SHARE[D] VALUE

Canfor Pulp Products Inc. CANFOR Annual Report 2011

CONTENTS

Shared Value

Creating a long term value proposition for all stakeholders is our vision of shared value. Shared value for our organization encompasses:

- Operating under the framework of a sustainable enterprise without depletion of the environment and the natural resources with which we have been entrusted;
- Providing our customers with a secure supply of consistent, premium quality products; and
- Supporting the health of the communities in which we operate as a good neighbour and employer.

By applying these principles, we can achieve our goal of creating long term sustainable economic value for our shareholders.

For further information, please see our 2011 Sustainability Report.

TO OUR SHAREHOLDERS

In 2011, Canfor Pulp marked its fifth successful year of operation since the spin-out of the pulp and paper business from Canfor Corporation in July, 2006.

On January 1, 2011, we converted the ownership structure from a trust and income fund to a public corporation named Canfor Pulp Products Inc. The business continued to operate in the Canfor Pulp Limited Partnership and completed another rewarding year with annual sales of $941 million and net income of $138 million. During the year, the Partnership completed a $139 million major capital program and generated distributable cash of $131 million. The newly formed Canfor Pulp Products Inc. paid dividends totalling $1.45 per share, including the February, 2012 dividend relating to 2011.

The organization continued the comprehensive strategic planning process initiated in 2010. Recognizing the environmental, customer, and community impacts of our products and operations, the organization is embracing a sustainable enterprise model and the concept of shared value. With these initiatives, we can achieve our goal of creating long-term sustainable value for our shareholders.

For the first half of the year, global pulp supply was tight with NBSK prices reaching a high of US $1,035 per tonne in June. Unsettled conditions in the European financial community and reduced demand from China negatively impacted pulp markets in the second half of the year. The Partnership continued its objective of growing pulp sales to the more stable specialty and tissue end use market segments.

During 2011, the Partnership completed a major $139 million capital expenditure program. Four projects were approved under the Canadian Pulp and Paper Green Transformation program, three of which were completed in 2011 with the final project scheduled for completion in the first half of 2012. The largest project was the upgrade of the Northwood mill #1 recovery boiler. Although this project required an extended production curtailment, it had been identified at the time of the business spin-out in 2006 as a strategic requirement. With its completion the mill is achieving better than targeted operating and environmental improvements.

We begin 2012 with some weakness in the global pulp markets but nevertheless remain optimistic that Canfor Pulp, as a low cost softwood producer of a high quality product, is well positioned to benefit from the long-term global demand for our pulp and paper products.

We wish to thank our fellow Board members for their advice, all of our employees for their dedication and contributions to the success of the organization, and you our shareholders and investors, for your continuing support.

Dr. Charles Jago
Chairman of the Board, Canfor Pulp Products Inc.

Joe Nemeth
President and Chief Executive Officer
Canfor Pulp Holding Inc.
the general partner of Canfor Pulp Limited Partnership

		2011 [4]	2010 [4]	2009 [6]	2008 [6]	2007 [6]
Canfor Pulp Limited Partnership						
Sales and Income	Sales	941.0	1,001.1	813.5	825.5	921.6
(millions of dollars)	Operating Income	150.5	183.7	12.0	68.7	134.3
	Net Income	138.6	179.0	13.4	46.8	129.8
	EBITDA [1]	218.2	249.7	61.8	116.9	188.5
	EBITDA % Margin	23.2%	24.9%	7.6%	14.2%	20.5%
Financial Position	Total Assets	791.2	853.3	837.6	868.9	909
(millions of dollars)	Partnership Equity	453.7	482.5	529.1	534.4	584.9
	Net Capital Expendidures [2]	56.0	12.6	13.5	34.7	29.5
Additional Information	Return on Partnership Equity [3]	29.6%	36.4%	2.5%	8.4%	22.3%
	Current Assets/Current Liabilities	2.03	1.90	2.04	1.91	1.88
	Net Debt/Partners' Equity	0.25	0.09	0.19	0.30	0.18
Per Partnership Unit	Net Income	$ 1.94	$ 2.51	$ 0.19	$ 0.66	$ 1.82
	Distributions Declared	$ 2.10	$ 2.58	$ 0.26	$ 1.36	$ 1.84

		2011 [4]	2010 [5]	2009 [6]	2008 [6]	2007 [6]
Canfor Pulp Products Inc.						
Financial Position	Total Assets	257.2	259.9	266.5	267.7	295.7
(millions of dollars)	Shareholders & Unitholders Equity	210.9	(322.1)	226.4	226.6	254.8
	Net Income	72.6	89.2	9.1	20.2	28.0
	Return on Equity [3]	36.4%	(-40.6%)	4.0%	8.4%	10.3%
Per Share/Fund Unit	Net Income	$ 2.05	$ (5.60)	$ 0.26	$ 0.57	$ 0.79
	Dividends/Distributions Declared	$ 1.20	$ 2.58	$ 0.26	$ 1.36	$ 1.84
Share/Unit Price:	High	$ 19.52	$ 16.70	$ 8.98	$ 12.10	$ 16.45
	Low	$ 8.75	$ 7.47	$ 1.30	$ 2.01	$ 8.29
	Close - December 31	$ 12.42	$ 14.36	$ 8.75	$ 3.13	$ 11.00

Notes:
1 See Page 7 of the Management's Discussion and Analysis for a detailed definition of EBITDA
2 Presented net of government funding and excludes major maintenance costs
3 Net income divided by average equity during the year
4 Presented under IFRS
5 Fund results for 2010 restated under IFRS. See disclosures on pages 13 and 14
6 Results presented under previous Canadian GAAP

As of February 6, 2012, Canfor Pulp Products Inc. indirectly held 49.8% of Canfor Pulp Limited Partnership (the Partnership). The Partnership is a leading global supplier of pulp and paper products, and operates three mills in Prince George, BC which are among the lowest cost NBSK pulp producers in Canada. The Partnership is the world's fourth largest producer of market NBSK Pulp, with a production capacity of 1.1 million tonnes, and is the leading producer of fully-bleached, high performance Kraft Paper.

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

Other

- 4 Canfor Pulp Limited Partnership / Canfor Pulp Products Inc. Head Office
- 5 Canfor Pulp Innovation


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2011 Report to Shareholders

Canfor Pulp Products Inc. (CPPI) earns income from its 49.8% interest in Canfor Pulp Limited Partnership (the Partnership). CPPI accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for CPPI's shareholders to understand the results of operations, the audited consolidated financial statements with accompanying notes are presented for both CPPI and the Partnership. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and CPPI's performance for the year ended December 31, 2011 relative to the prior year. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for CPPI and the Partnership. Additional information relating to CPPI and the Partnership, including CPPI's Annual Information Form dated February 6, 2012, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

In this MD&A, references are made to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization and before other non-operating income and expenses) and distributable cash. The Partnership considers EBITDA to be an important indicator for identifying trends in the Partnership's performance and of the Partnership's ability to generate funds to meet its debt service, capital expenditure requirements and to make cash distributions to its partners. Distributable cash is a measure of cash flow used by management to determine the level of cash distributions. EBITDA and distributable cash should not be considered as alternatives to net income or cash flow from operations as determined in accordance with generally accepted accounting principles. As there is no standardized method of calculating EBITDA or distributable cash, the Partnership's use of these terms may not be directly comparable with similarly titled measures used by other companies.

Calculations of EBITDA and distributable cash are provided in this MD&A.

The information in this report is as at February 6, 2012.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could" and variations of such words and similar expressions are intended to identify such forward-looking statements. In some instances, material assumptions are disclosed elsewhere in this MD&A in respect of forward-looking statements. Other risks and uncertainties are detailed from time to time in reports filed by CPPI with the securities regulatory authorities in all of the provinces and territories of Canada to which recipients of this MD&A are referred for additional information concerning CPPI and the Partnership, their prospects and uncertainties relating to CPPI and the Partnership. Although we believe that the expectations reflected by the forward-looking statements presented in this MD&A are reasonable, these forward-looking statements are based on management's current expectations and beliefs and actual events or results may differ materially. New risk factors may arise from time to time and it is not possible for management to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual events and results, performance and achievements of CPPI and the Partnership to be materially different from those contained in forward-looking statements. The forward-looking statements speak only as of the date on which such statement is made, are based on current information and expectations and CPPI and the Partnership assume no obligation to update such information to reflect later events or developments, except as required by law.

Forward-looking statements in this MD&A include statements made under:

- "Critical Accounting Estimates" on pages 12 and 34;
- "Changes in Accounting Policies" on pages 13, 14, and 35 – 37;
- "Outlook – Pulp" on page 20;
- "Outlook – Kraft Paper" on page 21;
- "Financial Requirements and Liquidity" on pages 23 – 25
- "Risks and Uncertainties Related to the Structure of CPPI" on pages 11 and 12
- "Risks and Uncertainties Related to the Business and Industry" on pages 30 – 34

Material risk factors that could cause actual results to differ materially from the forward-looking statements contained in this MD&A include: general economic, market and business conditions; product selling prices; raw material and operating costs; exchange rates; changes in law and public policy; and opportunities available to or pursued by CPPI and the Partnership. Additional information concerning these and other factors can be found in CPPI's Annual Information Form dated February 6, 2012, which is available on www.sedar.com.

CANFOR PULP PRODUCTS INC.

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

At February 6, 2012, there were a total of 35,493,307 CPPI shares issued and outstanding, and CPPI held a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership. Canadian Forest Products Ltd. (Canfor) held 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable Limited Partnership Units are exchangeable for an equivalent number of CPPI shares pursuant to the terms of an amended exchange agreement (Exchange Agreement) dated January 1, 2011 between Canfor, CPPI, the Partnership and the General Partner. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for CPPI shares.

The general partner of the Partnership is Canfor Pulp Holding Inc. (the General Partner) and each limited partner holds an ownership interest in the General Partner equal to its proportionate interest in the Partnership.

The shareholders of CPPI will participate pro-rata in any dividends from CPPI. It is the current intention of CPPI to designate any dividends paid on CPPI shares to be eligible dividends to the extent permitted by the Canadian Income Tax Act such that individuals would benefit from the enhanced gross-up and dividend tax credit mechanism under the Canadian Income Tax Act.

2011 HIGHLIGHTS

- Paid and declared dividends totalling $42.6 million or $1.20 per share in 2011. In addition a dividend was declared on February 6, 2012 relating to the fourth quarter of 2011 of $8.9 million or $0.25 per share.
- Generated net income of $72.6 million.
- Completed announced conversion from an income fund to a corporation under the Plan of Arrangement effective January 1, 2011.

EQUITY INVESTMENT IN CANFOR PULP LIMITED PARTNERSHIP

CPPI's equity investment in the Partnership was as follows:

(thousands of dollars)	**Year ended December 31, 2011**	Year ended December 31, 2010
Balance, beginning of year	**$ 240,425**	$ 249,593
Equity income of the Partnership	**69,039**	89,166
Equity interest in other comprehensive loss of the Partnership	**(8,850)**	(6,761)
Distributions from the Partnership	**(74,535)**	(91,573)
Balance, end of year	**$ 226,079**	$ 240,425

CPPI's investment in the Partnership units was recorded using the equity method.

SELECTED ANNUAL FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts)	**Year ended December 31, 2011**	Year ended December 31, 2010[2]	Year ended December 31, 2009[3]
Equity income of the Partnership	**$ 69,039**	$ 89,166	$ 6,644
Net income (loss)	**72,601**	(198,743)	9,066
Net income (loss) per share	**$ 2.05**	($5.60)	$ 0.26
Distributions earned from the Partnership	**74,535**	91,573	9,229
Dividends/distributions declared per share/unit	**$ 1.20**	$ 2.58	$ 0.26
Partnership distributable cash per unit[1]	**$ 1.85**	$ 2.91	$ 0.43

Notes: 1 Represents the Partnership's distributable cash on which CPPI was dependent to make its own distributions. For further details on the Partnership's distributable cash see the Partnership's disclosure on pages 17 and 18.

2 Fund results for 2010 presented under IFRS. See CPPI's disclosure on pages 13 and 14.

3 Presented under previous Canadian GAAP. See CPPI's disclosure on pages 13 and 14.

2011 COMPARED TO 2010

For the year ended December 31, 2011, CPPI had net income of $72.6 million, or $2.05 per share compared to a net loss of $198.7 million, or $5.60 per share for the year ended December 31, 2010. The 2011 results are not directly comparable to 2010 due to one time charges to 2010 net income totaling $290.7 million on the impact of adopting International Financial Reporting Standards (IFRS) as a result of reclassification of Fund units as a liability and treatment of distributions as a financing expense (for further details see disclosures under Impact of Adopting IFRS on the Company's Accounting Policies).

These results represent CPPI's share of the Partnership's earnings, including a deferred income tax recovery of $19.1 million and a current income tax expense of $14.6 million for the year ended December 31, 2011 (2010 – deferred income tax recovery of $2.8 million). CPPI's share of operating earnings decreased in 2011 due to lower shipments of the Partnership's pulp and paper products, lower realized pulp prices and higher unit manufacturing costs, partially offset by higher realized paper prices. CPPI's share of non-operating charges included in equity income of the Partnership for 2011 totaled $5.9 million, and was primarily the result of interest expense, a foreign exchange loss on translation of US dollar denominated long-term debt and a loss on derivative financial instruments, partially offset by a foreign exchange gain on working capital. In addition, CPPI incurred administrative expenses totalling $1.2 million during 2011 of which $0.8 million related to the conversion of the Fund into a corporation.

Distributions declared by the Partnership and accruing to CPPI were $74.5 million, or $2.10 per share of which $3.9 million was receivable at December 31, 2011 as compared to $91.5 million, or $2.58 per share of which $19.5 million was receivable at December 31, 2010. CPPI dividends of $1.20 per share in 2011 consist of three quarterly dividends and do not include the fourth quarter dividend of $0.25 per share declared in February 2012.

SELECTED QUARTERLY FINANCIAL INFORMATION

(thousands of dollars, except per share/unit amounts, unaudited)	CPPI **Q4 2011**	Q3 2011	Q2 2011	Q1 2011	The Fund[2] Q4 2010	Q3 2010	Q2 2010	Q1 2010
Equity income in Canfor Pulp Limited Partnership	**$ 7,861**	11,928	24,023	25,227	23,639	27,374	21,681	16,473
Net income (loss)	**5,923**	8,299	17,754	40,625	(11,335)	3,239	(71,803)	(118,842)
Net income (loss) per share/unit	**$ 0.17**	0.24	0.50	1.14	(0.32)	0.09	(2.02)	(3.34)
Distributions earned from the Partnership	**11,712**	10,648	24,490	27,685	37,268	24,491	18,457	11,357
Dividends/distributions declared per share/unit	**$ 0.40**	0.40	0.40	-	1.05	0.69	0.52	0.32
Partnership distributable cash per unit[1]	**$ (0.04)**	0.37	0.75	0.77	0.68	0.78	0.88	0.57

Notes: 1 Represents the Partnership's distributable cash on which CPPI is dependent to pay its own dividends. For further details on the Partnership's distributable cash see the disclosure on pages 17 and 18.

2 Fund results for 2010 presented under IFRS. See CPPI's disclosure on pages 13 and 14.

FOURTH QUARTER 2011 RESULTS

For the quarter ended December 31, 2011, CPPI had net income of $5.9 million or $0.17 per share. The net income was CPPI's share of the Partnership's net income for the fourth quarter of 2011 and includes income tax expense of $1.9 million. Included in equity income of the Partnership for the fourth quarter of 2011 was CPPI's share of non-operating items with the foreign exchange gain on translation of US dollar denominated long-term debt and a gain on derivative financial instruments offset by a foreign exchange loss on working capital and interest expense. Distributions declared by the Partnership and accruing to CPPI were $11.7 million of which $3.9 million was receivable at December 31, 2011. Cash distributions received from the Partnership were the primary source of liquidity for CPPI.

CPPI DIVIDENDS

CPPI is entirely dependent on distributions from the Partnership to make dividend payments to its shareholders. Distributions payable by the Partnership to CPPI and dividends payable by CPPI to its shareholders are recorded when declared. During the year, CPPI declared and paid a dividend of $1.20 per share or $42.6 million. In addition, on February 6, 2012, a dividend of $0.25 per share was declared relating to the fourth quarter of 2011, payable on February 23, 2012 to shareholders of record on February 16, 2012.

Cash distributions from the Partnership were not directly equal to CPPI's pro-rata share of the Partnership's income under the equity method. This was primarily due to capital expenditures, foreign exchange gains or losses on translation of US dollar denominated debt, changes in value of derivative instruments, amortization, and other non-cash expenses of the Partnership.

CPPI SHARES

At February 6, 2012, there were a total of 35,493,307 CPPI shares outstanding.

RISKS AND UNCERTAINTIES RELATED TO THE STRUCTURE OF CPPI

Control of the Partnership

Pursuant to a shareholders' agreement, Canfor is entitled to appoint the majority of directors to the board of the General Partner for so long as it owns not less than a 30% interest in the Partnership. For so long as Canfor holds not less than a 20% interest in the Partnership, Canfor's consent will be required in order to approve certain significant transactions of the Partnership. In addition, under the amended Exchange Agreement, CPPI agreed not to take certain actions without the prior approval of Canfor. As a result of these rights, Canfor exercises significant influence or control over transactions submitted to the board of the General Partner and of CPPI. Canfor may have sufficient voting power to prevent a change of control of the Partnership. CPPI has an interest in the Partnership and has influence, but not control over the transactions of the Partnership.

