Income taxes		**–**	14
Actuarial loss on post-employment benefit obligations	17 and 20	**(42)**	(66)
Income taxes		**11**	17
Other comprehensive loss		**(33)**	(103)
Comprehensive loss including non-controlling interest for the year		**(51)**	(7)
Comprehensive loss attributable to non-controlling interest for the year		**(12)**	(8)
Comprehensive income (loss) attributable to Shareholders for the year		**(39)**	1
Comprehensive income (loss) attributable to Shareholders:			
Continuing operations		**(34)**	(113)
Discontinued operations	5	**(5)**	114
Comprehensive income (loss)		**(39)**	1

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

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012

(in millions of Canadian dollars)	CAPITAL STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	NON-CONTROLLING INTEREST	TOTAL EQUITY
Balance—Beginning of year	**486**	**14**	**615**	**(86)**	**1,029**	**136**	**1,165**
Comprehensive loss							
Net loss	**–**	**–**	**(11)**	**–**	**(11)**	**(7)**	**(18)**
Other comprehensive loss	**–**	**–**	**(27)**	**(1)**	**(28)**	**(5)**	**(33)**
	–	**–**	**(38)**	**(1)**	**(39)**	**(12)**	**(51)**
Dividends	**–**	**–**	**(15)**	**–**	**(15)**	**–**	**(15)**
Stock options	**–**	**1**	**–**	**–**	**1**	**–**	**1**
Redemption of common shares	**(4)**	**1**	**–**	**–**	**(3)**	**–**	**(3)**
Acquisition of non-controlling interest	**–**	**–**	**5**	**–**	**5**	**(8)**	**(3)**
Balance—End of year	**482**	**16**	**567**	**(87)**	**978**	**116**	**1,094**

FOR THE YEAR ENDED DECEMBER 31, 2011

(in millions of Canadian dollars)	NOTE	CAPITAL STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	NON-CONTROLLING INTEREST	TOTAL EQUITY
Balance—Beginning of year		496	14	576	(37)	1,049	23	1,072
Comprehensive income (loss)								
Net earnings (loss)		–	–	99	–	99	(3)	96
Other comprehensive loss		–	–	(49)	(49)	(98)	(5)	(103)
		–	–	50	(49)	1	(8)	(7)
Dividends		–	–	(15)	–	(15)	–	(15)
Stock options		1	–	–	–	1	–	1
Redemption of common shares		(11)	–	–	–	(11)	–	(11)
Business acquisitions	5	–	–	–	–	–	129	129
Acquisition of non-controlling interest	5	–	–	4	–	4	(7)	(3)
Dividend paid to non-controlling interest		–	–	–	–	–	(1)	(1)
Balance—End of year		486	14	615	(86)	1,029	136	1,165

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in millions of Canadian dollars)	NOTE	2012	2011
Operating activities from continuing operations			
Net earnings (loss) attributable to Shareholders for the year		**(11)**	99
Net loss (earnings) from discontinued operations for the year		**5**	(114)
Net loss from continuing operations		**(6)**	(15)
Adjustments for:			
Financing expense	26	**100**	100
Depreciation and amortization		**199**	180
Gain on acquisitions, disposals and others	24	**(1)**	(48)
Impairment charges and restructuring costs	25	**30**	60
Loss (gain) on derivative financial instruments		**(5)**	12
Foreign exchange gain on long-term debt and derivative financial instruments		**(8)**	(4)
Recovery of income taxes	18	**(2)**	(56)
Share of earnings of associates and joint ventures	9	**(2)**	(14)
Net loss attributable to non-controlling interest		**(7)**	(3)
Net financing expense paid		**(99)**	(97)
Income taxes paid		**(17)**	(2)
Dividend received		**10**	16
Employee future benefits and others		**(31)**	(3)
		161	126
Changes in non-cash working capital components	26	**42**	(22)
		203	104
Investing activities from continuing operations			
Investments in associates and joint ventures		**(19)**	(65)
Purchases of property, plant and equipment		**(161)**	(141)
Proceeds on disposal of property, plant and equipment		**20**	32
Change in intangible and other assets		**(39)**	1
Business acquisitions, net of cash acquired	6	**(14)**	(60)
Proceeds on disposals of business, net of cash disposed		**–**	4
		(213)	(229)
Financing activities from continuing operations			
Bank loans and advances		**(11)**	4
Change in revolving credit facilities		**117**	(120)
Purchase of senior notes		**(8)**	–
Increase in other long-term debt		**8**	3
Payments of other long-term debt		**(63)**	(26)
Redemption of common shares		**(3)**	(11)
Acquisition of non-controlling interest including dividend paid		**(3)**	(4)
Dividends paid to Corporation's Shareholders		**(15)**	(15)
		22	(169)
Change in cash and cash equivalents during the year from continuing operations		**12**	(294)
Change in cash and cash equivalents from discontinued operations, including proceeds on disposal during the year	5	**(4)**	298
Net change in cash and cash equivalents during the year		**8**	4
Currency translation on cash and cash equivalents		**–**	2
Cash and cash equivalents—Beginning of year		**12**	6
Cash and cash equivalents—End of year		**20**	12

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

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SEGMENTED INFORMATION

The Corporation analyzes the performance of its operating segments based on their operating income before depreciation and amortization, which is not a measure of performance under International Financial Reporting Standards ("IFRS"); however, the chief operating decision-maker ("CODM") uses this performance measure to assess the operating performance of each reportable segment. Earnings for each segment are prepared on the same basis as those of the Corporation. Intersegment operations are recorded on the same basis as sales to third parties, which are at fair market value. The accounting policies of the reportable segments are the same as the Corporation's accounting policies described in Note 2.

The Corporation's operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The Chief Executive Officer has authority for resource allocation and assessment of the Corporation's performance, and is therefore the CODM.

In 2012, the Corporation changed the structure of its internal organization in a manner that caused the composition of its reportable segment to change. As a result, starting January 1, 2012, the Corporation modified its segmented information disclosure and restated prior periods. Containerboard and Boxboard North American manufacturing and converting activities are now presented within the Containerboard segment. Boxboard European activities are reported as a separate segment.

The Corporation's operations are managed in four segments: Containerboard, Boxboard Europe, Specialty Products (which constitutes the Packaging Products of the Corporation) and Tissue Papers.

	SALES	
For the years ended December 31 (in millions of Canadian dollars)	**2012**	2011
Packaging products		
Containerboard	**1,189**	1,293
Boxboard Europe	**791**	745
Specialty Products	**791**	851
Intersegment sales	**(68)**	(104)
	2,703	2,785
Tissue Papers	**979**	871
Intersegment sales and others	**(37)**	(31)
Total	**3,645**	3,625

	OPERATING INCOME (LOSS) BEFORE DEPRECIATION AND AMORTIZATION	
For the years ended December 31 (in millions of Canadian dollars)	**2012**	2011
Packaging products		
Containerboard	**64**	45
Boxboard Europe	**38**	42
Specialty Products	**49**	16
	151	103
Tissue Papers	**138**	93
Corporate	**(15)**	(8)
Operating income before depreciation and amortization	**274**	188
Depreciation and amortization	**(199)**	(180)
Financing expense	**(100)**	(100)
Foreign exchange gain on long-term debt and financial instruments	**8**	4
Share of earnings of associates and joint ventures	**2**	14
Loss before income taxes	**(15)**	(74)

SEGMENTED INFORMATION (CONTINUED)

For the years ended December 31 (in millions of Canadian dollars)	PURCHASES OF PROPERTY, PLANT AND EQUIPMENT 2012	2011
Packaging products		
Containerboard	**72**	54
Boxboard Europe	**29**	30
Specialty Products	**15**	26
	116	110
Tissue Papers	**34**	31
Corporate	**19**	14
Total purchases	**169**	155
Proceeds on disposal of property, plant and equipment	**(20)**	(32)
Capital-lease acquisitions	**(5)**	(7)
	144	116
Purchases of property, plant and equipment included in trade and other payables		
Beginning of year	**25**	18
End of year	**(28)**	(25)
Purchases of property, plant and equipment net of proceeds on disposal	**141**	109

(in millions of Canadian dollars)	TOTAL ASSETS DECEMBER 31, 2012	DECEMBER 31, 2011
Packaging products		
Containerboard	**1,256**	1,268
Boxboard Europe	**676**	694
Specialty Products	**502**	537
	2,434	2,499
Tissue Papers	**722**	755
Corporate	**345**	299
Intersegment eliminations	**(40)**	(53)
	3,461	3,500
Investments in associates and joint ventures	**222**	219
Other investments	**11**	9
Total assets	**3,694**	3,728

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Information by geographic segment is as follows:

For the years ended December 31, (in millions of Canadian dollars)	**2012**	2011
Sales		
Operations located in Canada		
Within Canada	**1,339**	1,402
To the United States	**674**	590
Offshore	**42**	54
	2,055	2,046
Operations located in the United States		
Within the United States	**723**	731
To Canada	**43**	53
Offshore	**2**	2
	768	786
Operations located in Italy		
Within Italy	**211**	177
Other countries	**121**	113
	332	290
Operations located in other countries		
Within Europe	**377**	396
Other countries	**113**	107
	490	503
Total	**3,645**	3,625

(in millions of Canadian dollars)	**DECEMBER 31, 2012**	DECEMBER 31, 2011
Property, plant and equipment		
Canada	**1,066**	1,092
United States	**239**	249
Italy	**297**	315
Other countries	**57**	47
Total	**1,659**	1,703

(in millions of Canadian dollars)	**DECEMBER 31, 2012**	DECEMBER 31, 2011
Goodwill, customer relationships and client lists, and other finite and indefinite useful life intangible assets		
Canada	**476**	457
United States	**51**	48
Italy	**8**	8
Total	**535**	513

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For each of the years in the two-year period ended December 31, 2012

(tabular amounts in millions of Canadian dollars, except per share and option amounts and number of shares and options)

NOTE 1
GENERAL INFORMATION

Cascades Inc. and its subsidiaries (together "Cascades" or the "Corporation") produce, convert and market packaging and tissue products composed mainly of recycled fibres. Cascades Inc. is incorporated and domiciled in Québec, Canada. The address of its registered office is 404 Marie-Victorin Boulevard, Kingsey Falls. Its shares are listed on the Toronto Stock Exchange.

The Board of Directors approved the consolidated financial statements on March 11, 2013.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In 2012, the Corporation classifies provision for volume rebates of $23 million as Accounts receivable. As a result of this classification, the Corporation has reclassified volume rebates that were previously classified within the line, Provisions for contingencies and charges to the line Accounts receivable for the comparative periods, resulting in a reclassification adjustment of $21 million as at December 31, 2011 ($23 million as at December 31, 2010). As at December 31, 2011, the Corporation also reclassified an amount of $18 million from deferred income tax liability to deferred income tax assets.

BASIS OF PRESENTATION

These consolidated financial statements and the notes thereto are prepared in compliance with IFRS as issued by the International Accounting Standards Board ("IASB").

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities, including derivative instruments which are measured at fair value.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Corporation, which include:

(A) SUBSIDIARIES

Subsidiaries are all entities (including special purpose entities) over which the Corporation has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Corporation controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date on which control ceases. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Corporation. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Corporation. Results of operations are consolidated since the date of acquisition. The purchase consideration is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The transaction costs directly attributable to the acquisition are expensed. Identifiable assets acquired, as well as liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the purchase consideration over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. If the purchase consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of earnings. Intercompany transactions, balances and unrealized gains on transactions between subsidiaries are eliminated.

(B) TRANSACTIONS AND CHANGE IN OWNERSHIP

Acquisitions or disposals of equity interests that do not result in the Corporation obtaining or losing control are treated as equity transactions. When the Corporation obtains or loses control, the revaluation of the previously held interest or the non-controlling interests that result in gains or losses for the Corporation are recognized in the consolidated statement of earnings.

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(C) ASSOCIATES

Associates are all entities over which the Corporation has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Corporation's investment from associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Unrealized gains on transactions between the Corporation and its associates are eliminated to the extent of the Corporation's interest in the associates. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Corporation. Dilution gains and losses arising in investments in associates are recognized in the consolidated statement of earnings.

The Corporation assesses at each year-end whether there is any objective evidence that its interest in associates is impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of earnings.

(D) JOINT VENTURES

A joint venture is an entity in which the Corporation holds a long-term interest and shares joint control over the strategic, financial and operating decisions with one or more other venturers under a contractual arrangement. The Corporation reports its interests in joint ventures using the equity method. Accounting policies of joint ventures have been adjusted where necessary to ensure consistency with the policies adopted by the Corporation.

REVENUE RECOGNITION

The Corporation recognizes its sales, which consist of product sales, when it is probable that the economic benefits will flow to the Corporation, the goods are shipped and the significant risks and benefits of ownership are transferred, the price is fixed or determinable, and collection of the resulting receivable is reasonably assured.

Revenue is measured based on the price specified in the sales contract, net of discounts and estimated returns at the time of sale. Historical experience is used to estimate and provide for discounts and returns. Volume discounts are assessed based on anticipated annual sales.

FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

CLASSIFICATION

The Corporation classifies its financial instruments in the following categories: at fair value through profit or loss, held to maturity ("HTM"), loans and receivables, available for sale ("AFS") and other liabilities. The classification depends on the purpose for which the financial instruments were acquired or issued. Management determines the classification of its financial assets and financial liabilities at initial recognition. Settlement date accounting is used by the Corporation for all financial assets.

(A) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of earnings. Gains and losses arising from changes in fair value are presented in the consolidated statement of earnings in loss (gain) on disposal and others in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as long-term.

(B) HELD TO MATURITY

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, other than loans and receivables, AFS or fair value through profit or loss that the entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost. The Corporation has no HTM financial assets as at December 31, 2012 and 2011.

(C) AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. AFS investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in statement of other comprehensive income (loss). AFS investments are classified as long-term, unless the investment matures within 12 months, or management expects to dispose of them within 12 months.

Interest on AFS investments, calculated using the effective interest method, is recognized in the consolidated statement of earnings as part of interest income. Dividends on AFS equity instruments are recognized in the consolidated statement of earnings as part of loss (gain) on disposal and others when the Corporation's right to receive payment is established. When an AFS investment is sold or impaired, the accumulated gains or losses are moved from Accumulated other comprehensive income (loss) to the consolidated statement of earnings and included in Loss (gain) on derivative financial instruments.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise accounts receivable, notes receivable from business disposals, the Greenpac bridge loan and cash and cash equivalents. Loans and receivables are initially recognized at fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(E) FINANCIAL LIABILITIES AT AMORTIZED COST

Financial liabilities at amortized cost include bank loans and advances, trade and other payables, and long-term debt. Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, they are measured at amortized cost using the effective interest method. They are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as long-term liabilities.

IMPAIRMENT OF FINANCIAL ASSETS

At each report date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

i) Financial assets carried at amortized cost: The impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

ii) AFS financial assets: The impairment loss is the difference between the original cost of the asset and its permanent fair value decrease at the measurement date, less any impairment losses previously recognized in the consolidated statement of earnings. This amount represents the cumulative loss in accumulated other comprehensive income (loss) that is reclassified to net earnings (loss).

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on AFS equity instruments are not reversed.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The Corporation designates certain derivative financial instruments as either:

i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);

ii) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or

iii) hedges of a net investment in a foreign operation (net investment hedge).

The Corporation formally documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a long-term asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

(A) CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in statement of other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of earnings.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the consolidated statement of earnings in Financing expense. The gain or loss relating to the ineffective portion is recognized in the consolidated statement of earnings. However, when the forecasted transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in Cost of goods sold in the case of inventory or in Depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of earnings. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of earnings.

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(B) NET INVESTMENT HEDGE

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in statement of other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of earnings.

Gains and losses accumulated in equity are included in the consolidated statement of earnings when the foreign operation is partially disposed of or sold.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

ACCOUNTS RECEIVABLE

Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for doubtful accounts that is based on expected collectibility.

INVENTORIES

Inventories of finished goods are valued at the lower of average production cost or retail method and net realizable value. Inventories of raw materials and supplies are valued at the lower of cost or replacement value, which is the best available measure of their net realizable value. Cost of raw materials and supplies is determined using the average cost and the first-in, first-out methods respectively. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost less accumulated depreciation and net impairment losses, including interest incurred during the construction period of certain property, plant and equipment. Depreciation is calculated on a straight-line basis at annual rates varying from 3% to 5% for buildings, 5% to 15% for machinery and equipment, 10% to 20% for automotive equipment, and 10% to 33% for other property, plant and equipment, determined according to the estimated useful life of each class of property, plant and equipment. Repairs and maintenance costs are charged to the consolidated statement of earnings during the period in which they are incurred.

Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

GRANTS AND INVESTMENT TAX CREDITS

Grants and investment tax credits are accounted for using the cost reduction method and are amortized to earnings as a reduction of depreciation, using the same rates as those used to depreciate the related property, plant and equipment.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until all the activities necessary to prepare the asset for its intended use are complete.

