CANFOR PULP PRODUCTS INC.

Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2012

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		As at September 30, 2012		As at December 31, 2011 (Note 11)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**-**	$	-
Accounts receivable - Trade (Note 10)		**59.5**		70.8
- Green Transformation Program		**0.7**		19.7
- Other (Note 12)		**23.9**		20.7
Inventories (Note 2)		**132.6**		141.6
Prepaid expenses and other assets		**15.2**		5.8
Total current assets		**231.9**		258.6
Property, plant and equipment		**543.2**		532.0
Other long-term assets		**0.5**		0.6
Total assets	**$**	**775.6**	$	791.2
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**4.4**	$	2.0
Operating loans (Note 3(a))		**7.0**		-
Accounts payable and accrued liabilities		**101.6**		117.9
Distributions payable		**-**		7.8
Total current liabilities		**113.0**		127.7
Long-term debt (Note 3(b))		**108.2**		111.9
Retirement benefit obligations		**107.9**		94.8
Long-term provisions		**3.2**		3.1
Deferred income taxes, net (Note 6)		**60.6**		-
Total liabilities	**$**	**392.9**	$	337.5
SHAREHOLDERS' EQUITY				
Share capital (Note 11)	**$**	**525.3**	$	294.9
Retained earnings (deficit)		**(142.6)**		(67.3)
Non-controlling interests in the Partnership (Note 11)		**-**		226.1
Total equity	**$**	**382.7**	$	453.7
Total liabilities and equity	**$**	**775.6**	$	791.2

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

APPROVED BY THE BOARD

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

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

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2012	2011	9 months ended September 30, 2012	2011
Sales (Note 12)	**$ 177.7**	$ 233.9	**$ 608.5**	$ 728.3
Costs and expenses				
Manufacturing and product costs (Note 12)	**136.8**	149.2	**439.6**	439.5
Freight and other distribution costs	**26.1**	28.8	**87.6**	88.2
Amortization	**15.2**	13.9	**47.1**	45.4
Selling and administration costs	**6.1**	5.6	**18.8**	18.3
Restructuring and severance costs	**1.7**	-	**1.7**	-
	185.9	197.5	**594.8**	591.4
Operating income (loss)	**(8.2)**	36.4	**13.7**	136.9
Finance expense, net	**(2.8)**	(2.6)	**(8.4)**	(8.1)
Foreign exchange gain (loss) on long-term debt	**3.9**	(8.2)	**3.7**	(4.9)
Gain (loss) on derivative financial instruments (Note 5)	**1.9**	(5.7)	**1.8**	(3.1)
Foreign exchange gain (loss) on working capital	**(1.5)**	4.1	**(1.5)**	2.3
Net income (loss) before income taxes	**(6.7)**	24.0	**9.3**	123.1
Income tax recovery (expense) (Note 6)	**2.1**	(0.1)	**(0.3)**	(0.3)
Net income (loss)	**$ (4.6)**	$ 23.9	**$ 9.0**	$ 122.8
Net income (loss) attributable to:				
Controlling interest in the Partnership	**$ (4.6)**	$ 12.0	**$ 4.7**	$ 61.7
Non-controlling interest in the Partnership (Note 11)	**-**	11.9	**4.3**	61.1
Net income (loss)	**$ (4.6)**	$ 23.9	**$ 9.0**	$ 122.8
Net income (loss) per common share: (in dollars)				
Attributable to controlling interest in the Partnership				
- Basic and diluted (Note 7)	**$ (0.06)**	$ 0.33	**$ 0.07**	$ 1.72

