CANFOR PULP PRODUCTS INC.

Second Quarter Report

For the three and six months ended June 30, 2012

Canfor Pulp Products Inc.
Second 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 June 30, 2012 relative to the quarters ended March 31, 2012 and June 30, 2011, and the financial position of the Company at June 30, 2012. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 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 EBITDA (calculated as 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. EBITDA 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 EBITDA may not be directly comparable with similarly titled measures used by other companies. A reconciliation of EBITDA 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 July 25, 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 CFP, 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.

SECOND QUARTER 2012 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of dollars, except for per share amounts)	Q2 2012	Q1 2012	YTD 2012	Q2 2011	YTD 2011
Operating income (loss) by segment:					
Pulp	**$ 8.6**	$ 12.2	**$ 20.8**	$ 52.6	$ 104.1
Paper	**$ 4.8**	$ 2.7	**$ 7.5**	$ 0.8	$ 2.9
Unallocated and Other	**$ (3.0)**	$ (3.4)	**$ (6.4)**	$ (3.6)	$ (6.5)
Total operating income	**$ 10.4**	$ 11.5	**$ 21.9**	$ 49.8	$ 100.5
Add: Amortization	**$ 14.7**	$ 17.2	**$ 31.9**	$ 15.0	$ 31.5
EBITDA	**$ 25.1**	$ 28.7	**$ 53.8**	$ 64.8	$ 132.0
Add (deduct):					
Working capital movements	**$ 0.6**	$ 14.4	**$ 15.0**	$ (23.8)	$ (14.6)
Salary pension plan contributions	**$ (2.0)**	$ (1.9)	**$ (3.9)**	$ (2.1)	$ (4.1)
Other operating cash flows, net	**$ (4.5)**	$ 0.3	**$ (4.2)**	$ (0.5)	$ 0.3
Cash from operating activities	**$ 19.2**	$ 41.5	**$ 60.7**	$ 38.4	$ 113.6
Add (deduct):					
Distributions / dividends paid	**$ (7.8)**	$ (7.8)	**$ (15.6)**	$ (51.3)	$ (127.6)
Finance expenses paid[1]	**$ (3.6)**	$ (0.2)	**$ (3.8)**	$ (3.3)	$ (3.6)
Capital additions, net[2]	**$ (16.8)**	$ (18.6)	**$ (35.4)**	$ (8.0)	$ (20.1)
Acquisition of CPPI cash on exchange	**$ -**	$ 6.8	**$ 6.8**	$ -	$ -
Other, net	**$ 0.1**	$ 0.1	**$ 0.2**	$ -	$ -
Change in cash / operating loans	**$ (8.9)**	$ 21.8	**$ 12.9**	$ (24.2)	$ (37.7)
Average exchange rate (US$ per C$1.00)[3]	**$ 0.990**	$ 0.999	**$ 0.994**	$ 1.033	$ 1.024

[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).

Operating income for the second quarter of 2012 was $10.4 million, down $1.1 million from $11.5 million in the first quarter of 2012 and down $39.4 million from $49.8 million in the second quarter of 2011.

Results in the second quarter of 2012 were significantly impacted by scheduled maintenance outages and an unscheduled shutdown, which reduced market pulp production by 49,000 tonnes and increased unit manufacturing costs. A maintenance outage was completed at the Intercontinental Pulp Mill, and an extended maintenance outage was commenced at the Prince George Pulp Mill, resulting in approximately 18,000 tonnes of reduced production overall. In addition, the unscheduled shutdown of a recovery boiler at the Northwood Pulp Mill on May 25 and subsequent repairs resulted in the mill operating at approximately fifty percent of capacity, reducing overall production by approximately 31,000 tonnes. The impact of the Northwood Pulp Mill shutdown was partially offset by an accrual for an anticipated business interruption insurance recovery.

Pulp markets were relatively balanced heading into the second quarter of 2012 with stable producer inventories as reduced demand was offset by industry reductions in supply due to spring maintenance downtime. However, global pulp markets showed signs of weakness as the quarter progressed, particularly in Europe and North America. Global producer inventory levels increased to 30 days of supply at the end of May (latest available data), compared to 29 days of supply at the end of the first quarter.

Compared to the previous quarter, unit sales realizations for pulp products improved marginally, with the average list price for North America up US$30 to US$900 per tonne. CPPI's average list price to China saw a more modest increase, while the average price to Europe was unchanged. Sales realizations were also positively impacted by a 1% weakening of the Canadian dollar against the US dollar. The Company's pulp shipment levels decreased 15% compared to the previous quarter, primarily as a result of lower production levels.