The interests of Canfor may conflict with those of CPPI shareholders.

Dependence on the Partnership

CPPI is entirely dependent on the operations and assets of the Partnership. Cash dividends will be dependent on, among other things, the ability of the Partnership to make cash distributions. The ability of CPPI to make cash dividends or other payments or advances is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

Cash Dividends are not Guaranteed and will Fluctuate with the Business Performance

Although CPPI intends to pay dividends in respect of the cash distributions received from the Partnership, less income taxes and expenses, there can be no assurance regarding the amount of income to be generated by the Partnership's business or ultimately the cash distributed to CPPI. The ability of CPPI to pay cash dividends, and the actual amount paid, will be entirely dependent on the operations and assets of the Partnership, and will be subject to various factors including its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital and its capital expenditure requirements. Accordingly, there is no assurance that dividends will be maintained at current levels. The market value of CPPI shares may deteriorate if CPPI is unable to maintain its dividend levels in the future.

Deferred Income Taxes

Deferred income tax assets and liabilities are determined based on the difference between the tax basis of CPPI's and the Partnership's assets and liabilities and the respective amounts reported in the financial statements.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for CPPI are performed on its behalf by the Partnership pursuant to a support agreement. The value of these services for the year ended December 31, 2011 was $1.2 million and included a one-time charge of $0.8 million for costs related to conversion to a corporation on January 1, 2011. These services were included as administrative expenses of CPPI with the balance outstanding of $0.1 million recorded in accounts payable to the Partnership at December 31, 2011.

Distributions earned from the Partnership for the year ended December 31, 2011 were $74.5 million of which $70.6 million was received, with the balance of $3.9 million receivable as at December 31, 2011.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. The significant area requiring the use of management's estimates is assessing whether there has been an other than temporary decline in the value of the investment in the Partnership. CPPI accounted for its investment in the Partnership using the equity method. CPPI analyzed the carrying value of its investment in the Partnership by considering the underlying value of the Partnership's business. This assessment included various long-term assumptions related to the Partnership's operations which may not be reflected in the current market value of CPPI. Changes in these estimates could have a material impact on the calculation of the equity investment in the Partnership.

CHANGE IN ACCOUNTING POLICIES

Transition to and Initial Adoption of International Financial Reporting Standards

IFRS became Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. In this MD&A the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS. The financial statements for the year ended December 31, 2011, have been prepared in accordance with IFRS and IFRS 1, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). CPPI relies on the resources of the Partnership to ensure compliance with IFRS. The accounting policies have been applied consistently to all periods presented in the financial statements. The policies applied in these financial statements are based on IFRS issued and effective as of February 6, 2012, the date the Board of Directors approved the statements.

Impact of Adopting IFRS on the Company's Accounting Policies

CPPI has changed certain accounting policies to be consistent with IFRS. As a result of the conversion to a corporation effective January 1, 2011, the items discussed below do not impact CPPI's Cash and Cash Equivalents, Total Assets, Total Liabilities, Total Shareholders' Equity or Net Income Before Income Taxes for 2011.

The impact of the application of these accounting policies on the comparative 2010 financial statements of the Fund is summarized as follows:

(a) Fund Units

Under the terms of the trust indenture, unitholders had a puttable option, whereby the Fund would have been required to redeem Fund units at the request of the unitholder and required the Fund to distribute all of the taxable income received from the Partnership.

Under Canadian GAAP the Fund units were classified as equity. Under IFRS, International Accounting Standard (IAS) 32 "Financial Instruments: Presentation" requires that the Fund units be classified as a financial liability prior to conversion to a corporation and the Fund's distributions be classified as a financing expense recorded in the statement of comprehensive income. The financial liability is recorded at amortized cost, with fair value being the best approximation of amortized cost, and changes in amortized cost recorded in the statement of comprehensive income (loss). Upon conversion to a corporation effective January 1, 2011, the Fund units were converted on a one-for-one basis into shares of CPPI and the shares are classified as equity with quarterly dividends treated as an equity distribution.

Impact on Balance Sheets of the Fund:

(thousands of dollars, except for per unit amounts)	As at December 31, 2010	As at January 1, 2010
Increase in Fund unit liability	509,687	310,568
Reduction in equity	509,687	310,568
Unit market price for valuation	14.36	8.75

Impact on Statements of Comprehensive Income (Loss) of the Fund:

(thousands of dollars)	Year ended December 31, 2010
Increase in value of Fund units (revaluation loss)	199,119
Reclassification to financing expense (distributions declared)	91,573
Reduction in comprehensive income	290,692

(b) Deferred income tax rate

Under Canadian GAAP the Fund recorded temporary tax differences that were projected to reverse after 2010 based on Specified Investment Flow Through (SIFT) entity tax rates. However, IAS 12 "Income Taxes" requires that companies should use the undistributed rate for recording taxes. Therefore, under IFRS the rate to apply to temporary differences that are projected to reverse after 2010 would be the highest marginal personal tax rate rather than the SIFT rate. The highest marginal personal tax rate is the rate at which tax would be payable by the Fund should distributions not be declared (43.7%). Subsequent to January 1, 2011 as a result of the conversion of the Fund into a corporation, the temporary tax differences are to be measured at the substantively enacted corporate tax rate in effect at the date of reversal of the temporary differences.

Impact on Balance Sheets of the Fund:

(thousands of dollars, unaudited)	As at December 31, 2010	As at January 1, 2010
Increase in deferred tax liability	17,415	18,350
Reduction in equity	17,415	18,350

FINANCIAL INSTRUMENTS

CPPI's financial instruments consisted of cash and cash equivalents, distributions receivable from the Partnership, and amounts due to the Partnership. The fair values of these financial instruments approximated their carrying values due to the relatively short period to maturity of these instruments.

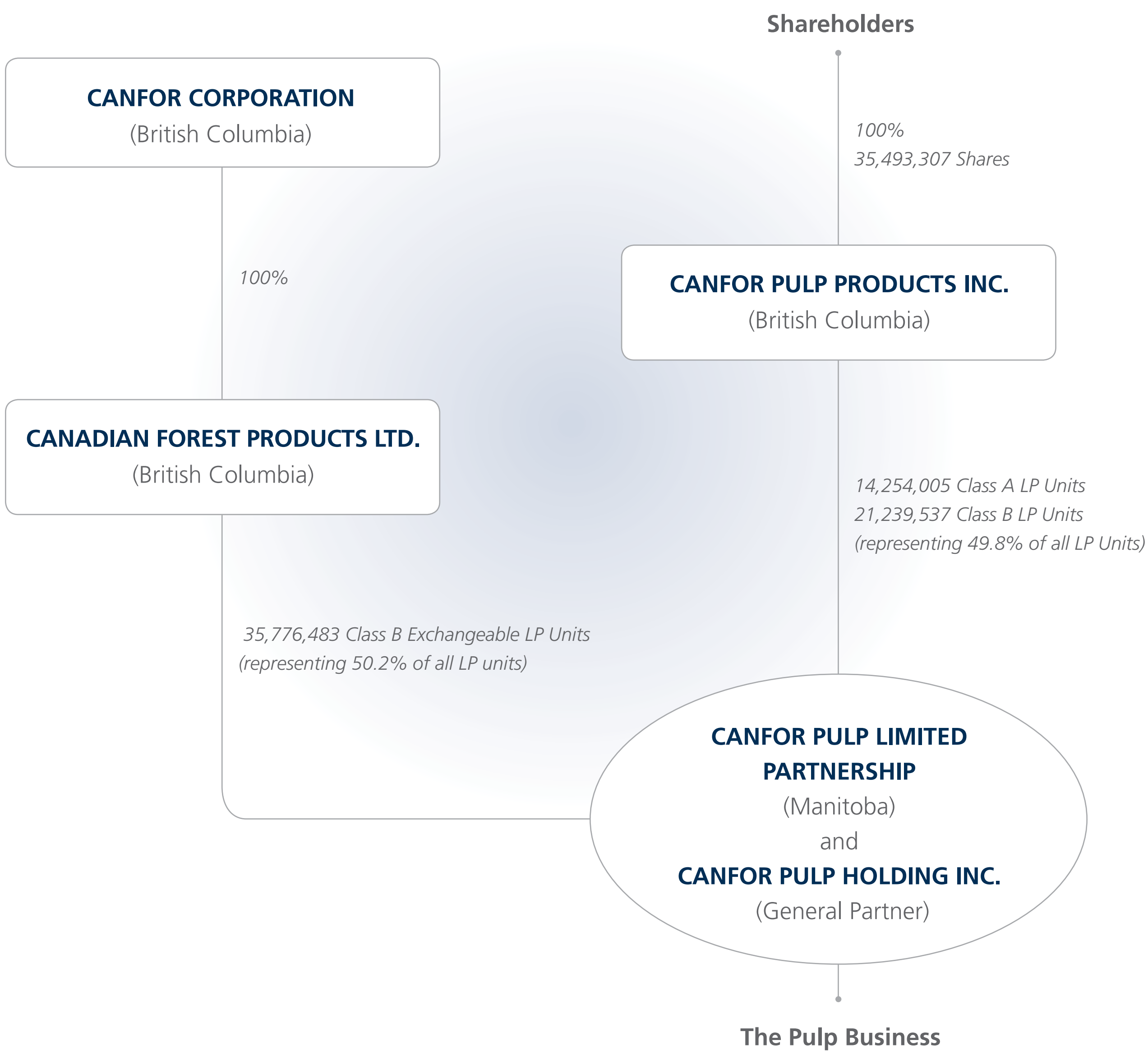
CANFOR PULP LIMITED PARTNERSHIP

Structure

The Partnership is a limited partnership formed on April 21, 2006, under the laws of Manitoba to acquire and carry on the Northern Bleached Softwood Kraft (NBSK) pulp and paper business of Canfor. The business consists of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, BC and a marketing group based in Vancouver, BC (the Pulp Business).

At February 6, 2012, CPPI indirectly held a total of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units, representing 49.8% of the Partnership and Canfor owns the remaining 50.2%. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the General Partner.

Ownership Structure



The Partnership's Business and Strategic Objectives

The Partnership is a leading global supplier of pulp and paper products with operations based in the central interior of British Columbia. The Partnership's strategy is to maximize cash generation and enhance the value of its assets by: (i) preserving its low-cost operating position, and (ii) maintaining the premium quality of its products. The Partnership may also consider opportunistic acquisition of high quality assets.

The Partnership owns and operates three mills with annual capacity to produce over one million tonnes of northern softwood market kraft pulp, 90% of which is bleached to become NBSK pulp for sale to the market, and approximately 140,000 tonnes of kraft paper.

2011 HIGHLIGHTS

- Reported net income of $138.6 million or $1.94 per Partnership unit on sales of $941.0 million.
- Generated EBITDA of $218.2 million.
- Generated distributable cash of $131.6 million or $1.85 per Partnership unit.
- Completed a capital program totaling $139.1 million, of which $56.0 million was funded by the Partnership, and the remainder from government programs.

SELECTED ANNUAL INFORMATION

(millions of dollars, except volumes and per unit amounts, unaudited)	**2011**	2010	2009[2]
Sales volume - major products			
Pulp - thousands of metric tonnes	**978.5**	1,039.0	1,044.6
Paper - thousands of metric tonnes	**127.6**	144.7	135.0
Sales by segment			
Pulp	**802.9**	857.2	690.0
Paper	**136.6**	142.6	122.5
Unallocated	**1.5**	1.3	1.0
Total sales	**941.0**	1,001.1	813.5
Operating income			
Pulp	**154.9**	199.0	11.7
Paper	**9.2**	0.6	10.6
Unallocated costs	**(13.6)**	(15.9)	(10.3)
Total operating income	**150.5**	183.7	12.0
EBITDA			
Pulp	**218.4**	261.4	57.9
Paper	**13.2**	3.9	13.9
Unallocated costs	**(13.4)**	(15.6)	(10.0)
Total EBITDA	**218.2**	249.7	61.8
Net income	**138.6**	179.0	13.4
Net income per Partnership unit, basic and diluted	**$ 1.94**	$ 2.51	$ 0.19
Total assets	**791.2**	853.3	837.6
Total long-term debt	**111.9**	109.4	115.1
Distributable cash	**131.6**	207.1	30.5
Distributions declared	**149.7**	183.9	18.6
Distributions declared per unit	**$ 2.10**	$ 2.58	$ 0.26
Average exchange rate (US$/Cdn$)[1]	**1.011**	0.971	0.876

Notes: 1 Source – Bank of Canada (average noon rate for the year)
2 Presented under previous Canadian GAAP. See Partnership's disclosure on pages 35 – 37.

Reconciliation of Net Income to EBITDA

The following table reconciles the Partnership's net income from continuing operations, as reported in accordance with GAAP, to EBITDA:

(millions of dollars, unaudited)	2011	2010
Net income	**$ 138.6**	$ 179.0
Add (deduct):		
Amortization	**66.8**	66.1
Interest expense	**8.0**	7.8
Foreign exchange loss (gain) on long-term debt	**2.5**	(5.7)
Loss (gain) on derivative financial instruments	**1.6**	(1.5)
Foreign exchange loss (gain) on working capital	**(1.0)**	4.0
Loss (gain) on disposal of fixed assets	**0.9**	(0.2)
Other expense	**0.8**	0.2
EBITDA	**$ 218.2**	$ 249.7
EBITDA per Partnership unit	**$ 3.06**	$ 3.50

2011 Compared to 2010

Net income and EBITDA for 2011 decreased by $40.4 million and by $31.5 million respectively over 2010. The decrease in 2011 results were primarily attributable to lower earnings from the pulp segment due to lower shipment volumes, the impact of the extended maintenance outage at the Northwood Pulp Mill and lower realized pulp prices in Canadian dollar terms. The reduction in pulp segment earnings were partially offset by improved paper segment earnings and higher energy sales.

Non-operating charges, included in net income of the Partnership totaled $11.9 million in 2011, which represents an increase of $7.2 million when compared to 2010. The increase in non-operating charges is primarily the result of a foreign exchange loss on translation of US dollar denominated long-term debt and a loss on derivative financial instruments, partially offset by a foreign exchange gain on working capital.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

(millions of dollars, unaudited)	**2011**	2010
CALCULATION OF DISTRIBUTABLE CASH		
Cash flow from operations before working capital changes	**$ 212.1**	246.2
Deduct:		
Capital expenditures – net[1]	**(56.0)**	(12.6)
Major maintenance amortization	**(16.5)**	(18.7)
Interest	**(8.0)**	(7.8)
Distributable cash	**$ 131.6**	207.1
Distributable cash – per Partnership unit	**$ 1.85**	2.91
Cash distributions declared (paid and payable)	**$ 149.7**	$ 183.9
Cash distributions declared – per Partnership unit	**$ 2.10**	$ 2.58

Note: 1 Presented net of government funding and excludes major maintenance capital.

Approximately $17 million in undistributed cash was carried forward from 2010 to fund a portion of the anticipated higher level of capital expenditures in 2011.

The Board of the General Partner determines the level of cash distributions based on the level of projected sustainable cash flow from operations before changes in non-cash working capital less anticipated capital expenditures and interest expense. The Board considers business risks and uncertainties which could impact those projections. It is projected that normal seasonal fluctuations in working capital will be funded from cash resources or the revolving short-term credit facility.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**2011**	2010
Sales	**802.9**	857.2
EBITDA	**218.4**	261.4
EBITDA margin	**27%**	30%
Operating income	**154.9**	199.0
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**977**	960
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**966**	989
Production – pulp (000 mt)	**996.7**	1,032.0
Shipments – Partnership produced pulp (000 mt)	**978.5**	1,039.0
Marketed on behalf of HSLP & Canfor (000 mt) [1]	**210.1**	457.8

Note: 1 HSLP (Howe Sound Pulp Limited Partnership) sales agency agreement was terminated effective October 1, 2010.

For the year ended December 31, 2011, operating income of $154.9 million was $44.1 million lower than in 2010. The decline in operating results was attributable to higher unit manufacturing costs, lower shipment volumes and lower realized prices in Canadian dollar terms, partially offset by higher energy sales. The maintenance outage at the Northwood Pulp Mill was extended to complete the installation of the recovery boiler and precipitator upgrade. This reduced production in 2011 by approximately 65,000 tonnes impacting unit manufacturing costs and shipment volumes.

- Unit manufacturing costs increased 5% when compared to the prior year due primarily to the impact of the extended outage at the Northwood Pulp Mill and related maintenance costs, and higher chemical and energy costs. Chemical costs increased 11% due to higher related global commodity prices. Fibre costs in 2011 were unchanged when compared to 2010.
- Market pulp production decreased 35,300 tonnes, primarily due to the extended maintenance outage at the Northwood Pulp Mill.

- Pulp shipment volumes decreased approximately 60,500 tonnes compared to 2011. The reduction was due in part to the extended maintenance outage at the Northwood Pulp Mill and some rebuilding of pulp inventory to a target range in 2011 from the low levels at the end of 2010.
- Realized pulp prices in Canadian dollar terms decreased 1% due primarily to the 4% strengthening of the Canadian dollar averaging $1.011 US/Cdn, (2010 – $0.971), partially offset by slightly higher NBSK US list prices and a shift in volumes to higher margin geographic regions and customers.
- North American NBSK US list prices averaged US$977 per tonne compared to US$960 per tonne in 2010.
- Energy sales under the Partnership's Energy Purchase Agreement (EPA) with BC Hydro increased $1.5 million.