All other borrowing costs are recognized in the consolidated statement of earnings in the period in which they are incurred.

INTANGIBLE ASSETS

Intangible assets consist primarily of customer relationships and client lists, application software and favourable leases. They are recorded at cost less accumulated amortization and impairment losses and amortized on a straight-line basis, over the estimated useful lives as follows:

Customer relationships and client lists	Between 2 and 30 years
Other finite-life intangible assets	Between 2 and 20 years
Application software	Between 3 and 10 years
Favourable leases	Term of the lease
Other	Between 2 and 20 years

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

IMPAIRMENT

A) PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE USEFUL LIFE

At the end of each reporting period, the Corporation assesses whether there is an indicator that the carrying amount of an asset or a group of assets may be lower than its recoverable amount. For that purpose, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units (CGUs)).

When the recoverable amount is lower than the carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are recorded immediately in the consolidated statement of earnings on the line item Impairment charges and restructuring costs.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration. The revalued carrying value is the greater of the estimated recoverable amount or the carrying amount that would have been determined had no impairment loss been recognized and depreciation had been taken previously on the asset or CGU. A reversal of impairment loss is recorded directly in the consolidated statement of earnings in the line item Impairment charges and restructuring costs.

B) GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

Goodwill and other intangible assets with indefinite useful life are recognized at cost less any accumulated impairment losses. They have an indefinite useful life due to their permanent nature since they are acquired rights and not subject to wear and tear. They are reviewed for impairment annually on December 31 or when an event or a circumstance occurs and indicates that the value could be permanently impaired. Goodwill and other intangible assets with indefinite useful life are allocated to CGUs for the purpose of impairment testing based on the level at which management monitors it, which is not higher than an operating segment. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill and other intangible assets with indefinite useful life arose. Impairment loss on goodwill and other intangible assets with indefinite useful life is not reversed.

C) RECOVERABLE AMOUNTS

A recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. When determining fair value less cost to sell, the Corporation considers if there is a market price for the asset being evaluated. Otherwise, the Corporation uses the income approach.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of earnings on a straight-line basis over the term of the lease.

The Corporation leases certain property, plant and equipment. Leases of property, plant and equipment for which the Corporation has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Property, plant and equipment acquired under a finance lease are depreciated over the shorter of the estimated useful life of the asset or the lease term using the straight-line method. Each lease payment is allocated between the liability and the financing expense so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of financing expense, are included in long-term debt.

PROVISIONS FOR CONTINGENCIES AND CHARGES

Provisions for contingencies include mainly legal and other claims. A provision is recognized when the Corporation has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss, and a reliable estimate can be made of the amount of the obligation.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated balance sheet as a separate asset, but only if it is virtually certain that the reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financing expense.

ENVIRONMENTAL RESTORATION AND ENVIRONMENTAL COSTS

An obligation to incur restoration and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a plant or landfill site. Such costs arising from the installation of plant and other site preparation work are provided for and capitalized at the start of each project, or as soon as the obligation to incur such costs arises. Decommissioning costs are recorded at the estimated amount at which the obligation could be settled at the consolidated balance sheet date, and are charged against profit over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Costs for restoring subsequent site damage which is created on an ongoing basis during production are provided for at their present values and charged against profit as the obligation arises.

Changes in the measurement of a liability relating to the decommissioning of a plant or other site preparation work that result from changes in the estimated timing or amount of the cash flow, or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the current year. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of earnings. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy for impairment testing.

LONG-TERM DEBT

Long-term debt is recognized initially at fair value, net of financing costs incurred. Long-term debt is subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of earnings over the period of the term of the debt using the effective interest method.

Financing costs paid on establishment of the revolving credit facility are recognized as deferred financing costs and amortized on a straight-line basis over the anticipated period of the credit facility.

EMPLOYEE BENEFITS

The Corporation offers funded and unfunded defined benefit pension plans, defined contribution pension plans and group registered retirement savings plans (RRSP) that provide retirement benefit payments for most of its employees. The defined benefit pension plans are usually contributory and are based on the number of years of service and, in most cases the average salaries or compensation at the end of a career. Retirement benefits are, in some cases, partially adjusted based on inflation. The Corporation also offers to its employees some post-employment benefit plans, such as retirement allowance, group life insurance and medical and dental plans. However, these benefits, other than pension plans, are not funded. Furthermore, the medical and dental plans upon retirement are being phased out and are no longer offered to the majority of the new retirees, and the retirement allowance is not offered to those who do not meet certain criteria.

The liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated at least every three years by independent actuaries using the projected unit credit method, and updated regularly by management for any material transactions and changes in circumstances, including changes in market prices and interest rates up to the end of the reporting period.

Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recorded in statement of other comprehensive income (loss) and recognized immediately in retained earnings without recycling to the consolidated statement of earnings. Past service costs are recognized immediately in the consolidated statement of earnings.

When restructuring a plan results in a curtailment and settlement occurring at the same time, the curtailment is accounted for before the settlement.

Interest costs on pension and other post-employment benefits are recognized in the consolidated statement of earnings as Financing expense.

The measurement date of the employee future benefit plans is December 31 of each year. An actuarial evaluation is performed at least every three years. Based on their balances as at December 31, 2012, 9% of the plans have been evaluated on December 31, 2012 (49% in 2011 and 42% in 2010).

INCOME TAXES

The Corporation uses the liability method to recognize deferred income taxes. According to this method, deferred income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the consolidated balance sheet date and that are expected to apply when the deferred income taxes are expected to be recovered or settled. Deferred income tax assets are recognized when it is probable that the asset will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Corporation'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 Cascades' functional currency.

A) FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in currencies other than the business unit's functional currency are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the consolidated balance sheet date. Unrealized gains and losses on translation of monetary assets and liabilities are reflected in the consolidated statement of earnings for the year.

B) FOREIGN OPERATIONS

The assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet date. Revenues and expenses are translated at the average exchange rate for the year. Translation gains or losses are deferred and included in Accumulated other comprehensive income (loss).

SHARE-BASED PAYMENTS

The Corporation uses the fair value method of accounting for stock-based compensation awards granted to officers and key employees. This method consists in recording expenses to earnings based on the vesting period of each tranche of options granted. The fair value of each tranche is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. When stock options are exercised, any considerations paid by employees, as well as the related stock-based compensation, are credited to capital stock.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DIVIDEND DISTRIBUTION

Dividend distribution to the Corporation's Shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Corporation's Board of Directors.

EARNINGS PER COMMON SHARE

Basic earnings per common share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per common share is determined by adjusting the weighted average number of common shares outstanding for dilutive instruments, which are primarily stock options, using the treasury stock method to evaluate the dilutive effect of stock options. Under this method, instruments with a dilutive effect, which is when the average market price of a share for the period exceeds the exercise price, are considered to have been exercised at the beginning of the period and the proceeds received are considered to have been used to redeem common shares of the Corporation at the average market price for the period.

NOTE 3
RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED

IFRS 9—FINANCIAL INSTRUMENTS

IFRS 9 was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39, Financial Instruments: Recognition and Measurement, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are recognized either at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss insofar as they do not clearly represent a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in statement of other comprehensive income.

In December 2011, the effective date of IFRS 9 was deferred to years beginning on or after January 1, 2015. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10, 11, 12 AND 13

In May 2011, the IASB issued the following standards which have not yet been adopted by the Corporation. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 10—CONSOLIDATION

IFRS 10 requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The Corporation evaluated this standard and there is no impact on the consolidated financial statements.

IFRS 11—JOINT ARRANGEMENTS

IFRS 11 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. Under existing IFRS, entities have the choice of proportionately consolidating or equity accounting for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The Corporation evaluated this standard and there is no impact on the consolidated financial statements.

IFRS 12—DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Corporation evaluated this standard and it resulted in no impact on the consolidated financial statements. However, more information will be required in the notes to the financial statements.

IFRS 13—FAIR VALUE MEASUREMENT

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Corporation evaluated this standard and there is no impact on the consolidated financial statements.

IAS 19—EMPLOYEE BENEFITS

IAS 19 has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in the statement of other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the Corporation's current accounting policy. Past service costs (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit costs will be split between: (i) the cost of benefits accrued in the current period (service costs) and benefit changes (past service costs, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on the risk/cost sharing feature, and expanded disclosures. The Corporation evaluated the impact of this standard and financing expense for the year ended December 31, 2012, would increase by $15 million ($11 million after related income tax). Other comprehensive income would increase by $11 million (net of income tax of $4 million). There is no impact on the employee benefit asset and liability and deferred income tax asset and liability. For the quarter ending March 31, 2013, the Corporation will retroactively change its consolidated financial statements.

IAS 1—PRESENTATION OF FINANCIAL STATEMENTS

IAS 1 has been amended to require entities to separate items presented in the statement of other comprehensive income into two groups based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Corporation evaluated this standard and there is no financial impact although it will result in a different presentation of the consolidated statement of comprehensive income.

AMENDMENTS TO OTHER STANDARDS

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. The Corporation evaluated these changes and there is no impact on the consolidated financial statements.

IFRS 7—FINANCIAL INSTRUMENTS DISCLOSURES

IFRS 7 requires disclosure of both gross and net information about financial instruments eligible for offset in the balance sheet and financial instruments subject to master netting arrangements. Concurrent with the amendments to IFRS 7, the IASB also amended IAS 32, Financial Instruments: Presentation to clarify the existing requirements for offsetting financial instruments in the balance sheet. The amendments to IAS 32 are effective as of January 1, 2014. The Corporation is evaluating this standard and no significant impact is expected on the consolidated financial statements.

NOTE 4
CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and disclosure of contingencies at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates, including those related to environmental costs, employee future benefits, collectibility of accounts receivable, financial instruments, contingencies, income taxes, useful life and residual value of property, plant and equipment and impairment of property, plant and equipment and intangible assets. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

(A) IMPAIRMENT OF LONG-LIVED ASSETS, INTANGIBLE ASSETS AND GOODWILL

In determining the recoverable amount of an asset or a CGU, the Corporation uses several key assumptions, based on external information on the industry when available, and including production levels, selling prices, volume, raw materials costs, foreign exchange rates, growth rates, discounting rates and capital spending.

NOTE 4
CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

The Corporation believes such assumptions to be reasonable. These assumptions involve a high degree of judgment and complexity and reflect management's best estimates based on available information at the assessment date. In addition, products are commodity products; therefore, pricing is inherently volatile and often follows a cyclical pattern.

DESCRIPTION OF SIGNIFICANT IMPAIRMENT TESTING ASSUMPTIONS

GROWTH RATES

The assumptions used were based on the Corporation's internal budget. Revenues, operating margins and cash flows were projected for a period of five years, and a perpetual long-term growth rate was applied thereafter. In arriving at its forecasts, the Corporation considered past experience, economic trends such as gross domestic product growth and inflation, as well as industry and market trends.

DISCOUNT RATES

The Corporation assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represents a weighted average cost of capital ("WACC") for comparable companies operating in similar industries of the applicable CGU, group of CGUs or reportable segment, based on publicly available information.

FOREIGN EXCHANGE RATES

Foreign exchange rates are determined using the financial institutions' average forecast for the first two years of forecasting. For the three following years, the Corporation uses the last five years' historical average of the foreign exchange rate.

Considering the sensitivity of the key assumptions used, there is measurement uncertainty since adverse changes in one or a combination of the Corporation's key assumptions could cause a significant change in the carrying amounts of these assets.

(B) INCOME TAXES

The Corporation is required to estimate the income taxes in each jurisdiction in which it operates. This includes estimating a value for existing tax losses based on the Corporation's assessment of its ability to use them against future taxable income before they expire. If the Corporation's assessment of its ability to use the tax losses proves inaccurate in the future, more or less of the tax losses might be recognized as assets, which would increase or decrease the income tax expense and, consequently, affect the Corporation's results in the relevant year.

(C) EMPLOYEE BENEFITS

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on years of service and management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected health-care costs. The accrued benefit obligation is evaluated using the market interest rate at the evaluation date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed annually.

CRITICAL JUDGMENTS IN APPLYING THE CORPORATION'S ACCOUNTING POLICIES

SUBSIDIARIES AND EQUITY ACCOUNTED INVESTMENTS

Significant judgment is applied in assessing whether certain investment structures result in control, joint control or significant influence over the operations of the investment. Management's assessment of control, joint control or significant influence over an investment will determine the accounting treatment for the investment.

The Corporation owns 48.54% of outstanding shares of Reno de Medici S.p.A. ("RdM") and had an exercisable call option to purchase an additional 9.07% of the shares of RdM as at December 31, 2012. As such, the Corporation fully consolidates RdM, since April 7, 2011, with a non-controlling interest of 51.46% as at December 31, 2012.

The Corporation has a 59.7% interest in an associate ("Greenpac"). Because the Corporation does not have the power to govern or jointly govern the financial and operating policies of Greenpac, it is accounted for as an associate.

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NOTE 5
DISCONTINUED OPERATIONS AND DISPOSALS

DISCONTINUED OPERATIONS

a) On March 11, 2011, the Corporation announced that it had entered into an agreement for the sale of Dopaco Inc. and Dopaco Canada Inc. (collectively Dopaco), its converting business for the quick-service restaurant industry which was part of the Containerboard Group, to Reynolds Group Holdings Limited. On May 2, 2011, the Corporation completed the transaction for a cash consideration of US$310 million ($288 million), net of transaction fees and current income taxes. The Corporation realized a gain of US$116 million ($110 million) net of income taxes of US$87 million ($82 million).

The Corporation retained liability for certain pending litigation, namely a claim of damages in relation to the contamination of a site previously used by Dopaco. In 2012, the Corporation recorded a provision of $2 million (net of related income tax of $1 million) regarding this claim. Following the settlement of this claim, the Corporation paid $2 million and estimates the remaining provision to be sufficient to cover further costs related to this claim. In 2012, the Corporation also recorded an income tax adjustment of $3 million relating to the finalization of the income tax on the Dopaco gain.

(in millions of Canadian dollars)	2012	2011
Results of the discontinued operations of Dopaco		
Sales	–	148
Cost of sales and expenses (excluding depreciation and amortization)	–	124
Depreciation and amortization	–	6
Other expenses and specific items	3	12
Net earnings (loss) before income taxes of discontinued operations	(3)	6
Income taxes	2	2
Net earnings (loss) from operations	(5)	4
Gain on disposal, net of income taxes	–	110
Net earnings (loss) from discontinued operations	(5)	114
Net earnings (loss) from discontinued operations per common share		
Basic	$(0.05)	$1.19
Diluted	$(0.05)	$1.18

(in millions of Canadian dollars)	2012	2011
Net cash flows of discontinued operations of Dopaco		
Cash flows from (used for):		
Operating activities	(1)	14
Investing activities	–	(1)
Consideration received on disposal, net of transaction fees, and income tax paid	–	288
Total	(1)	301

b) In 2012, the Corporation also paid $3 million (2011—$3 million) in relation to a 2006 legal settlement in the fine paper distribution activities that were disposed of in 2006.

NOTE 5
DISCONTINUED OPERATIONS AND DISPOSALS (CONTINUED)

DISPOSALS

a) On March 1, 2011, the Corporation sold its European Containerboard Group white-top linerboard mill located in Avot-Vallée, France for a total consideration of €10 million ($14 million), including the long-term debt assumed by the acquirer in the amount of €5 million ($7 million) and a balance of sale price of €5 million ($7 million) which is receivable over a maximum of three years. The Corporation realized a loss of $2 million before income taxes and incurred transaction fees of $1 million.

b) On June 23, 2011, the Corporation sold two of its Containerboard facilities, namely the Versailles mill located in Connecticut and the Hebron converting plant located in Kentucky, for a total consideration of US$20 million ($20 million), US$5 million ($5 million) of which has been received net of transaction fees paid of $1 million. The consideration also includes a balance of sale price of US$10 million ($10 million) and the fair value of US$4 million ($4 million) of natural gas contracts agreements concluded with the acquirer as part of the transaction. The balance of sale price of US$10 million ($10 million) is receivable over four years. The Corporation realized a loss of $8 million before income taxes.

