CANFOR PULP PRODUCTS INC.

Third Quarter Report

For the three and nine months ended September 30, 2012

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

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

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at October 22, 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", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

CPPI SHARE EXCHANGE

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

The discussion which follows refers to the results of the Partnership for the comparative periods prior to the quarter ended March 31, 2012. For the quarter ended March 31, 2012, and all subsequent quarters, the results of CPPI include the results of the Partnership.

THIRD QUARTER 2012 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)	Q3 2012	Q2 2012	YTD 2012	Q3 2011	YTD 2011
Operating income (loss) by segment:					
Pulp	**$ (8.4)**	$ 8.6	**$ 12.4**	$ 36.7	$ 140.8
Paper	**$ 5.0**	$ 4.8	**$ 12.5**	$ 3.2	$ 6.1
Unallocated and Other	**$ (4.8)**	$ (3.0)	**$ (11.2)**	$ (3.5)	$ (10.0)
Total operating income (loss)	**$ (8.2)**	$ 10.4	**$ 13.7**	$ 36.4	$ 136.9
Add: Amortization	**$ 15.2**	$ 14.7	**$ 47.1**	$ 13.9	$ 45.4
Total operating income before amortization	**$ 7.0**	$ 25.1	**$ 60.8**	$ 50.3	$ 182.3
Add (deduct):					
Working capital movements	**$ (5.2)**	$ 0.6	**$ 9.8**	$ 0.3	$ (14.3)
Salary pension plan contributions	**$ (1.9)**	$ (2.0)	**$ (5.8)**	$ (2.0)	$ (6.1)
Other operating cash flows, net	**$ 1.5**	$ (4.5)	**$ (2.7)**	$ 2.7	$ 3.0
Cash from operating activities	**$ 1.4**	$ 19.2	**$ 62.1**	$ 51.3	$ 164.9
Add (deduct):					
Distributions / dividends paid	**$ (3.6)**	$ (7.8)	**$ (19.2)**	$ (30.6)	$ (158.2)
Finance expenses paid[1]	**$ (0.2)**	$ (3.6)	**$ (4.0)**	$ (0.4)	$ (4.0)
Capital additions, net[2]	**$ (19.9)**	$ (16.8)	**$ (55.3)**	$ (15.3)	$ (35.4)
Acquisition of CPPI cash on exchange	**$ -**	$ -	**$ 6.8**	$ -	$ -
Other, net	**$ -**	$ 0.1	**$ 0.2**	$ 0.5	$ 0.5
Change in cash / operating loans	**$ (22.3)**	$ (8.9)	**$ (9.4)**	$ 5.5	$ (32.2)
Average exchange rate (US$ per C$1.00)[3]	**$ 1.005**	$ 0.990	**$ 0.998**	$ 1.020	$ 1.023

[1] Certain prior period amounts have been restated due to a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. Further details can be found in the "Changes in Accounting Policy" section later in this document.
[2] Additions to property, plant and equipment are shown net of amounts received under Government funding initiatives.
[3] Source – Bank of Canada (average noon rate for the period).

Results in the third quarter of 2012 were significantly impacted by challenging markets resulting in downward pressure on prices, with Northern Bleached Softwood Kraft ("NBSK") list prices decreasing over 5% in all regions compared to the previous quarter. Global softwood pulp markets weakened through the summer months, with price erosion occurring for most of the quarter. While softwood pulp inventories remained relatively stable, global hardwood pulp producer inventories increased throughout the quarter. At the end of August (latest available data), global softwood producer inventory levels were at 30 days supply, up marginally compared to the end of the second quarter.

Compared to the previous quarter, average list price for North America was down US$47 to US$853 per tonne. CPPI's average list price to China and price to Europe were down US$57. Sales realizations were also negatively impacted by a strengthening of the Canadian dollar against the US dollar, which was up 1.5% compared to the previous quarter.