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

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2012**	3 months ended September 30, 2011	9 months ended September 30, **2012**	9 months ended September 30, 2011
Net income (loss)	**$ (4.6)**	$ 23.9	**$ 9.0**	$ 122.8
Other comprehensive income (loss)				
Defined benefit plan actuarial losses (Note 4)	**(6.2)**	(11.4)	**(14.3)**	(12.7)
Income tax recovery on defined benefit plan actuarial losses (Note 6)	**1.5**	-	**3.5**	-
Other comprehensive income (loss), net of tax	**(4.7)**	(11.4)	**(10.8)**	(12.7)
Total comprehensive income (loss)	**$ (9.3)**	$ 12.5	**$ (1.8)**	$ 110.1
Total comprehensive income (loss) attributable to:				
Controlling interest in the Partnership	**$ (9.3)**	$ 6.3	**$ (6.1)**	$ 55.3
Non-controlling interest in the Partnership (Note 11)	**-**	6.2	**4.3**	54.8
Total comprehensive income (loss)	**$ (9.3)**	$ 12.5	**$ (1.8)**	$ 110.1

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2012**	3 months ended September 30, 2011	9 months ended September 30, **2012**	9 months ended September 30, 2011
Share capital				
Balance at beginning of period	**$ 525.3**	$ 294.9	**$ 294.9**	$ 294.9
Exchange transaction (Note 11)	**-**	-	**230.4**	-
Balance at end of period	**$ 525.3**	$ 294.9	**$ 525.3**	$ 294.9
Retained earnings (deficit)				
Balance at beginning of period	**$ (129.7)**	$ (56.5)	**$ (67.3)**	$ (52.9)
Exchange transaction (Note 11)	**-**	-	**(57.8)**	-
Net income (loss) excluding amount attributable to non-controlling interest in the Partnership	**(4.6)**	12.0	**4.7**	61.7
Defined benefit plan actuarial losses, net of tax	**(4.7)**	(5.7)	**(10.8)**	(6.4)
Dividends/distributions declared excluding amount attributable to non-controlling interest in the Partnership	**(3.6)**	(10.8)	**(11.4)**	(63.4)
Balance at end of period	**$ (142.6)**	$ (61.0)	**$ (142.6)**	$ (61.0)
Total equity attributable to equity holders of the Company	**$ 382.7**	$ 233.9	**$ 382.7**	$ 233.9
Non-controlling interest in the Partnership				
Balance at beginning of period	**$ -**	$ 236.9	**$ 226.1**	$ 240.5
Net income attributable to non-controlling interest in the Partnership	**-**	11.9	**4.3**	61.1
Defined benefit plan actuarial losses attributable to non-controlling interest in the Partnership	**-**	(5.7)	**-**	(6.3)
Distributions to non-controlling interest in the Partnership	**-**	(10.6)	**-**	(62.8)
Exchange transaction (Note 11)	**-**	-	**(230.4)**	-
Balance at end of period	**$ -**	$ 232.5	**$ -**	$ 232.5
Total equity	**$ 382.7**	$ 466.4	**$ 382.7**	$ 466.4