Assets and liabilities at the time of disposal were as follows:

				2011
BUSINESS SEGMENT:	CONTAINERBOARD			
(in millions of Canadian dollars)	AVOT-VALLÉE	DOPACO[1]	VERSAILLES AND HEBRON	TOTAL
Accounts receivable	17	36	14	67
Inventories	10	51	10	71
Investments in associates and joint ventures	–	2	–	2
Property, plant and equipment	12	144	13	169
Intangible assets	–	15	–	15
Other assets	–	2	–	2
Goodwill	–	19	–	19
	39	269	37	345
Trade and other payables	20	51	10	81
Provisions for contingencies and charges	–	–	4	4
Long-term debt	7	–	–	7
Other liabilities	3	10	–	13
Deferred income tax liabilities	–	35	–	35
Accumulated other comprehensive loss	1	–	(2)	(1)
	31	96	12	139
	8	173	25	206
Gain (loss) on disposal before tax and transaction fees	(1)	200	(7)	192
Transactions fees	(1)	(8)	(1)	(10)
Balance of sale price—included in other assets	(7)	–	(10)	(17)
Fair value of gas contracts sold to acquirer—included in financial assets	–	–	(4)	(4)
Final working capital adjustment	–	2	2	4
Income tax paid	–	(79)	–	(79)
Total consideration received (paid), net of cash disposed	(1)	288	5	292

1 *Presented as discontinued operations.*

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NOTE 6
BUSINESS ACQUISITIONS

2012 ACQUISITION

a) On April 1, 2012, the Corporation purchased all of the outstanding shares of Bird Packaging Limited ("Bird"), located in Ontario, for a cash consideration of $14 million. Bird's assets include containerboard converting equipment as well as warehouses located in Guelph, Kitchener and Windsor. This acquisition is part of the Containerboard Group. The excess of the consideration paid over the net fair value of the assets acquired and the liabilities assumed resulted in non-deductible goodwill of $8 million and has been allocated to the Central Canada containerboard converting plants Cash Generating Unit ("CGU"). This acquisition is expected to create synergies in the CGU.

The purchase price determination was finalized as at September 30, 2012.

Assets acquired and liabilities assumed were as follows:

(in millions of Canadian dollars)		2012
	BUSINESS SEGMENT:	CONTAINERBOARD
	ACQUIRED COMPANY:	BIRD PACKAGING LIMITED
Fair values of identifiable assets acquired and liabilities assumed:		
Accounts receivable		**5**
Inventories		**1**
Property, plant and equipment		**3**
Capital-lease assets		**8**
Client list		**4**
Goodwill		**8**
Total assets		**29**
Bank loans and advances		**(1)**
Trade and other payables		**(3)**
Long-term debt		**(2)**
Capital-lease obligation		**(8)**
Deferred income tax liabilities		**(1)**
Net assets acquired		**14**
Cash paid		**14**

On a stand-alone basis, the acquisition of Bird since the date of acquisition represents sales amounting to $21 million and net earnings attributable to Shareholders is nil. Had the acquisition occurred on January 1, 2012, consolidated sales and net loss attributable to Shareholders would have been $3,653 million and $10 million, respectively, for the year ended December 31, 2012. These estimates are based on the assumption that the fair value adjustments that arose on the date of acquisition would have been the same had the acquisition occurred on January 1, 2012.

2011 ACQUISITIONS

a) On April 7, 2011, the Corporation purchased 0.12% of the outstanding shares of RdM, which resulted in the Corporation obtaining control on the basis that the Corporation owned 40.95% of the outstanding shares of RdM and an exercisable call option to purchase an additional 9.07% of the shares of RdM. The transaction was accounted for as a business combination, and the acquisition-date fair value of the consideration transferred is €90 million ($124 million). This acquisition strengthens the Corporation's position in the European Boxboard market.

i) The Corporation remeasured its previously held interest in RdM to the acquisition date fair value, resulting in a loss of €17 million ($23 million).

ii) The excess of the net fair value of the assets acquired and the liabilities assumed as well as non-controlling interest over the fair value of the consideration paid amounted to €26 million ($35 million) and was recorded as a bargain purchase. The gain recorded is mainly attributable to the fact that the consideration paid is based on the closing price of the shares of RdM at the acquisition date as listed on the Star segment of Borsa Italiana S.p.A., and the fair value of assets acquired and liabilities assumed is based on discounted future cash flows.

iii) The net gain of €9 million ($12 million) is presented in line item Gain on acquisitions, disposals and others in the consolidated statement of earnings.

In the fourth quarter of 2011, the Corporation finalized its purchase price allocation which changed the preliminary determination by €4 million ($5 million) and was retrospectively recorded as at April 7, 2011. The changes in the purchase price determination are mainly attributable to the finalization of the fair value calculation of property, plant and equipment as well as long-term debt.

Subsequent to April 7, 2011, the Corporation acquired 3.36% of the outstanding shares of RdM on the open market for a consideration of €2 million ($3 million). The excess of the purchase price of the shares of RdM over the carrying amount of the non-controlling interest was €3 million ($4 million) and was recognized in retained earnings.

In 2012, the Corporation acquired 4.23% of the outstanding shares of RdM on the open market for a consideration of €2 million ($3 million). The excess of the purchase price of the shares of RdM over the carrying amount of the non-controlling interest was €4 million ($5 million) and was recognized in retained earnings.

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NOTE 6
BUSINESS ACQUISITIONS (CONTINUED)

b) On April 6, 2011, the Corporation increased its investments in NorCan Flexible Packaging Inc. ("NorCan", Mississauga, Ontario), which designs, manufactures, distributes and sells flexible film for packaging products, from 10% to 50% for a cash consideration of $2 million. The acquisition-date fair value of the total consideration paid was $5 million. In addition to the 50% interest in NorCan, the Corporation also has a voting right over all of NorCan's Board of Director's decisions. This acquisition contributes to diversify the products offering of our Specialty Products Group.

The Corporation remeasured its previously held interest in NorCan to the acquisition-date fair value, resulting in a loss of $1 million, which is presented in line item Gain on acquisitions, disposals and others in the consolidated statement of earnings.

c) On May 31, 2011, the Corporation purchased all of the outstanding shares of Genor Recycling Services Ltd. and 533784 Ontario Limited (Genor) for a total consideration of $9 million, consisting of a cash consideration of $4 million and a balance of purchase price of $5 million. This acquisition allows the Corporation to increase its access to waste paper and resulted in an excess of the consideration paid over the net fair value of the assets acquired and the liabilities assumed and goodwill of $3 million has been recorded. Genor recycles corrugated cardboard and other paper grades in Ontario (Canada).

d) On September 15, 2011, the Corporation acquired partition board manufacturing assets of Packaging Dimension Inc. based in Illinois, U.S., for a total consideration of US$6 million ($6 million), consisting of a cash consideration of US$3 million ($3 million) and a balance of purchase price of US$3 million ($3 million). This acquisition is expected to create synergies with other business units which resulted in an excess of the consideration paid over the net fair value of the assets acquired and the liabilities assumed and goodwill of $2 million has been recorded.

e) On November 1, 2011, the Corporation acquired the remaining 50% of shares of Papersource Converting Mill Corp. ("Papersource"), located in Granby, Québec. Papersource is a tissue converting plant in the away-from-home market and this acquisition will strengthen the Corporation's position in this market. The cash consideration paid is $60 million.

The Corporation remeasured its previously held interest in Papersource to the acquisition-date fair value resulting in a gain of $37 million which is presented in line item Gain on acquisitions, disposals and others in the consolidated statement of earnings. As well, expected synergies resulted in an excess of the consideration paid over the net fair value of the assets acquired and the liabilities assumed and non-deductible goodwill of $26 million and has been allocated to all CGUs of the Tissue Papers segment.

All the purchase price determinations were finalized as at December 31, 2011.

The net fair value of the assets acquired and liabilities assumed attributable to non-controlling interest is accounted for using the proportionate method.

Assets acquired and liabilities assumed were as follows:

						2011
BUSINESS SEGMENT:	BOXBOARD EUROPE	SPECIALTY PRODUCTS			TISSUE PAPERS	
(in millions of Canadian dollars) ACQUIRED COMPANY:	RdM	NORCAN	GENOR	PACKAGING DIMENSION INC.	PAPERSOURCE	TOTAL
Fair values of identifiable assets acquired and liabilities assumed:						
Cash and cash equivalents	4	–	1	–	4	9
Accounts receivable	165	3	1	1	14	184
Inventories	128	1	–	–	23	152
Investments in associates and joint ventures	10	–	–	–	–	10
Property, plant and equipment	334	17	4	1	54	410
Intangible assets with finite useful life	4	1	2	2	71	80
Intangible assets with indefinite useful life	5	–	–	–	2	7
Goodwill	–	–	3	2	26	31
Total assets	650	22	11	6	194	883
Bank loans and advances	(47)	(1)	–	–	(8)	(56)
Trade and other payables	(216)	(4)	(1)	–	(16)	(237)
Current portion of long-term debt	(14)	(2)	–	–	–	(16)
Long-term debt	(88)	(7)	–	–	(24)	(119)
Financial liabilities	(2)	–	–	–	–	(2)
Other liabilities	(40)	–	–	–	–	(40)
Deferred income tax liabilities	(32)	(2)	(1)	–	(26)	(61)
Net assets acquired	211	6	9	6	120	352
Non-controlling interest	(126)	(3)	–	–	–	(129)
Bargain purchase	(35)	–	–	–	–	(35)
	50	3	9	6	120	188
Total consideration transferred						
Previously held interest	73	2	–	–	23	98
Gain (loss) on previously held interest	(23)	(1)	–	–	37	13
Cash paid	–	2	4	3	60	69
Balance of purchase price	–	–	5	3	–	8
	50	3	9	6	120	188

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NOTE 7
ACCOUNTS RECEIVABLE

(in millions of Canadian dollars)	NOTE	2012	2011
Accounts receivable—trade		**460**	469
Receivables from related parties	29	**14**	24
Less: Provision for doubtful accounts		**(12)**	(13)
Trade receivables—net		**462**	480
Provisions for volume rebates		**(23)**	(21)
Other		**74**	76
		513	535

As of December 31, 2012, trade receivables of $161 million (December 31, 2011—$147 million) were past due but not impaired. The aging of these trade receivables at each reporting date is as follows:

(in millions of Canadian dollars)	2012	2011
Past due 1-30 days	**121**	109
Past due 31-60 days	**27**	25
Past due 61-90 days	**9**	9
Past due 91 days and over	**4**	4
	161	147

Movements in the Corporation's allowance for doubtful accounts are as follows:

(in millions of Canadian dollars)	2012	2011
Balance at beginning of year	**13**	10
Provision for doubtful accounts, net of unused beginning balance	**3**	1
Receivables written off during the year as uncollectible	**(4)**	(5)
Business acquisitions and disposals	**–**	7
Balance at end of year	**12**	13

The increase and decrease of provision for doubtful accounts have been included in Selling and administrative expenses in the consolidated statement of earnings.

The maximum exposure to credit risk at the reporting date approximates the carrying value of each class of receivable mentioned above.

NOTE 8
INVENTORIES

(in millions of Canadian dollars)	2012	2011
Finished goods	**222**	226
Raw materials	**114**	129
Supplies	**161**	161
	497	516

As at December 31, 2012, finished goods, raw materials and supplies are adjusted for net realizable value ("NRV") of $4 million, nil and $2 million, respectively (December 31, 2011—$4 million, nil, $2 million). As at December 31, 2012, the carrying amount of inventory carried at net realizable value consisted of $21 million of finished goods inventory, nil of raw materials inventory and $3 million of supplies (December 31, 2011—$12 million, nil and $4 million).

The Corporation has sold all the goods that were written down. No reversal of previously written-down inventory occurred in 2012 and 2011. The cost of raw materials and supplies included in Cost of sales amounted to $1,398 million (2011—$1,579 million).

NOTE 9
INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

A) INVESTMENTS IN ASSOCIATES AND JOINT VENTURES ARE DETAILED AS FOLLOWS:

(in millions of Canadian dollars)	2012	2011
Investments in associates	**187**	181
Investments in joint ventures	**35**	38
	222	219

Investments in associates and joint ventures as at December 31, 2012, include goodwill of $20 million (December 31, 2011—$16 million).

B) INVESTMENTS IN ASSOCIATES

(in millions of Canadian dollars)	NOTE	2012	2011
As at January 1		**181**	156
Share of earnings		**(3)**	5
Share of other comprehensive loss		**(3)**	(14)
Dividends		**(1)**	(6)
Gain of control of associates	6	**–**	(25)
Net additions		**13**	65
As at December 31		**187**	181

The Corporation's share of earnings from its principal associates, all of which are unlisted except Boralex, and its aggregated assets (including goodwill) and liabilities are as follows:

(in millions of Canadian dollars, unless otherwise noted)	PERCENTAGE INTEREST HELD (%)	ASSETS	LIABILITIES	REVENUES	RESULTS
December 31, 2012					
Boralex Inc.	**34.85**	**429**	**309**	**64**	**(2)**
Greenpac Holding LLC	**59.7**	**203**	**128**	**–**	**(1)**
Pac Service S.p.A.	**33.33**	**5**	**2**	**7**	**–**
December 31, 2011					
Boralex Inc.	34.85	410	296	68	1
Papersource Conversion Mill Corp.	50	–	–	54	3
Greenpac Holding LLC	59.7	74	13	–	–
Pac Service S.p.A.	33.33	5	2	5	–

Investment in Boralex Inc. has a fair value of $121 million as at December 31, 2012 (December 31, 2011—$94 million).

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C) INVESTMENTS IN JOINT VENTURES

The following are the principal joint ventures of the Corporation and the Corporation's percentage of equity owned:

	PERCENTAGE EQUITY OWNED (%)
Cascades Sonoco Inc.	50
Cascades Conversion Inc.	50
Converdis Inc.	50
Manucor Spa	22.75
Best Diamond Packaging LLC	49
Norpap Inc.	50

The Corporation's share of the assets and liabilities as at December 31, 2012 and 2011, and income and expenses of the jointly controlled entities for the years ended December 31, 2012 and 2011 are as follows:

(in millions of Canadian dollars)	**2012**	2011
Consolidated balance sheets		
Current assets	**37**	42
Non-current assets	**44**	48
Current liabilities	**35**	19
Non-current liabilities	**11**	31
Consolidated statements of earnings[1]		
Sales	**132**	191
Depreciation and amortization	**2**	7
Operating income	**8**	13
Financial expenses	**1**	1
Net earnings	**5**	9
Consolidated statements of cash flows[1]		
Operating activities	**12**	19
Investing activities	**1**	(4)
Financing activities	**–**	(3)
Proportionate interest in joint venture commitments	**–**	–

1 *Until the first quarter of 2011, it also includes the Corporation's interest in RdM, ranging from 39.66% to 40.95% between January 1, 2011 and April 7, 2011. The Corporation started the full consolidation of RdM during the second quarter of 2011. See Note 6 for more details.*

There are no contingent liabilities relating to the Corporation's interest in the joint ventures, and no contingent liabilities of the ventures themselves.

NOTE 10
PROPERTY, PLANT AND EQUIPMENT

(in millions of Canadian dollars)	NOTE	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	AUTOMOTIVE EQUIPMENT	OTHER	TOTAL
As at January 1, 2011							
Cost		77	541	2,636	69	310	3,633
Accumulated depreciation and impairment		–	201	1,635	50	194	2,080
Net book amount		77	340	1,001	19	116	1,553
Year ended December 31, 2011							
Opening net book amount		77	340	1,001	19	116	1,553
Additions		1	29	77	9	44	160
Disposals		(6)	(3)	(5)	–	(11)	(25)
Depreciation		–	(25)	(130)	(6)	(6)	(167)
Business disposals	5	(1)	(12)	(11)	–	(1)	(25)
Discontinued operations	5	–	(4)	(135)	–	(5)	(144)
Business acquisitions	6	43	88	257	1	21	410
Impairment charge		–	–	(35)	–	(3)	(38)
Assets held for sale		–	–	–	–	(12)	(12)
Other		(7)	–	40	(1)	(26)	6
Exchange differences		(1)	(1)	(13)	–	–	(15)
Closing net book amount		106	412	1,046	22	117	1,703
As at December 31, 2011							
Cost		106	664	2,691	76	333	3,870
Accumulated depreciation and impairment		–	252	1,645	54	216	2,167
Net book amount		106	412	1,046	22	117	1,703
Year ended December 31, 2012							
Opening net book amount		**106**	**412**	**1,046**	**22**	**117**	**1,703**
Additions		**1**	**11**	**85**	**5**	**67**	**169**
Disposals		**(2)**	**(1)**	**(3)**	**–**	**(3)**	**(9)**
Depreciation		**–**	**(25)**	**(139)**	**(6)**	**(11)**	**(181)**
Business acquisition	6	**–**	**8**	**3**	**–**	**–**	**11**
Impairment charge		**–**	**–**	**(24)**	**–**	**–**	**(24)**
Other		**(1)**	**5**	**45**	**–**	**(50)**	**(1)**
Exchange differences		**–**	**(2)**	**(6)**	**–**	**(1)**	**(9)**
Closing net book amount		**104**	**408**	**1,007**	**21**	**119**	**1,659**
As at December 31, 2012							
Cost		**104**	**681**	**2,764**	**78**	**225**	**3,852**
Accumulated depreciation and impairment		**–**	**273**	**1,757**	**57**	**106**	**2,193**
Net book amount		**104**	**408**	**1,007**	**21**	**119**	**1,659**

Other property, plant and equipment includes buildings and machinery and equipment in the process of construction or installation with a book value of $55 million (December 31, 2011—$48 million) and deposits on purchases of equipment amounting to $10 million (December 31, 2011—$9 million). The carrying value of finance-lease assets is $16 million.