The Company's shipments and production levels for the third quarter reflected an extended scheduled outage for maintenance and capital upgrades at the Company's Prince George Pulp Mill, during which it completed a replacement of the recovery boiler lower furnace and upgrades to the boiler feedwater treatment system. The impact of the shut was partly offset by higher production at the Northwood Pulp Mill following the unscheduled recovery boiler-related outage from late May to early July. Both mills experienced slower than anticipated ramp ups in the period following the scheduled and unscheduled outages. Inventories subsequently returned to more normal levels by the end of the quarter.

The Company's paper segment results were relatively unchanged in the current quarter, with lower shipment levels offset by higher unit sales realizations and reduced unit manufacturing costs.

During the third quarter of 2012, the Company negotiated new five year collective labour agreements with its unions. The collective agreements included one-time costs of $3.2 million paid upon ratification, which were expensed in the period.

Compared to the third quarter of 2011, operating income was down $44.6 million, driven primarily by a $45.1 million reduction in the pulp segment. Lower pulp earnings reflected significantly lower prices for NBSK pulp products, lower shipment volumes and increased unit manufacturing costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of dollars unless otherwise noted)	Q3 2012	Q2 2012	YTD 2012	Q3 2011	YTD 2011
Sales	**$ 144.8**	$ 171.9	**$ 506.8**	$ 199.0	$ 623.8
Operating income before amortization	**$ 5.9**	$ 22.4	**$ 56.6**	$ 49.6	$ 183.4
Operating income (loss)	**$ (8.4)**	$ 8.6	**$ 12.4**	$ 36.7	$ 140.8
Average pulp price delivered to U.S. – US$[4]	**$ 853**	$ 900	**$ 874**	$ 993	$ 996
Average price in Cdn$	**$ 849**	$ 909	**$ 876**	$ 974	$ 974
Production – pulp (000 mt)	**220.6**	212.9	**695.2**	220.8	751.0
Shipments – pulp (000 mt)	**214.4**	230.2	**715.2**	240.2	747.5
Marketed on behalf of Canfor	**54.5**	51.9	**163.6**	51.0	165.8

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

Overview

The operating loss for the pulp segment was $8.4 million for the third quarter of 2012, down $17.0 million from operating income of $8.6 million for the previous quarter and down $45.1 million from the third quarter of 2011. Results in the current quarter were impacted by lower market pulp prices and to a certain extent lower shipment volumes. Unit manufacturing costs were also up slightly, primarily due to one-time costs of $3.2 million associated with new five year collective labour agreements, partially offset by the impact of higher production volumes.

NBSK pulp list prices decreased in all regions, with prices to North America down US$47 to US$853 per tonne. Sales realizations were also negatively impacted by the 1.5% stronger Canadian dollar compared to the previous quarter.

Lower operating earnings compared to the third quarter of 2011 reflected a significant reduction in NBSK pulp prices, with North America prices down US$140 per tonne, coupled with Europe and China both down US$200 per tonne. Unit manufacturing costs were 3% higher, with the one-time costs associated with the new five year collective labour agreements and higher chemical costs, partially offset by lower fibre costs. Lower quarter-over-quarter shipments for the most part reflected the impact of the scheduled Prince George Pulp Mill outage in the current period and a return to more normal inventory levels.

Markets

Global softwood pulp markets weakened through the summer months, with price erosion occurring for most of the quarter. While softwood pulp inventories remained relatively stable, global hardwood pulp producer inventories increased throughout the quarter. After a weak start to the quarter, global softwood pulp demand showed signs of picking up in August, as evidenced by an 8.5% increase in shipments of bleached softwood sulphate pulp compared to the prior year[5]. The increase in softwood shipments was primarily due to increased purchasing from China, partially offset by reductions in shipments to North America and Europe. Global demand for printing and writing papers decreased 1.8% for the first eight months of 2012 as compared to 2011[5].

At the end of August 2012, World 20[6] producers of bleached softwood pulp inventories were at 30 days of supply. By comparison, June 2012 inventories were at 29 days of supply.