Operations

NBSK market pulp production during 2011 was 35,300 tonnes lower than in 2010. The lower production was mainly attributable to an extended maintenance outage at the Northwood Pulp Mill, and a 1% decrease in the average daily production rate in 2011. The Intercontinental Pulp Mill set an annual production record in 2011 exceeding the previous record set in 2010 by 3%.

Markets – Pulp

The 2011 year began with pulp inventories held by producers and customers at low levels allowing successive price increases through the first half of the year. The second half of the year was characterized by increasing inventory levels and softening demand resulting in downward pressure on prices.

Pulp and Paper Products Council (PPPC) reported decreased global demand for printing and writing papers of 2% while tissue demand is projected to have increased 3% for full year 2011 as compared to 2010. PPPC reported an increase in shipments of bleached softwood sulphate pulp of 3% in 2011 with increased shipments to Asia, offset by reductions in Europe and North America.

At the end of December 2011, World 20[1] producers of bleached softwood pulp inventories were at 36 days of supply. By comparison, December 2010 inventories were at 25 days of supply and June 2011 was at 28 days of supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Producers were successful at implementing price increases through the first half of 2011. North American US list prices peaked in June 2011 at US$1,040 per tonne from US$960 per tonne in January 2011. Downward pressure was exerted on pricing in the second half of 2011 with softening demand and increasing producer inventories with North American US list prices ending the year at US$890 per tonne.

Note: 1 World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council.

Outlook – Pulp

The global softwood pulp market is projected to remain soft through the first quarter of 2012. There is ample supply as historically there is minimal scheduled maintenance downtime during the winter months. However, current pricing at or below cash costs of some NBSK producers may reduce the risk of further price erosion. Global softwood pulp demand is projected to remain flat in 2012 on slowed growth from China and declining production of graphic papers in mature markets. European demand may be somewhat influenced by the ability of Europe to manage through the current debt crisis in certain countries.

A scheduled maintenance outage is planned at the Intercontinental Pulp Mill in the second quarter of 2012 with an estimated 11,000 tonnes of reduced production. In addition a maintenance outage is planned at the Prince George Pulp Mill which will be extended to complete the final project under the Green Transformation Program, and subject to Board approval, a partial rebuild of the recovery boiler. This will result in a total of approximately 17,000 tonnes of reduced production at the Prince George Pulp Mill, of which 5,000 tonnes falls in the second quarter with the balance of 12,000 tonnes in the third quarter of 2012. A scheduled maintenance outage at the Northwood Pulp Mill is planned for the fourth quarter of 2012 with an estimated 8,000 tonnes of reduced production.

Paper

(millions of dollars unless otherwise noted, unaudited)	**2011**	2010
Sales	**136.6**	142.6
EBITDA	**13.2**	3.9
EBITDA margin	**10%**	3%
Operating income	**9.2**	0.6
Production – paper (000 mt)	**136.5**	136.7
Shipments – paper (000 mt)	**127.6**	144.7

The 2011 operating results for the paper segment improved $8.6 million when compared to 2010. The improvement was primarily attributable to a 9% increase of realized paper prices in Canadian dollar terms partially offset by lower shipment volumes. Paper shipments decreased by 12% when compared to 2010 primarily due to a reduction in demand from the US and higher than normal shipment levels in 2010.

Operations

The paper division produced 136,500 tonnes in 2011, slightly below the record of 136,700 tonnes set in 2010.

Markets

Global Kraft paper demand slowed through the latter half of 2011 in all regions. American Forest and Paper Association reported that US total Kraft paper shipments for December decreased 7.5% as compared to December 2010. The Paper Shipping Sack Manufacturers' Association shipping sack statistics for December 2011 revealed that the industry paper consumption was 4% less than November and 10% less than December 2010 and down 8% for the full year. Prices for all grades decreased about 6% in North America in the fourth quarter. Export prices were also lower overall with some pricing higher than the domestic market.

The Partnership's prime paper shipments in 2011 were down 13% from 2010 with prime bleached shipments down 9% from 2010. The reduction in shipments was primarily due to a reduction in demand from the US and higher than normal shipment levels in 2010.

Outlook – Kraft Paper

Kraft paper demand improved somewhat in December 2011 and is projected to continue to improve through the first quarter of 2012. Prices have stabilized and are projected to be steady through the first quarter of 2012. Roll paper inventories are projected to have peaked at the end of the year and are currently about 30% higher than normal. Inventories are projected to remain high through the first quarter.

Non-Segmented Costs

(millions of dollars, unaudited)	**2011**	2010
Net unallocated costs	**13.6**	15.9
Interest expense, net	**8.0**	7.8
Foreign exchange loss (gain) on long-term debt	**2.5**	(5.7)
Loss (gain) on derivative financial instruments	**1.6**	(1.5)
Foreign exchange loss (gain) on working capital	**(1.0)**	4.0
Other expense	**0.8**	0.1
	25.5	20.6

Net Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, for 2011 of $13.6 million were $2.3 million lower than the same period a year ago. The reduced costs were primarily attributable to lower accruals for performance based incentive plans and a reduction in payments to industry associations, partially offset by higher consulting costs.

Other Non-segmented Items

The foreign exchange loss on long-term debt was the result of translating the US$110.0 million debt at the year-end exchange rate.

The foreign exchange gain on working capital of $1.0 million resulted from translating US dollar balances at period-end exchange rates.

The net loss of $1.6 million on derivative financial instruments recorded in 2011 relates to the settlement of maturing contracts during the year and the revaluation to market of outstanding contracts at the end of the year for natural gas swaps and US dollar forward contracts.

The declining price of natural gas in 2011 resulted in a loss for the year of $2.6 million on settlement of contracts. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements. A loss for the year of $0.8 million was recorded on the settlement of US dollar forward contracts, which were used to mitigate the impact of currency fluctuations on US dollar working capital. This loss was offset by the foreign exchange gain on working capital of $1.0 million.

A net gain of $1.8 million was recorded in the year on outstanding derivative financial instruments relating to a revaluation to market of outstanding natural gas swaps and outstanding US dollar forward contracts at December 31, 2011.

SUMMARY OF FINANCIAL POSITION

The following table summarizes the Partnership's financial position as at the end of and for the following years:

(millions of dollars, except for ratios, unaudited)	**2011**	2010
Ratio of current assets to current liabilities	**2.03**	1.90
Ratio of net debt to partners' equity [1]	**0.25**	0.09
Increase (decrease) in cash and cash equivalents	**(66.2)**	50.7
Comprised of cash flow from (used in):		
Operating activities	**199.0**	241.7
Financing activities	**(188.8)**	(158.1)
Investing activities	**(76.4)**	(32.9)

Note: [1] Net debt consists of long-term debt and operating loans, net of cash and cash equivalents.

Changes in Financial Position

For the year, cash generated from operating activities of $199.0 million compared to $241.7 million in 2010. The decrease was primarily due to reductions in cash generated from operations and working capital. The lower cash generated from operations was primarily attributable to lower shipment volumes, the impact of the extended maintenance outage at the Northwood Pulp Mill and lower realized pulp prices in Canadian dollar terms. The reduction in cash generated from working capital was primarily the result of increased volumes of pulp and paper finished goods and chip inventories in 2011 as compared to 2010, which were partially offset by a reduction in trade receivable balances as a result of discounting letters of credit related to agency sales for Taylor Pulp in 2011.

The cash used in financing activities of $188.8 million represents distributions paid to the limited partners, namely Canfor and CPPI, and $7.8 million in financing expense.

The cash used in investing activities in the year was comprised of $41.3 million in sustaining and discretionary capital expenditures, $27.2 million in major maintenance expenditures and $87.6 million relating to expenditures under the Green Transformation Program (the Program), partially offset by $75.6 million of funds received for claims under the Program, $3.5 million in funds received under other grant programs and $0.6 million in interest income.

FINANCIAL REQUIREMENTS AND LIQUIDITY

Long-term Debt

At December 31, 2011 the Partnership had outstanding long-term debt of $111.9 million (2010 – $109.4 million, US$110.0 million for both 2011 and 2010) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

Operating Loans

The Partnership has a $40.0 million bank credit facility with a maturity date of November 30, 2013, of which $0.5 million was utilized at December 31, 2011 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2013, to cover the $10.4 million standby letter of credit issued to BC Hydro under the Energy Purchase Agreement. The Partnership also has an undrawn $30.0 million bridge loan credit facility with a maturity date of December 31, 2012 to fund timing differences between expenditures and reimbursements for projects funded under the Green Transformation Program. Interest and other costs of the bank credit facility are at prevailing market rates.

Cash Management

The Partnership manages cash resources to fund current and future operations through management of its capital structure in conjunction with cash flow forecasting, including anticipated investing and financing activities. The Partnership uses the bank credit facility to meet short-term working capital requirements. The Partnership also reviews on an ongoing basis, the level of distributions, capital expenditures and timing of scheduled major maintenance outages and may adjust these periodically to manage cash resources.

The Partnership periodically discounts letters of credit on outstanding trade receivables to reduce borrowing costs, to reduce credit and foreign currency exposure, and to increase short-term liquidity.

Debt Covenants

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at December 31, 2011 and throughout the year.

Pulp and Paper Green Transformation Program

The Partnership was allocated $122.2 million under the Canadian Federal Government Pulp and Paper Green Transformation Program (the Program). The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. As of December 31, 2011 the Partnership has expended the full Program allocation of $122.2 million with an additional $33.2 million of Partnership funded expenditures for a total of $155.4 million on qualifying expenditures under the Program. During 2011, the Partnership received reimbursements for capital and operating expenditures totaling $82.4 million with the balance of $19.7 million receivable as at December 31, 2011. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

Commitments

The Partnership is committed to the following operating leases for property, plant and equipment. At December 31, 2011 and 2010, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)	As at December 31, 2011	As at December 31,2010
Within one year	1.7	2.4
Between one and five years	1.7	2.7
After five years	-	-
Total	3.4	5.1

Other contractual obligations not included in the preceding table are:

- The Partnership has an Energy agreement with BC Hydro which provides for the sale of power production that exceeds an amended commitment of the cogeneration project at the Prince George Pulp and Paper Mill. Under the agreement, the Partnership is required to post a standby letter of credit as security in annually decreasing amounts as a minimum required amount of electricity is generated. As of December 31, 2011, the Partnership had no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of $10.4 million was issued to BC Hydro as security for future power generation commitments.

- Obligations to pay pension and other post-employment benefits, for which a liability of $94.8 million was recorded at December 31, 2011 (2010 – $79.8 million). The Partnership has funded and unfunded defined benefit plans, as well as a defined contribution plan, that provide pension and other retirement and post-employment benefits to all salaried employees and to its hourly employees that are covered under collective agreements. The regular Salary Pension Plan (SPP) is a registered pension plan and as such, requires funding of future obligations.

- The Partnership's asset retirement obligations represent estimated undiscounted future payments of $7.2 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 7 to 40 years which have been discounted at risk free rates ranging from 1.5% to 2.5%. The estimated fair value is $3.1 million (2010 – $3.1 million) and the amount is included in long-term provisions.

- Contractual commitments relating to the construction of capital assets totaled $6.2 million at December 31, 2011 (2010 – $6.5 million).

Pension Obligations

The Partnership is currently committed to annual payments in relation to its main salary pension plan of approximately $7.6 million for the next four years, or until such a time as a new funding valuation is completed. Of this amount, approximately $2.7 million will relate to current service costs of active employees.

RELATED PARTY TRANSACTIONS

The Partnership purchased wood chips and hog fuel from Canfor sawmills in the amount of $122.2 million in 2011 (2010 – $126.2 million). The Partnership also purchased wood chips from Lakeland Mills Ltd., in which Canfor owns a one-third interest in the amount of $11.5 million in 2011 (2010 – $6.1 million). Purchased wood chips and hog fuel are included in manufacturing and product costs.

Effective July 1, 2006, the Partnership entered into a services agreement under which Canfor provides certain business and administrative services to the Partnership. Total value of the services provided in 2011 was $3.3 million (2010 – $3.0 million), included in manufacturing and product costs and selling and administration costs.

Effective July 1, 2006, the Partnership entered into an incidental services agreement with Canfor, under which the Partnership provides certain business and administrative services to Canfor. Total value of the services provided in 2011 was $2.0 million (2010 – $1.7 million), included in manufacturing and product costs and selling and administration costs.

The Partnership markets bleached chemi-thermo mechanical pulp production from Canfor's Taylor Pulp Mill (Taylor) for which it earned commissions totaling $1.9 million in 2011 (2010 – $1.7 million), included in sales. The Partnership also purchased chemi-thermo mechanical pulp from Taylor for resale totaling $0.4 million in 2011 (2010 – $1.5 million). The Partnership sold NBSK pulp to Taylor for packaging use totaling $3.0 million in 2011 (2010 – $3.0 million). In respect of the products marketed and services provided for Taylor, the Partnership held balances of $3.2 million in accounts receivable - trade (2010 – $22.2 million) and $7.6 million in accounts payable (2010 – $23.6 million) to Canfor at December 31, 2011.

Under the agreements for the marketing of production from Taylor, the Partnership assumes the customer credit risk. Accordingly, the Partnership records on its balance sheet the accounts receivable from the customer and the accounts payable to Canfor for sales made under those agreements.

In October of 2010, Canfor sold its 50% ownership of Howe Sound Pulp and Paper Limited Partnership (HSLP). Until this time, the Partnership marketed the NBSK pulp produced by HSLP, for which it earned commissions totaling $1.8 million in 2010, included in sales. In respect of the products marketed and service provided for HSLP, the Partnership held balances of $1.0 million in accounts receivable and $8.9 million in accounts payable to Canfor at December 31, 2010. As a result of the sale of HSLP by Canfor, the Partnership's agreement to market HSLP pulp was terminated by the buyer and as compensation the Partnership received a contract termination fee of $1.3 million from HSLP, included in selling and administration costs in 2010.

At December 31, 2011, a total of $10.6 million (2010 – $12.0 million) was outstanding as accounts payable to Canfor in respect of purchases of wood chips, hog fuel, services and amounts paid on behalf of the Partnership. At December 31, 2011 a total of $0.9 million (2010 – $0.4 million) was payable to Lakeland Mills Ltd. for wood chips.

The Partnership performs all accounting, treasury, legal and administrative functions for CPPI pursuant to a support agreement. The value of these services for the year ended December 31, 2011 was $1.1 million, with an outstanding balance of $0.1 million recorded in accounts receivable from CPPI at December 31, 2011.

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.

During 2011, the Partnership declared distributions totaling $149.7 million to its limited partners. Distributions to Canfor were $75.2 million, of which $71.3 million was paid, with the balance of $3.9 million recorded in accounts payable as at December 31, 2011. Distributions to the Fund were $74.5 million, of which $70.6 million was paid, with the balance of $3.9 million recorded in accounts payable as at December 31, 2011. For the year ended December 31, 2010, the Partnership declared distributions totaling $183.9 million to its limited partners. Distributions to Canfor were $92.3 million, of which $72.6 million was paid, with the balance of $19.7 million recorded in accounts payable as at December 31, 2010. Distributions to the Fund were $91.6 million, of which $72.1 million was paid, with the balance of $19.5 million recorded in accounts payable as at December 31, 2010.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	**Q4 2011**	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Sales and Income								
Sales	**212.7**	233.9	242.1	252.3	266.1	247.9	247.6	239.5
Operating income	**15.8**	35.7	49.1	49.9	46.1	52.5	52.1	33.0
EBITDA	**37.8**	49.6	64.1	66.7	62.3	68.7	69.4	49.3
Net income	**15.8**	23.9	48.2	50.7	47.4	55.0	43.6	33.0
Per Partnership unit (dollars) [1]								
Net income, basic and diluted	**$ 0.22**	$ 0.33	$ 0.68	$ 0.71	$ 0.67	$ 0.77	$ 0.61	$ 0.46
Statistics								
Pulp shipments (000 mt)	**231.0**	240.2	242.0	265.3	272.3	246.0	252.3	268.4
Paper shipments (000 mt)	**30.2**	32.1	32.7	32.6	39.0	33.6	34.4	37.7
Average exchange rate (US$/Cdn$) [2]	**0.977**	1.020	1.033	1.014	0.987	0.962	0.973	0.961
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**920**	993	1,025	970	967	1,000	993	880
Per Partnership unit (dollars) [1]								
Distributable cash per unit [3]	**($0.04)**	$ 0.37	$ 0.75	$ 0.77	$ 0.68	$ 0.78	$ 0.88	$ 0.57
Distributions declared per unit	**$ 0.33**	$ 0.30	$ 0.69	$ 0.78	$ 1.05	$ 0.69	$ 0.52	$ 0.32

Notes: 1 Based on Partnership units outstanding at December 31, 2011 (71,270,025) for all periods.
2 Source – Bank of Canada (average noon rate for the year).
3 Results for the Partnership are presented under IFRS.

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

FOURTH QUARTER 2011 RESULTS COMPARED TO FOURTH QUARTER 2010

Overview

EBITDA for the fourth quarter of 2011 was $37.8 million, $24.5 million lower when compared to the fourth quarter of 2010. The decline was primarily attributable to lower realized pulp prices, higher unit manufacturing costs, lower shipment volumes of the Partnership's pulp and paper products and higher unallocated costs, partially offset by higher realized paper prices.