The paper segment results improved in the current quarter, with increased unit sales realizations and higher shipment levels.

Compared to the second quarter of 2011, operating income was down $39.4 million, with a $44.0 million reduction in the pulp segment being partially offset by a $4.0 million improvement in the paper segment. Lower pulp earnings reflected significantly lower prices for Northern Bleached Softwood Kraft ("NBSK") pulp products and the impact of the maintenance outages in the current quarter, while the stronger paper earnings largely resulted from reduced slush pulp costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of dollars unless otherwise noted)	**Q2 2012**	Q1 2012	**YTD 2012**	Q2 2011	YTD 2011
Sales	**$ 171.9**	$ 190.1	**$ 362.0**	$ 207.5	$ 424.8
EBITDA	**$ 22.4**	$ 28.3	**$ 50.7**	$ 66.7	$ 133.8
Operating income	**$ 8.6**	$ 12.2	**$ 20.8**	$ 52.6	$ 104.1
Average pulp price delivered to U.S. – US$[4]	**$ 900**	$ 870	**$ 885**	$ 1,025	$ 998
Average price in Cdn$	**$ 909**	$ 871	**$ 890**	$ 992	$ 975
Production – pulp (000 mt)	**212.9**	261.7	**474.6**	265.7	530.2
Shipments –pulp (000 mt)	**230.2**	270.6	**500.8**	242.0	507.3
Marketed on behalf of Canfor	**51.9**	57.2	**109.1**	61.7	114.8

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

Overview

Operating income for the pulp segment was $8.6 million for the second quarter of 2012, down $3.6 million from the previous quarter and down $44.0 million from the second quarter of 2011. Results in the current quarter were significantly impacted by scheduled maintenance outages and an unscheduled shutdown at the Company's operations, which resulted in lower production levels and higher unit manufacturing costs.

US dollar NBSK pulp prices increased slightly from the previous quarter, with prices to North America up US$30 to US$900 per tonne. Sales realizations were also positively impacted by the weaker average Canadian dollar compared to the previous quarter. The significantly lower production levels in the current quarter led to an increase in unit conversion costs, while unit fibre costs declined modestly compared to the previous quarter.

Lower operating earnings compared to the second quarter of 2011 reflected a significant reduction in NBSK pulp prices, with North America prices down US$125 per tonne and larger price reductions in Europe and China. Unit conversion costs increased, with production levels down almost 20%, though fibre costs decreased significantly, reflecting a drop in the prices paid for sawmill residual chips (linked to NBSK market pulp prices).

Markets

Global softwood pulp markets were balanced for the first part of the second quarter before showing signs of weakness heading into the seasonally slower summer months. Producer inventories remained in the balanced range through the quarter as reduced demand was offset by reductions in supply due to spring maintenance downtime.

PPPC[5] statistics reported an increase in shipments of bleached softwood sulphate pulp of 1.4% for the first five months of 2012 as compared to the same period in 2011. However, markets weakened as the second quarter progressed, with reductions in demand from Europe and North America. PPPC reported global demand for printing and writing papers decreased 1.5% for the first five months of 2012 as compared to 2011.

At the end of May 2012, World 20[6] producers of bleached softwood pulp inventories were at 30 days of supply. By comparison, March 2012 inventories were at 29 days of supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Sales

Pulp shipments in the second quarter of 2012 were 230,000 tonnes, down approximately 40,000 tonnes, or 15%, from the previous quarter, reflecting the lower production levels due to the maintenance outages and unscheduled shutdown. When compared to the second quarter of 2011, shipments decreased 12,000 tonnes, or 5%.

Steady demand and reduced supply due to spring maintenance early in the quarter led to increased prices in some regions in April, but prices came under pressure thereafter in part reflecting a seasonal slowdown in market demand. North America NBSK pulp list prices averaged US$900 per tonne for the quarter, up US$30 from the previous quarter. CPPI's average list price to China increased modestly to US$700 per tonne, but prices fell through May and June, and were at US$680 per tonne by the end of the period. The list price to Europe also fell through the quarter, but on average was in line with the first quarter at US$837 per tonne. Sales realizations were positively impacted by the weaker average Canadian dollar compared to the prior quarter.

Compared to the second 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$125 per tonne, while prices to Europe and China decreased US$180 and US$240 per tonne, respectively. The price reductions were offset in part by the 4 cent weaker Canadian dollar compared to the US dollar in the current quarter.