Sales

The Company's pulp shipments in the third quarter of 2012 were 214,000 tonnes, down approximately 16,000 tonnes, from the previous quarter. For the most part, this reflected the impact of the extended capital and maintenance outage at the Prince George Pulp Mill in the first part of the quarter. Inventories also returned to more normal levels after the unscheduled outage at the Northwood Pulp Mill at the end of the previous quarter. Compared to the third quarter of 2011, shipments were down 26,000 tonnes, or 11%, principally related to the impacts of the extended Prince George shut as well as the impact from the earlier unscheduled Northwood shutdown.

Increasing global hardwood pulp producer inventories combined with the seasonal slowdown through the summer months, resulted in further downward pressure on global softwood prices. North America NBSK pulp list prices averaged US$853 per tonne for the quarter, down US$47 from the previous quarter. CPPI's average list prices to China and Europe also decreased through the quarter with China pricing down US$57 to US$650 per tonne, and Europe also down US$57 to US$780 per tonnes. Sales realizations were also negatively impacted by the 1.5% stronger average Canadian dollar compared to the prior quarter.

Compared to the third quarter of 2011, pulp sales realizations were well down as NBSK pulp list prices to all markets decreased. The average NBSK list price for North America decreased US$140 per tonne, while prices to Europe and China decreased US$200 per tonne. The price reductions were offset in part by a 1.5% weaker Canadian dollar.

Operations

Pulp production in the third quarter of 2012 was 221,000 tonnes, up 8,000 tonnes, or 4%, from the previous quarter and in line with the third quarter of 2011. The increase in production compared to the second quarter of 2012 reflected a reduction in outages in the current quarter.

Pulp unit manufacturing costs increased slightly from the previous quarter, principally reflecting the one-time costs associated with the new five year collective labour agreements, partially offset by the impact of higher production volumes and a reduction in maintenance spending.

Compared to the third quarter of 2011, unit manufacturing costs were 3% higher, with one-time costs associated with the new five year collective labour agreements and higher chemical costs, more than offsetting lower fibre costs. Lower fibre costs primarily resulted from lower-cost sawmill residual chips, where prices are linked to NBSK pulp sales realizations.

Paper

Selected Financial Information and Statistics –Paper

(millions of dollars unless otherwise noted)	**Q3 2012**	Q2 2012	**YTD 2012**	Q3 2011	YTD 2011
Sales	**$ 32.8**	$ 38.2	**$ 100.9**	$ 34.9	$ 103.1
Operating income before amortization	**$ 5.9**	$ 5.7	**$ 15.3**	$ 4.1	$ 8.7
Operating income	**$ 5.0**	$ 4.8	**$ 12.5**	$ 3.2	$ 6.1
Production – paper (000 mt)	**31.9**	30.0	**94.8**	36.7	103.0
Shipments – paper (000 mt)	**30.6**	36.8	**97.0**	32.1	97.4

Operating income for the paper segment was $5.0 million for the third quarter of 2012, relatively unchanged from the previous quarter and up $1.8 million from the third quarter of 2011.

Compared to the second quarter of 2012, an increase in the realized price for paper products was offset by reduced shipment levels, while unit manufacturing costs were down slightly due to lower slush pulp costs. Compared to the third quarter of 2011, the positive variance largely resulted from lower slush pulp costs, reflecting lower market pulp prices, which more than offset lower paper sales realizations.

[5] As reported by Pulp and Paper Products Council ("PPPC") statistics.
[6] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the PPPC.

Markets

Global kraft paper demand was steady through the third quarter with healthy order files through September. The Paper Shipping Manufacturers' Association ("PSSMA") reported that the industry operating rate of 83% for August was the second highest in the last year and 3% more than August 2011. Sack shipments were also strong in August, 5% ahead of August 2011.