Pulp

(millions of dollars unless otherwise noted, unaudited)	Q4 2011	Q4 2010
Sales	**179.1**	224.7
EBITDA	**36.8**	62.3
EBITDA margin	**21%**	28%
Operating income	**16.1**	47.0
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**920**	967
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**942**	980
Production – pulp (000 mt)	**245.7**	261.4
Shipments – Partnership-produced pulp (000 mt)	**231.0**	272.3
Marketed on behalf of HSLP[1] & Canfor (000 mt)	**44.3**	58.8

Note: 1 HSLP (Howe Sound Pulp Limited Partnership) sales agency agreement was terminated effective October 1, 2010.

Pulp segment operating income of $16.1 million decreased $30.9 million due primarily to lower NBSK US list price, lower shipment volumes and higher unit manufacturing costs.

- Realized pulp prices in Canadian dollar terms decreased 6% due primarily to lower North American NBSK US list prices which averaged US$920 per tonne compared to US$967 per tonne in the prior period.
- Market pulp production decreased 15,700 tonnes, primarily due to completion of the extended maintenance outage at the Northwood Pulp Mill in the fourth quarter of 2011.
- Unit manufacturing costs increased 6% when compared to the prior year quarter due to the extended outage at the Northwood Pulp Mill, higher chemical costs and accelerated amortization related to end-of-life assets replaced during the Northwood recovery boiler upgrade project, all of which were partially offset by lower fibre cost.
- Sales volume decreased 41,200 tonnes as a result of softening global demand and reduced tonnage available for sale due to the extended maintenance outage at the Northwood Pulp Mill.

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q4 2011**	Q4 2010
Sales	**33.5**	40.9
EBITDA	**4.6**	2.1
EBITDA margin	**14%**	5%
Operating income	**3.3**	1.3
Production – paper (000 mt)	**33.5**	34.7
Shipments – paper (000 mt)	**30.2**	39.0

Operating income of the paper segment for the fourth quarter of 2011 was $2.0 million higher than the same period last year. The improved results were due to a 6% increase in realized paper prices in Canadian dollar terms, partially offset by lower shipment volumes. The increase in paper prices were due to price increases through the first three quarters of 2011 as paper makers pushed to maintain margins with the substantial increase in global pulp prices through mid 2011. Sales volumes decreased in the fourth quarter of 2011 due to weakening demand and higher than normal shipments in the prior year quarter.

Non-Segmented Costs

(millions of dollars, unaudited)	**Q4 2011**	Q4 2010
Unallocated costs, net	**3.6**	2.2
Interest expense, net	**2.1**	1.9
Foreign exchange gain on long-term debt	**(2.4)**	(3.9)
Foreign exchange loss on working capital	**1.3**	2.8
Gain on derivative financial instruments	**(1.5)**	(2.3)
Other expense	**0.5**	0.2
	3.6	0.9

Unallocated Costs, net

Unallocated costs, comprised principally of general and administrative expenses, totaled $3.6 million in the fourth quarter of 2011 compared to $2.2 million in the fourth quarter of 2010. The lower unallocated costs in the fourth quarter of 2010 were primarily attributable to a one-time fee received in respect of the termination of the agency sales agreement with Howe Sound Limited Partnership (HSLP) due to the sale by Canfor of their ownership interest in HSLP.

Other Non-segmented Items

The foreign exchange gain on long-term debt of $2.4 million resulted from translating the US$110 million debt at period-end exchange rates.

The foreign exchange loss on working capital of $1.3 million resulted from translating US dollar balances at period-end exchange rates.

The net gain of $1.5 million on derivative financial instruments recorded in the fourth quarter of 2011 results from the settlement of maturing contracts during the quarter and the revaluation to market of outstanding contracts at the end of the quarter for US dollar forward contracts and natural gas swaps. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements, while the US dollar forward contracts are used to hedge the impact of currency fluctuations on US dollar working capital.

More detailed analysis of the fourth quarter 2011 results can be found in the Fourth Quarter 2011 press release dated February 6, 2012.

RISKS AND UNCERTAINTIES RELATED TO THE BUSINESS AND INDUSTRY

Cyclicality of Product Prices

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

Currency Exchange Risk

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

Dependence on Canfor

Approximately 54% of the fibre currently used by the Partnership is derived from the Fibre Supply Agreement with Canfor. The Partnership's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Raw Material Costs

The principal raw material utilized by the Partnership in its manufacturing operations is wood chips. The Partnership's Fibre Supply Agreement with Canfor contains a pricing formula that currently results in the Partnership paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current pricing under the agreement expires August 31, 2012, and is being reviewed and may be amended as necessary to ensure it is reflective of market conditions. Prices for wood chips are not within the Partnership's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The Partnership is not always able to increase the selling prices of its products in response to increases in raw material costs.

Competitive Markets

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

Dependence on Key Customers

In 2011, the Partnership's top five customers accounted for approximately 33% of its pulp sales. The Partnership is therefore dependent on these customers. In the event that the Partnership cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Partnership would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins and distributable cash.

Increased Production Capacity

The Partnership currently faces substantial competition in the pulp industry and may face increased competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Partnership's business, financial condition, results of operations and cash flows, and the Partnership may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

Maintenance Obligations and Facility Disruptions

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

Governmental Regulation

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

Capital Requirements

The pulp and paper industries are capital intensive, and the Partnership regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Partnership's total capital expenditures during 2011 were approximately $139.1 million of which approximately $77.4 million was incurred under qualifying projects under the Canadian Federal government's Green Transformation Program (the Program) and $5.7 million funded under other government programs. The Partnership anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Work Stoppages

Any labour disruptions and any costs associated with labour disruptions at the Partnership's mills could have a material adverse effect on the Partnership's production levels and results of operations. The Partnership's collective agreements with the CEP and PPWC expire on April 30, 2012. Any future inability to negotiate acceptable contracts could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers.

Native Land Claims

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

Transportation Services

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

Environmental Laws, Regulations and Compliance

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

The Partnership has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. The provision for these future environmental remediation expenditures was $3.1 million as of December 31, 2011 (see note 11 of the accompanying consolidated financial statements). It is possible that the Partnership could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Partnership's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Partnership's or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact the Partnership's financial condition or preclude the Partnership from making capital expenditures that would otherwise benefit the Partnership's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Partnership.

Pension Obligations

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

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

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

For the main Salary Pension Plan, a one percentage point decrease in the rate of return on plan assets over one year would increase the funded deficit by an estimated $0.7 million. A one percentage point decrease in the discount rate used in calculating the actuarial estimate of future liabilities would increase the funded deficit by an estimated $9.0 million. These changes would only impact the Partnership's funding requirements in years where a new actuarial funding valuation was performed and approval for a change in annual funding contributions was obtained from the regulator.

Sensitivities

In addition, the sensitivity of the Partnership's results to currency fluctuations and price changes for its principal products and input costs, when operating at full capacity, is estimated to be as follows:

(millions of dollars, unaudited)	Impact on annual Net income
Canadian dollar – US $0.01 change per Canadian dollar	$ 6
NBSK pulp – US $10 change per tonne	7
Natural gas cost - $1 change per gigajoule	4
Chip cost - $2 change per tonne	5

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to asset useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement obligations, based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Partnership's financial condition.

The Partnership reviewed the carrying values of the pulp and paper finished goods inventories as at December 31, 2011. The Partnership estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates there is no requirement to write-down the Partnership's finished goods inventories, which are carried at cost at December 31, 2011.

On an ongoing basis, management reviews the asset retirement obligations in respect of useful lives and landfill closure costs. The obligations represent estimated undiscounted future payments of $7.2 million. Payments relating to landfill closure costs are expected to occur at periods ranging from 7 to 40 years which have been discounted at risk free rates ranging from 1.5% to 2.5%.

FINANCIAL INSTRUMENTS

Periodically, the Partnership considers the use of derivative instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, and natural gas prices.

For the year ended December 31, 2011 the Partnership recorded a net loss on derivative financial instruments of $1.6 million (2010 – net gain of $1.5 million) relating to the settlement of maturing contracts during the year and the revaluation to market of outstanding contracts at the end of the year, for natural gas swaps and US dollar forward contracts.

For the year ended December 31, 2011 the Partnership recorded losses of $2.6 million (2010 – $3.7 million) relating to the settlement of maturing natural gas swaps as a charge to non-operating income. At December 31, 2011 the Partnership's outstanding commodity swaps hedging future natural gas purchases have all been settled.

For the year ended December 31, 2011 the Partnership recorded a net loss of $0.8 million (2010 – net gain of $4.2 million) on settlement of maturing US dollar forward contracts as a credit to non-operating income. At December 31, 2011 the Partnership had outstanding US dollar forward contracts of $56.0 million extending to April 2012. At December 31, 2011 the unrealized gain of $0.3 million (2010 – $1.1 million) on these outstanding US dollar forward contracts was recorded as an asset in other accounts receivable.

OUTSTANDING UNITS

At February 6, 2012, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) were owned by CPPI and 35,776,483 Class B Exchangeable Limited Partnership Units were owned indirectly by Canfor. The Class B Exchangeable Limited Partnership Units are exchangeable for an equivalent number of CPPI shares pursuant to the terms of an amended exchange agreement (Exchange Agreement) dated January 1, 2011 between Canfor, CPPI, the Partnership and the General Partner.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Partnership has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board and the Audit Committee. The Partnership's chief executive officer (CEO) and chief financial officer (CFO) evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2011, and have concluded that they were operating effectively.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting (ICFR), and confirmed that there were no changes in these controls that occurred during the most recent year ended December 31, 2011 which materially affected, or are reasonably likely to materially affect, the Partnership's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2011, the CEO and CFO have concluded that these controls were operating effectively.

CHANGE IN ACCOUNTING POLICIES

Transition to and Initial Adoption of IFRS

IFRS became Canadian GAAP for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The financial statements for the year ended December 31, 2011, have been prepared in accordance with IFRS, and IFRS 1, using accounting policies consistent with IFRS as issued by the IASB and IFRIC.

The accounting policies have been applied consistently to all periods presented in the financial statements. The policies applied in these financial statements are based on IFRS issued and effective as of February 6, 2012, the date the Board of Directors approved the statements.

Impact of Adopting IFRS on the Partnership's Accounting Policies

The Partnership has changed certain accounting policies to be consistent with IFRS. The following summarizes the significant changes to the Partnership's accounting policies on adoption of IFRS.

(a) Major Maintenance

IAS 16 requires major inspections and overhauls to be accounted as a separate component of Property, Plant and Equipment (PP&E) if the component is used for more than one reporting period. This treatment is only intended for major expenditures that occur at regular intervals over the life of the asset as costs of routine repairs and maintenance will continue to be expensed as incurred. The regularly scheduled major maintenance outages required on the Partnership's plant and equipment qualify for treatment under this standard with the expenditures being classified as property, plant and equipment.

Impact on Consolidated Balance Sheets

(millions of dollars)	As at December 31, 2010	As at January 1, 2010
Increase in property, plant and equipment	13.9	20.7
Reduction in prepaid expenses and other assets	10.8	15.3
Reduction in other long-term assets	3.1	5.4

Impact on Consolidated Statements of Comprehensive Income

(millions of dollars)	Twelve months ended December 31, 2010
Increase in amortization expense	18.7
Reduction in manufacturing and product costs	18.7

Impact on Consolidated Statements of Cash Flows

(millions of dollars)	Twelve months ended December 31, 2010
Increase in net cash from operations	14.6
Reduction in cash from investing activities	14.6
Net change in cash and cash equivalents	-

(b) Employee Future Benefits

Actuarial gains and losses are permitted under IAS 19, Employee Benefits, to be recognized directly in other comprehensive income rather than through net income. Actuarial gains and losses have been recognized in other comprehensive income.

IAS 19 requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs expensed immediately and unvested past service costs recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, past service costs were generally amortized on a straight-line basis over the expected average remaining service period of active employees under the plan. Vested past service costs have been expensed immediately under IFRS.

Under Canadian GAAP, certain gains and losses which were unrecognized at the time of adopting the current Canadian accounting standard were permitted to be amortized over a period under transitional provisions of the current standard. Under IFRS the transitional provisions have been recognized on the transition date.

Impact on Consolidated Balance Sheets

(millions of dollars)	As at December 31, 2010	As at January 1, 2010
Increase in post employment benefits obligation	26.8	17.0
Reduction in other long-term assets	14.0	11.2
Reduction in Partners' equity	40.8	28.2

Impact on Consolidated Statements of Comprehensive Income

(millions of dollars)	Twelve months ended December 31, 2010
Decrease in employee benefits expense	1.0
Reduction in other comprehensive income	13.6

CANFOR PULP PRODUCTS INC.

CANFOR PULP LIMITED PARTNERSHIP

MANAGEMENT'S RESPONSIBILITY

The information and representations in the financial statements and Management's Discussion and Analysis (MD&A) are the responsibility of Management and have been approved by the Board of Directors of Canfor Pulp Holding Inc. (CPHI), the general partner of Canfor Pulp Limited Partnership (the Partnership) and by the Board of Directors of Canfor Pulp Products Inc. (CPPI). Management prepared the consolidated financial statements in accordance with International Financial Reporting Standards and, where necessary, they reflect Management's best estimates and judgments at this time. It is reasonably possible that circumstances arise which cause actual results to differ. Management does not believe it is likely that any differences will be material. The financial information presented throughout this report is consistent with that contained in the consolidated financial statements.

Management is responsible for designing and maintaining adequate systems of internal controls over financial reporting, including policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of the assets, for CPPI and the Partnership. The Partnership's chief executive officer and chief financial officer have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2011, and have concluded that they are operating effectively.

Canadian Forest Products Ltd. (Canfor)'s Internal Audit Department performs independent reviews of the accounting records and related procedures. The Internal Audit Department reports its findings and recommendations both to Management and the Audit Committees of CPHI and CPPI.

The Board of Directors of CPHI and CPPI are responsible for ensuring that Management fulfills its responsibilities for financial reporting and are ultimately responsible for reviewing and approving the financial statements and Management's Discussion and Analysis. The Boards of CPHI and CPPI carry out these activities primarily through the Audit Committees of CPHI and CPPI.

The respective Audit Committees are comprised of independent Directors who are not employees of the Partnership. The Committees meet periodically throughout the year with Management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures, and financial reporting matters. The external auditors meet separately with the Audit Committees.

The consolidated financial statements and Management's Discussion and Analysis have been reviewed by the Audit Committees, which recommended their approval by the Board of Directors of CPHI and CPPI. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, whose reports follow.

Joe Nemeth
President and Chief Executive Officer

Canfor Pulp Products Inc.,
Canfor Pulp Holding Inc.

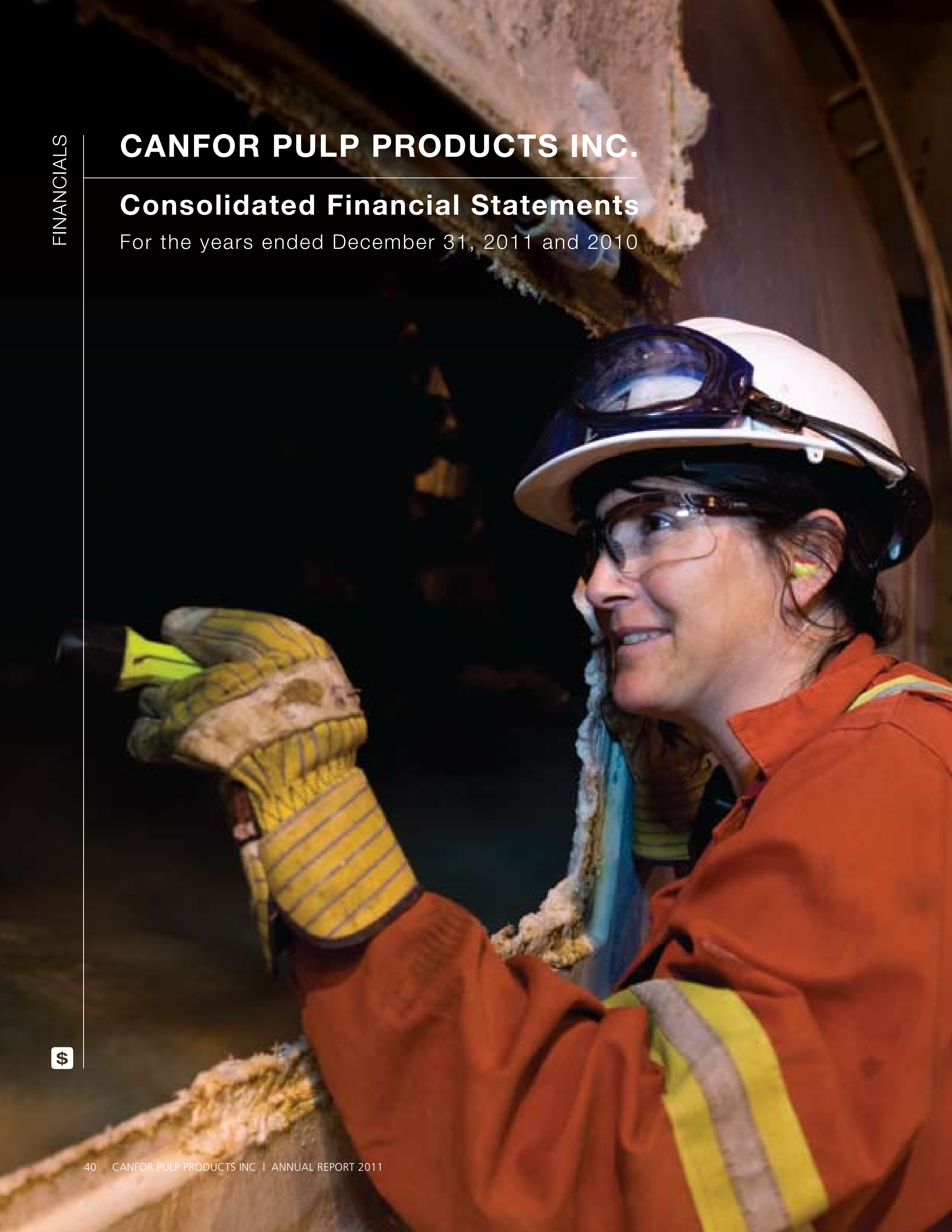
Terry D. Hodgins
Chief Financial Officer and Secretary

Canfor Pulp Products Inc.,
Canfor Pulp Holding Inc.