Operations

Pulp production in the second quarter of 2012 was 213,000 tonnes, down 49,000 tonnes, or 19%, from the previous quarter and down 53,000 tonnes, or 20%, from the second quarter of 2011. The maintenance outage at the Intercontinental Pulp Mill reduced market pulp production by 12,000 tonnes, while the maintenance outage at the Prince George Pulp Mill, which had an impact of 6,000 tonnes in the second quarter, was extended into the third quarter to complete the final project under the Green Transformation Program and a partial rebuild of the recovery boiler. The unscheduled shutdown at the Northwood Pulp Mill had an estimated impact on current quarter production of 31,000 tonnes.

Pulp unit manufacturing costs increased from the previous quarter, reflecting the significantly lower production levels in the quarter, as well as higher maintenance and operating costs relating to the maintenance outages. However, fibre costs decreased modestly due to the consumption of lower cost chips from opening inventories and a reduction in usage of higher cost whole log chips, partially offset by higher prices paid for sawmill residual (linked to NBSK market pulp prices) and whole log chips.

Compared to the second quarter of 2011, unit conversion costs increased with the lower production levels again being the main driver for the increase. Pulp unit manufacturing costs were positively impacted however by a reduction in fibre costs, principally resulting from lower-cost sawmill residual chips, for which prices are linked to NBSK pulp sales realizations.

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

Paper

Selected Financial Information and Statistics –Paper

(millions of dollars unless otherwise noted)	Q2 2012	Q1 2012	YTD 2012	Q2 2011	YTD 2011
Sales	**$ 38.2**	$ 29.9	**$ 68.1**	$ 34.2	$ 68.2
EBITDA	**$ 5.7**	$ 3.7	**$ 9.4**	$ 1.7	$ 4.6
Operating income	**$ 4.8**	$ 2.7	**$ 7.5**	$ 0.8	$ 2.9
Production – paper (000 mt)	**30.0**	32.9	**62.9**	31.8	66.3
Shipments – paper (000 mt)	**36.8**	29.6	**66.4**	32.7	65.3

Overview

Operating income for the paper segment was $4.8 million for the first quarter of 2012, up $2.1 million from the previous quarter and up $4.0 million from the second quarter of 2011.

The improved earnings in relation to the prior period resulted from higher realized paper prices and sales volumes. Compared to the second quarter of 2011, the positive variance largely results from lower slush pulp costs, reflecting lower market pulp prices, which more than offset lower paper sales realizations.

Markets

Global kraft paper demand remained steady through the second quarter. The Paper Shipping Manufacturers' Association ("PSSMA") statistics for the second quarter of 2012 revealed that the industry operating rates of 78% decreased slightly from 81% in the first quarter of 2012. The PSSMA also reported that North American shipments for the second quarter of 2012 were relatively unchanged when compared to the first quarter.

Sales

CPPI's paper shipments in the second quarter of 2012 were 37,000 tonnes, up almost 25% from the previous quarter and 13% from the second quarter of 2011. Prime bleached shipments, which attract higher prices, increased 28% from the prior quarter and 4% when compared to the second quarter of 2011.

Unit sales realizations for paper products saw a moderate increase from the prior quarter, reflecting a higher value regional mix, but decreased slightly from the second quarter of 2011. The weaker average Canadian dollar compared to both periods also had a positive impact on sales realizations.

Operations

Paper production in the second quarter of 2012 was 30,000 tonnes, a reduction of approximately 3,000 tonnes from the previous quarter and approximately 2,000 tonnes when compared to the second quarter of 2011. The decreased production was principally related to a scheduled maintenance outage on the Company's paper machine in June 2012.

Paper unit manufacturing costs decreased slightly in the current quarter, with the impact of higher slush pulp costs and lower production levels being more than offset by the sale in the current quarter of lower cost inventory from the previous quarter.

Compared to the second quarter of 2011, unit manufacturing costs decreased significantly, largely reflecting the impact of lower market pulp prices on slush pulp costs in the paper segment.

Unallocated Items

(millions of dollars)	Q2 2012	Q1 2012	YTD 2012	Q2 2011	YTD 2011
Corporate costs	**$ (3.0)**	$ (3.4)	**$ (6.4)**	$ (3.6)	$ (6.5)
Finance expense, net	**$ (2.8)**	$ (2.8)	**$ (5.6)**	$ (2.6)	$ (5.5)
Foreign exchange gain (loss) on long-term debt	**$ (2.2)**	$ 2.0	**$ (0.2)**	$ 0.8	$ 3.3
Gain (loss) on derivative financial instruments	**$ (1.4)**	$ 1.3	**$ (0.1)**	$ 1.0	$ 2.6
Foreign exchange gain (loss) on working capital	**$ 0.8**	$ (0.8)	**$ -**	$ (0.7)	$ (1.8)

Corporate costs were $3.0 million for the second quarter of 2012, down slightly from the previous quarter and the second quarter of 2011.