Included in the cost above is $2 million (December 31, 2011—$2 million) of interest incurred on qualifying assets which have been capitalized during the year. The weighted average capitalization rate on funds borrowed in 2012 was 6.31% (2011—6.67%).

NOTE 11
GOODWILL AND OTHER INTANGIBLE ASSETS WITH FINITE AND INDEFINITE USEFUL LIFE

(in millions of Canadian dollars)	NOTE	APPLICATION SOFTWARE	CUSTOMER RELATION-SHIPS AND CLIENT LISTS	OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIFE	TOTAL INTANGIBLE ASSETS WITH FINITE USEFUL LIFE	GOODWILL	OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE	GOODWILL AND OTHERS
As at January 1, 2011								
Cost		23	129	41	193	313	–	313
Accumulated amortization and impairment		10	46	11	67	–	–	–
Net book amount		13	83	30	126	313	–	313
Year ended December 31, 2011								
Opening net book amount		13	83	30	126	313	–	313
Additions		24	–	–	24	–	–	–
Business acquisitions	6	4	75	1	80	31	7	38
Discontinued operations	5	–	(15)	–	(15)	(19)	–	(19)
Impairment charge		–	(2)	(9)	(11)	–	(1)	(1)
Amortization		(5)	(9)	(5)	(19)	–	–	–
Exchange differences		(1)	1	–	–	(3)	–	(3)
Closing net book amount		35	133	17	185	322	6	328
As at December 31, 2011								
Cost		50	175	41	266	322	7	329
Accumulated amortization and impairment		15	42	24	81	–	1	1
Net book amount		35	133	17	185	322	6	328
Year ended December 31, 2012								
Opening net book amount		**35**	**133**	**17**	**185**	**322**	**6**	**328**
Additions		**31**	**–**	**–**	**31**	**–**	**–**	**–**
Business acquisition	6	**–**	**4**	**–**	**4**	**8**	**–**	**8**
Impairment charge		**–**	**–**	**(2)**	**(2)**	**–**	**–**	**–**
Amortization		**(4)**	**(11)**	**(3)**	**(18)**	**–**	**–**	**–**
Exchange differences		**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Closing net book amount		**62**	**126**	**12**	**200**	**329**	**6**	**335**
As at December 31, 2012								
Cost		**81**	**179**	**41**	**301**	**329**	**7**	**336**
Accumulated amortization and impairment		**19**	**53**	**29**	**101**	**–**	**1**	**1**
Net book amount		**62**	**126**	**12**	**200**	**329**	**6**	**335**

NOTE 12
OTHER ASSETS

(in millions of Canadian dollars)	NOTE	**2012**	2011
Notes receivable from business disposals	6	**18**	17
Other investments		**11**	9
Other assets		**38**	11
Deferred financing costs		**6**	8
Employee future benefits	17	**1**	1
		74	46
Less: Current portion, included in accounts receivables		**(4)**	(2)
Total other assets		**70**	44

In 2012, the Corporation granted a US$15 million ($15 million) bridge loan to Greenpac Holding LLC (Greenpac Project). The loan is included in Other assets will mature no later than 2021 and bears interest ranging from 7.5% to 12% depending on the stage of completion of the Greenpac Project. However, we expect the loan to be repaid over the next 4 years through secured tax credits to be received by members of the project and operational cash flows. The Corporation also capitalized in Other assets $6 million of costs incurred for the supervision of the Greenpac Project construction. These costs will be repaid to the Corporation by Greenpac Mill over an 8-year period.

NOTE 13
TRADE AND OTHER PAYABLES

(in millions of Canadian dollars)	NOTE	2012	2011
Trade payables		**465**	472
Payables to related parties	29	**13**	21
Accrued expenses		**73**	46
Trade and other payables		**551**	539

NOTE 14
PROVISIONS FOR CONTINGENCIES AND CHARGES

(in millions of Canadian dollars)	ENVIRONMENTAL RESTORATION OBLIGATIONS	ENVIRONMENTAL COSTS	LEGAL CLAIMS	SEVERANCES	ONEROUS CONTRACT	OTHER	TOTAL PROVISIONS
As at January 1, 2011	8	18	10	–	1	–	37
Additional provision	–	–	1	8	1	–	10
Payments	–	–	(8)	(4)	–	–	(12)
Business disposals	(2)	(4)	–	–	–	–	(6)
Business acquisitions	–	–	8	–	–	–	8
Others	–	–	–	–	–	1	1
As at December 31, 2011	6	14	11	4	2	1	38
Additional provision	**–**	**3**	**2**	**4**	**4**	**1**	**14**
Reversal of provision	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Payments	**–**	**(2)**	**(4)**	**(5)**	**(1)**	**(1)**	**(13)**
Revaluation	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Others	**1**	**(1)**	**(1)**	**(1)**	**–**	**2**	**–**
As at December 31, 2012	**8**	**13**	**8**	**2**	**5**	**3**	**39**

Analysis of total provisions:

(in millions of Canadian dollars)	2012	2011
Non-current	**33**	33
Current	**6**	5
	39	38

ENVIRONMENTAL RESTORATION
The Corporation uses some landfill sites. A provision has been recognized at fair value for the costs to be incurred for the restoration of those sites.

ENVIRONMENTAL COSTS
An environmental provision is recorded when the Corporation has an obligation caused by its ongoing and abandoned operations.

LEGAL CLAIMS
In the normal course of operations, the Corporation is party to various legal actions and contingencies related to contract disputes and labour issues.

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NOTE 15
LONG-TERM DEBT

(in millions of Canadian dollars)	MATURITY	2012	2011
Revolving credit facility, weighted average interest rate of 2.80% as at December 31, 2012, consists of $299 million; US$37 million and €49 million (December 31, 2011—$196 million; US$42 million and €33 million)	2016	**401**	282
7.25% Unsecured senior notes of US$4 million (US$9 million at December 31, 2011)	2013	**4**	9
6.75% Unsecured senior notes of US$6 million (US$9 million at December 31, 2011)	2013	**6**	9
7.75% Unsecured senior notes of $200 million	2016	**198**	198
7.75% Unsecured senior notes of US$500 million	2017	**493**	503
7.875% Unsecured senior notes of US$250 million	2020	**245**	251
Other debts of subsidiaries		**53**	61
Other debts without recourse to the Corporation		**90**	112
		1,490	1,425
Less: Unamortized financing costs		**15**	18
Total long-term debt		**1,475**	1,407
Less:			
Current portion of 7.25% Unsecured senior notes		**4**	–
Current portion of 6.75% Unsecured senior notes		**6**	–
Current portion of debts of subsidiaries		**20**	12
Current portion of debts without recourse to the Corporation		**30**	37
		60	49
		1,415	1,358

a) In 2012, the Corporation repurchased US$3 million of its 6.75% unsecured senior notes for an amount of US$3 million ($3 million) and US$5 million of its 7.25% unsecured senior notes for an amount of US$5 million ($5 million). No gain or loss resulted from these transactions.

b) As at December 31, 2012, accounts receivable and inventories totalling approximately $611 million (December 31, 2011—$630 million) as well as property, plant and equipment totalling approximately $275 million (December 31, 2011—$269 million) were pledged as collateral for the Corporation's revolving credit facility.

c) The Corporation has finance leases for various items of property, plant and equipment. Renewals and purchase options are specific to the entity that holds the lease. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2012		2011	
(in millions of Canadian dollars)	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS
Within one year	**5**	**3**	4	3
Later than 1 year but no later than 5 years	**10**	**7**	5	5
More than 5 years	**9**	**7**	–	–
Total minimum lease payments	**24**	**17**	9	8
Less amounts representing finance charges	**7**	**–**	1	–
Present value of minimum lease payments	**17**	**17**	8	8

NOTE 16
OTHER LIABILITIES

(in millions of Canadian dollars)	NOTE	2012	2011
Employee future benefits	17	**259**	241
Other		**5**	10
		264	251
Less: Current portion, included in Trade and other payables		**–**	(2)
Total other liabilities		**264**	249

NOTE 17
EMPLOYEE FUTURE BENEFITS

a) The expense for employee future benefits as at December 31 is as follows:

	2012		2011	
(in millions of Canadian dollars)	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Current service costs	**12**	**3**	12	3
Interest costs	**31**	**5**	32	6
Expected return on assets	**(39)**	**–**	(38)	–
Past service costs	**1**	**–**	–	1
Curtailment	**(1)**	**(1)**	–	(4)
Recognized costs for defined benefit pension plans	**4**	**7**	6	6
Recognized costs for defined contribution pension plans	**17**	**–**	18	–
Total expense for employee future benefits	**21**	**7**	24	6

Total cash payments for employee future benefits for 2012, consisting of cash contributed by the Corporation to its funded pension plans, including its defined contribution plans, and cash payments made directly to beneficiaries for its unfunded other benefit plans and its collective RRSPs, amounted to $51 million (2011—$53 million). Total estimated cash payments for employee future benefits are expected to be $53 million for 2013.

The amount recognized in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2012 and 2011, is detailed as follows:

	2012		2011	
(in millions of Canadian dollars)	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Actuarial losses	**(36)**	**(6)**	(59)	(3)
Adjustment in respect of minimum funding requirements	**–**	**–**	(4)	–
Total recognized in other comprehensive income (loss) before tax	**(36)**	**(6)**	(63)	(3)

The cumulative amounts recognized in retained earnings are, as at December 31, 2012, $265 million and $223 million as at December 31, 2011.

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b) The funded status of the defined benefit plans and the other complementary retirement benefit plans and post-employment benefit plans as at December 31 are as follows:

	2012		2011	
(in millions of Canadian dollars)	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Accrued benefit obligation				
Beginning of year	**672**	**115**	638	97
Current service costs	**12**	**3**	12	3
Interest costs	**31**	**5**	32	6
Employees' contributions	**3**	**–**	3	–
Exchange differences	**–**	**–**	–	(1)
Actuarial losses	**44**	**6**	40	3
Benefits paid	**(38)**	**(8)**	(36)	(8)
Business acquisitions, disposals and closures	**(1)**	**–**	(17)	18
Past service costs	**1**	**–**	–	1
Curtailment	**(1)**	**(1)**	–	(4)
End of year	**723**	**120**	672	115
Plan assets				
Beginning of year	**560**	**–**	568	–
Expected return on plan assets	**39**	**–**	38	–
Actuarial gains (losses)	**8**	**–**	(18)	–
Employer's contributions	**26**	**8**	27	8
Employees' contributions	**3**	**–**	3	–
Benefits paid	**(38)**	**(8)**	(36)	(8)
Exchange differences	**–**	**–**	–	–
Business acquisitions, disposals and closures	**–**	**–**	(22)	–
End of year	**598**	**–**	560	–
Reconciliation of funded status				
Fair value of plan assets	**598**	**–**	560	–
Accrued benefit obligation	**(723)**	**(120)**	(672)	(115)
Funded status of plan—end of year	**(125)**	**(120)**	(112)	(115)
Fair value of reimbursement rights recognized as an asset	**(13)**	**–**	(13)	–
Accrued benefit liability—end of year	**(138)**	**(120)**	(125)	(115)

As at January 1, 2010, accrued benefit obligation on pension plans, accrued benefit on other plans, and plan assets on pension plans respectively amounted to $564 million, $94 million, and $531 million.

The net amount recognized on the consolidated balance sheet is detailed as follows:

	2012		2011	
(in millions of Canadian dollars)	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Employee future benefit asset, included in Other assets	**1**	**–**	1	–
Employee future benefit liability, included in Other liabilities	**(139)**	**(120)**	(126)	(115)
	(138)	**(120)**	(125)	(115)

c) The following amounts relate to plans that are wholly unfunded and those wholly or partially funded as of:

	2012		2011	
(in millions of Canadian dollars)	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Wholly or partially funded				
Fair value of plan assets	**598**	**–**	560	–
Accrued benefit obligation	**(672)**	**–**	(633)	–
Funded deficit	**(74)**	**–**	(73)	–
Wholly unfunded				
Accrued benefit obligation	**(51)**	**(120)**	(39)	(115)

NOTE 17
EMPLOYEE FUTURE BENEFITS (CONTINUED)

d) The main actuarial assumptions adopted in measuring the accrued benefit obligation and expenses as at December 31 are as follows:

	2012		2011	
	PENSION PLANS	OTHER PLANS	PENSION PLANS	OTHER PLANS
Accrued benefit obligation as at December 31				
Discount rate	**4.25%**	**4.25%**	4.75%	4.75%
Rate of compensation increase	**2% to 3.5%**	**2.25% to 4%**	2% to 3.5%	2% to 4%
Benefit costs for years ended December 31				
Discount rate	**4.75%**	**4.75%**	5.25%	5.25%
Expected long-term return on assets	**7%**	**–**	7%	–
Rate of compensation increase	**2% to 3.5%**	**2.25% to 4%**	2.25% to 3.5%	2.25% to 3.5%
Assumed health-care cost trend rates at December 31				
Rate increase in health-care costs	**–**	**8% to 9%**	–	8% to 9%
Cost trend rates decline to	**–**	**5%**	–	5%
Year the rate should stabilize	**–**	**2029**	–	2029

e) Assumed rate increases in health-care costs have a significant effect on the amounts reported for the health-care plans. A 1% change in assumed health-care cost trend rates would have the following effects for 2012:

(in millions of Canadian dollars)	INCREASE OF 1%	DECREASE OF 1%
Current service costs and interest cost	–	–
Accrued benefit obligation—end of year	5	(4)

f) The plan assets allocation and investment target allocation as at December 31, 2012 and 2011 are detailed as follows:

	ACTUAL ALLOCATION		TARGET ALLOCATION	
(in percentages)	**2012**	2011	**2012**	2011
Plan assets allocation				
Money market	**2**	2	**–**	–
Debt securities	**40**	43	**43**	43
Equity securities	**58**	55	**57**	57
Total	**100**	100	**100**	100

The plan assets do not include shares or debt securities of the Corporation. Annual benefit annuities of an approximate value of $11 million are pledged by insurance contracts established by the Corporation.

Target allocation is established so as to maximize return while considering an acceptable level of risk in order to meet the plan obligations on a long-term basis.

Investment objectives for the plan assets are the following: optimizing return while considering an acceptable level of risk, maintaining adequate diversification, controlling the risk according to different asset categories, and maintaining a long-term objective of return on investments. Investment guidance is established for each investment manager. It includes parameters that must be followed by managers and presents criteria for diversification, non-eligible assets and minimum quality of investments as well as return objectives. Unless indicated otherwise, the managers cannot use any derivative product or invest more than 10% of their assets in one particular security.

g) The overall expected rate of return is a weighted average of the expected returns of the various categories of assets held by the plan. The management assessment of the expected returns is based on historical return trends and analysts' predictions for the market with respect to the asset over the life of the related obligation.

The actual return on plan assets was 8.6% in 2012 (3.7% in 2011).