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2012**	3 months ended September 30, 2011	9 months ended September 30, **2012**	9 months ended September 30, 2011
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (4.6)**	$ 23.9	**$ 9.0**	$ 122.8
Items not affecting cash:				
Amortization	**15.2**	13.9	**47.1**	45.4
Income tax (recovery) expense	**(2.1)**	0.1	**0.3**	0.3
Foreign exchange (gain) loss on long-term debt	**(3.9)**	8.2	**(3.7)**	4.9
Changes in mark-to-market value of derivative financial instruments	**0.6**	3.7	**0.6**	1.9
Employee future benefits	**0.8**	0.7	**2.2**	1.9
Net finance expense	**2.8**	2.6	**8.4**	8.1
Other, net	**0.3**	-	**0.3**	0.2
Salary pension plan contributions	**(1.9)**	(2.0)	**(5.8)**	(6.1)
Income taxes paid, net	**(0.6)**	(0.1)	**(6.1)**	(0.2)
Net change in non-cash working capital (Note 8)	**(5.2)**	0.3	**9.8**	(14.3)
	1.4	51.3	**62.1**	164.9
Financing activities				
Increase in operating bank loans	**7.0**	-	**7.0**	-
Dividends / distributions paid	**(3.6)**	(30.6)	**(19.2)**	(158.2)
Finance expenses paid	**(0.2)**	(0.4)	**(4.0)**	(4.0)
	3.2	(31.0)	**(16.2)**	(162.2)
Investing activities				
Additions to property, plant and equipment	**(29.9)**	(11.2)	**(74.8)**	(28.3)
Reimbursements under Green Transformation Program	**10.0**	19.2	**19.0**	50.4
Expenditures under Green Transformation Program	**-**	(24.1)	**(1.1)**	(61.0)
Other government grants received	**-**	0.8	**1.6**	3.5
Acquisition of CPPI cash on exchange (Note 11)	**-**	-	**6.8**	-
Other, net	**-**	0.5	**0.2**	0.5
	(19.9)	(14.8)	**(48.3)**	(34.9)
Increase (decrease) in cash and cash equivalents*	**(15.3)**	5.5	**(2.4)**	(32.2)
Cash and cash equivalents at beginning of period*	**10.9**	26.5	**(2.0)**	64.2
Cash and cash equivalents at end of period*	**$ (4.4)**	$ 32.0	**$ (4.4)**	$ 32.0

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, including Canfor Pulp Limited Partnership ("the Partnership"). The Partnership's operations consist of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia ("the Pulp Business").

On March 2, 2012, Canadian Forest Products Ltd. ("Canfor") exchanged 35,776,483 Class B Exchangeable Limited Partnership Units ("the Exchange"), representing a 50.2% interest in the Partnership, for an equivalent number of CPPI shares pursuant to the terms of the exchange agreement dated January 1, 2011 between Canfor, CPPI, the Partnership and Canfor Pulp Holding Inc., the general partner of the Partnership ("the General Partner"). As a result of the Exchange, CPPI's interest in both the Partnership and the General Partner increased from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI (see note 11).

At September 30, 2012, CPPI held a 100% interest in the Partnership and the General Partner and Canfor held a 50.2% interest in CPPI.

The condensed consolidated interim financial statements ("the financial statements") at September 30, 2012 include the accounts of CPPI, the Partnership and its subsidiaries (together referred to as "CPPI" or "the Company"). Prior to March 2, 2012 Canfor held a direct controlling interest in the Partnership. For all periods ending prior to March 2, 2012, the financial statements present the financial position, results of operations, and cash flows of the Pulp Business from the perspective of Canfor's controlling interest in the Pulp Business as if operated as a stand-alone partnership entity subject to Canfor control. The acquisition of the Partnership by CPPI as a result of the Exchange has been accounted for as a continuity of interests by applying reverse acquisition accounting (see note 11).

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

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

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

Change in accounting policy

Effective January 1, 2012, the Company retroactively changed its accounting policy for the presentation of interest expense and expected rate of return on assets of defined benefit post-retirement plans. The net expense has been reclassified from operating income, 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 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.

Accounting standards issued and not applied

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.

2. Inventories

(millions of Canadian dollars)		**As at September 30, 2012**		As at December 31, 2011
Pulp	**$**	**51.1**	$	64.1
Paper		**16.1**		17.0
Wood chips		**18.7**		16.0
Processing materials and supplies		**46.7**		44.5
	$	**132.6**	$	141.6

3. Operating Lines and Long-Term Debt

(a) Available Operating Lines

(millions of Canadian dollars)		**As at September 30, 2012**		As at December 31, 2011
Main bank loan facility	**$**	**40.0**	$	40.0
Bridge loan credit facility (maximum $30.0 million)		**-**		19.7
Facility for BC Hydro letter of credit		**10.4**		10.4
Total operating lines		**50.4**		70.1
Drawn		**(7.0)**		-
Letters of credit (for general business purposes)		**(0.8)**		(0.5)
BC Hydro letter of credit		**(10.4)**		(10.4)
Total available operating lines	**$**	**32.2**	$	59.2

The terms of the Company's principal bank loan facility include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The maturity date of this facility is November 30, 2013.