Net finance expense for the second quarter of 2012 was $2.8 million, in line with the previous quarter and the second 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 loss on its US dollar denominated debt of $2.2 million for the second quarter of 2012, as a result of the weakening of the Canadian dollar against the US dollar, which fell by 2% between the respective quarter ends. In the first quarter of 2012, a strengthening of the Canadian dollar resulted in a translation gain of $2.0 million, while the second quarter of 2011 showed a gain of $0.8 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 second quarter of 2012, the Company recorded a net loss of $1.4 million related to its derivative financial instruments, primarily reflecting losses on US dollar forward contracts related to the weakening of the Canadian dollar.

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

(millions of dollars)	Q2 2012	Q1 2012	YTD 2012	Q2 2011	YTD 2011
Foreign exchange forward contracts	**$ (1.1)**	$ 1.2	**$ 0.1**	$ 1.0	$ 2.7
Natural gas swaps	**$ -**	$ -	**$ -**	$ -	$ (0.1)
Crude oil collars	**$ (0.3)**	$ 0.1	**$ (0.2)**	$ -	$ -
	$ (1.4)	$ 1.3	**$ (0.1)**	$ 1.0	$ 2.6

Other Comprehensive Income (Loss)

In the second quarter of 2012, the Company recorded an after-tax charge to the statements of other comprehensive income (loss) of $3.7 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, and a lower than expected rate of return for the period. In the previous quarter a charge of $2.4 million was recorded, reflecting a reduction in discount rates, offset in part by a gain on plan assets due to a higher than expected gain for the quarter. An after-tax loss of $1.1 million was recorded in the second 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)	Q2 2012	Q1 2012	YTD 2012	Q2 2011	YTD 2011
Increase (decrease) in cash and cash equivalents	**$ (8.9)**	$ 21.8	**$ 12.9**	$ (24.2)	$ (37.7)
Operating activities	**$ 19.2**	$ 41.5	**$ 60.7**	$ 38.4	$ 113.6
Financing activities	**$ (11.4)**	$ (8.0)	**$ (19.4)**	$ (54.6)	$ (131.2)
Investing activities	**$ (16.7)**	$ (11.7)	**$ (28.4)**	$ (8.0)	$ (20.1)
Ratio of current assets to current liabilities			**2.1 : 1**		2.1 : 1
Net debt to capitalization			**20.4%**		14.3%

Changes in Financial Position

Cash generated from operating activities was $19.2 million in the second quarter of 2012, down from $41.5 million generated in the first quarter. The decrease results largely from lower cash generated from working capital movements, as well as the lower operating earnings and a $4.3 million income tax payment in the current quarter. In the current quarter, positive cash movements due to an increase in accounts payable and a drawdown in inventories were substantially offset by higher accounts receivable balances at the quarter end, reflecting the Company's Northwood Pulp Mill insurance claim and higher Harmonized Sales Tax ("HST") receivables in the current quarter. In the prior quarter, however, working capital movements provided a positive cash movement of $14.4 million as both accounts receivable and inventory balances were reduced.

Cash used in financing activities of $11.4 million in the quarter included a $7.8 million dividend declared and paid to non-Canfor shareholders during the quarter (see "Dividends" section later in this document). In the prior quarter, financing cash outflows include a distribution of $7.8 million, representing the Partnership distributions to all unitholders, namely Canfor and CPPI. In the second quarter of 2011 the distribution paid to unitholders was $51.3 million, reflecting higher earnings in that period. Finance payments in the current quarter were $3.6 million, principally relating to interest payments on the Company's long-term debt. Finance payments in the second quarter of 2011 were at a similar level to the current quarter, while there were no significant payments in the first quarter of 2012.

Cash used in investing activities in the current quarter was comprised of $19.3 million of capital expenditures partly offset by $2.5 million in cash received from government grants, including the Green Transformation Program. Capital expenditures in the current quarter included upgrades to the boiler and feedwater treatment system at the Prince George Pulp and Paper Mill, as well as maintenance capital related to the outages. Capital expenditures and grants received decreased slightly from the previous quarter, and were well down from the second quarter of 2011 when significant work was carried out at the Northwood Pulp Mill under the Green Transformation Program. Prior quarter investing cash flows also included $6.8 million of cash acquired by CPPI on execution of the previously-highlighted share exchange.