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NOTE 18
INCOME TAXES

a) The recovery of income taxes is as follows:

(in millions of Canadian dollars)	2012	2011
Current tax	**15**	4
Deferred tax	**(17)**	(60)
	(2)	(56)

b) The recovery of income taxes based on the effective income tax rate differs from the recovery of income taxes based on the combined basic rate for the following reasons:

(in millions of Canadian dollars)	2012	2011
Recovery of income taxes based on the combined basic Canadian and provincial income tax rate	**(4)**	(25)
Adjustment of recovery of income taxes arising from the following:		
Difference in statutory income tax rate of foreign operations	**2**	(3)
Non-taxable portion of capital gain	**(1)**	(3)
Gain on remeasurement of previously held interest and bargain purchase	**–**	(13)
Permanent differences – others	**(1)**	–
Recognized tax benefit arising from capital losses	**–**	(15)
Change in unrecognized temporary differences	**2**	4
Others	**–**	(1)
	2	(31)
Recovery of income taxes	**(2)**	(56)

Weighted average income tax rate for the year ended December 31, 2012, was 28.5% (2011—33%)

c) The recovery of income taxes relating to components of other comprehensive income is as follows:

(in millions of Canadian dollars)	2012	2011
Foreign currency translation related to hedging activities	**1**	(1)
Cash flow hedge	**2**	(9)
Included in other comprehensive income (loss) of associates	**(2)**	(5)
Actuarial loss on post employment benefit obligations	**(11)**	(17)
	(10)	(32)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

(in millions of Canadian dollars)	2012	2011
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	**313**	323
Deferred income tax assets to be recovered within 12 months	**22**	9
	335	332
Deferred income tax liabilities:		
Deferred income tax liabilities to be used after more than 12 months	**285**	319
Deferred income tax liabilities to be used within 12 months	**2**	1
	287	320
	48	12

The movement of the deferred income tax account is as follows:

(in millions of Canadian dollars)	NOTE	2012	2011
As at January 1		**12**	(51)
Through statement of earnings		**17**	60
Variance of income tax credit, net of related income tax		**8**	10
Through statement of other comprehensive income		**10**	32
Through business acquisitions and disposals	5,6	**(1)**	(26)
Included in discontinued operations	5	**–**	(11)
Exchange differences		**2**	(2)
As at December 31		**48**	12

NOTE 18
INCOME TAXES (CONTINUED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax asset

(in millions of Canadian dollars)	RECOGNIZED TAX BENEFIT ARISING FROM INCOME TAX LOSSES	EMPLOYEE FUTURE BENEFITS	EXPENSE ON RESEARCH	UNUSED TAX CREDITS	FINANCIAL INSTRUMENTS	OTHERS	TOTAL
As at January 1, 2011	119	42	44	36	15	17	273
Through statement of earnings (loss)	36	3	8	–	(6)	(4)	37
Variance of income tax credit	–	–	–	15	–	–	15
Through other comprehensive income	–	17	–	–	7	–	24
Through business acquisitions and disposals	–	(6)	–	–	–	–	(6)
Included in discontinued operations	(11)	–	–	–	–	–	(11)
As at December 31, 2011	144	56	52	51	16	13	332
Through statement of earnings (loss)	**(3)**	**(8)**	**4**	**(10)**	**2**	**1**	**(14)**
Variance of income tax credit	**–**	**–**	**–**	**8**	**–**	**–**	**8**
Through other comprehensive loss	**–**	**11**	**–**	**–**	**(2)**	**–**	**9**
As at December 31, 2012	**141**	**59**	**56**	**49**	**16**	**14**	**335**

Deferred income tax liabilities

(in millions of Canadian dollars)	PROPERTY, PLANT AND EQUIPMENT	CAPITAL GAIN	INTANGIBLE ASSETS	INVESTMENTS	OTHERS	TOTAL
As at January 1, 2011	217	63	18	19	7	324
Through statement of earnings (loss)	(27)	(6)	6	–	4	(23)
Variance of income tax credit	–	–	–	–	5	5
Through other comprehensive income	–	(1)	–	(2)	–	(3)
Included in other comprehensive income (loss) of associates	–	–	–	(5)	–	(5)
Through business acquisitions and disposals	10	–	10	–	–	20
Exchange differences	2	–	–	–	–	2
As at December 31, 2011	202	56	34	12	16	320
Through statement of earnings (loss)	**(40)**	**2**	**10**	**4**	**(7)**	**(31)**
Through other comprehensive income (loss)	**–**	**1**	**–**	**–**	**–**	**1**
Included in other comprehensive income (loss) of associates	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Through business acquisition	**1**	**–**	**–**	**–**	**–**	**1**
Exchange differences	**(2)**	**–**	**–**	**–**	**–**	**(2)**
As at December 31, 2012	**161**	**59**	**44**	**14**	**9**	**287**

The Corporation has accumulated losses for income tax purposes amounting to approximately $647 million which may be carried forward to reduce taxable income in future years. The future tax benefit resulting from the deferral of $524 million of these losses has been recognized in the accounts as a deferred income tax asset. Deferred income tax assets are recognized for tax loss carry-forward to the extent that the realization of the related tax benefits through future taxable profits is probable. Income tax losses as at December 31, 2012 are detailed as follows:

(in millions of Canadian dollars)	UNRECOGNIZED TAX LOSSES	RECOGNIZED TAX LOSSES	TOTAL TAX LOSSES	MATURITY
Canada	–	4	4	2014
	–	2	2	2015
	–	2	2	2026
	–	10	10	2027
	–	55	55	2028
	–	5	5	2029
	–	66	66	2030
	–	77	77	2031
	–	157	157	2032
Capital losses	–	18	18	Indefinitely
United States	–	4	4	2018
	–	9	9	2019
	–	5	5	2020
Europe	123	110	233	Indefinitely
	123	524	647	

NOTE 19
CAPITAL STOCK

A) CAPITAL MANAGEMENT

Capital is defined as long-term debt, bank loans and advances net of cash and cash equivalents and Shareholders' equity which includes capital stock.

(in millions of Canadian dollars)	**2012**	2011
Cash and cash equivalents	**(20)**	(12)
Bank loans and advances	**80**	90
Long-term debt, including current portion	**1,475**	1,407
	1,535	1,485
Shareholders' equity	**978**	1,029
Total capital	**2,513**	2,514

The Corporation's objectives when managing capital are:

- to safeguard the Corporation's ability to continue as a going concern in order to provide returns to shareholders;
- to maintain an optimal capital structure and reduce the cost of capital;
- to make proper capital investments that are significant to ensure the Corporation remains competitive; and
- to redeem common shares based on an annual redemption program.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares and acquire or sell assets to improve its financial performance and flexibility.

The Corporation monitors capital on a monthly and quarterly basis based on different financial ratios and non-financial performance indicators. Also, the Corporation must conform to certain financial ratios under its various credit agreements. These ratios are calculated on an adjusted consolidated basis of restricted subsidiaries only. These are a maximum ratio of funded debt to capitalization of 65% and a minimum interest coverage ratio of 2.25x. The Corporation must also comply with a consolidated interest coverage ratio to incur additional debt. Funded debt is defined as liabilities as per the consolidated balance sheet, including guarantees and liens granted in respect of funded debt of another person but excluding other long-term liabilities, trade accounts payable, obligations under finance leases and other accrued obligations (2012—$1,462 million; 2011—$1,383 million). The capitalization ratio is calculated as "Shareholders' equity" as shown in the consolidated balance sheet plus the funded debt. Shareholders' equity is adjusted to add back the effect of IFRS adjustments as at December 31, 2010 in the amount of $208 million. The interest coverage ratio is defined as EBITDA to interest expense. The EBITDA is defined as net earnings of the last four quarters plus interest expense, income taxes, amortization and depreciation, expense for stock options and dividends received from a person who is not a credit party (2012—$264 million; 2011—$211 million). Excluded from net earnings are share of results of equity investments and gains or losses from non-recurring items. Interest expense is calculated as interest and financial charges determined in accordance with IFRS plus any capitalized interest but excluding the amortization of deferred financing costs, up-front and financing costs and also unrealized gains or losses arising from hedging agreements. It also excludes any gains or losses on the translation of any long-term debt denominated in a foreign currency. The consolidated interest coverage ratio to incur additional debt is calculated as defined in the Senior notes indenture dated December 3, 2009.

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NOTE 19
CAPITAL STOCK (CONTINUED)

As at December 31, 2012, the funded debt to capitalization ratio stood at 55.19% and the interest coverage ratio was at 3.01x. The Corporation is in compliance with the ratio requirements of its lenders. If cash is available, the Corporation will use it to reduce its revolving credit facility utilization.

The Corporation's credit facility is subject to terms and conditions for loans of this nature, including limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders.

The unsecured senior notes are subject to customary covenants restricting the Corporation's ability to, among other things, incur additional debt, pay dividends and make other restricted payments as defined in the Indenture dated December 3, 2009.

On a regular basis, the Corporation meets with the rating agencies. In 2012, Standard & Poor's revised the outlook of the Corporation to negative on weaker-than-expected financial performance.

The Corporation normally invests between $100 million and $200 million yearly in purchases of property, plant and equipment. These amounts are carefully reviewed during the course of the year in relation to operating results and strategic actions approved by the Board of Directors. These investments, combined with annual maintenance, enhance the stability of the Corporation's business units and improve cost competitiveness through new technology and improved process procedures.

The Corporation has an annual share redemption program in place to redeem its outstanding common shares when the market price is judged appropriate by management. In addition to limitations to the normal course issuer bid, the Corporation's ability to redeem common shares is limited by its senior notes indenture.

B) ISSUED AND OUTSTANDING

The authorized capital stock of the Corporation consists of an unlimited number of common shares, without nominal value, and an unlimited number of Class A and B shares issuable in series without nominal value. Over the past two years, the common shares have fluctuated as follows:

		2012		2011	
	NOTE	NUMBER OF SHARES	IN MILLIONS OF CANADIAN DOLLARS	NUMBER OF SHARES	IN MILLIONS OF CANADIAN DOLLARS
Balance—beginning of year		**94,647,165**	**486**	96,606,421	496
Shares issued on exercise of stock options		**8,666**	**–**	98,307	1
Redemption of common shares	19(c)	**(773,386)**	**(4)**	(2,057,563)	(11)
Balance—end of year		**93,882,445**	**482**	94,647,165	486

C) REDEMPTION OF COMMON SHARES

In 2012, in the normal course of business, the Corporation renewed its redemption program of a maximum of 4,725,273 common shares with the Toronto Stock Exchange, said shares representing approximately 5% of issued and outstanding common shares. The redemption authorization is valid from March 15, 2012 to March 14, 2013. In 2012, the Corporation redeemed 773,386 common shares under this program for a consideration of approximately $3 million (2011—$11 million).

D) EARNINGS (LOSS) PER SHARE

The basic and diluted net earnings (loss) per common share are calculated as follows:

	2012	2011
Net earnings (loss) available to common shareholders (in millions of Canadian dollars)	**(11)**	99
Weighted average number of common shares (in millions)	**94.2**	96.0
Dilution effect of stock options (in millions)	**–**	0.8
Adjusted weighted average number of common shares (in millions)	**94.6**	96.8
Basic net earnings (loss) per common share (in Canadian dollars)	**$(0.11)**	$1.03
Diluted net earnings (loss) per common share (in Canadian dollars)	**$(0.11)**	$1.02

In calculating diluted earnings per share for 2012 and 2011, stock options of 6,534,700 and 3,737,097 respectively were excluded due to their antidilutive effect. As of March 11, 2013, the Corporation had redeemed 20,300 shares since the beginning of the financial year.

E) THE DETAILS OF DIVIDENDS DECLARED PER SHARE ARE AS FOLLOWS:

	2012	2011
Dividends declared per share	**$0.16**	$0.16

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NOTE 20
STOCK-BASED COMPENSATION

a) Under the terms of a share option plan adopted on December 15, 1998 for officers and key employees of the Corporation, 6,157,033 common shares have been specifically reserved for issuance. Each option will expire at a date not to exceed 10 years following the grant date of the option. The exercise price of an option shall not be lower than the market value of the share at the date of grant, determined as the average of the closing price of the share on the Toronto Stock Exchange on the five trading days preceding the date of grant. The terms for exercising the options granted before December 31, 2003 are 25% of the number of shares under option within 12 months after the date of grant, and up to an additional 25% every 12 months after the first, second and third anniversary dates of grant. The terms for exercising the options granted in 2004 and thereafter are 25% of the number of shares under option within 12 months after the first anniversary date of grant, and up to an additional 25% every 12 months after the second, third and fourth anniversaries of grant date. Options cannot be exercised if the market value of the share at exercise date is lower than the book value at the date of grant. The stock-based compensation cost related to these options amounted to $1 million (2011—$1 million).

Changes in the number of options outstanding as at December 31, 2012 and 2011, are as follows:

	2012		2011	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $
Beginning of year	**5,693,429**	**7.25**	5,287,178	7.33
Granted	**1,361,314**	**4.55**	757,170	6.26
Exercised	**(8,666)**	**2.28**	(98,307)	5.17
Expired	**(373,383)**	**10.86**	(227,593)	7.27
Forfeited	**(137,994)**	**4.75**	(25,019)	4.15
End of year	**6,534,700**	**6.54**	5,693,429	7.25
Options exercisable—end of year	**4,093,105**	**7.48**	3,270,935	8.72

The weighted-average share price at the time of exercise of the options was $4.14 (2011—$7.00).

The following options were outstanding as at December 31, 2012:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE		
Year granted	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	EXPIRATION DATE
2003	167,492	13.04	167,492	13.04	2013
2004	274,645	13.00	274,645	13.00	2013-2014
2005	263,979	12.73	263,979	12.73	2013-2015
2006	316,629	11.49	316,629	11.49	2013-2016
2007	344,645	11.83	344,645	11.83	2013-2017
2008	524,190	7.81	524,190	7.81	2013-2018
2009	435,903	2.28	348,483	2.28	2013-2019
2009	1,478,465	3.92	1,151,610	3.92	2014-2019
2010	727,134	6.43	405,828	6.43	2013-2020
2011	770,656	6.26	236,917	6.26	2013-2021
2012	1,230,962	4.47	58,687	4.71	2014-2022
	6,534,700	6.54	4,093,105	7.48	

FAIR VALUE OF THE SHARE OPTIONS GRANTED

Options were priced using the Black-Scholes option pricing model. Expected volatility is based on the historical share price volatility over the past five years. The following weighted-average assumptions were used to estimate the fair value of $1.32 (2011—$2.11), at the date of grant, of each option issued to employees:

	2012	2011
Grant date share price	**$4.34**	$6.03
Exercise price	**$4.55**	$6.26
Risk-free interest rate	**1.37%**	2.70%
Expected dividend yield	**3.68%**	2.65%
Expected life of options	**6 years**	6 years
Expected volatility	**42%**	45%

NOTE 20
STOCK-BASED COMPENSATION (CONTINUED)

b) The Corporation offers its Canadian employees a share purchase plan for its common shares. Employees can voluntarily contribute up to a maximum of 5% of their salary and, if certain conditions are met, the Corporation will contribute to the plan for 25% of the employee's contribution.

The shares are purchased on the market on a predetermined date each month. For the year ended December 31, 2012, the Corporation's contribution to the plan amounted to $1 million (2011—$1 million).

c) The Corporation has a Deferred Share Unit Plan for the benefit of its external directors, allowing them to receive all or a portion of their annual compensation in the form of Deferred Share Units (DSUs). A DSU is a notional unit equivalent in value to the Corporation's common share. Upon resignation from the Board of Directors, participants are entitled to receive the payment of their cumulated DSUs in the form of cash based on the average price of the Corporation's common shares as traded on the open market during the five days before the date of the participant's resignation.

The DSU expense and the related liability are recorded at the grant date. The liability is adjusted periodically to reflect any variation in the market value of the common shares. As at December 31, 2012, the Corporation had a total of 243,355 DSUs outstanding (2011—213,130 DSUs), representing a long-term liability of $1 million (2011—$1 million).

NOTE 21
ACCUMULATED OTHER COMPREHENSIVE LOSS

(in millions of Canadian dollars)	2012	2011
Foreign currency translation, net of hedging activities and related income tax of $(4) million (December 31, 2011—$(5) million)	**(47)**	(43)
Unrealized gain (loss) arising from foreign exchange forward contracts designated as cash flow hedges, net of related income taxes of nil (December 31, 2011—nil)	**2**	(4)
Unrealized loss arising from interest rate swap agreements designated as cash flow hedges, net of related income taxes of $13 million (December 31, 2011—$10 million)	**(21)**	(17)
Unrealized loss arising from commodity derivative financial instruments designated as cash flow hedges, net of related income taxes of $7 million (December 31, 2011—$10 million)	**(20)**	(21)
Unrealized loss on available-for-sale financial assets, net of related income taxes of nil (December 31, 2011—nil)	**(1)**	(1)
	(87)	(86)

NOTE 22
COST OF SALES BY NATURE

(in millions of Canadian dollars)	2012	2011
Change in inventories of finished goods and work in progress	**10**	1
Raw materials	**1,388**	1,578
Wages and employee benefits expenses	**576**	571
Energy	**318**	332
Delivery	**263**	251
Depreciation and amortization	**199**	180
Others	**403**	334
Total cost of sales	**3,157**	3,247

SELLING AND ADMINISTRATIVE EXPENSES BY NATURE

(in millions of Canadian dollars)	2012	2011
Wages and employee benefits expenses	**262**	258
Information technology	**26**	23
Publicity and marketing	**21**	21
Others	**73**	60
Total selling and administrative expenses	**382**	362

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NOTE 23
EMPLOYEE BENEFITS EXPENSES

(in millions of Canadian dollars)	2012	2011
Wages and employee benefits expenses	838	829
Share options granted to directors and employees	1	1
Pension costs—defined contribution plans	17	18
Pension costs—defined benefit plans	4	6
Other post-employment benefits	7	6
	867	860

KEY MANAGEMENT COMPENSATION

Key management includes members of the Board of Directors, Presidents and Vice Presidents of the Corporation. The compensation paid or payable to key management for their services is shown below:

(in millions of Canadian dollars)	2012	2011
Salaries and other short-term benefits	9	7
Post-employment benefits	1	1
Share-based payments	1	1
	11	9

NOTE 24
LOSS (GAIN) ON ACQUISITIONS, DISPOSALS AND OTHERS

(in millions of Canadian dollars)	2012	2011
Net gain related to business acquisitions	–	(48)
Loss on business disposals	–	7
Gain on disposal of property, plant and equipment	(1)	(7)
	(1)	(48)

2012

On March 23, 2012, the Containerboard Group sold a vacant piece of land located next to the Vaudreuil, Québec, corrugated containerboard plant and recorded a gain of $1 million on the disposal.

2011

On March 1, 2011, the Corporation sold its European containerboard mill located in Avot-Vallée, France, for a total consideration of €10 million ($14 million) including the debt assumed by the acquirer in the amount of €5 million ($7 million) and the selling price balance of €5 million ($7 million) which is receivable over a maximum of three years. The Corporation recorded a loss of $2 million on the disposal.