Sales

The Company's paper shipments in the third quarter of 2012 were 30,600 tonnes, a decrease of 6,200 tonnes from the previous quarter and 1,500 tonnes lower than the third quarter of 2011, principally reflecting the timing of shipments. Prime bleached shipments, which attract higher prices, increased 2% from the prior quarter and were up 7% compared to the third quarter of 2011. The 17% decrease in shipments from the second quarter of 2012 reflected a drawdown in inventories in the prior quarter resulting primarily from the Northwood outage. Shipments for the nine months ended September 30, 2012 were in line with the comparative period.

Unit sales realizations for paper products were up 3% from the prior quarter, but were down 2% compared the third quarter of 2011. The increase over the prior quarter related primarily to increased paper prices in North America and a higher percentage of prime bleached sales. The decrease compared to the same period in the prior year was due to lower overall pricing for paper grades.

Operations

Paper production in the third quarter of 2012 was 31,900 tonnes, up approximately 2,000 tonnes from the previous quarter. The increased production related principally to a scheduled maintenance outage of the Company's paper machine in June 2012. Compared to the same period in 2011, paper production was down approximately 5,000 tonnes as a result of lower overall operating rates in the current period.

Paper unit manufacturing costs in the current quarter were similar to the previous quarter.

Compared to the third quarter of 2011, unit manufacturing costs were down significantly, largely reflecting the impact of lower market pulp prices on slush pulp costs in the paper segment, partially offset by the impact of lower production volumes on unit costs.

Unallocated Items

(millions of dollars)	**Q3 2012**	Q2 2012	**YTD 2012**	Q3 2011	YTD 2011
Corporate costs	**$ (4.8)**	$ (3.0)	**$ (11.2)**	$ (3.5)	$ (10.0)
Finance expense, net	**$ (2.8)**	$ (2.8)	**$ (8.4)**	$ (2.6)	$ (8.1)
Foreign exchange gain (loss) on long-term debt	**$ 3.9**	$ (2.2)	**$ 3.7**	$ (8.2)	$ (4.9)
Gain (loss) on derivative financial instruments	**$ 1.9**	$ (1.4)	**$ 1.8**	$ (5.7)	$ (3.1)
Foreign exchange gain (loss) on working capital	**$ (1.5)**	$ 0.8	**$ (1.5)**	$ 4.1	$ 2.3

Corporate costs were $4.8 million for the third quarter of 2012, up $1.8 million from the previous quarter and up $1.3 million from the third quarter of 2011. The increase from both comparative periods principally related to recent changes in senior management.

Net finance expense for the third quarter of 2012 was $2.8 million, in line with the previous quarter and the third quarter of 2011. The finance expense for each period principally represents interest expense on long-term debt and stand-by fees for the Company's operating lines, as well as the finance expense relating to the Company's defined benefit post-retirement benefit plans.

The Company recorded a foreign exchange translation gain on its US dollar denominated debt of $3.9 million for the third quarter of 2012, as a result of the strengthening of the Canadian dollar against the US dollar, which rose by over 3% between the respective quarter ends. In the second quarter of 2012, a weakening of the Canadian dollar resulted in a translation loss of $2.2 million, while the third quarter of 2011 showed a loss of $8.2 million.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in both foreign exchange rates and crude oil rates affecting freight surcharges. For the third quarter of 2012, the Company recorded a net gain of $1.9 million related to its derivative financial instruments, primarily reflecting gains on US dollar forward contracts related to the strengthening of the Canadian dollar.

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

(millions of dollars)	Q3 2012	Q2 2012	YTD 2012	Q3 2011	YTD 2011
Foreign exchange collars and forward contracts	**$ 1.8**	$ (1.1)	**$ 1.9**	$ (5.7)	$ (3.0)
Crude oil collars	**$ 0.1**	$ (0.3)	**$ (0.1)**	$ -	$ -
Natural gas swaps	**$ -**	$ -	**$ -**	$ -	$ (0.1)
	$ 1.9	$ (1.4)	**$ 1.8**	$ (5.7)	$ (3.1)

Other Comprehensive Income (Loss)