Liquidity and Financial Requirements

At June 30, 2012, CPPI had cash of $10.9 million and a bank credit facility of $40.0 million which was unused, except for $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. The Company also had an undrawn 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, for which the maximum amount available is $30.0 million.

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

As part of Canfor's exchange of its Partnership interest for shares of CPPI on March 2, 2012, Canfor waived its right to receive dividends paid from cash accumulated from Partnership distributions and not distributed to CPPI shareholders prior to that exchange. The Board of Directors declared a quarterly dividend payable on May 11, 2012 to the non-Canfor shareholders of record on May 4, 2012 of $0.22 per share, being the amount of such accumulated cash in CPPI at the date of exchange. As all cash accumulated from Partnership distributions and not distributed to CPPI shareholders' prior to Canfor's exchange was paid on May 22, 2012, future dividends will be shared equally by all CPPI shareholders, including Canfor.

On July 25, 2012, the Board of Directors declared a quarterly dividend of $0.05 per share, payable on August 14, 2012 to the shareholders of record on August 7, 2012.

Collective Agreements with Labour Unions

CPPI's collective labour agreements expired on April 30, 2012. The CEP (Communications, Energy and Paperworkers Union) has ratified a new five year collective agreement and the Company is continuing discussions with the PPWC (Pulp, Paper and Woodworkers of Canada).

OUTLOOK

Pulp

The global softwood pulp market is projected to weaken further through the remaining summer months. Producer inventories remained in the balanced range through to the end of May 2012 but are forecast to rise modestly as there is minimal scheduled maintenance downtime during the summer months. For the month of July, the Company projects NBSK pulp list prices to decrease US$20 per tonne in all regions with further price reductions projected in third quarter.

A maintenance outage underway at the Prince George pulp mill, which was extended to complete the final project under the Green Transformation Program and a partial rebuild of the recovery boiler, will result in a total of approximately 32,000 tonnes of reduced production, of which 6,000 tonnes fell in the second quarter and 26,000 will be in the third quarter. In addition, the unscheduled shutdown completed at Northwood in early July resulted in a further 4,000 tonnes of lost production. A scheduled maintenance outage at the Northwood Pulp mill is planned for the fourth quarter with an estimated 6,000 tonnes of reduced production.

Paper

Kraft paper demand is solid heading into the third quarter with healthy order files. Announced price increases for North American and Export markets of US$50 per tonne are projected to be fully realized in the third quarter. There are no further maintenance outages scheduled for the balance of 2012.

OUTSTANDING SHARES

At July 25, 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 June 30, 2012 and six months ended June 30, 2012 is an increase in operating income and an increase in net finance expense of $0.8 million and $1.6 million, respectively (2011 - $0.7 million and $1.5 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 June 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]

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Sales and income (millions of dollars)								
Sales	**$ 210.8**	$ 220.0	$ 212.7	$ 233.9	$ 242.1	$ 252.3	$ 266.1	$ 247.9
EBITDA	**$ 25.1**	$ 28.7	$ 37.9	$ 50.3	$ 64.8	$ 67.2	$ 62.9	$ 69.3
Operating income	**$ 10.4**	$ 11.5	$ 16.5	$ 36.4	$ 49.8	$ 50.7	$ 46.7	$ 53.1
Net income	**$ 3.3**	$ 10.3	$ 15.8	$ 23.9	$ 48.2	$ 50.7	$ 47.4	$ 55.0
Per common share (dollars)								
Net income – basic and diluted	**$ 0.05**	$ 0.13	$ 0.22	$ 0.33	$ 0.68	$ 0.71	$ 0.67	$ 0.77
Statistics								
Pulp shipments (000 mt)	**230.2**	270.6	231.0	240.2	242.0	265.3	272.3	246.0
Paper shipments (000 mt)	**36.8**	29.6	30.2	32.1	32.7	32.6	39.0	33.6
Average exchange rate – US$ per C$1.00	**$ 0.990**	$ 0.999	$ 0.977	$ 1.020	$ 1.033	$ 1.014	$ 0.987	$ 0.962
Average NBSK pulp list price delivered to U.S. (US$)	**$ 900**	$ 870	$ 920	$ 993	$ 1,025	$ 970	$ 967	$ 1,000

[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 EBITDA 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.