On April 7, 2011, the Corporation purchased outstanding shares of RdM on the open market which triggered a business acquisition. A net gain of €9 million ($12 million) resulted from this transaction.

Also during the second quarter, our Specialty Product Segment recorded a loss of $1 million resulting from the business acquisition of NorCan Flexible Packaging Inc.

On June 23, 2011, the Corporation sold two of its boxboard facilities, namely the Versailles mill located in Connecticut and the Hebron converting plant located in Kentucky for a total consideration of US$20 million ($20 million) of which US$5 million ($5 million) has been received net of transaction fees paid of $1 million. The consideration also includes a balance of sale price of US$10 million ($10 million) and the fair value of US$4 million ($4 million) of natural gas contracts agreements concluded with the acquirer as part of the transaction. The balance of sale price of US$10 million ($10 million) is receivable over four years. The Corporation realized a loss of $8 million before income taxes.

In June 2011, the Corporation completed the sale of a piece of land in Montréal, Québec, pertaining to a corrugated converting plant closed in 2005, for a cash consideration of $9 million. A gain of $7 million was recorded on the disposal.

On September 20, 2011, the Corporation announced the closure and sale of the land and building of its containerboard mill located in Burnaby, British Columbia. The closure resulted in a $3 million gain on the reversal of an environmental provision.

On November 1, 2011, the Corporation announced that it had finalized the acquisition of 50% of the shares that it does not hold in its affiliated company Papersource Converting Mill Corp. (Papersource), located in Granby, Québec. Cash consideration for the transaction is $60 million. A gain of $37 million resulted from this transaction.

NOTE 25
IMPAIRMENT CHARGES AND RESTRUCTURING COSTS

A) IMPAIRMENT CHARGES ON PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS WITH FINITE USEFUL LIFE AND OTHER ASSETS

For the year ended December 31, 2012 and 2011, the Corporation recorded impairment charges totalling $29 million and $59 million, respectively. The recoverable amount of CGUs was determined using a fair value less cost to sell model based on the income approach, unless otherwise indicated. Impairments are detailed as follows:

						2012
	PACKAGING PRODUCTS					
(in millions of Canadian dollars)	CONTAINER-BOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	SUB-TOTAL	CORPORATE ACTIVITIES	TOTAL
Machinery and equipment	**22**	**2**	**–**	**24**	**–**	**24**
Spare parts	**1**	**1**	**–**	**2**	**–**	**2**
Intangible and other assets	**2**	**–**	**–**	**2**	**1**	**3**
Total	**25**	**3**	**–**	**28**	**1**	**29**

						2011
	PACKAGING PRODUCTS					
(in millions of Canadian dollars)	CONTAINER-BOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	SUB-TOTAL	TISSUE PAPERS	TOTAL
Machinery and equipment	21	–	15	36	2	38
Spare parts	8	–	–	8	–	8
Intangible and other assets	4	–	–	4	9	13
Total	33	–	15	48	11	59

2012

The Containerboard Group reviewed the recoverable value of its Mississauga manufacturing mill, and an impairment charges of $21 million on property, plant and equipment and $2 million on intangible assets were recorded due to difficult market conditions. Recoverable amount was based on selling price of assets as it was higher than the income approach. The Containerboard Group also recorded additional impairment charges totalling $2 million on its Burnaby mill and Le Gardeur converting plant which were closed in 2011.

The Boxboard Europe Group reviewed the recoverable amount of its Magenta manufacturing mill, and an impairment charges of $2 million on property, plant and equipment and $1 million on spare parts were recorded due to difficult market conditions.

The Corporation also recorded an impairment charge of $1 million in its corporate activities due to the reevaluation of notes receivable from 2011 business disposals.

2011

In the Containerboard Group, the Corporation recorded an impairment charge of $8 million for its closed boxboard mill located in Toronto, Ontario and for its converting plant in Lachute, Québec, due to difficult market conditions. For the same reason, the Group recorded an impairment charge of $2 million on customer relationships.

In the Containerboard Group, the Corporation announced on September 20, 2011, the closure of its Burnaby mill located in British Columbia and that it had reached an agreement to sell the land and the building. An impairment charge of $8 million was recorded. Fair value less cost to sell was determined based on selling price of assets. The Corporation also reviewed the recoverable amount of its Trenton manufacturing mill due to difficult market conditions, and an impairment charge of $15 million was recorded.

In the Specialty Products segment, the Corporation closed its old East Angus pulping equipment in Québec and recorded an impairment charge of $3 million to record the equipment to salvage value. The Corporation reviewed the recoverable amount of its St-Jérôme fine paper mill, due to difficult market conditions and an impairment charge of $11 million was recorded. The Corporation recorded an additional $1 million impairment charge on fixed assets for the same reason.

The Tissue Papers Group reviewed the recoverable value of its Toronto manufacturing mill, and an impairment charge of $9 million was recorded due to difficult market conditions. In addition, impairment charges of $2 million was recorded on fixed assets for the same reason.

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B) GOODWILL AND OTHER INDEFINITE USEFUL LIFE INTANGIBLE ASSETS

Allocation of goodwill and other indefinite useful life intangible assets is as follows:

- Containerboard's goodwill of $274 million is allocated to all Containerboard's CGUs.
- Specialty Products' goodwill is allocated to Cascades Recovery CGU, $13 million, and Industrial Packaging CGUs, $6 million.
- Tissue Papers' goodwill of $36 million and trademarks of $2 million are allocated to all Tissue Papers' CGUs.
- Water rights of $4 million are allocated to RdM's CGU.

With the exception of its Containerboard goodwill, there were no events noted in 2012 that would trigger an impairment loss given the significant excess of recoverable amount compared to the carrying amount of the respective goodwill. However, in 2012, the Corporation tested its Containerboard goodwill for impairment due to challenging market conditions. As a result of this impairment test, the Corporation concluded that the recoverable amount of the CGUs was in excess of $149 million over their carrying amount, thus no impairment charge was necessary. With all other variables held constant, a decrease in terminal growth rate of 2%, a rise of discounting rate of 1.25%, a decrease of 46,000 short tons in manufacturing shipments or a decrease of terminal exchange rate of $0.03 would reduce the excess of $149 million to nil. The Corporation applied the income approach in determining fair value less cost to sell and used the following key assumptions:

	2012	2011
	CONTAINERBOARD	CONTAINERBOARD
Terminal growth rate	**2%**	2%
Discounting rate	**9.5%**	9.5%
Terminal exchange rate (CA$/US$)	**$1.10**	$1.10
Shipments (manufacturing only; in short tons)	**878,000 s.t.**	960,000 s.t.

C) RESTRUCTURING COSTS[1]

The closure and restructuring costs are detailed as follows:

(in millions of Canadian dollars)	**2012**	2011
Containerboard	**6**	5
Boxboard Europe	**1**	1
Specialty Products	**–**	2
	7	8

1 In addition to the restructuring costs, the Corporation also recorded accelerated depreciation expense for $13 million (2011—nil)

2012

On April 25, 2012, the Corporation announced the closure of its North York and Peterborough units as well as the OCD plant in Mississauga. These plants are part of the Containerboard Group. These closures resulted in the recognition of an onerous contract and severance provisions totalling $7 million and accelerated depreciation of $3 million due to the revaluation of the remaining useful life and residual value of some equipments.

On September 5, 2012, the Corporation announced the closure of its Lachute folding carton plant of the Containerboard Group to be closed at the latest at the end of the first quarter of 2013. This resulted in the recognition of severance provisions totalling $2 million and a curtailment gain on pension plan amounting to $2 million.

The Containerboard Group also reviewed the useful life and residual value of its Trenton's steam reformer and recorded accelerated depreciation totalling $9 million.

In 2012, the Containerboard Group recorded $1 million reversal of an environmental provision with regards to its Burnaby manufacturing mill closed in 2011.

In 2012, the Boxboard Europe Group recorded severance provisions of $1 million at one of its RdM manufacturing mills due to difficult market conditions.

On August 13, 2012, the Corporation announced the closure of its Tissue Papers Group plant located in Scarborough and reviewed the useful life and residual value of its assets which resulted in accelerated depreciation of $1 million.

2011

In the Containerboard segment, the closure of its Leominster converting plants in the New England region of the US and of Le Gardeur in Québec resulted in closure and restructuring costs totalling $3 million. On September 20, 2011, the Corporation announced the closure of its Burnaby mill located in British Columbia. Closure and restructuring costs of $2 million were recorded.

In the Boxboard Europe Group, the Corporation recorded closure and restructuring costs of $1 million, following the closing of one production line in RdM.

In the Specialty Products segment, the Corporation closed its old East Angus pulping equipment in Québec and recorded closure and restructuring costs totalling $2 million.

NOTE 26
ADDITIONAL INFORMATION

A) CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS ARE DETAILED AS FOLLOWS:

(in millions of Canadian dollars)	2012	2011
Accounts receivable	25	57
Current income tax assets	(2)	(16)
Inventories	15	9
Trade and other payables	4	(74)
Current income tax liabilities	–	2
	42	(22)

B) FINANCING EXPENSE

(in millions of Canadian dollars)	2012	2011
Interest on long-term debt	96	92
Interest income	(3)	(1)
Amortization of financing costs	5	4
Other interest and banking fees	4	5
Interest on employee future benefits	(2)	–
Net financing expense	100	100

NOTE 27
FINANCIAL INSTRUMENTS

27.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

The classification of financial instruments as at December 31, 2012 and 2011, along with the respective carrying amounts and fair values, is as follows:

		2012		2011	
(in millions of Canadian dollars)	NOTE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets held for trading					
Derivatives	27.4	16	16	21	21
Financial assets available for sale					
Other investments		5	5	5	5
Investments in shares held for trading		4	4	2	2
Financial liabilities held for trading					
Derivatives	27.4	81	81	92	92
Other financial liabilities					
Long-term debt		1,475	1,545	1,407	1,420
Derivatives designated as hedge					
Asset derivatives		8	8	8	8
Liability derivatives		29	29	37	37

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27.2 DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

(i) The fair values of cash and cash equivalents, accounts receivable, notes receivable, bank loans and advances, trade and other payables and provisions approximate their carrying amounts due to their relatively short maturities.

(ii) The fair value of investments in shares held for trading is based on observable market data and mainly represents the Corporation's investment in Junex Inc., which is quoted on the Toronto Stock Exchange.

(iii) The fair value of long-term debt is based on observable market data and on the calculation of discounted cash flows. Discount rates were determined based on local government bond yields adjusted for the risks specific to each of the borrowings and for the credit market liquidity conditions.

27.3 HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following table presents information about the Corporation's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2012 and 2011 and indicates the fair value hierarchy of the Corporation's valuation techniques to determine such fair value. Three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

				2012
(in millions of Canadian dollars)	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Financial assets				
Other investments	**5**	**–**	**5**	**–**
Investments in shares held for trading	**4**	**4**	**–**	**–**
Derivative financial assets	**24**	**–**	**24**	**–**
Total	**33**	**4**	**29**	**–**
Financial liabilities				
Derivative financial liabilities	**110**	**–**	**110**	**–**
Total	**110**	**–**	**110**	**–**

				2011
(in millions of Canadian dollars)	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Financial assets				
Other investments	5	–	5	–
Investments in shares held for trading	2	2	–	–
Derivative financial assets	29	–	29	–
Total	36	2	34	–
Financial liabilities				
Derivative financial liabilities	129	–	129	–
Total	129	–	129	–

NOTE 27
FINANCIAL INSTRUMENTS (CONTINUED)

27.4 FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department and management committee acting under policies approved by the Board of Directors. They identify, evaluate and hedge financial risks in close cooperation with the business units. The Board provides guidance for overall risk management, covering specific areas, such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Summary

(in millions of Canadian dollars)		ASSETS			LIABILITIES		2012
RISK	NOTE	SHORT-TERM	LONG-TERM	TOTAL	SHORT-TERM	LONG-TERM	TOTAL
Currency risk	27.4 A) (i)	**12**	**8**	**20**	**(56)**	**(8)**	**(64)**
Price risk	27.4 A) (ii)	**3**	**1**	**4**	**(17)**	**(15)**	**(32)**
Interest risk	27.4 A) (iii)	**–**	**–**	**–**	**(1)**	**(1)**	**(2)**
Other risk	27.4 D)	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Total		**15**	**9**	**24**	**(74)**	**(36)**	**(110)**

(in millions of Canadian dollars)		ASSETS			LIABILITIES		2011
RISK	NOTE	SHORT-TERM	LONG-TERM	TOTAL	SHORT-TERM	LONG-TERM	TOTAL
Currency risk	27.4 A) (i)	1	21	22	(1)	(74)	(75)
Price risk	27.4 A) (ii)	5	2	7	(16)	(24)	(40)
Interest risk	27.4 A) (iii)	–	–	–	(1)	(1)	(2)
Other risk	27.4 D)	–	–	–	–	(12)	(12)
Total		6	23	29	(18)	(111)	(129)

A) MARKET RISK

(i) Currency risk

The Corporation operates internationally and is exposed to foreign exchange risks arising from various currencies as a result of its export of goods produced in Canada, the United States, France, Sweden, Italy and Germany. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. These risks are partially covered by purchases, debt and foreign exchange forward contracts.

Management has implemented a policy to manage foreign exchange risk against its functional currency. The Corporation's risk management policy is to hedge 25% to 90% of anticipated cash flows in each major foreign currency for the next 12 months and to hedge 0% to 75% for the subsequent 24 months.

In 2012, approximately 33% of sales from Canadian operations were made to the United States and 17% of sales from French and Italian operations were made in countries whose currencies were other than the euro. The Corporation's operation in Sweden is also exposed to currency risk, mainly the euro and the British pound (GBP). Total sales for 2012 from the Corporation's Swedish operations impacted by the euro or the GBP were approximately CA $40 million.

The Corporation manages the foreign exchange exposure by entering into various foreign exchange forward contracts and currency option instruments related to anticipated sales, purchases, interest expense and repayment of long-term debt. The Corporation may designate these foreign exchange forward contracts as a cash flow hedge of future anticipated sales, purchases, interest expense and repayment of long-term debt denominated in foreign currencies. Gains or losses from these derivative financial instruments designated as hedges are recorded in Accumulated other comprehensive income (loss) net of related income taxes and are reclassified to earnings as adjustments to sales, cost of sales, interest expense or foreign exchange loss (gain) on long-term debt in the period in which the respective hedged item affected earnings.

The following table summarizes the Corporation's commitments to buy and sell foreign currencies as at December 31, 2012 and 2011:

				2012
	EXCHANGE RATE	MATURITY	NOTIONAL AMOUNT (IN MILLIONS)	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Repayment of long-term debt				
Derivatives designated as cash flow hedges and reclassified in Foreign exchange loss (gain) on long-term debt (effective portion):				
Foreign exchange forward contracts to buy (US$ for CA$)	**0.9987**	**December 2017**	**US$200**	**8**
Subtotal				**8**
Derivatives designated as held for trading and reclassified in Foreign exchange loss (gain) on long-term debt (effective portion):				
Foreign exchange forward contracts to buy (US$ for CA$)	**1.1928**	**February 2013**	**US$310**	**(61)**
Foreign exchange forward contracts to buy (US$ for CA$)	**1.1945**	**May 2013**	**US$50**	**(10)**
Currency option and forward contracts bought to sell US$ (US$ for CA$)	**1.1700**	**January to February 2013**	**US$124**	**22**
Currency option bought to sell US$ (US$ for CA$)	**1.1500**	**February to May 2013**	**US$27**	**4**
Currency option sold to buy US$ (US$ for CA$)	**1.0113**	**February 2013**	**US$37.5**	**(1)**
Currency option sold to buy US$ (US$ for CA$)	**1.0500**	**February to December 2017**	**US$200**	**(8)**
Subtotal				**(54)**
Forecasted sales				
Derivatives designated as cash flow hedges and reclassified in Sales (effective portion):				
Foreign exchange forward contracts to sell (US$ for CA$)	**1.0450**	**0 to 12 months**	**US$2.5**	**–**
Foreign exchange forward contracts to buy (€ for US$)	**1.3142**	**0 to 12 months**	**US$2.4**	**–**
Foreign exchange forward contracts to sell (GBP for €)	**1.2567**	**0 to 12 months**	**GBP1.2**	**–**
Subtotal				**–**
Derivatives designated as held for trading and reclassified in Loss (gain) on derivative financial instruments:				
Currency option instruments to sell (US$ for CA$)	**1.0300**	**0 to 12 months**	**US$35**	**2**
Currency option instruments to sell (US$ for CA$)	**1.0426**	**13 to 24 months**	**US$5**	**–**
Foreign exchange forward contracts to buy (US$ for CA$)	**0.9932**	**January 2013**	**US$15**	**–**
Subtotal				**2**
Total				**(44)**

NOTE 27
FINANCIAL INSTRUMENTS (CONTINUED)

				2011
	EXCHANGE RATE	MATURITY	NOTIONAL AMOUNT (IN MILLIONS)	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Repayment of long-term debt				
Derivatives designated as cash flow hedges and reclassified in Foreign exchange loss (gain) on long-term debt (effective portion):				
Foreign exchange forward contracts (US$ for CA$)	0.9987	December 2017	US$200	7
Subtotal				7
Derivatives designated as held for trading and reclassified in Foreign exchange loss (gain) on long-term debt (effective portion):				
Foreign exchange forward contracts (US$ for CA$)	1.1928	February 2013	US$310	(49)
Foreign exchange forward contracts (US$ for CA$)	1.1945	May 2013	US$50	(9)
Currency option bought to buy US$ (US$ for CA$)	1.1930	January 2012 to February 2013	US$100	15
Currency option sold to buy US$ (US$ for CA$)	1.0113	February 2013	US$37.5	(2)
Currency option sold to buy US$ (US$ for CA$)	1.0350	February 2013 to December 2017	US$200	(14)
Subtotal				(59)
Forecasted sales				
Derivatives designated as cash flow hedges and reclassified in Sales (effective portion):				
Foreign exchange forward contracts (US$ for CA$)	1.0252	0 to 12 months	US$64.5	–
Foreign exchange forward contracts (€ for US$)	1.4116	0 to 12 months	US$1.2	–
Foreign exchange forward contracts (GBP for SEK)	10.5873	0 to 12 months	GBP3.6	–
Foreign exchange forward contracts (€ for SEK)	9.2497	0 to 12 months	€9.2	–
Foreign exchange forward contracts (GBP for €)	1.1622	0 to 12 months	GBP4.8	(1)
Subtotal				(1)
Derivatives designated as held for trading and reclassified in Loss (gain) on derivative financial instruments:				
Currency option instruments (US$ for CA$)	1.0314	0 to 12 months	US$32.5	–
Currency option instruments (US$ for CA$)	1.0390	13 to 23 months	US$40	–
Subtotal				–
Forecasted purchases				
Hedge of forecasted purchases designated as cash flow hedges and reclassified in Cost of sales (effective portion):				
Foreign exchange forward contracts (US$ for CA$)	1.0457	0 to 11 months	US$1.8	–
Subtotal				–
Total				(53)

The fair values of foreign exchange forward contracts and currency options are determined using the discounted value of the difference between the value of the contract at expiry calculated using the contracted exchange rate and the exchange rate the financial institution would use if it renegotiated the same contract under the same conditions as at the consolidated balance sheet date. The discount rates are adjusted for the credit risk of the Corporation or of the counterparty, as applicable. When determining credit risk adjustments, the Corporation considers master netting agreements, if applicable.