During the third quarter of 2012, the Company terminated its $30.0 million bridge loan credit facility in conjunction with the completion of the Canadian Federal Government Green Transformation Program ("Program"). The facility was used to fund timing differences between expenditures and reimbursements for projects funded by the Program. The Company has a separate facility with a maturity date of November 30, 2013 to cover a $10.4 million standby letter of credit issued to BC Hydro.

As at September 30, 2012, the Company was in compliance with all covenants relating to its operating lines of credit.

(b) Long-Term Debt

At September 30, 2012, the fair value of the Company's long-term debt, which was measured at its amortized cost of $108.2 million (US$110.0 million), was $112.0 million. The fair value of long-term debt was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

4. Employee Future Benefits

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

For the nine months ended September 30, 2012, $14.3 million (before tax) was charged to other comprehensive income. 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. For the three months ended September 30, 2012, the charge was $6.2 million (before tax). For the nine months ended September 30, 2011 an amount of $12.7 million was charged to other comprehensive income, and for the three months ended September 30, 2011 the charge was $11.4 million.

For the Company's retirement benefit obligations, a one percentage point increase (decrease) in the discount rate would reduce (increase) the estimated retirement benefit obligations by approximately $20.0 million.

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

Pension Benefit Plans	
Discount rate	
September 30, 2012	**4.30%**
June 30, 2012	4.65%
December 31, 2011	5.00%
September 30, 2011	5.00%
June 30, 2011	5.50%
December 31, 2010	5.50%
Rate of return on plan assets	
9 months ended September 30, 2012	**6.60%**
6 months ended June 30, 2012	2.60%
9 months ended September 30, 2011	(2.50)%
6 months ended June 30, 2011	1.80%
Other Benefit Plans	
Discount rate	
September 30, 2012	**4.50%**
June 30, 2012	4.90%
December 31, 2011	5.30%
September 30, 2011	5.40%
June 30, 2011	5.75%
December 31, 2010	5.75%

5. Derivative Financial Instruments

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in both foreign exchange rates and crude oil prices affecting freight surcharges. At September 30, 2012, the fair value of derivative financial instruments was a net liability of $0.2 million (December 31, 2011 – net asset of $0.4 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three and nine month periods ended September 30, 2012 and 2011:

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars)	**2012**	2011	**2012**	2011
Foreign exchange collars and forward contracts	**$ 1.8**	$ (5.7)	**$ 1.9**	$ (3.0)
Crude oil collars	**0.1**	-	**(0.1)**	-
Natural gas swaps	**-**	-	**-**	(0.1)
	$ 1.9	$ (5.7)	**$ 1.8**	$ (3.1)

The following table summarizes the fair value of the derivative financial instruments included in the balance sheet at September 30, 2012 and December 31, 2011:

(millions of Canadian dollars)	**As at September 30, 2012**	As at December 31, 2011
Foreign exchange collars and forward contracts	**$ (0.2)**	$ 0.3
Crude oil collars	**-**	0.1
Net current asset (liability)	**$ (0.2)**	$ 0.4

6. Income Taxes

Income tax expense includes current tax expense on income for the March 2, 2012 to September 30, 2012 period. Taxes were not significant prior to March 2, 2012 as the main reporting entity was not taxable.