In the third quarter of 2012, the Company recorded an after-tax charge to the statements of other comprehensive income (loss) of $4.7 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The charge reflects a reduction in the discount rate used to value the plans offset slightly by a higher than expected rate of return on plan assets for the period. In the previous quarter a charge of $3.7 million was recorded, reflecting a reduction in discount rates and a lower than expected rate of return for the period. An after-tax loss of $11.4 million was recorded in the third quarter of 2011.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	Q3 2012	Q2 2012	YTD 2012	Q3 2011	YTD 2011
Increase (decrease) in cash and cash equivalents	**$ (15.3)**	$ (8.9)	**$ (2.4)**	$ 5.5	$ (32.2)
Operating activities	**$ 1.4**	$ 19.2	**$ 62.1**	$ 51.3	$ 164.9
Financing activities	**$ 3.2**	$ (11.4)	**$ (16.2)**	$ (31.0)	$ (162.2)
Investing activities	**$ (19.9)**	$ (16.7)	**$ (48.3)**	$ (14.8)	$ (34.9)
Ratio of current assets to current liabilities			**2.1: 1**		1.8 : 1
Net debt to capitalization			**23.8%**		15.0%

Changes in Financial Position

Cash generated from operating activities was $1.4 million in the third quarter of 2012, down from $19.2 million generated in the second quarter. The decrease resulted largely from lower operating earnings. Also contributing to the decrease was lower cash generated from working capital movements with an increase in inventories, prepaids and lower accounts payable balances at quarter end, principally the result of maintenance and capital project payments, more than offsetting a decrease in accounts receivable which partly reflected the lower sales volume. Compared to the third quarter of 2011, cash generated from operating activities was down by $49.9 million reflecting the lower operating earnings and an additional decrease in non-cash working capital in the current quarter.

Financing activities generated $3.2 million in cash in the current quarter, compared to cash used of $11.4 million in the previous quarter and $31.0 million in the third quarter of 2011. The current quarter cashflows included $7.0 million drawn on the Company's operating bank loans partially offset by distributions of $3.6 million, representing dividends declared and paid during the quarter. In the prior quarter, financing cash outflows included a distribution of $7.8 million to non-Canfor shareholders. In the third quarter of 2011, the distribution paid to unitholders was $30.6 million, reflecting higher earnings in that period. Finance payments in the current quarter were $0.2 million, primarily reflecting standby fees for the Company's operating lines. Finance payments in the second quarter of 2012 were $3.6 million principally relating to interest payments on the Company's long-term debt, while finance payments in the third quarter of 2011 were at a similar level to the current quarter.

Cash used in investing activities in the current quarter was comprised of $29.9 million of capital expenditures partly offset by $10.0 million in cash received from the Green Transformation Program. Capital expenditures in the current quarter included the replacement of the recovery boiler lower furnace and completion of the upgrades to the boiler feedwater treatment system at the Prince George Pulp Mill, as well as maintenance capital related to the outages. Capital expenditures and grants received increased slightly from the previous quarter and the third quarter of 2011.

Liquidity and Financial Requirements

At September 30, 2012, CPPI had cheques issued in excess of cash on hand of $4.4 million, with $7.0 million drawn on its operating lines of credit, and an additional $0.8 million reserved for several standby letters of credit. In addition, the Company had 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 a power generation agreement. During the third quarter of 2012, the Company terminated its $30.0 million bridge loan credit facility in conjunction with the completion of the Canadian Federal Government Green Transformation Program ("Program"). The facility was used to fund timing differences between expenditures and reimbursements for projects funded by the Program.

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

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

Dividends

On October 22, 2012, in light of the Company's financial results for the third quarter of 2012, the Board of Directors decided to suspend the payment of its dividend for the quarter. The Board will continue to review the issuance of dividends on a quarterly basis.

Collective Agreements with Labour Unions

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

OUTLOOK

Pulp

For the month of October, the Company has announced an increase in the NBSK pulp list price of US$20 per tonne in all regions. A scheduled maintenance outage is planned in the fourth quarter at the Northwood Pulp Mill which is projected to result in a reduction in market pulp production of approximately 6,000 tonnes.