In 2012, if the Canadian dollar had strengthened by $0.01 against the US dollar on average for the year with all other variables held constant, operating income before depreciation for the year would have been approximately $6 million lower, based on the net exposure of total US sales less US purchases of the Corporation's Canadian operations and operating income before depreciation of the Corporation's US operations but excluding the effect of this change on the denominated working capital components. The interest expense would have been approximately $1 million lower arising mainly from the Corporation's US dollar-denominated unsecured senior notes.

In 2012, if the Canadian dollar had strengthened by $0.01 against the euro with all other variables held constant, operating income before depreciation for the year would have been approximately $1 million lower following the translation of operating income of the Corporation's European operations.

CURRENCY RISK ON TRANSLATION OF SELF-SUSTAINING FOREIGN SUBSIDIARIES

The Corporation has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. The Corporation may designate part of its long-term debt denominated in foreign currencies as a hedge of the net investment in self-sustaining foreign subsidiaries. Gains or losses resulting from the translation to Canadian dollars of long-term debt denominated in foreign currencies and designated as net investment hedges are recorded in Accumulated other comprehensive income (loss) net of related income taxes.

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The table below shows the effect on consolidated equity of a 10% change in the value of the Canadian dollar against the US dollar and the euro as at December 31, 2012 and 2011. The calculation includes the effect of currency hedges of net investment in US foreign entities and assumes that no changes occurred other than a single currency exchange rate movement.

The exposures used in the calculations are the foreign currency-denominated equity and the hedging level as at December 31, 2012 and 2011, with the hedging instruments being the long-term debt denominated in US dollars.

Consolidated Shareholders' equity: Currency effect before tax of a 10% change

	2012			2011		
(in millions of Canadian dollars)	BEFORE HEDGES	HEDGES	NET IMPACT	BEFORE HEDGES	HEDGES	NET IMPACT
10% change in the CA$/US$ rate	**76**	**62**	**14**	78	56	22
10% change in the CA$/euro rate	**6**	**–**	**6**	6	–	6

(ii) Price risk

The Corporation is exposed to commodity price risk on old corrugated containers, electricity and natural gas. The Corporation uses derivative commodity contracts to help manage its production costs. The Corporation may designate these derivatives as cash flow hedges of anticipated purchases of raw materials, natural gas and electricity. Gains or losses from these derivative financial instruments designated as hedges are recorded in Accumulated other comprehensive income (loss) net of related income taxes and are reclassified to earnings as adjustments to Cost of sales in the same period as the respective hedged item affects earnings.

The fair value of these contracts is as follows:

			2012
	QUANTITY	MATURITY	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Forecasted purchases			
Derivatives designated as held for trading and reclassified in Cost of sales			
Old corrugated containers	**25,000 s.t.**	**2013**	**–**
Sorted office papers	**21,000 s.t.**	**2013**	**(1)**
Electricity	**541,896 MWh**	**2013 to 2015**	**(1)**
Derivatives designated as cash flow hedges and reclassified in Cost of sales (effective portion)			
Natural gas:			
Canadian portfolio	**11,795,450 GJ**	**2013 to 2017**	**(20)**
US portfolio	**5,807,100 mmBtu**	**2013 to 2017**	**(10)**
Total			**(32)**

			2011
	QUANTITY	MATURITY	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Forecasted purchases			
Derivatives designated as held for trading and reclassified in Cost of sales			
Old corrugated containers	160,000 s.t.	2012 to 2016	(1)
Sorted office papers	14,500 s.t.	2012	–
Electricity	315,024 MWh	2012 to 2014	(2)
Derivatives designated as cash flow hedges and reclassified in Cost of sales (effective portion)			
Oil Gulf cost	72,875 barrels	2012	1
Natural gas:			
Canadian portfolio	12,967,050 GJ	2012 to 2017	(20)
US portfolio	7,943,100 mmBtu	2012 to 2017	(17)
Total			(39)

In 2011, as part of the sale of its Versailles boxboard mill, the Corporation also entered into an agreement to sell natural gas to the acquirer. Maturity of the contracts is 2013 to 2016 with a notional amount of 1,752,768 mmBtu (2011—2,994,444 mmBtu). The fair value of this agreement is an asset of $4 million as at December 31, 2012 (2011—$6 million asset).

The fair value of derivative financial instruments other than options is established utilizing a discounted future expected cash flows method. Future expected cash flows are determined by reference to the forward price or rate prevailing on the assessment date of the underlying financial index (exchange or interest rate or commodity price) according to the contractual terms of the instrument. Future expected cash flows are discounted at an interest rate reflecting both the maturity of each flow and the credit risk of the party to the contract for which it represents a liability (subject to the application of relevant credit support enhancements). The fair value of derivative financial instruments that represent options is established utilizing similar methods that reflect the impact of the potential volatility of the financial index underlying the option on future expected cash flows.

The table below shows the effect of changes in the price of old corrugated containers, natural gas and electricity as at December 31, 2012 and 2011. The calculation includes the effect of price hedges of these commodities and assumes that no changes occurred other than a single change in price.

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NOTE 27

FINANCIAL INSTRUMENTS (CONTINUED)

The exposures used in the calculations are the commodity consumption and the hedging level as at December 31, 2012 and 2011, with the hedging instruments being derivative commodity contracts.

Consolidated commodity consumption: Price change effect before tax

(in millions of Canadian dollars[1])	2012			2011		
	BEFORE HEDGES	HEDGES	NET IMPACT	BEFORE HEDGES	HEDGES	NET IMPACT
US$15/s.t. change in recycled paper price	**28**	**1**	**27**	29	1	28
US$30/s.t. change in commercial pulp price	**6**	**–**	**6**	5	–	5
US$1/mmBTU. change in natural gas price	**8**	**5**	**3**	7	5	2
US$1/MWh change in electricity	**2**	**–**	**2**	2	–	2

1 *Sensitivity calculated with an exchange rate of CA$/US$1.00 for 2012 and 2011.*

(iii) Interest rate risk

The Corporation has no significant interest-bearing assets.

The Corporation's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Corporation to cash flow interest rate risk. Borrowings issued at fixed rates expose the Corporation to fair value interest rate risk.

When appropriate, the Corporation analyzes its interest rate risk exposure. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Corporation calculates the impact on earnings of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. As at December 31, 2012, approximately 30% (2011—22%) of the Corporation's long-term debt was at variable rates.

Based on the outstanding long-term debt as at December 31, 2012 the impact on interest expense of a 100 basis point change in rate would be approximately $4 million (impact on net earnings is approximately $3 million).

The Corporation has swaps maturing in 2014 and up to 2017 on a notional amount of $50 million. As at December 31, 2012, these agreements are recorded as an asset at a fair value of nil (2011—nil). Another agreement is a swap maturing in 2013 on a notional amount of US$2 million. The fair value of the swap is nil as at December 31, 2012 (2011—nil). The Corporation also holds interest rate swaps through RdM. These swaps are contracted to fix the interest rate on a notional amount of €20 million and are maturing in 2015 and 2016. Fair value of these agreements is a liability of $2 million as at December 31, 2012 (December 31, 2011—$2 million liability).

(iv) Loss (gain) on derivative financial instruments is as follows:

(in millions of Canadian dollars)	2012	2011
Unrealized loss (gain) on derivative financial instruments	**(5)**	12
Realized gain on derivative financial instruments	**(1)**	(4)
	(6)	8

B) CREDIT RISK

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with creditworthy financial institutions.

The Corporation is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Corporation's credit policies include the analysis of the financial position of its customers and the regular review of their credit limits. In addition, the Corporation believes there is no particular concentration of credit risk due to the geographic diversity of customers and the procedures for the management of commercial risks. Derivative financial instruments include an element of credit risk should the counterparty be unable to meet its obligations.

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts. An allowance for doubtful accounts of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Each trade receivable balance is evaluated separately to identify impairment. The amount of the allowance for doubtful accounts is the difference between the asset's carrying amount and the present value of estimated cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recorded in the consolidated statement of earnings in Selling and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against Selling and administrative expenses in the consolidated statement of earnings.

Loans and notes receivables from business disposals are recognized at fair value. There is no past due amount as at December 31, 2012.

C) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 2012 and 2011:

						2012
(in millions of Canadian dollars)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	BETWEEN ONE AND TWO YEARS	BETWEEN TWO AND FIVE YEARS	MORE THAN FIVE YEARS
Non-derivative financial liabilities:						
Bank loans and advances	**80**	**80**	**80**	**–**	**–**	**–**
Trade and other payables	**551**	**551**	**551**	**–**	**–**	**–**
Revolving credit facility	**401**	**436**	**11**	**11**	**414**	**–**
Unsecured senior notes	**946**	**1,366**	**84**	**74**	**900**	**308**
Other debts of subsidiaries	**53**	**60**	**20**	**15**	**14**	**11**
Other debts without recourse to the Corporation	**90**	**85**	**30**	**19**	**33**	**3**
Derivative financial liabilities	**110**	**110**	**74**	**21**	**15**	**–**
	2,231	**2,688**	**850**	**140**	**1,376**	**322**

						2011
(in millions of Canadian dollars)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	BETWEEN ONE AND TWO YEARS	BETWEEN TWO AND FIVE YEARS	MORE THAN FIVE YEARS
Non-derivative financial liabilities:						
Bank loans and advances	90	90	90	–	–	–
Trade and other payables	539	539	539	–	–	–
Revolving credit facility	282	312	10	10	292	–
Unsecured senior notes	970	1,455	76	93	424	862
Other debts of subsidiaries	61	61	16	17	16	12
Other debts without recourse to the Corporation	112	114	38	22	50	4
Derivative financial liabilities	129	129	18	85	12	14
	2,183	2,700	787	227	794	892

As at December 31, 2012, the Corporation had unused credit facilities of $370 million (December 31, 2011—$540 million), net of outstanding letters of credit of $29 million (December 31, 2011—$10 million).

The payments between two and five years include the maturity of the Corporation's revolving credit and facility of February 2016 and of its unsecured senior notes of December 2017.

D) OTHER RISK

In 2010, the Corporation entered into a put and call agreement with Industria E Innovazione ("Industria") whereby Cascades had the option to buy 9.07% of the shares of RdM (100% of the shares held by Industria) for €0.43 per share between March 1, 2011 and December 31, 2012. Industria also has the option to require the Corporation to purchase its shares for €0.41 per share between January 1, 2013 and March 31, 2014. The Corporation evaluated these options using the Black-Scholes model and recorded a liability of $12 million (December 31, 2011—$12 million).

FACTORING OF ACCOUNTS RECEIVABLE

The Corporation sells its accounts receivable from one of its European subsidiaries through a factoring contract with a financial institution. The Corporation uses factoring of receivables as a source of financing by reducing its working capital requirements. When the receivables are sold, the Corporations removes them from the balance sheet, recognizes the amount received as the consideration for the transfer and records a loss on factoring which is included in Financing expenses. As at December 31, 2012, the off-balance sheet impact of the factoring of receivables amounted to $31 million (€24 million). The Corporation expects to continue to sell receivables on an ongoing basis. Should it decide to discontinue this contract, its working capital and bank debt requirements would increase.

NOTE 28
COMMITMENTS AND CONTINGENCIES

a) The Corporation leases various properties, vehicles and equipment under non-cancellable operating lease agreements.

Future minimum payments under operating leases are as follows:

(in millions of Canadian dollars)	**2012**	2011
No later than one year	**27**	27
Later than one year but no later than five years	**55**	56
More than five years	**12**	17

b) Capital Commitments

Capital expenditures contracted at the end of the reporting date but not yet incurred are as follows:

	2012		2011	
(in millions of Canadian dollars)	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS
No later than one year	**6**	**2**	8	–
Later than one year but no later than five years	**1**	**–**	2	–
	7	**2**	10	–

c) The Corporation has entered into agreements to guarantee certain obligations in relation to the construction of a new linerboard mill ("Greenpac") near its Niagara Falls, New York site, in which the Corporation has an interest of 59.7%. The Corporation has guaranteed cost overruns relating to (i) remedial work at its Niagara Falls site, necessary to prepare the construction site to the extent such costs exceed the budgeted costs and funded contingency reserve of $10 million; and (ii) construction costs in excess of the budgeted construction costs. As at December 31, 2012, the Corporation granted US$18 million ($18 million) in letters of credit regarding the Greenpac Project. At this time, the Corporation can anticipate approximately US$9 million ($9 million) will be drawn on the letters of credit to fund the Project by the end of the construction completion. Construction began in June of 2011 and is expected to be completed in July 2013.

d) In the normal course of operations, the Corporation is party to various legal actions and contingencies, mostly related to contract disputes, environmental and product warranty claims, and labour issues. While the final outcome with respect to legal actions outstanding or pending as at December 31, 2012 cannot be predicted with certainty, it is management's opinion that the outcome will not have a material adverse effect on the Corporation's consolidated financial position, results of operations or its cash flows.

e) The Corporation is currently working with representatives of the Ontario Ministry of the Environment (MOE)—Northern Region, regarding its potential responsibility for an environmental impact identified at its former Thunder Bay facility ("Thunder Bay"). The MOE has requested that the Corporation look into a management site plan relating to the sediment quality adjacent to Thunder Bay's lagoon. Several meetings have been held during the year with the MOE and Resolute Forest Products ("Resolute"), formerly known as AbitibiBowater Inc., a former owner of the facility, that completed, in 2010, a reorganization under court protection in Canada and the United States. A study on the sediment quality and potential remediation options has commenced. Although a loss is probable, it is not possible at this time to estimate the Corporation's obligation because of the uncertainty surrounding the extent of the environmental impact, the potential remediation alternatives, the concurrence of the MOE, and Resolute's capacity to assume its proportionate share of responsibility.

The Corporation is also in discussions with representatives of the MOE, regarding its potential responsibility for an environmental impact identified at Thunder Bay. This facility was sold to Thunder Bay Fine Papers Inc. ("Fine Papers") in 2007. Fine Papers has since sold the facility to Superior Fine Papers Inc. ("Superior"). The MOE has requested that the Corporation together with the former owner Fine Papers and the current owner Superior submit a closure plan for the Waste Disposal Site and a decommissioning plan for the closure and long-term monitoring for the Sewage Works (the "Plans"). Although, the Corporation recognizes that where as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of a possible obligation, it is not possible at this time to estimate the Corporation's obligation, since Superior has not submitted all of the Plans and related costs to allow the Corporation to perform an evaluation nor does the Corporation have access to the site. Moreover, the Corporation is unable to ascertain the value of the assets remaining on its former site which may be available to fund this potential obligation. The Corporation is pursuing all available legal remedies to resolve the situation. In any event, management does not consider the Corporation's potential obligation to be significant.