(millions of Canadian dollars)	3 months ended September 30, 2012	9 months ended September 30, 2012
Current	**$ 1.5**	**$ 0.6**
Deferred	**0.6**	**(0.9)**
Income tax recovery (expense)	**$ 2.1**	**$ (0.3)**

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

(millions of Canadian dollars)	3 months ended September 30, 2012	9 months ended September 30, 2012
Income tax recovery (expense) at statutory rate 2012 – 25.0%	**$ 1.7**	**$ (2.3)**
Add (deduct):		
Tax expense at rates other than statutory rate	**-**	**(0.2)**
Permanent difference from capital gains and other non-deductible items	**0.4**	**0.4**
Permanent difference – exchange transaction	**-**	**0.9**
Tax included in equity – exchange transaction	**-**	**0.9**
Income tax recovery (expense)	**$ 2.1**	**$ (0.3)**

In addition to the amounts recorded to net income, a tax recovery of $1.5 million was recorded to other comprehensive income for the three month period ended September 30, 2012 in relation to the actuarial losses on defined benefit employee compensation plans. For the nine months ended September 30, 2012, the related tax recovery was $3.5 million.

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

(millions of Canadian dollars)		As at September 30, 2012
Deferred income tax assets		
Retirement benefit obligations	$	**26.7**
Other		**1.6**
	$	**28.3**
Deferred income tax liabilities		
Depreciable capital assets	$	**(86.4)**
Unrealized foreign exchange gains on debt		**(2.2)**
Other		**(0.3)**
	$	**(88.9)**
Total deferred income taxes, net	$	**(60.6)**

7. Earnings Per Share

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. As a result of the exchange transaction and the application of reverse acquisition accounting, the CPPI shares relating to the non-controlling interest shareholders were not included until March 2, 2012. This transaction led to an increase in the weighted average number of shares outstanding, with 71,269,790 shares outstanding as at September 30, 2012. The issuance of the new shares as a result of the exchange was accompanied by a corresponding increase in CPPI's investment in the Partnership and as a result there is no dilution of CPPI's net income per share.

	3 months ended September 30,		9 months ended September 30,	
	2012	2011	**2012**	2011
Weighted average number of common shares	**71,269,790**	35,776,483	**63,238,458**	35,776,483

8. Net Change in Non-Cash Working Capital

	3 months ended September 30,				9 months ended September 30,			
(millions of Canadian dollars)		**2012**		2011		**2012**		2011
Accounts receivable	**$**	**20.5**	$	3.6	**$**	**12.6**	$	(9.3)
Inventories		**(1.9)**		(2.0)		**8.9**		(8.7)
Prepaid expenses and other assets		**(8.1)**		(3.5)		**(9.4)**		1.6
Accounts payable and accrued liabilities		**(15.7)**		2.2		**(2.3)**		2.1
Net increase (decrease) in non-cash working capital	**$**	**(5.2)**	$	0.3	**$**	**9.8**	$	(14.3)

9. Segment Information

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

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

(millions of Canadian dollars)		Pulp	Paper	Unallocated	Elimination Adjustment		Consolidated
3 months ended September 30, 2012							
Sales to external customers	**$**	**144.8**	**32.8**	**0.1**	**-**	**$**	**177.7**
Sales to other segments	**$**	**15.5**	**-**	**-**	**(15.5)**	**$**	**-**
Operating income (loss)	**$**	**(8.4)**	**5.0**	**(4.8)**	**-**	**$**	**(8.2)**
Amortization	**$**	**14.3**	**0.9**	**-**	**-**	**$**	**15.2**
Capital expenditures[1]	**$**	**29.5**	**0.3**	**0.1**	**-**	**$**	**29.9**
3 months ended September 30, 2011							
Sales to external customers	$	199.0	34.9	-	-	$	233.9
Sales to other segments	$	23.9	-	-	(23.9)	$	-
Operating income (loss)	$	36.7	3.2	(3.5)	-	$	36.4
Amortization	$	12.9	0.9	0.1	-	$	13.9
Capital expenditures[1]	$	34.5	0.4	0.4	-	$	35.3
9 months ended September 30, 2012							
Sales to external customers	**$**	**506.8**	**100.9**	**0.8**	**-**	**$**	**608.5**
Sales to other segments	**$**	**49.2**	**-**	**-**	**(49.2)**	**$**	**-**
Operating income (loss)	**$**	**12.4**	**12.5**	**(11.2)**	**-**	**$**	**13.7**
Amortization	**$**	**44.2**	**2.8**	**0.1**	**-**	**$**	**47.1**
Capital expenditures[1]	**$**	**74.6**	**0.8**	**0.5**	**-**	**$**	**75.9**
Identifiable assets	**$**	**693.6**	**61.4**	**20.6**	**-**	**$**	**775.6**
9 months ended September 30, 2011							
Sales to external customers	$	623.8	103.1	1.4	-	$	728.3
Sales to other segments	$	68.0	-	-	(68.0)	$	-
Operating income (loss)	$	140.8	6.1	(10.0)	-	$	136.9
Amortization	$	42.6	2.6	0.2	-	$	45.4
Capital expenditures[1]	$	86.2	2.1	1.0	-	$	89.3
Identifiable assets	$	755.0	64.2	54.8	-	$	874.0