CANFOR PULP PRODUCTS INC.

Consolidated Financial Statements

For the years ended December 31, 2011 and 2010



To the shareholders of Canfor Pulp Products Inc.

We have audited the accompanying financial statements of Canfor Pulp Products Inc., which comprise the balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive income (loss), statements of changes in equity (deficit), and statements of cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Canfor Pulp Products Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
February 6, 2012

BALANCE SHEETS

(thousands of dollars)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
ASSETS			
Current assets			
Cash and cash equivalents	**$ 27,171**	$ -	$ -
Distributions receivable from Canfor Pulp Limited Partnership (note 9)	**3,904**	19,521	2,839
Total current assets	**31,075**	19,521	2,839
Equity investment in Canfor Pulp Limited Partnership (note 8)	**226,079**	240,425	249,593
	$ 257,154	$ 259,946	$ 252,432
LIABILITIES			
Current liabilities			
Due to Canfor Pulp Limited Partnership (note 9)	**$ 73**	$ -	$ -
Distributions payable	**-**	19,521	2,839
Income taxes payable (note 10)	**14,645**	-	-
Total current liabilities	**14,718**	19,521	2,839
Fund units (note 7)	**-**	509,687	310,568
Deferred income tax liability (note 10)	**31,520**	52,854	55,637
	$ 46,238	$ 582,062	$ 369,044
SHAREHOLDERS' EQUITY (DEFICIT)			
Unitholders' deficit (note 7)	**$ -**	$ (322,116)	$ (116,612)
Shareholders' capital (note 6)	**509,687**	-	-
Retained earnings (deficit) (note 7)	**(298,771)**	-	-
Total Shareholders' equity (deficit)	**210,916**	(322,116)	(116,612)
	$ 257,154	$ 259,946	$ 252,432

Subsequent event (note 14)

STATEMENTS OF COMPREHENSIVE INCOME (loss)

(thousands of dollars, except unit and per unit amounts)	**Year ended December 31, 2011**	Year ended December 31, 2010
Income		
Equity income in Canfor Pulp Limited Partnership	**$ 69,039**	$ 89,166
Interest Income	**243**	-
Total income	**69,282**	89,166
Costs and expenses		
Administrative expenses (note 9)	**1,184**	-
Increase in amortized cost of Fund units (note 7)	**-**	199,119
Financing expense/distributions declared (note 7)	**-**	91,573
	1,184	290,692
Net income (loss) before income taxes	**68,098**	(201,526)
Income tax recovery (note 10)	**4,503**	2,783
Net income (loss)	**$ 72,601**	$ (198,743)
Equity interest in other comprehensive loss of Canfor Pulp Limited Partnership	**(8,850)**	(6,761)
Income tax recovery of other comprehensive loss of Canfor Pulp Limited Partnership	**2,186**	-
Comprehensive income (loss)	**$ 65,937**	$ (205,504)
Net income (loss) per share/unit, basic and diluted	**$ 2.05**	$ (5.60)
Weighted average number of shares/units (notes 5 and 6)	**35,493,307**	35,493,307

STATEMENTS OF CHANGES IN EQUITY (Deficit)

(thousands of dollars, except unit and per unit amounts)	**Year ended December 31, 2011**	Year ended December 31, 2010
Share capital (unitholders' capital)		
Balance beginning of year	**$ -**	$ -
Corporate conversion (notes 1, 7)	**509,687**	-
Balance at end of year	**$ 509,687**	$ -
Retained earnings (deficit)		
Balance beginning of year	**(322,116)**	(116,612)
Net income (loss) for the year	**72,601**	(198,743)
Equity interest in other comprehensive loss of Canfor Pulp Limited Partnership	**(8,850)**	(6,761)
Income tax recovery of other comprehensive loss of Canfor Pulp Limited Partnership	**2,186**	-
Dividends paid during the year	**(42,592)**	-
Balance at end of year	**$ (298,771)**	$ (322,116)
Total equity (deficit)	**$ 210,916**	$ (322,116)

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

STATEMENTS OF CASH FLOWS

(thousands of dollars, except unit and per unit amounts)	Year ended December 31, 2011	Year ended December 31, 2010
Cash generated from (used in)		
Operating activities		
Net income (loss) before tax	**$ 68,098**	$ (201,526)
Items not affecting cash:		
Equity income in Canfor Pulp Limited Partnership	**(69,039)**	(89,166)
Increase in amortized cost of Fund units	**-**	199,119
Financing expense/distributions declared	**-**	91,573
Distributions received from Canfor Pulp Limited Partnership	**90,154**	74,891
Cash flow from operations before working capital changes	**89,213**	74,891
Due to Canfor Pulp Limited Partnership	**73**	-
Net cash from operations	**89,286**	74,891
Financing activities		
Distributions paid to unitholders	**$ (19,523)**	$ (74,891)
Dividends paid to shareholders	**(42,592)**	-
	(62,115)	(74,891)
Change in cash and cash equivalents	**$ 27,171**	$ -
Beginning balance in cash and cash equivalents	**-**	-
Ending balance in cash and cash equivalents	**$ 27,171**	$ -

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

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011

1. General information and reporting entity

Canfor Pulp Products Inc. (CPPI) is domiciled in Canada and listed on the Toronto Stock Exchange. The address of CPPI's registered office is 1700 – 666 Burrard Street, Vancouver, British Columbia, Canada V6C 2X8.

CPPI has been established to acquire and hold an interest in Canfor Pulp Limited Partnership (the Partnership). The Partnership produces and sells Northern Bleached Softwood Kraft (NBSK) Pulp and fully bleached, high performance Kraft Paper. The Partnership operations consist of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia.

At December 31, 2011, Canadian Forest Products Ltd. (Canfor) owns 50.2% and CPPI owns 49.8% of the issued and outstanding units of the Partnership.

Corporate Conversion Arrangement

CPPI is a company formed on March 16, 2010. CPPI is the successor to Canfor Pulp Income Fund (the Fund) following the completion of the conversion of the Fund from an income trust to a corporate structure by court approved plan of arrangement under the Business Corporations Act (British Columbia) (the BCBCA) on January 1, 2011 (the Conversion). The Conversion involved the exchange, on a one-for-one basis, of all outstanding Fund Units for common shares of CPPI. Upon completion of the Conversion and the subsequent winding up of the Fund and the Canfor Pulp Trust (the Trust) the unitholders of the Fund became the sole shareholders of CPPI and CPPI became the direct holder of the 49.8% interest in the Partnership.

The financial statements have been prepared on a continuity of interest basis, which recognizes CPPI as the successor entity to the Fund. As a result, in current and future financial statements and Management's Discussion and Analysis, CPPI will refer to common shares, shareholders and dividends which were formerly referred to as units, unitholders and distributions under the trust structure; comparative amounts will reflect the history of the Fund.

Economic Dependence

CPPI is entirely dependent on the operations and assets of the Partnership. Cash dividends will be dependent on, among other things, the ability of the Partnership to make cash distributions.

2. Basis of preparation and adoption of IFRS

Statement of Compliance and Conversion to International Financial Reporting Standards

CPPI prepares its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly these are the company's first annual financial statements prepared in accordance with IFRS. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in compliance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Subject to certain transition elections disclosed in note 7, CPPI has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 7 discloses the impact of the transition to IFRS on CPPI's balance sheet, statements of changes in equity and statements of comprehensive income (loss), including the nature and effect of significant changes in accounting policies from those used in CPPI's financial statements for the year ended December 31, 2010 under Canadian GAAP.

The policies applied in these financial statements are based on IFRS issued and outstanding as of December 31, 2011.

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on February 6, 2012.

Basis of measurement

These financial statements have been prepared on the historical cost basis.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is CPPI's functional currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise that cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect CPPI's financial position.

The significant area requiring the use of management estimates is the valuation of CPPI's investment in the Partnership.

3. Significant accounting policies

Income Taxes

Income tax expense consists of current and deferred tax expense. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred income tax assets and liabilities are determined based on the difference between the tax basis of CPPI's and the Partnership's assets and liabilities and the respective amounts reported in the financial statements. Deferred tax assets or liabilities are calculated using the substantively enacted tax rates for the periods in which the differences are expected to be settled. Deferred tax assets are recognized to the extent that they are considered more likely than not to be realized.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity date of 90 days or less.

Investment in the Partnership

CPPI accounts for its investment in the Partnership units using the equity method.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (continued)

4. New Accounting Pronouncements

As of January 1, 2013, CPPI will be required to adopt the following standards as issued by the IASB. The adoption of the following standards is not expected to have a material impact on the Company's consolidated financial statements:

IFRS 9 *"Financial Instruments"*
IFRS 9 is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The IASB has issued an amendment to IFRS 9 that delays the effective date to annual periods beginning on or after January 1, 2015. The Company will adopt this standard when required under IFRS.

IFRS 10 *"Consolidated Financial Statements"*
IFRS 10 replaces Standing Interpretations Committee 12, "Consolidation - Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establishes control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 12 *"Disclosure of Interests in Other Entities"*
IFRS 12 provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosures require information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

IFRS 13 *"Fair Value Measurement"*
IFRS 13 provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when another IFRS requires or permits the item to be measured at fair value, with limited exceptions.

Additionally, as of July 1, 2012, the Company will be required to adopt amendments to IAS 1 "Presentation of Financial Statements" which will require companies to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the income statement (commonly referred to as "recycling"). The Company does not anticipate material impacts as a result of adoption of this amendment.

5. Net Income per Share

Basic net income per share is based on the weighted average number of shares outstanding during the year. At December 31, 2011 and December 31, 2010 the Partnership had 35,776,483 Class B Exchangeable Limited Partnership Units outstanding which can be exchanged for shares of CPPI at the option of the holder Canfor. Any issuance of new shares as a result of such an exchange would be accompanied by a corresponding increase in CPPI's investment in the Partnership through the acquisition of Class B Exchangeable Limited Partnership Units. As a result, this potential conversion would not result in any dilution of CPPI's net income per share.

6. Share capital

Authorized

Unlimited number of common shares.

Issued and fully paid

35,493,307 common shares.

7. Transition to International Financial Reporting Standards

Application of IFRS 1

These financial statements are the first annual financial statements prepared by CPPI under IFRS. CPPI has applied IFRS 1 First-time adoption of IFRS in preparing these financial statements.

CPPI's transition date to IFRS is January 1, 2010. CPPI prepared its opening IFRS balance sheet at that date. In preparing its opening IFRS balance sheet and comparative information for the year ended December 31, 2010, CPPI has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected CPPI's financial position, financial performance and cash flows is set out in the tables in this note and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, CPPI has applied the mandatory exception from retrospective application for estimates.

Estimates under IFRS 1 as at January 1, 2010 should be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error. All other mandatory exceptions and optional exemptions from full retrospective application are not applicable for CPPI.

Reconciliations between IFRS and Canadian GAAP

The following reconciliations provide a quantification of the material impacts of the transition to IFRS on the Fund before the conversion of the Fund into a corporation (note 1).

Reconciliation of equity (deficit) at January 1, 2010

(thousands of dollars)	As at January 1, 2010
Canadian GAAP – Total equity	$ 226,357
Fund units [i]	(310,568)
CPPI share of Partnership IFRS transition adjustments [ii]	(14,051)
Deferred income taxes [iii]	(18,350)
IFRS – Total equity (deficit)	$ (116,612)

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (continued)

Reconciliation of equity (deficit) at December 31, 2010

(thousands of dollars)	As at December 31, 2010
Canadian GAAP – Total equity	$ 225,301
Fund units [i]	(509,687)
CPPI share of Partnership IFRS transition adjustments [ii]	(14,051)
Deferred income taxes [iii]	(17,415)
Effect of the increase in equity income from the Partnership under IFRS	523
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS	(6,787)
IFRS – Total equity (deficit)	$ (322,116)

Reconciliation of comprehensive income (loss) for the year ended December 31, 2010

(thousands of dollars)	Year ended December 31, 2010
Comprehensive income Canadian GAAP	$ 90,517
Effect of the increase in equity income from the Partnership under IFRS	523
Fund units [i]	(199,119)
Distributions classified as a financing expense [i]	(91,573)
Deferred income taxes [iii]	935
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS	(6,787)
Comprehensive loss - IFRS	$ (205,504)

Notes to the Reconciliations

i) IAS 32 Classification - Under Canadian GAAP the Fund units were classified as equity. IAS 32 requires that the Fund units be classified as a financial liability under IFRS prior to conversion to a corporation. Under the terms of the Fund's trust indenture, unitholders had a puttable option, whereby the Fund would have been required to redeem Fund units at the request of the unitholder and required the Fund to distribute all of the taxable income received from the Partnership. In addition, the Fund's distributions were classified as a financing expense recorded in the statement of comprehensive income. The liability was recorded at amortized cost with changes recorded in the statement of comprehensive income. Upon conversion to a corporation effective January 1, 2011, the Fund units were converted on a one-for-one basis into shares of CPPI and the shares are classified as equity with dividends treated as an equity distribution.

ii) Canfor Pulp Limited Partnership conversion – As a result of a change in accounting policies for the Partnership due to the conversion to IFRS, CPPI's equity income, investment and other comprehensive income has been restated. Further details on the impact of the transition on the Partnership are included in the Partnership's financial statements note 5.

iii) IAS 12 tax rate - Under Canadian GAAP the Fund recorded temporary tax differences that are expected to reverse after 2010 based on specified investment flow through entity (SIFT) tax rates. However, IAS 12 requires that companies should use the undistributed rate for recording taxes. Therefore, under IFRS the rate to apply to temporary differences that are expected to reverse after 2010 would be the highest marginal personal tax rate (43.7%) rather than the SIFT rate. The highest marginal personal tax rate is the rate at which tax would be payable by the Fund should distributions not be declared. Subsequent to January 1, 2011 as a result of the conversion of the Fund into a corporation, the temporary tax differences are to be measured at the corporate tax rate (25.0%).

8. Equity Investment in Canfor Pulp Limited Partnership

CPPI's equity investment in the Partnership is as follows:

(thousands of dollars)	**Year ended December 31, 2011**	Year ended December 31, 2010
Balance, beginning of year	**$ 240,425**	$ 249,593
Equity interest in income of the Partnership	**69,039**	89,166
Equity interest in other comprehensive loss of the Partnership	**(8,850)**	(6,761)
Distributions from the Partnership	**(74,535)**	(91,573)
Balance, end of year	**$ 226,079**	$ 240,425

9. Related Party Transactions

All accounting, treasury, legal and administrative functions for CPPI are performed on its behalf by the Partnership pursuant to a support agreement. The value of these services during the year was $1.2 million and was included as an administrative expense of CPPI with the balance of $0.1 million outstanding as an account payable to the Partnership at December 31, 2011. Included in administrative expenses of CPPI in 2011 were costs in relation to the corporate conversion.

Distributions earned from the Partnership for the year ended December 31, 2011 were $74.5 million of which $70.6 million was received, with the balance of $3.9 million receivable as at December 31, 2011.

10. Income Taxes

Immediately prior to converting to a corporation on January 1, 2011, the Fund, as a publicly traded income trust, was to be taxed on income starting in 2011, similar to rules applying to corporations. Accordingly, deferred income tax assets and liabilities of the Fund were recognized with respect to estimated temporary differences between the carrying value of existing assets and liabilities and their respective tax bases that were expected to reverse starting in 2011 at the substantively enacted tax rate. The Fund was not subject to, and did not recognize, any deferred income tax assets or liabilities on temporary differences expected to reverse prior to 2011.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (continued)

(thousands of dollars)	**Year ended December 31, 2011**	Year ended December 31, 2010
Current income tax expense	**$ 14,645**	$ -
Deferred income tax recovery:		
Change in tax rate (note 7)	**(22,626)**	-
Origination and reversal of temporary differences	**3,478**	(2,783)
	(19,148)	(2,783)
Income tax recovery	**$ (4,503)**	$ (2,783)

CPPI's deferred income tax liability is derived wholly from its interest in the Partnership.

The following table reconciles the income tax expense calculated using statutory tax rates to the actual income tax expense.