The Corporation has recorded an environmental reserve to address its estimated exposure for these matters.

NOTE 29
RELATED PARTY TRANSACTIONS

The Corporation entered into the following transactions with related parties:

(in millions of Canadian dollars)	JOINT VENTURES	ASSOCIATES
2012		
Sales to related parties	**54**	**45**
Purchases from related parties	**32**	**44**
2011		
Sales to related parties	63	111
Purchases from related parties	33	42

These transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In addition to related party balance presented elsewhere in these consolidated financial statements, the following balances were outstanding at the end of the reporting period:

(in millions of Canadian dollars)	**DECEMBER 31, 2012**	DECEMBER 31, 2011
Receivables from related parties		
Joint ventures	**7**	16
Associates	**7**	8
Payables to related parties		
Joint ventures	**9**	17
Associates	**4**	4

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties. The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

HISTORICAL FINANCIAL INFORMATION–10 YEARS

For the years ended December 31, (in millions of Canadian dollars, except per share amounts and ratios) (unaudited) Historical financial information is not adjusted to reclass the impact of discontinued operations and IFRS for years ended prior to 2011.	IFRS **2012**	IFRS 2011
Highlights–Consolidated Results		
Sales	**3,645**	3,760
Cost of sales and expenses	**3,341**	3,517
Operating income before depreciation and amortization (OIBD) excluding specific items	**304**	243
Depreciation and amortization	**199**	186
Operating income excluding specific items	**105**	57
Financing expense	**100**	100
Foreign exchange loss (gain) on long-term debt	**(8)**	(4)
Specific items	**33**	(148)
	(20)	109
Provision for (recovery of) income taxes	**–**	27
Share of loss (earnings) of associates and joint ventures	**(2)**	(14)
Net earnings (loss) attributable to non-controlling interest	**(7)**	(3)
Net earnings (loss)	**(11)**	99
Net earnings (loss) per common share	**$(0.11)**	$1.03
Highlights–Consolidated Cash Flow		
Cash flow generated by operating activities	**199**	115
Cash flow from operations	**154**	121
per common share	**$1.64**	$1.26
Purchase of property, plant & equipment	**141**	110
Business acquisitions and cash from a joint venture	**14**	60
Proceed from business disposals	**–**	(292)
Net change in long-term debt	**(54)**	143
Dividends on common shares	**15**	15
per common share	**$0.16**	$0.16
Dividend yield	**3.9%**	3.6%
Highlights–Consolidated Balance Sheet (As at December 31)		
Current assets less current liabilities	**295**	400
Property, plant & equipment	**1,659**	1,703
Total assets	**3,694**	3,728
Total long-term debt	**1,475**	1,407
Non-controlling interests	**116**	136
Shareholders' equity	**978**	1,029
per common share	**$10.42**	$10.87
Stock Market Highlights		
Shares issued and outstanding (in millions)	**93.9**	94.6
Trading volume (in millions)	**20.2**	33.8
Market capitalization	**385**	419
Closing price	**$4.10**	$4.43
High	**$5.18**	$7.75
Low	**$3.85**	$3.51
Key Financial Ratios		
Net earnings (loss)/sales	**(0.3)%**	2.6%
Sales/total assets*	**1.0×**	1.0×
Total assets/average Shareholders' equity*	**3.7×**	3.3×
Return on Shareholders' equity*	**(1.1)%**	8.7%
Return on total assets (OIBD/average total assets)*	**8.2%**	6.5%
OIBD/sales	**8.3%**	6.5%
OIBD/interest	**3.0×**	2.4×
Current assets less current liabilities/sales*	**8.1%**	10.6%
Net funded debt/OIBD*	**5.0×**	6.1×
Total debt/total debt + Shareholders' equity	**61.4%**	59.3%
Price to earnings	**N/A**	4.3×
Price to book value	**0.4×**	0.4×

** Prior to 2007, ratios are calculated excluding the impact of the Norampac acquisition.*

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2010	2009	2008	2007	2006	2005	2004	2003
3,959	3,877	4,025	4,033	3,481	3,862	3,692	3,449
3,561	3,412	3,720	3,693	3,167	3,600	3,433	3,199
398	465	305	340	314	262	259	250
212	218	213	208	163	174	161	145
186	247	92	132	151	88	98	105
112	118	103	106	83	83	79	83
4	31	24	(59)	–	(10)	(18)	(72)
65	33	54	7	76	159	13	22
5	65	(89)	78	(8)	(144)	24	72
–	23	(29)	6	(3)	(40)	3	14
(15)	(17)	(8)	(27)	(8)	(7)	(2)	3
3	(1)	2	3	–	–	–	–
17	60	(54)	96	3	(97)	23	55
$0.18	$0.61	$(0.55)	$0.96	$0.04	$(1.19)	$0.28	$0.66
228	355	126	53	191	100	157	140
246	303	150	163	174	100	164	166
$2.54	$3.10	$1.52	$1.64	$2.15	$1.23	$2.01	$2.03
131	171	184	169	110	121	130	122
3	69	(5)	10	572	52	120	31
–	–	47	37	94	–	14	–
30	59	149	91	178	91	107	127
16	16	16	16	13	13	13	13
$0.16	$0.16	$0.16	$0.16	$0.16	$0.16	$0.16	$0.16
2.4%	1.8%	4.6%	1.9%	1.2%	1.6%	1.2%	1.3%
479	484	522	581	574	530	502	508
1,777	1,912	2,030	1,886	2,063	1,562	1,700	1,636
3,724	3,792	4,031	3,769	3,911	3,046	3,144	2,927
1,395	1,469	1,708	1,574	1,666	1,297	1,226	1,110
24	21	22	25	19	–	–	3
1,257	1,304	1,256	1,199	1,157	897	1,059	1,056
$13.01	$13.41	$12.74	$12.09	$11.62	$11.10	$13.02	$12.93
96.6	97.2	98.5	99.1	99.5	80.8	81.4	81.7
57.7	79.8	39.8	63.2	31.7	23.6	24.6	25.9
647	869	339	837	1,317	812	1,090	1,012
$6.70	$8.94	$3.44	$8.44	$13.23	$10.05	$13.40	$12.38
$9.80	$9.10	$8.90	$15.80	$14.78	$13.95	$14.80	$16.87
$5.71	$1.70	$3.00	$7.46	$9.66	$7.35	$11.21	$11.15
0.4%	1.5%	(1.3)%	2.4%	0.1%	(2.5)%	0.6%	1.6%
1.1×	1.0×	1.0×	1.1×	1.2×	1.3×	1.2×	1.2×
2.9×	3.0×	3.3×	3.2×	3.2×	3.1×	3.0×	2.8×
1.3%	4.7%	(4.4)%	8.1%	0.3%	(9.9)%	2.2%	5.2%
10.6%	11.9%	7.8%	8.9%	10.6%	8.4%	8.5%	8.5%
10.1%	12.0%	7.6%	8.4%	9.0%	6.8%	7.0%	7.2%
3.6×	3.9×	3.0×	3.2×	3.8×	3.2×	3.3×	3.0×
12.1%	12.5%	13.0%	14.4%	13.3%	13.7%	13.6%	14.7%
3.6×	3.3×	5.9×	4.7×	3.8×	5.0×	4.8×	4.5×
53.7%	54.3%	59.1%	57.5%	59.6%	59.9%	54.6%	52.2%
37.2×	14.7×	N/A	8.8×	330.8×	N/A	47.9×	18.8×
0.5×	0.7×	0.3×	0.7×	1.1×	0.9×	1.0×	1.0×

BOARD OF DIRECTORS

Cascades' Board of Directors (BoD) and management believe that quality corporate governance helps ensure that the Corporation is effectively run and investor confidence maintained. In order to stay the course in this regard, Cascades regularly reviews its governance practices to remain in compliance with applicable legislation and to improve Corporation efficiency.

The composition of the Board of Directors must be carefully determined since its responsibilities include ensuring good corporate governance, among other things. Cascades draws on the expertise of a highly experienced team of directors, and recognizes the importance of independent directors. Five of the twelve current Board members are independent. They meet at least once yearly, in the absence of non-independent directors and senior management. New BoD members are also offered an orientation and training program, to familiarize themselves with Cascades' activities as well as the issues and challenges it faces.

BERNARD LEMAIRE
Director
Kingsey Falls, (Québec), Canada
Director since 1964
Non-Independent

LAURENT LEMAIRE
Executive Vice–Chairman of the Board
Warwick, (Québec), Canada
Director since 1964
Non-Independent

ALAIN LEMAIRE
Chairman of the Board and
President and Chief Executive Officer
Kingsey Falls, (Québec), Canada
Director since 1967
Non-Independent

MARTIN P. PELLETIER ENG., PH.D.
Consultant
Sillery, (Québec), Canada
Director since 1982
Non-Independent

PAUL R. BANNERMAN
Chairman of the Board
Etcan International Inc.
Montréal, (Québec), Canada
Director since 1982
Non-Independent

LOUIS GARNEAU
President
Louis Garneau Sports Inc.
St-Augustin-de-Desmaures,
(Québec), Canada
Director since 1996
Independent

SYLVIE LEMAIRE
Director of companies
Otterburn Park, (Québec), Canada
Director since 1999
Non-Independent

ROBERT CHEVRIER
President
Société de Gestion Roche Inc.
Montréal, (Québec), Canada
Director since 2003
Independent

DAVID McAUSLAND
Partner
McCarthy Tétrault
Beaconsfield, (Québec), Canada
Director since 2003
Independent

JAMES B.C. DOAK
President and Managing Director
Megantic Asset Management Inc.
Toronto, (Ontario), Canada
Director since 2005
Independent

GEORGES KOBRYNSKY
Director of companies
Outremont, (Québec), Canada
Director since 2010
Independent

ÉLISE PELLETIER
Management and
Human Resources Consultant
Saint-Bruno-de-Montarville,
(Québec), Canada
Director since May 2012
Non-Independent

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SUMMARY OF ACTIVITIES

3.7 MILLION SHORT TONS

PRODUCTION CAPACITY AS AT DECEMBER 31, 2012

SECTORS	REGION	TYPE OF OPERATION	MAIN MARKETS/PRODUCTION	NUMBER OF UNITS[1]	CAPACITY[2]
Packaging Products					
Boxboard Europe	Europe	Manufacturing	Coated virgin boxboard (coated duplex, GC) Coated recycled boxboard (White-lined chipboard duplex, GD) Recycled linerboard	8[3]	1,212[3]
Containerboard	North America	Manufacturing	Virgin and recycled linerboard and corrugating medium White-top linerboard and Gypsum paper Coated recycled boxboard (CRB)	7	1,225
		Converting	Variety of corrugated packaging containers Corrugated sheets Specialized packaging General folding cartons Quick-service restaurant packaging	25[4]	12.0B sq.ft. (2012 shipments)
Specialty Products	North America and Europe	Industrial Packaging	Uncoated board Papermill packaging (roll headers and wrappers) Honeycomb packaging products Laminated boards	11	424[5]
	North America	Specialty Papers	Fine papers Kraft paper Backing for vinyl flooring De-inked pulp	6	598
		Consumer Packaging	Moulded pulp products Cup trays Filler flats Plastic products Packaging for food industry (meat trays, translucent containers, foam plates and bowls) Outdoor furniture (deck board, benches and tables)	7	55M kg[5]
		Recovery	Collection, sorting and recycling activities	23	1,644 (processed in 2012)
Tissue Papers					
	North America	Manufacturing	Parent rolls	5	245
		Manufacturing and converting	Retail market and away-from-home market Paper towels, paper hand towels, bathroom tissue, facial tissue, paper napkins Parent rolls	7	421
		Converting	Retail market and away-from-home market Paper towels, paper hand towels, bathroom tissue, facial tissue, paper napkins Industrial wipes	7	N/A
Total				106	3,701[3] (manufacturing only)

1 *Production and sorting facilities units only; excluding sales offices, distribution and transportation hubs and corporate offices.*

2 *Thousands of short tons, unless otherwise noted. Theoretical capacity.*

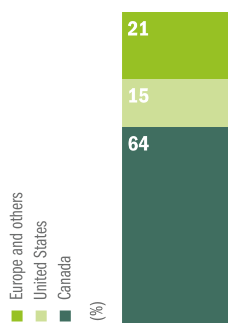
3 *Including all the units of Reno de Medici S.p.A. of which we owned an equity interest of 48.5% as at December 31, 2012. Excluding the Magenta plant and sheeting centers.*

4 *Including the Lachute folding carton plant to be closed by the end of March 2013.*

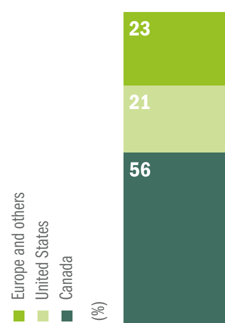
5 *Including 100% of the capacity of our joint ventures.*

3.6 BILLION

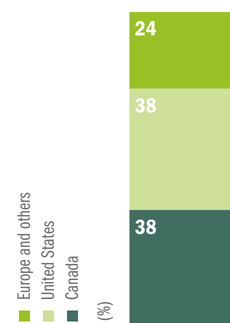
IN SALES, OVER 60% OF WHICH ARE OUTSIDE OF CANADA



Property, plant and equipment (2012)



Sales from (source) 2012



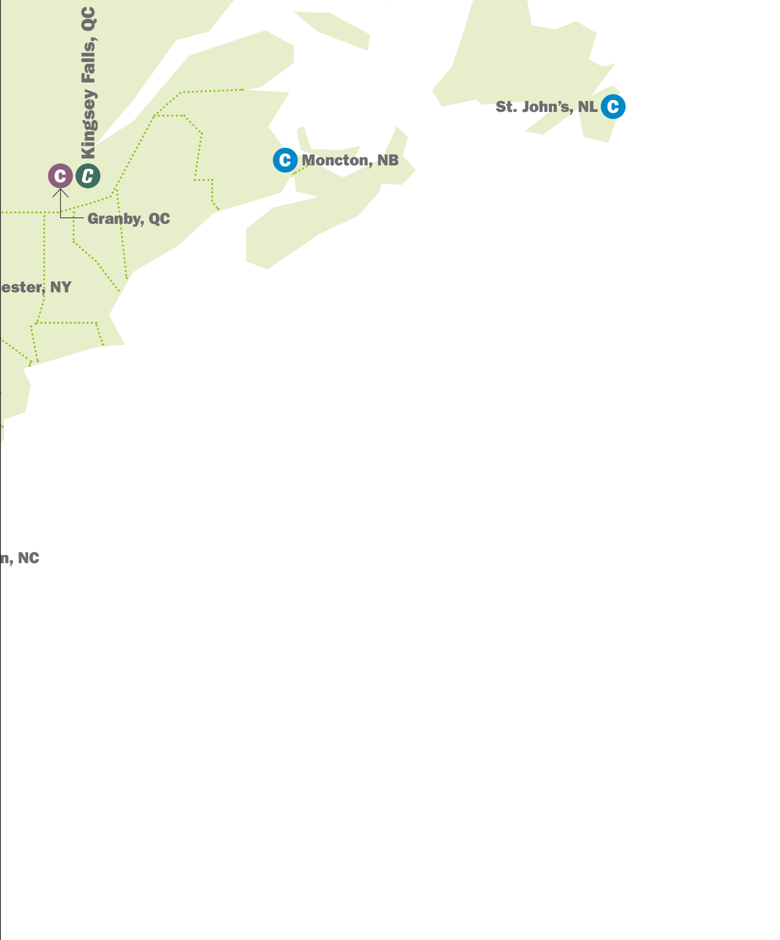
Sales to (destination) 2012

North America

Prince George, BC R
Edmonton, AB R
C
Calgary, AB R
Kelowna, BC R
Vancouver, BC
Nanaimo, BC R
R C R Surrey, BC
Victoria, BC R
Richmond, BC
St. Helens, OR M
Tacoma, WA C
C C R Winnipeg, MB
Eau Claire, WI CM
Grand Rapids, MI C
Aurora, IL C
Warrenton, MO C
Brownsville, TN C
Memphis, TN M
Kingman, AZ C
Birmingham, AL C
Ottawa, ON R
Lancaster, NY
Niagara Falls, NY M C
R Roch
Depew, NY R
Rockingham, NC C
CM
C Kinsto

MORE THAN

100 UNITS ON 2 CONTINENTS IN 7 COUNTRIES



Northeastern United States

Auburn, ME
Mechanicville, NY
Schenectady, NY
Waterford, NY
Albany, NY
Boston, MA
Thompson, CT
Ransom, PA
Pittston, PA
Maspeth, NY

Legend

- Head Office
- Containerboard Group
- Boxboard Europe Group
- Specialty Products Group
- Tissue Papers Group
- M Manufacturing facility
- C Converting facility
- CM Converting and Manufacturing facility
- P Deinked pulp facility
- R Recovery Operation

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