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

10. Related Party Transactions

The Company depends on Canfor to provide approximately 59% (2011 – 55%) of its fibre supply as well as to provide certain key business and administrative services as described below. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor.

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

(millions of Canadian dollars)	3 months ended September 30, **2012**			2011	9 months ended September 30, **2012**			2011
Transactions								
Canfor – purchase of wood chips and other	**$**	**27.4**	$	33.2	**$**	**79.2**	$	89.4

(millions of Canadian dollars)		**As at September 30, 2012**		As at December 31, 2011
Balance Sheet				
Included in accounts payable and accrued liabilities:				
Canfor	**$**	**15.2**	$	18.2
Included in trade accounts receivable:				
Products marketed for Canfor	**$**	**4.6**	$	3.2

Transactions and payables to Canfor include purchases of wood chips, pulp and administrative services.

11. Acquisition of Interest in Canfor Pulp Limited Partnership

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

The transaction was accounted for as a reverse acquisition under IFRS, with Canfor's interest in the Pulp Business being the acquirer for accounting purposes and CPPI the acquiree for accounting purposes. The Pulp Business is continuing to operate under CPPI, the legal parent. The financial statements have been presented, along with the comparative periods, from the accounting perspective that Canfor's interest in the Pulp Business is the continuing entity after the exchange transaction as it has gained control of the Company through a reverse transaction. Prior to March 2, 2012 49.8% of the Pulp Business was held by CPPI and reflected as non-controlling interest. Net income and comprehensive income attributable to CPPI's non-controlling interest in the Pulp business was $4.3 million for the nine months ended September 30, 2012. Canfor's interest in the Pulp Business was deemed to acquire CPPI on March 2, 2012 and the non-controlling interest was eliminated on that date.

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

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

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

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

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

The following table reconciles the equity of CPPI as previously reported at December 31, 2011 to the ending equity prior to the date of exchange at March 2, 2012.

(millions of Canadian dollars)		Total
Balance as previously reported at December 31, 2011	$	210.9
Net income for the period January 1, 2012 to March 2, 2012		3.4
Dividends paid		(8.9)
Equity as at March 2, 2012	$	205.4

12. Insurance Claim Receivable

During the previous quarter, an unscheduled shutdown of a recovery boiler at the Northwood Pulp Mill resulted in reduced production and subsequent repairs. The Company recognized a property damage insurance receivable of $5.6 million, which substantially offset the additional maintenance costs related to this failure. This amount was included as a reduction in Manufacturing and Product Costs in the income statement in the previous quarter and in the nine months ended September 30, 2012.

The Company recognized a business interruption insurance receivable of $9.7 million, less a deductible of $5.0 million, to recover the estimated impact of year to date lost production. Of the net insurance proceeds of $4.7 million, $3.7 million was included in Revenue in the second quarter of 2012 and an additional $1.0 million was included in Revenue in the third quarter of 2012.

As at September 30, 2012, the total insurance receivable amount, net of advances received, of $7.5 million is included within Other Accounts Receivable.