Paper

There are signs of softening kraft paper demand heading into the fourth quarter as order files have weakened. This has resulted in some downward pressure on pricing in offshore markets, particularly Asia, although North America prices remain relatively stable.

OUTSTANDING SHARES

At October 22, 2012, there were 71,269,790 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards 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 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 Company's financial condition.

CHANGES IN ACCOUNTING POLICY

Effective January 1, 2012, the Company retroactively changed its accounting policy for the presentation of interest expense and expected rate of return on assets of defined benefit post-retirement plans. The net expense has been reclassified from operating income, included in manufacturing and product costs, to net finance expense. Management considers the classification of net pension interest expense with the Company's other interest expense to provide more relevant information on the operating results of the Company. The effect on the three months ended September 30, 2012 and nine months ended September 30, 2012 is an increase in operating income and an increase in net finance expense of $0.8 million and $2.4 million, respectively (2011 - $0.7 million and $2.2 million, respectively). There is no impact on amounts recorded in the consolidated balance sheet or opening equity as at January 1, 2012.

NEW ACCOUNTING PRONOUNCEMENTS

In the first half of 2011, the International Accounting Standards Board ("IASB") issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These new and revised accounting standards have not yet been adopted by CPPI and the Company does not plan to early adopt any of the standards.

The following new or revised standards are not expected to have a material impact on the amounts recorded in the financial statements of CPPI:

- IFRS 10, *Consolidated Financial Statements;*
- IFRS 11, *Joint Arrangements;*
- IFRS 12, *Disclosure of Interests in Other Entities;*
- IAS 27, *Separate Financial Statements;*
- Amended IAS 28*, Investments in Associates and Joint Ventures*; and
- IFRS 13, *Fair Value Measurement.*

The Company is still in the process of assessing the full impact of Amended *IAS 19, Employee Benefits.*

In the first half of 2011, the IASB also issued amended IAS 1, *Presentation of Financial Statements*, which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IAS 1 and IFRS 9 are not expected to have a material impact on amounts recorded in the financial statements of CPPI.

Further details of the new or revised accounting standards and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2011.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2012, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2011 annual statutory reports which are available on www.canforpulp.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION[7]

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Sales and income (millions of dollars)								
Sales	**$ 177.7**	$ 210.8	$ 220.0	$ 212.7	$ 233.9	$ 242.1	$ 252.3	$ 266.1
Operating income before amortization	**$ 7.0**	$ 25.1	$ 28.7	$ 37.9	$ 50.3	$ 64.8	$ 67.2	$ 62.9
Operating income (loss)	**$ (8.2)**	$ 10.4	$ 11.5	$ 16.5	$ 36.4	$ 49.8	$ 50.7	$ 46.7
Net income (loss)	**$ (4.6)**	$ 3.3	$ 10.3	$ 15.8	$ 23.9	$ 48.2	$ 50.7	$ 47.4
Per common share (dollars)								
Net income (loss) – basic and diluted	**$ (0.06)**	$ 0.05	$ 0.13	$ 0.22	$ 0.33	$ 0.68	$ 0.71	$ 0.67
Statistics								
Pulp shipments (000 mt)	**214.4**	230.2	270.6	231.0	240.2	242.0	265.3	272.3
Paper shipments (000 mt)	**30.6**	36.8	29.6	30.2	32.1	32.7	32.6	39.0
Average exchange rate – US$ per C$1.00	**$ 1.005**	$ 0.990	$ 0.999	$ 0.977	$ 1.020	$ 1.033	$ 1.014	$ 0.987
Average NBSK pulp list price delivered to U.S. (US$)	**$ 853**	$ 900	$ 870	$ 920	$ 993	$ 1,025	$ 970	$ 967

[7] Certain prior period amounts have been restated due to the share exchange transaction and a change in accounting policy for treatment of net interest expense for defined benefit post-retirement plans. Further details can be found earlier in this document.

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