(thousands of dollars)	**Year ended December 31, 2011**
Income tax expense at statutory rate, 2011 – 26.5% (2010 – nil)	**$ 18,046**
Add (deduct):	
Permanent difference from translation of US denominated debt & other non deductible items	**77**
Change in tax rate (note 7)	**(22,626)**
Income tax recovery	**$ (4,503)**

11. Financial Instruments

CPPI's financial instruments consist of cash and cash equivalents, distributions receivable from the Partnership, amounts due to the Partnership and Fund units. Cash and cash equivalents and distributions receivable are classified as loans and receivables and are measured at amortized cost, and Fund units and due to the Partnership were classified as financial liabilities and measured at amortized cost. The carrying values of cash and cash equivalents, distributions receivable and due to the Partnership approximates the fair value due to the relatively short period to maturity. The Fund units were recorded at amortized cost which approximates fair value.

Financial Risk Management

I. Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject CPPI to credit risk include cash and cash equivalents and distributions receivable from the Partnership.

In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions. CPPI does not believe there is any significant credit risk associated with cash on deposit held in major Canadian and international financial institutions. CPPI does not believe there is significant credit risk associated with the distributions receivable from the Partnership.

II. Liquidity risk

CPPI is exposed to liquidity risk if unable to meet its financial obligations as they fall due. CPPI manages liquidity risk through cash flow forecasting based on anticipated distributions from the Partnership.

CPPI is exposed to certain risks related to the nature of its investment in the Partnership as well as the underlying risks related to the business of the Partnership. CPPI relies on the objectives, policies and processes of the Partnership for managing these risks.

12. Capital Management

CPPI's objectives when managing capital are to safeguard its assets and provide returns to its shareholders in the form of dividends.

CPPI's capital is comprised of cash and cash equivalents and total shareholders' equity. The Company is not subject to externally imposed capital requirements.

13. Segmented Information

CPPI operates in one industry segment, namely investing in pulp and paper producing assets in one geographic region, Canada.

14. Subsequent Event

Subsequent to the year end, dividends were declared in the amount of $0.25 per share to be paid on February 23, 2012 to shareholders of record at the close of business on February 16, 2012.

FINANCIALS

CANFOR PULP LIMITED PARTNERSHIP

Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

To the Partners of Canfor Pulp Limited Partnership

We have audited the accompanying consolidated financial statements of Canfor Pulp Limited Partnership and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years ended December 31, 2011 and 2010, 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 Canfor Pulp Limited Partnership and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
February 6, 2012

CONSOLIDATED BALANCE SHEETS

(millions of dollars)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
ASSETS			
Current assets			
Cash and cash equivalents	$ -	$ 64.2	$ 13.5
Accounts receivable			
Trade	**70.8**	108.0	110.5
Green Transformation Program (note 18)	**19.7**	17.9	-
Other	**20.7**	14.8	8.6
Inventories (note 6)	**141.6**	123.4	135.4
Prepaid expenses and other assets	**5.8**	11.0	3.1
Total current assets	**258.6**	339.3	271.1
Non-current assets			
Property, plant and equipment (note 7)	**532.0**	513.5	554.8
Other long-term assets	**0.6**	0.5	0.5
	$ 791.2	$ 853.3	$ 826.4
LIABILITIES			
Current liabilities			
Bank Indebtedness	**$ 2.0**	$ -	$ -
Trade accounts payable and accrued liabilities	**117.9**	139.3	134.5
Distributions payable	**7.8**	39.2	5.7
Total current liabilities	**127.7**	178.5	140.2
Non-current liabilities			
Long-term debt (note 12)	**111.9**	109.4	115.1
Post employment benefits (note 10)	**94.8**	79.8	66.0
Long-term provisions (note 11)	**3.1**	3.1	4.2
Total liabilities	**$ 337.5**	$ 370.8	$ 325.5
PARTNERS' EQUITY			
Partnership units (Note 8)	**587.5**	587.5	587.5
Cumulative distributions in excess of income	**(133.8)**	(105.0)	(86.6)
Total Partners' equity	**453.7**	482.5	500.9
	$ 791.2	$ 853.3	$ 826.4

The accompanying notes are an integral part of these consolidated financial statements.
Commitments and contingencies note 17.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of dollars, except units and per unit amounts)	Year ended December 31, 2011	Year ended December 31, 2010
Revenue	**$ 941.0**	$ 1,001.1
Costs and expenses		
Manufacturing and product costs	**582.4**	602.3
Freight and other distribution costs	**116.0**	122.7
Amortization	**66.8**	66.1
Selling and administration costs	**25.3**	26.3
	790.5	817.4
Operating income	**150.5**	183.7
Interest expense	**(8.0)**	(7.8)
Foreign exchange gain (loss) on long-term debt	**(2.5)**	5.7
Gain (loss) on derivative financial instruments	**(1.6)**	1.5
Foreign exchange gain (loss) on working capital	**1.0**	(4.0)
Other expense	**(0.8)**	(0.1)
	(11.9)	(4.7)
Net income	**$ 138.6**	$ 179.0
Other comprehensive income	**0.1**	0.1
Actuarial losses recognized in accumulated distributions in excess of income	**(17.8)**	(13.6)
Total comprehensive income	**$ 120.9**	$ 165.5
Net income per Partnership unit, basic and diluted	**$ 1.94**	$ 2.51
Weighted average Partnership units outstanding	**71,270,025**	71,270,025

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of dollars)	Year ended December 31, 2011	Year ended December 31, 2010
Partnership units		
Balance at beginning and end of year	$ 587.5	$ 587.5
Cumulative distributions in excess of income		
Balance beginning of year	$ (105.0)	$ (86.6)
Net income for the year	138.6	179.0
Defined benefit plan actuarial losses (note 10)	(17.8)	(13.6)
Other comprehensive income	0.1	0.1
Distributions declared during the year (note 16)	(149.7)	(183.9)
Balance at end of year	$ (133.8)	$ (105.0)
Total equity	$ 453.7	$ 482.5

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of dollars)	Year ended December 31, 2011	Year ended December 31, 2010
Cash and cash equivalents generated from (used in)		
Operating activities		
Net income	**$ 138.6**	$ 179.0
Adjustments for:		
Amortization	**66.8**	66.1
Unrealized foreign exchange loss (gain) on long-term debt	**2.5**	(5.7)
Interest expense	**8.0**	7.8
Increase in value of outstanding derivative instruments	**(1.8)**	(1.0)
Employee future benefits	**5.1**	6.7
Other	**0.8**	(0.2)
Salary pension plan contribution	**(7.9)**	(6.5)
Cash flow from operations before working capital changes	**212.1**	246.2
Decrease (increase) in non-cash working capital		
Accounts receivable – trade and other	**32.5**	(3.5)
Inventories	**(18.1)**	11.9
Prepaid expenses and other assets	**5.2**	(7.9)
Accounts payable and accrued liabilities	**(32.7)**	(5.0)
Net cash from operations	**199.0**	241.7
Financing activities		
Distributions paid to partners	**(181.0)**	(150.4)
Interest paid	**(7.8)**	(7.7)
Net cash used in financing	**(188.8)**	(158.1)
Investing activities		
Property, plant and equipment	**(68.5)**	(26.6)
Green Transformation Program expenditures	**(87.6)**	(26.7)
Green Transformation Program reimbursements	**75.6**	20.2
Other government grants received	**3.5**	-
Interest received	**0.6**	0.2
Net cash used in investing	**(76.4)**	(32.9)
Increase (decrease) in cash and cash equivalents	**(66.2)**	50.7
Cash and cash equivalents, beginning of year	**64.2**	13.5
Cash and cash equivalents (bank indebtedness), end of year	**$ (2.0)**	$ 64.2

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011

1. GENERAL INFORMATION AND REPORTING ENTITY

Canfor Pulp Limited Partnership (the Partnership) is a limited Partnership formed on April 21, 2006, under the laws of Manitoba, to acquire and carry on the NBSK pulp and paper business of Canadian Forest Products Ltd. a subsidiary of Canfor Corporation (collectively Canfor). The Partnership is domiciled in Canada. The address of the Partnership's registered office is 230-1700 West 75th Avenue, Vancouver, British Columbia, Canada V6P 6G2. The consolidated financial statements (the financial statements) include the accounts of the Partnership and its subsidiaries.

The Partnership is a producer of market NBSK Pulp and fully bleached, high performance Kraft Paper. The Partnership consists of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia (the Pulp Business).

At December 31, 2011, Canfor owns 50.2% and Canfor Pulp Products Inc. (CPPI) owns 49.8% of the issued and outstanding units of the Partnership.

Economic Dependence

The Partnership depends on Canfor to provide approximately 54% (2010 – 56%) of its fibre supply as well as to provide certain key business and administrative services as described in note 14. As a result of these relationships the Partnership considers its operations to be dependent on its ongoing relationship with Canfor.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

Statement of Compliance and Conversion to International Financial Reporting Standards

The Partnership prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly these are the Partnership's first annual consolidated financial statements prepared in accordance with IFRS. In these financial statements, the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in compliance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Subject to certain transition elections disclosed in note 5, the Partnership has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Partnership's balance sheet, statements of comprehensive income and statements of cash flows, including the nature and effect of significant changes in accounting policies from those used in the Partnership's consolidated financial statements for the year ended December 31, 2010 under Canadian GAAP.

The policies applied in these financial statements are based on IFRS issued and outstanding as of December 31, 2011.

The consolidated financial statements were authorized for issue by the Board of Directors of the General Partner on February 6, 2012.

Basis of measurement

These financial statements have been prepared on the historical cost basis, except for derivative financial instruments measured at fair value through profit and loss and the post employment benefits obligation which is the net of the accrued benefit obligation and the fair value of the plan assets.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Partnership's functional currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise that cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect the Partnership's financial position.

Significant areas requiring the use of management estimates are inventory valuations, amortization rates, employee benefit plan assumptions, asset retirement obligations, impairment of long-lived assets and environmental remediation.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These financial statements include the accounts of the Partnership, its wholly owned subsidiaries and its 50% interest in Premium One Papers (a general partnership). The 50% interest in the general partnership is accounted for using proportionate consolidation.

(i) Subsidiaries

Subsidiaries are entities controlled by the Partnership. Control exists when the Partnership has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions have been eliminated.

(ii) Investments in jointly controlled entities (Joint Ventures)

Joint ventures are those entities over whose activities the Partnership has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. All joint ventures are accounted for using proportionate consolidation. Profits and losses resulting from 'upstream' and 'downstream' transactions are recognized in the Partnership's financial statements only to the extent of the unrelated interests in the joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity date of 90 days or less. Cash is presented net of outstanding cheques. When the amount of outstanding cheques is greater than the amount of cash, the net amount is presented as bank indebtedness.

Valuation of Inventories

Inventories of pulp and paper products, wood chips and processing materials and supplies are valued at the lower of average cost and net realizable value. The cost of inventories includes production and conversion costs and other costs incurred in bringing them to their existing location and condition. The average cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Where market conditions result in the manufacturing costs of a product exceeding its net realizable value, a valuation allowance is made. Valuation provisions are also made for old, slow moving and obsolete finished goods and spare parts. Such valuation allowances are deducted from the carrying value of the inventories.

Property, Plant and Equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs, any other costs directly attributable to bringing assets to a working condition for their intended uses, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset form part of the cost of that asset.

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Partnership and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

Assets are amortized over the following estimated productive lives:

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

Government Assistance

Government grants relating to the purchase of property, plant and equipment are deducted from the carrying value of the asset, the net cost being capitalized. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

Impairment of non-financial assets

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Partnership evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Provisions

A provision is recognized if, as a result of a past event, the Partnership has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The rate used to discount provisions is the current risk free rate available in the market. The unwinding of the discount is recognized as finance cost.

Financial instruments

Financial assets and liabilities are recognized when the Partnership 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 Partnership has transferred substantially all risks and rewards of ownership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

At initial recognition, the Partnership classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through net income: A financial asset or 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. The only instruments held by the Partnership classified in this category are US dollar forward contracts.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through net income are classified as current except for the portion to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Currently, the Partnership does not have any assets included in this category.

(iii) 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 Partnership's loans and receivables are comprised of cash and cash equivalents and accounts receivable and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, distributions payable, bank debt and long-term debt. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(v) Derivative financial instruments: The Partnership utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and commodity price risk. For example, from time to time, it purchases foreign exchange forward sales contracts to hedge related foreign currency denominated accounts receivable balances and also enters into swap transactions to reduce its exposure to fluctuating natural gas price. The Partnership records all derivatives at fair value through profit and loss and its policy is not to utilize derivative financial instruments for trading or speculative purposes.

Impairment of financial assets

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

(i) Financial assets carried at amortized cost: The 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.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income.

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.

Employee Future Benefits

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The cost of defined contribution pension plans is charged to expense as the contributions become payable. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

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

Defined Benefit Plans

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

The Partnership's net obligation in respect of a defined benefit pension plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Partnership's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

Actuarial gains or losses arise from the difference between the actual and expected long-term rates of return on plan assets for a period or from changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income without recycling to the statement of comprehensive income in subsequent periods. Current service cost, the recognized element of any past service cost, the expected return on plan assets and the interest arising on the pension liability are included in the same line items in the statement of comprehensive income as the related compensation cost.

Past service costs are deferred and amortized on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in net income.

The Partnership is not recognizing potential liabilities resulting from minimum funding requirements under solvency assumptions, if the Partnership can demonstrate its ability to provide a letter of credit in the amount of the shortfall.

Partners' Capital

Partnership units are classified as equity. Incremental costs directly attributable to the issue of Partnership units are recognized as a deduction from equity.

Interest paid

Cash flows relating to interest paid have been classified as financing activities in the statement of cash flows.

Distributions

Distributions on Partnership units are recognized in the financial statements in the period in which the distributions are approved by the Board of Directors of the Partnership and treated as an equity distribution.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Partnership's activities. Sales are shown net of discounts, allowances and vendor rebates and after eliminating sales within the Partnership.

Revenues are derived from the following major product lines: pulp, paper, energy and sales commissions. Sales are recognized after the Partnership has transferred the risks and rewards of ownership to the buyer, it is probable that the economic benefits associated with the transaction will flow to the entity, collection is reasonably assured and the Partnership retains neither a continuing right to dispose of the goods, nor effective control of those goods; usually, this means that sales are recorded upon delivery of goods to customers in accordance with agreed terms of delivery. Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by the Partnership are reported as cost of sales. Energy revenue is recognized when the Partnership has met the terms and conditions under both the Electricity Purchase and Load Displacement Agreements with BC Hydro.

Income Taxes

The Partnership is not directly subject to federal or provincial income taxes. The taxable income or loss of the Partnership is required to be allocated to the Partnership's partners.

Foreign Currency Translation

Foreign currency transactions

Items included in the financial statements of each of the Partnership'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.

Transactions in foreign currencies are translated to the functional currencies of the respective entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation are recognized in net income.

Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized and presented in other comprehensive income.

4. NEW ACCOUNTING PRONOUNCEMENTS

As of January 1, 2013, the Partnership will be required to adopt the following standards as issued by the IASB. The adoption of the following standards is not expected to have a material impact on the Partnership's consolidated financial statements:

IFRS 9 "Financial Instruments"
IFRS 9 is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The IASB has issued an amendment to IFRS 9 that delays the effective date to annual periods beginning on or after January 1, 2015. The Partnership will adopt this standard when required under IFRS.

IFRS 10 "Consolidated Financial Statements"
IFRS 10 replaces Standing Interpretations Committee 12, "Consolidation - Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establishes control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 "Joint Arrangements"
IFRS 11 replaces IAS 31 "Interests in Joint Ventures". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosures require information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"
IFRS 13 provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when another IFRS requires or permits the item to be measured at fair value, with limited exceptions.

In addition to the above standards the Partnership will be required to adopt the following amendments as issued by the IASB:

Amendment to IAS 19 Employee Benefits (IAS 19)
In June 2011, the IASB issued an amendment to IAS 19 that requires significant changes to the recognition and measurement of defined benefit pension and post retirement expense and to the disclosures for all employee benefits. This amendment: eliminates the corridor method; requires that actuarial gains and losses be immediately recognized in other comprehensive income without recycling to the consolidated statement of earnings; removes the ability to incorporate an expected rate of return on plan assets; requires all past service costs to be recognized in the period of a plan amendment; reduces flexibility in the method of presentation in the consolidated statement of earnings; and expands the disclosure requirements for benefit plans. This amendment is effective for annual periods beginning on or after January 1, 2013, and is applied retrospectively, with early adoption permitted.

Additionally, as of July 1, 2012, the Partnership will be required to adopt amendments to IAS 1 "Presentation of Financial Statements" which will require companies to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the income statement (commonly referred to as "recycling").

The Partnership does not anticipate material impacts as a result of adoption of the above amendments.

5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Application of IFRS 1

These financial statements are the first annual financial statements prepared by the Partnership under IFRS. The Partnership has applied IFRS 1 First-time adoption of IFRS in preparing these financial statements.

The Partnership's transition date to IFRS is January 1, 2010. The Partnership prepared its opening IFRS balance sheet at that date. In preparing its opening IFRS balance sheet and comparative information for the year ended December 31, 2010 the Partnership has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Partnership's financial position, financial performance and cash flows is set out in the tables in this note and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, the Partnership has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS, as described below.

Mandatory exceptions from full retrospective application followed by the Partnership

The Partnership has applied the mandatory exception from retrospective application for estimates.

Estimates under IFRS 1 as at January 1, 2010 should be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error. All other mandatory exceptions from full retrospective application are not applicable for the Partnership.

Exemptions from full retrospective application elected by the Partnership

The Partnership has elected to apply the following optional exemptions from full retrospective application.

(a) Business combinations exemption

The Partnership has applied the business combinations exemption in IFRS 1. It has not restated business combinations which took place prior to the January 1, 2010 transition date.

(b) Employee benefits exemption

IFRS 1 includes an optional exemption for entities that elect to recognize actuarial gains and losses using the corridor method, or a method that results in faster recognition in net income than the corridor method, after the date of transition. An entity may choose to recognize all cumulative (and previously unrecognized) actuarial gains and losses in retained earnings at the date of transition, as long as the exemption is applied to all defined benefit plans, i.e. the exemption cannot be applied on a plan-by-plan basis. The Partnership has elected to recognize all cumulative actuarial gains and losses in "Cumulative distributions in excess of income" as at January 1, 2010.

(c) Borrowing costs exemption

The Partnership has applied the transitional requirements of IAS 23. This allows the Partnership to capitalize borrowing costs in respect of qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

(d) Cumulative translation exemption

Generally IAS 21 requires an entity to classify certain translation differences as a separate component of equity. However, an entity may deem the cumulative translation account for all foreign operations to be nil at the date of transition, and reclassify any such amounts determined in accordance with previous GAAP at that date to retained earnings. When this is the case, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition. The Partnership has elected to take this exemption and has recognized all cumulative translation differences in "Cumulative distributions in excess of income" as at January 1, 2010.

(e) Asset retirement obligations exemption

IFRS requires that asset retirement obligations be re-valued every reporting period using the then current discount rate. The Partnership has chosen to apply the relevant IFRS standard (IFRIC 1) prospectively effective the date of transition to IFRS. Had the Partnership not taken the exemption, it would have been required to retrospectively calculate changes over the life of the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

Reconciliations between IFRS and Canadian GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS.

Reconciliation of Assets, Liabilities & Equity at January 1, 2010

	As at January 1, 2010		
(millions of dollars)	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current assets			
Cash and cash equivalents	$ 13.5	$ -	**$ 13.5**
Accounts receivable			
Trade	110.5	-	**110.5**
Other	8.6	-	**8.6**
Inventories	135.4	-	**135.4**
Prepaid expenses and other assets[ii]	18.4	(15.3)	**3.1**
Total current assets	286.4	(15.3)	**271.1**
Property, plant and equipment[ii]	534.1	20.7	**554.8**
Other long-term assets[i,ii]	17.1	(16.6)	**0.5**
	$ 837.6	$ (11.2)	**$ 826.4**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 134.5	$ -	**$ 134.5**
Distributions payable	5.7	-	**5.7**
Total current liabilities	140.2	-	**140.2**
Long-term debt	115.1	-	**115.1**
Post employment benefits [i]	49.0	17.0	**66.0**
Long-term provisions	3.0	-	**3.0**
Other long-term liabilities	1.2	-	**1.2**
	$ 308.5	$ 17.0	**$ 325.5**
PARTNERS' EQUITY			
Partnership units	587.5	-	**587.5**
Accumulated earnings and distributions [i]	(58.4)	(28.2)	**(86.6)**
	$ 529.1	$ (28.2)	**$ 500.9**
	$ 837.6	$ (11.2)	**$ 826.4**

Reconciliation of Assets, Liabilities & Equity at December 31, 2010

(millions of dollars)	Canadian GAAP		As at December 31, 2010 Effect of transition to IFRS		IFRS	
ASSETS						
Current assets						
Cash and cash equivalents	$	64.2	$	-	**$**	**64.2**
Accounts receivable						
Trade		108.0		-		**108.0**
Other		14.8		-		**14.8**
Green Transformation Program		17.9		-		**17.9**
Inventories		123.4		-		**123.4**
Prepaid expenses and other assets[i,ii]		21.8		(10.8)		**11.0**
Total current assets	$	350.1	$	(10.8)	**$**	**339.3**
Property, plant and equipment[ii]		499.6		13.9		**513.5**
Other long-term assets[i,ii]		17.6		(17.1)		**0.5**
	$	867.3	$	(14.0)	**$**	**853.3**
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	$	139.3	$	-	**$**	**139.3**
Distributions payable		39.2		-		**39.2**
Total current liabilities		178.5		-		**178.5**
Long-term debt		109.4		-		**109.4**
Post employment benefits[i,iv]		53.0		26.8		**79.8**
Long-term provisions[iv]		3.1		-		**3.1**
	$	344.0	$	26.8	**$**	**370.8**
PARTNERS' EQUITY						
Partnership units		587.5		-		**587.5**
Accumulated earnings and distributions[i]		(64.2)		(40.8)		**(105.0)**
		523.3		(40.8)		**482.5**
	$	867.3	$	(14.0)	**$**	**853.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

Reconciliation of Comprehensive Income for year ended December 31, 2010

(millions of dollars)		Year ended December 31, 2010
Comprehensive income - Canadian GAAP	$	178.0
Lower pension expense for period [i]		1.0
	$	179.0
Other comprehensive income - Canadian GAAP	$	0.1
Actuarial losses on defined benefit plans during the period [i]		(13.6)
Comprehensive income IFRS	**$**	**165.5**

Notes to the Reconciliations

i) Employee Benefits - Under IFRS the Partnership's accounting policy is to recognize all actuarial gains and losses immediately in other comprehensive income. At the date of transition, all previously unrecognized cumulative actuarial gains and losses and unrecognized past service costs were recognized in equity. The impact of this policy decision was a $28.2 million decrease in equity, an $11.2 million decrease in other long-term assets and a $17.0 million increase to long-term liabilities.

All actuarial gains and losses arising in 2010 were recognized in other comprehensive income. A charge to accumulated earnings and distributions of $13.6 million for actuarial gains and losses related to the year ended December 31, 2010 was recorded. As a result of immediate recognition of previously unrecognized cumulative actuarial gains and losses the total pension expense for the year ended was reduced by $1.0 million under IFRS. This reduced manufacturing costs by $1.0 million for the year ended December 31, 2010.

ii) Property, plant and equipment (PP&E) – For major maintenance, International Accounting Standard (IAS) 16 requires for major inspections and overhauls to be accounted as a separate component of PP&E. The Partnership has determined that a significant part of its major maintenance program qualifies as a separate component of PP&E under IFRS. As at January 1, 2010 the resulting impact is a $20.7 million increase to PP&E, a $15.3 million decrease to prepaid expenses and a $5.4 million decrease to other long-term assets.

The impact on net income for the year ended December 31, 2010 was an increase in amortization of $18.7 million with an offsetting decrease to manufacturing costs.

The change in policy also increased expenditures on items of PP&E reported in the statements of cash flows by $11.9 million for the year ended December 31, 2010 restated to conform to IFRS. The long-term maintenance provision and long-term maintenance expenditure line items on the consolidated statements of cash flows are no longer applicable and those amounts are now included in PP&E.

iii) Statement of cash flows (interest received / paid) – Under IFRS an accounting policy choice is available as to where interest and distributions paid and interest and distributions received are presented in the statements of cash flows. The Partnership has elected to present distributions paid to partners and interest paid in financing activities and interest received in investing activities. Under Canadian GAAP interest received and paid were presented within operating activities.

iv) Reclassification of Employee Future Benefits and Asset Retirement Obligations – Under Canadian GAAP employee pension obligations, other retirees benefits and asset retirement obligations were included in long-term liabilities. Under IFRS, pension and other retirees benefits have been classified on the consolidated balance sheets as post employment benefits and asset retirement obligations have been classified as long-term provisions.

6. INVENTORIES

(millions of dollars)	**December 31, 2011**	December 31, 2010	January 1, 2010
Pulp	**64.1**	52.7	55.2
Paper	**17.0**	10.1	15.9
Wood chips	**16.0**	16.4	21.5
Processing materials and supplies	**44.5**	44.2	42.8
	141.6	123.4	135.4

In 2011 raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to $312.2 million (2010 - $341.8 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

7. PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)	Land and improvements	Buildings, machinery & equipment	Asset retirement - landfill	Construction in Progress	Major Maintenance	Total
Cost						
Balance at January 1, 2010	5.4	1,344.1	2.3	3.2	30.3	1,385.3
Additions	-	0.1	-	24.9	-	25.0
Disposals	-	(0.6)	-	-	(5.2)	(5.8)
Transfers	-	12.5	-	(24.4)	11.9	-
Balance at December 31, 2010	**5.4**	**1,356.1**	**2.3**	**3.7**	**37.0**	**1,404.5**
Additions	-	-	(0.2)	86.4	-	86.2
Disposals	-	(16.4)	-	-	(27.2)	(43.6)
Transfers	-	44.9	-	(75.3)	30.4	-
Balance at December 31, 2011	**5.4**	**1,384.6**	**2.1**	**14.8**	**40.2**	**1,447.1**
Accumulated amortization						
Balance at January 1, 2010	-	820.1	0.8	-	9.6	830.5
Additions	-	47.3	0.1	-	18.7	66.1
Disposals	-	(0.4)	-	-	(5.2)	(5.6)
Balance at December 31, 2010	**-**	**867.0**	**0.9**	**-**	**23.1**	**891.0**
Additions	-	50.2	-	-	16.5	66.7
Disposals	-	(15.4)	-	-	(27.2)	(42.6)
Balance at December 31, 2011	**-**	**901.8**	**0.9**	**-**	**12.4**	**915.1**
Carrying amounts						
At January 1, 2010	5.4	524.0	1.5	3.2	20.7	554.8
At December 31, 2010	5.4	489.1	1.4	3.7	13.9	513.5
At December 31, 2011	**5.4**	**482.8**	**1.2**	**14.8**	**27.8**	**532.0**

8. PARTNERS' CAPITAL

Authorized
Unlimited number of Class A Limited Partnership Units.
Unlimited number of Class B Exchangeable Limited Partnership Units.

Issued and fully paid
14,254,005 Class A Limited Partnership Units.

57,016,020 Class B Exchangeable Limited Partnership Units.

Each Class A and Class B Partnership Unit is entitled to vote at all meetings of the Limited Partners. All unitholders are entitled to receive distributions, as and when declared on the Partnership Units. The Class B Exchangeable Limited Partnership Units are exchangeable for an equivalent number of CPPI shares pursuant to the terms of an amended exchange agreement (Exchange Agreement) dated January 1, 2011 between Canfor, CPPI, the Partnership and the General Partner. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for CPPI shares. There were no changes in the Partnership's equity interest, and the rights, preferences, and restrictions attaching to each category of equity interest during 2011.

9. NET INCOME PER PARTNERSHIP UNIT

Basic net income per Partnership unit is based on the weighted average number of Limited Partnership units outstanding during the period. All outstanding Partnership units were issued on July 1, 2006, and there was no change in the number of outstanding Partnership units during the year.

10. EMPLOYEE FUTURE BENEFITS

The Partnership, in participation with Canfor, has funded and unfunded defined benefit plans, as well as a defined contribution plan, that provide pension, other retirement and post-employment benefits to substantially all salaried employees and for its hourly employees covered under collective agreements. The defined benefit plans are based on years of service and final average salary. The post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Defined Benefit Plans

The Partnership measures its accrued benefit obligations and the fair value of plan assets for accounting purposes under IFRS as at December 31 of each year. In 2011, the Partnership had two registered defined benefit plans, for which actuarial valuations are performed every three years. The most recent actuarial valuation for funding purposes of the Partnership's single largest pension plan was as of December 31, 2010, and the next required plan valuation is currently scheduled for December 31, 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

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

	2011		2010	
(millions of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Defined Benefit Plan Assets				
Fair market value of plan assets				
Beginning of year	**$ 64.7**	$ -	$ 53.8	$ -
Actual return on plan assets	**1.4**	-	5.5	-
Partnership contributions	**8.7**	1.4	8.2	1.3
Employee contributions	**0.2**	-	0.2	-
Benefit payments	**(2.7)**	(1.4)	(3.0)	(1.3)
End of year	**$ 72.3**	$ -	$ 64.7	$ -

	Percentage of Plan Assets	
	2011	2010
Plan assets consist of the following:		
Equity securities	**61%**	63%
Debt securities	**39%**	36%
Other	**-**	1%
	100%	100%

The expected return on plan assets is determined by considering the expected returns available on the assets based on the Partnership's current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

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

	2011		2010	
(millions of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Defined Benefit Plan Obligations				
Accrued benefit obligation				
Beginning of year	**$ 85.8**	**$ 58.5**	$ 74.6	$ 45.9
Current service cost	**3.3**	**1.1**	3.3	0.8
Interest cost	**4.8**	**3.3**	4.6	3.0
Employee Contributions	**0.2**	**-**	0.2	-
Benefit payments	**(2.7)**	**(1.4)**	(3.0)	(1.3)
Actuarial loss	**4.6**	**9.5**	6.1	8.8
Other	**-**	**(0.1)**	-	1.3
End of year	**$ 96.0**	**$ 70.9**	$ 85.8	$ 58.5

Of the defined benefit plan obligation of $96.0 million (2010 - $85.8 million), $12.0 million relates to plans that are wholly unfunded and $84.0 million relates to plans that are wholly or partly funded (2010 - $12.1 million and $73.7 million, respectively).

The total obligation for the other benefit plans of $70.9 million (2010 - $58.5 million) is unfunded, except when expenditures are incurred.

The Partnership expects $7.6 million in contributions to be paid to its defined benefit plans in 2012.

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

	December 31, 2011		December 31, 2010	
(millions of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plans assets	$ 72.3	$ -	$ 64.7	$ -
Accrued benefit obligation	(96.0)	(70.9)	(85.8)	(58.5)
Funded status of plans – deficit	(23.7)	(70.9)	(21.1)	(58.5)
Accrued benefit liability	(23.7)	(70.9)	(21.1)	(58.5)
Other pension plans	(0.2)	-	(0.2)	-
Total accrued benefit liability, net	$ (23.9)	$ (70.9)	$ (21.3)	$ (58.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

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

	December 31, 2011		December 31, 2010	
(millions of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Experience adjustments arising on plan liabilities	$ (1.2)	$ (9.5)	$ (3.1)	$ (8.8)
Experience adjustments arising on plan assets	$ 3.7	$ -	$ (1.3)	$ -

Components of pension cost

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

	December 31, 2011		December 31, 2010	
(millions of dollars)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Recognized in net income				
Current service cost	$ 3.3	$ 1.1	$ 3.3	$ 0.8
Interest cost	4.8	3.3	4.6	3.0
Expected return on plan assets	(5.1)	-	(4.2)	-
Other	-	(0.1)	-	1.3
Total pension cost recognized in net income	$ 3.0	$ 4.3	$ 3.7	$ 5.1
Recognized in other comprehensive income				
Actuarial loss immediately recognized	$ 8.3	$ 9.5	$ 4.8	$ 8.8
Total pension cost recognized in other comprehensive income	$ 8.3	$ 9.5	$ 4.8	$ 8.8

The Partnership's total employee benefits expense includes salaries and wages, future employee benefits and terminations as applicable. The total employee benefit expenses for the year ended December 31, 2011 was $145.9 million (December 31, 2010 - $143.5 million).

Significant assumptions

The actuarial assumptions used in measuring the Partnership's benefit plan provisions are as follows:

	December 31, 2011		December 31, 2010	
(weighted average assumptions)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation at reporting date:				
Discount rate	5.00%	5.30%	5.50%	5.75%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Benefit costs for year ended December 31:				
Discount rate	5.50%	5.75%	6.25%	6.75%
Expected rate of return on plan assets	7.50%	n/a	7.50%	n/a
Future salary increases	3.00%	n/a	3.00%	n/a

Assumed health care cost trend rates

(weighted average assumptions)	December 31, 2011	December 31, 2010
Initial health care cost trend rate	6.33%	6.95%
Ultimate health care trend rate	4.50%	4.20%
Year ultimate rate is reached	2029	2029

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one percentage-point change in assumed health care cost trend rates would have the following effects for 2011:

(millions of dollars)	1% Increase	1% Decrease
Effect on the aggregate service and interest cost	$ 1.0	$ (0.7)
Effect on defined benefit obligation	$ 13.9	$ (11.0)

For the Partnership's single largest pension plan, a one percentage point increase in the rate of return on plan assets over the year would reduce the funded deficit by an estimated $0.7 million. A one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the funded deficit by an estimated $9.0 million. These changes would only impact the Partnership's funding requirements in years where a new actuarial funding valuation was performed and approval for a change in annual funding contributions was obtained from the regulator.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

Defined contribution and other plans

The total cost recognized in 2011 for the Partnership's defined contribution plans was $1.0 million (2010 – $0.8 million).

The Partnership contributes to a pulp industry pension plan providing pension benefits to union employees. This plan is accounted for as a defined contribution plan. Contributions to this plan, not included in the cost recognized for defined contribution plans above, amounted to $6.7 million in 2011 (2010 - $6.4 million).

11. LONG-TERM PROVISIONS

(millions of dollars)	December 31, 2011	December 31, 2010
Balance beginning of year	3.1	3.0
Accretion expense	-	0.1
Balance end of year	3.1	3.1

The Partnership's asset retirement obligations represent estimated undiscounted future payments of $7.2 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 7 to 40 years which have been discounted at the respective risk free rates ranging from 1.5% to 2.5%.

The Partnership has certain assets that have indeterminate useful lives and, therefore, there is an indeterminate settlement date for the related asset retirement obligation. As a result, no asset retirement obligations were recorded for these assets. These assets include, for example, wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals and other related materials will be required once the related operating facility is closed. Once the useful life of these assets becomes determinable and an estimate can be made, an asset retirement obligation will be recorded.

12. CREDIT FACILITIES AND LONG-TERM DEBT

At December 31, 2011 the Partnership had outstanding long-term debt of $111.9 million (December 31, 2010 – $109.4 million, US$110.0 million) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

The Partnership has a $40.0 million bank credit facility with a maturity date of November 30, 2013, of which $0.5 million was utilized at December 31, 2011 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2013, to cover the $10.4 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. The Partnership also has an undrawn $30.0 million bridge loan credit facility with a maturity date of December 31, 2012 to fund timing differences between expenditures and reimbursements for projects funded under the Green Transformation Program. Interest and other costs of the credit facilities are at prevailing market rates. The leverage ratio and interest coverage ratio are consistent with the financial covenants under the Note Agreement.

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at December 31, 2011 and throughout the year.

The fair value of long-term debt at December 31, 2011 was $117.4 million (US$115.4 million).

13. CAPITAL DISCLOSURES

The Partnership's objectives when managing capital are to safeguard its assets and maintain a globally competitive cost structure, continue as a going concern and provide returns to its partners in the form of distributions and capital appreciation. In addition, the Partnership works with relevant stakeholders to ensure the safety of its operations and employees, and to remain in compliance with all environmental regulations.

The Partnership's capital is comprised of net debt and Partners' equity:

(millions of dollars)	December 31, 2011	December 31, 2010	January 1, 2010
Long-term debt	111.9	109.4	115.1
Bank indebtedness (cash and cash equivalents)	2.0	(64.2)	(13.5)
Net debt	113.9	45.2	101.6
Total Partners' equity	453.7	482.5	500.9
	567.6	527.7	602.5

The Board of the General Partner determines the level of cash distributions based on the level of cash flow from operations before changes in non-cash working capital, asset retirement obligation expenditures and accruals, less regular capital expenditures, major maintenance amortization and interest expense. During the year distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is projected that normal seasonal fluctuations in working capital will be funded from cash resources or the revolving short-term credit facility.

The Partnership's long-term debt and short-term credit facility agreements contain leverage and interest ratio covenants, as described in note 12.

14. RELATED PARTY TRANSACTIONS

The Partnership purchased wood chips and hog fuel from Canfor sawmills in the amount of $122.2 million in 2011 (2010 – $126.2 million). The Partnership also purchased wood chips from Lakeland Mills Ltd., in which Canfor owns a one-third interest in the amount of $11.5 million in 2011 (2010 – $6.1 million). Purchased wood chips and hog fuel are included in manufacturing and product costs.

Effective July 1, 2006, the Partnership entered into a services agreement under which Canfor provides certain business and administrative services to the Partnership. Total value of the services provided in 2011 was $3.3 million (2010 – $3.0 million), included in manufacturing and product costs and selling and administration costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

Effective July 1, 2006, the Partnership entered into an incidental services agreement with Canfor, under which the Partnership provides certain business and administrative services to Canfor. Total value of the services provided in 2011 was $2.0 million (2010 – $1.7 million), included as a cost recovery in manufacturing and product costs and selling and administration costs.

The Partnership markets bleached chemi-thermo mechanical pulp production from Canfor's Taylor Pulp Mill (Taylor) for which it earned commissions totaling $1.9 million in 2011 (2010 – $1.7 million), included in sales. The Partnership also purchased chemi-thermo mechanical pulp from Taylor for resale totaling $0.4 million in 2011 (2010 – $1.5 million). The Partnership sold NBSK pulp to Taylor for packaging use totaling $3.0 million in 2011 (2010 – $3.0 million). In respect of the products marketed and services provided for Taylor, the Partnership held balances of $3.2 million in accounts receivable - trade (2010 – $22.2 million) and $7.6 million in accounts payable (2010 – $23.6 million) to Canfor at December 31, 2011.

Under the agreements for the marketing of production from Taylor, the Partnership assumes the customer credit risk. Accordingly, the Partnership records on its balance sheet the accounts receivable from the customer and the accounts payable to Canfor for sales made under those agreements.

In October of 2010, Canfor sold its 50% ownership of Howe Sound Pulp and Paper Limited Partnership (HSLP). Until this time, the Partnership marketed the NBSK pulp produced by HSLP, for which it earned commissions totaling $1.8 million in 2010, included in sales. In respect of the products marketed and service provided for HSLP, the Partnership held balances of $1.0 million in accounts receivable and $8.9 million in accounts payable to Canfor at December 31, 2010. As a result of the sale of HSLP by Canfor, the Partnership's agreement to market HSLP pulp was terminated by the buyer and as compensation the Partnership received a contract termination fee of $1.3 million from HSLP, included in selling and administration costs in 2010.

At December 31, 2011, a total of $10.6 million (2010 – $12.0 million) was outstanding as accounts payable to Canfor in respect of purchases of wood chips, hog fuel, services and amounts paid on behalf of the Partnership. At December 31, 2011 a total of $0.9 million (2010 – $0.4 million) was payable to Lakeland Mills Ltd. for wood chips.

The Partnership performs all accounting, treasury, legal and administrative functions for CPPI pursuant to a support agreement. The value of these services for the year ended December 31, 2011 was $1.1 million, with an outstanding balance of $0.1 million recorded in accounts receivable from CPPI at December 31, 2011.

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.

During 2011, the Partnership declared distributions totaling $149.7 million to its limited partners. Distributions to Canfor were $75.2 million, of which $71.3 million was paid, with the balance of $3.9 million recorded in accounts payable as at December 31, 2011. Distributions to the Fund were $74.5 million, of which $70.6 million was paid, with the balance of $3.9 million recorded in accounts payable as at December 31, 2011. For the year ended December 31, 2010, the Partnership declared distributions totaling $183.9 million to its limited partners. Distributions to Canfor were $92.3 million, of which $72.6 million was paid, with the balance of $19.7 million recorded in accounts payable as at December 31, 2010. Distributions to the Fund were $91.6 million, of which $72.1 million was paid, with the balance of $19.5 million recorded in accounts payable as at December 31, 2010.

Key Management Personnel

Key Management Personnel compensation comprises:

(millions of dollars)	**Year ended December 31, 2011**	Year ended December 31, 2010
Short-term employee benefits to officers and directors	**4.5**	5.3
Post-employment benefits to officers	**0.4**	0.4
Total	**4.9**	5.7

Key management includes members of the Board of Directors of the General Partner and senior executive management of the Partnership.

Other Related Parties

Post-employment benefit plans

During the year, the Partnership made contributions to certain post-employment benefit plans for the benefit of Partnership employees. See note 10 Employee Future Benefits.

15. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

The Partnership has classified cash and cash equivalents and accounts receivable as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, distributions payable, operating loan and long-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost. Derivative instruments are recorded in the balance sheet at fair value. The Partnership has no derivatives embedded in its financial or non-financial contracts that are not closely related to the host contract.

Financial Risk Management

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

Risk management is carried out by the risk management committee under a "Risk Management Controls Policy". The policy sets out the responsibilities, reporting and counter party credit and communication requirements associated with all of the Partnership's risk management activity. Responsibility for overall philosophy, direction and approval is that of the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

I. *Credit risk:*

Credit risk is the risk of financial loss to the Partnership if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Partnership to credit risk include cash and cash equivalents, accounts receivable and derivatives.

In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions. The Partnership does not believe there is any significant credit risk associated with cash on deposit held in major Canadian and international financial institutions.

The Partnership utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 88% of the outstanding trade receivables are covered under credit insurance. In addition, the Partnership requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. The Partnership recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. At December 31, 2011, the Partnership had reduced the trade accounts receivable balance by $27.9 million due to discounting of letters of credit. The Partnership's trade receivable balance at December 31, 2011 was $70.8 million. The Partnership believes that its approach to managing credit risk associated with the collection of outstanding trade accounts receivable is appropriate in the current credit market.

II. *Liquidity risk:*

Liquidity risk is the risk that the Partnership will be unable to meet its financial obligations as they fall due. The Partnership manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities, and use of the bank credit facility to meet short-term working capital requirements.

The Partnership also reviews on an ongoing basis, the level of distributions, capital expenditures and timing of scheduled major maintenance outages and may adjust these amounts periodically to manage cash resources. In addition, the Partnership periodically utilizes discounting of letters of credit on outstanding trade receivables to manage liquidity risk. At December 31, 2011, the impact of discounting of letters of credit accelerated cash collection and reduced the trade accounts receivable balance by $27.9 million. The Partnership believes it will be able to meet all of its financial obligations as they become due.

At December 31, 2011, the Partnership's accounts payable and accrued liabilities totaled $117.9 million, all of which fall due for payment within one year of the balance sheet date. The Partnership's distributions payable at December 31, 2011 totaled $7.8 million, which are payable on January 13, 2012.

III. Market risk:

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

a. Interest rate risk:

The Partnership is exposed to interest rate risk through its financial assets and financial obligations bearing variable interest rates and through its off-balance sheet lease obligations.

The Partnership manages interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to meet day-to-day operating cash flow requirements and payment of monthly declared distributions to unitholders.

Fluctuations in market interest rates are not expected to have a material impact on the Partnership's results of operations due to the short-term nature of the respective financial assets and obligations and the fixed interest rate on long-term debt.

The Partnership currently does not use derivative instruments to reduce its exposure to interest rate risk.

b. Currency risk:

The Partnership is exposed to foreign exchange risk. The Partnership's products are sold globally with prices primarily denominated in US dollars or linked to prices quoted in US dollars with certain expenditures transacted in US dollars. In addition the Partnership holds financial assets and liabilities in US dollars. These primarily include US dollar bank accounts and investments, trade accounts receivable and long-term debt.

The Partnership enters into US dollar forward sales contracts to reduce exposure to fluctuations in US exchange rates on US dollar denominated accounts receivable and accounts payable balances.

c. Commodity price risk:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

In addition, the sensitivity of the Partnership's results to currency fluctuations and price changes for its principal products and input costs, when operating at full capacity, is estimated to be as follows:

(millions of dollars, unaudited)	Impact on annual net income
Canadian dollar – US $0.01 change per Canadian dollar	$ 6
NBSK pulp – US $10 change per tonne	7
Natural gas cost - $1 change per gigajoule	4
Chip cost - $2 change per tonne	5

Fair Value Hierarchy

Financial instruments recognized at fair value on the Consolidated Balance Sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 –measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The only items recognized at fair value on the Consolidated Balance Sheets were derivative assets and derivative liabilities. The fair value of derivative instruments is based on quoted market prices for comparable contracts and represents the amount the Partnership would have received from, or paid to, a counterparty to unwind the contract at the market rates in effect at the balance sheet dates and therefore derivative instruments are classified within Level 2 of the fair value hierarchy established by IFRS 7. As at December 31, 2011 derivative assets were recorded in other accounts receivable for $0.3 million (December 31, 2010 - $1.1 million). Derivative liabilities were recorded in accounts payable and accrued liabilities in the consolidated balance sheet. As at December 31, 2011 there were no derivative liabilities recorded (December 31, 2010 - $2.5 million).

Derivative Instruments

Periodically, the Partnership uses derivative instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp and natural gas prices.

For the year ended December 31, 2011 the Partnership recorded a net loss on derivative financial instruments of $1.6 million (2010 – net gain of $1.5 million) relating to the settlement of maturing contracts during the year and the revaluation to market of outstanding contracts at the end of the year, for natural gas swaps and US dollar forward contracts.

For the year ended December 31, 2011 the Partnership recorded losses of $2.6 million (2010 – $3.7 million) relating to the settlement of maturing natural gas swaps as a charge to non-operating income. At December 31, 2011 the Partnership's outstanding commodity swaps hedging future natural gas purchases have all been settled.

For the year ended December 31, 2011 the Partnership recorded a net loss of $0.8 million (2010 – net gain of $4.2 million) on settlement of maturing US dollar forward contracts as a credit to non-operating income. At December 31, 2011 the Partnership had outstanding US dollar forward contracts of $56.0 million extending to April 2012. At December 31, 2011 the unrealized gain of $0.3 million (2010 – 1.1 million) on these outstanding US dollar forward contracts was recorded as an asset in other accounts receivable.

16. DISTRIBUTIONS

The Partnership declared distributions in the twelve months of 2011 as follows:

(millions of dollars, except per unit amounts)

Record Date	Payable Date	Amount per Partnership Unit $	Amount $
January 31, 2011	February 15, 2011	0.26	**18.5**
February 28, 2011	March 15, 2011	0.26	**18.6**
March 31, 2011	April 15, 2011	0.26	**18.5**
April 29, 2011	May 13, 2011	0.23	**16.4**
May 31, 2011	June 15, 2011	0.23	**16.4**
June 30, 2011	July 15, 2011	0.23	**16.4**
July 29, 2011	August 15, 2011	0.10	**7.2**
August 31, 2011	September 15, 2011	0.10	**7.1**
September 30, 2011	October 14, 2011	0.10	**7.1**
October 31, 2011	November 15, 2011	0.11	**7.9**
November 30, 2011	December 15, 2011	0.11	**7.8**
December 30, 2011	January 13, 2012	0.11	**7.8**
		2.10	**149.7**

17. COMMITMENTS AND CONTINGENCIES

The Partnership has committed to the following operating leases for property, plant and equipment. As at December 31, 2011 and 2010, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)	As at December 31, 2011	As at December 31, 2010
Within one year	1.7	2.4
Between one and five years	1.7	2.7
Total	3.4	5.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011 (Continued)

During the year ended December 31, 2011 $3.6 million (2010 - $3.6 million) was recognized as expense in the statement of comprehensive income in respect of operating leases.

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

Significant contractual commitments relating to the construction of capital assets totaled $6.2 million at December 31, 2011 (2010 – $6.5 million).

18. GREEN TRANSFORMATION PROGRAM

The Partnership has been allocated $122.2 million under the Canadian Federal Government Pulp and Paper Green Transformation Program (the Program). The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. As of December 31, 2011 the Partnership has expended the full Program allocation of $122.2 million with an additional $33.2 million of Partnership funded expenditures for a total of $155.4 million on qualifying expenditures under the Program. During 2011, the Partnership received reimbursements for capital and operating expenditures totaling $82.4 million with the balance of $19.7 million receivable as at December 31, 2011. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

19. SEGMENTED INFORMATION [a]

The Partnership is a producer of market NBSK Pulp and fully bleached, high performance Kraft Paper. For management purposes, the Partnership has two reporting segments which operate as separate business units: Pulp and Paper. These divisions are the basis on which the Partnership reports its primary segment information. This segment reporting is consistent with the internal reporting provided to the executive management team, who operate as the Partnerships chief operating decision maker. The executive management team is responsible for allocating resources and assessing performance of the operating segments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The Partnership accounts for interdivisional sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

(millions of dollars)	Pulp	Paper	Unallocated Costs	Total
Year ended December 31, 2011				
Sales to external customers [(b)]	**802.9**	**136.6**	**1.5**	**941.0**
Sales of pulp to paper segment [(c)]	**87.9**	**(87.9)**	**-**	**-**
Operating income (loss)	**154.9**	**9.2**	**(13.6)**	**150.5**
Amortization	**63.0**	**3.6**	**0.2**	**66.8**
Capital expenditures, net	**82.7**	**2.7**	**1.0**	**86.4**
Identifiable assets	**702.5**	**63.8**	**24.9**	**791.2**
Year ended December 31, 2010				
Sales to external customers [(b)]	857.2	142.6	1.3	1,001.1
Sales of pulp to paper segment [(c)]	89.6	(89.6)	-	-
Operating income (loss)	199.0	0.6	(15.9)	183.7
Amortization	62.5	3.3	0.3	66.1
Capital expenditures, net	22.7	1.3	0.9	24.9
Identifiable assets	707.5	63.7	82.1	853.3

(a) Operations are presented by product lines. Operations are considered to be in one geographic area since all production facilities are in Canada. Substantially all sales are exported outside Canada, with sales to the United States representing 29% (Year 2010 – 38%).

(b) Sales to the largest customer represented approximately 10% of pulp segment sales (Year 2010 – 12%).

(c) Sales of slush pulp to the paper segment are accounted for at approximate market value. The sales are transacted as a cost transfer and are not reflected in Pulp sales.

Geographic information

(millions of dollars)	**2011**	2010
Sales by location of customer		
Canada	**$ 40.0**	$ 34.4
United States	**274.7**	372.6
Europe	**144.0**	172.7
Far East and Other	**482.3**	421.4
	$ 941.0	$ 1,001.1

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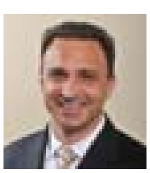

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General Manager, Fibre Supply

ROBERT DUFRESNE
General Manager, Northwood Pulp Mill

MARTIN PUDLAS
General Manager, PGI Pulp Mills and Specialty Paper

RICK REMESCH, CA
Corporate Controller

DAVID SCOTT
General Manager, Human Resources

1 Member of the Audit Committee for CPPI and the General Partner
2 Member of the Governance Committee
3 Member of the Compensation Committee
4 Member of the Joint Capital Expenditure Committee

ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Canfor Pulp Products Inc. will be held at the Terminal City Club, Atkins-Ceperley Room, 837 West Hastings Street, Vancouver, British Columbia on Tuesday, April 24, 2012 at 11:30 a.m.

TRANSFER AGENT AND REGISTRAR

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

STOCK LISTING

Toronto Stock Exchange
Symbol: CFX

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

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