February 6, 2012

CANFOR PULP PRODUCTS INC. ANNOUNCES FOURTH QUARTER 2011 RESULTS AND QUARTERLY DIVIDEND

Vancouver, BC – Canfor Pulp Products Inc. (CPPI) (TSX: CFX) today announced its fourth quarter and full year 2011 results as well as the results of Canfor Pulp Limited Partnership (the Partnership) in which CPPI has a 49.8% ownership.

For the quarter, CPPI reported net income of $5.9 million or $0.17 per share, representing CPPI's share of the Partnership's income less an income tax provision of $1.9 million.

For the quarter, the Partnership reported sales of $212.7 million and net income of $15.8 million or $0.22 per unit. The Partnership generated EBITDA of $37.8 million. Results were impacted by lower market pulp prices and the extended outage at the Northwood Pulp Mill. Capital expenditures of $28.8 million or $0.40 per unit incurred in the quarter, reduced distributable cash to negative $3.0 million or $0.04 per unit.

For the year, the Partnership reported sales of $941.0 million and generated net income of $138.6 million, EBITDA of $218.2 million and distributable cash of $131.6 million, or $1.85 per unit. CPPI reported net income of $72.6 million or $2.05 per share and declared dividends of $1.45 per share for 2011, including the dividend relating to the fourth quarter of $0.25 per share declared in February 2012.

Capital expenditures for the year were $139 million, of which $56 million was funded by the Partnership, and the remainder from government programs. The largest government funding source was the Canadian Pulp and Paper Green Transformation Program. The Partnership was allocated a total of $122.2 million and received approval to proceed with four projects under the Program. Three projects were completed in 2011 including the Northwood recovery boiler upgrade. The final project, which is partially funded by the Program, is to upgrade the feedwater system at the Prince George Pulp and Paper Mill and is projected to be completed in the third quarter of 2012.

Global softwood pulp markets softened through the fourth quarter as world pulp producer inventories increased to 36 days of supply. NBSK pulp list prices decreased US$80 per tonne for North America to US$890 and US$125 per tonne for Europe to US$825. The Partnership's NBSK pulp list price for China decreased US$150 per tonne to US$690.

The global softwood pulp market is projected to remain soft through the first quarter of 2012. There is ample supply as historically there is minimal scheduled maintenance downtime at pulp mills during the winter months. However, current pricing at or below cash costs of some NBSK producers may reduce the risk of further price erosion. There are no maintenance outages scheduled at the Partnership's operations in the first quarter of 2012.

CPPI announced a quarterly dividend of $0.25 per share to be paid on February 23, 2012 to shareholders of record at the close of business on February 16, 2012.

Additional Information

A conference call to discuss the fourth quarter 2011 financial and operating results will be held on Tuesday, February 7, 2012 at 8:00 a.m. Pacific time.

To participate in the call, please dial 416-340-8018 or Toll-Free 1-877-223-7781. For instant replay access, please dial 905-694-9451 or Toll-Free 1-800-408-3053 and enter participant pass code 2774354. The conference call will be webcast live and will be available at www.canforpulp.com/investors/webcasts.asp.

This news release is available on the Partnership's website at www.canforpulp.com.

About Canfor Pulp Products Inc.

Canfor Pulp Products Inc. (CPPI) is the successor to the Canfor Pulp Income Fund (the Fund) following the completion of the conversion of the Fund from an income trust structure to a corporate structure by court approved plan of arrangement under the Business Corporations Act (British Columbia) (the BCBCA) on January 1, 2011 (the Conversion). The Conversion involved the exchange, on a one-for-one basis, of all outstanding Fund Units for common shares of CPPI (CPPI Shares). Upon completion of the Conversion, on January 1, 2011, the unitholders of the Fund became the sole shareholders of CPPI which became sole owner of all of the outstanding Fund Units.

Immediately following the conversion, the Fund was wound up, CPPI received all of the assets and assumed all of the liabilities of the Fund and CPPI became the direct holder of the 49.8% interest in the Partnership previously held by the Fund.

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Forward-Looking Statements

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

Forward-looking statements in this press release include statements made under:

- *"Critical Accounting Estimates" on pages 6, 17 and 18;*
- *"Changes in Accounting Policies" on pages 6, 7, 18 and 19;*
- *"Distributable Cash and Cash Distributions" on pages 10 and 11.*
- *"Outlook – Pulp" on page 13;*
- *"Outlook – Kraft Paper" on page 14;*
- *"Financial Requirements and Liquidity" on page 16;*

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

Calculations of EBITDA and distributable cash are provided in this press release.

Material risk factors that could cause actual results to differ materially from the forward-looking statements contained in this press release include: general economic, market and business conditions; product selling prices; raw material and operating costs; exchange rates; changes in law and public policy; and opportunities available to or pursued by CPPI and the Partnership. Additional information concerning these and other factors can be found in CPPI's Annual Information Form dated February 11, 2011, which is available on www.sedar.com.

Canfor Pulp Products Inc. and Canfor Pulp Limited Partnership
Fourth quarter 2011
The information in this report is as at February 6, 2012.

CANFOR PULP PRODUCTS INC.

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

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

The information in the table below for 2010 represents the results under International Financial Reporting Standards (IFRS) for the Fund prior to conversion to a corporation. Equity income in the Partnership represents CPPI's share of the Partnership's net income. In accordance with International Accounting Standard (IAS) 32 the Fund units were classified as a financial liability and measured at amortized cost with changes recorded through net income (see CPPI's disclosures on pages 6 and 7). In addition the Fund's distributions were classified as a financing expense in the statement of comprehensive income (loss). Net income (loss) was also impacted by deferred income tax expense (recovery) which is primarily influenced by changes in substantively enacted tax rates and the difference between the tax basis of CPPI's pro-rata ownership of the Partnership's assets and liabilities and the respective amounts reported in the financial statements.

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

Notes: [1] Represents the Partnership's distributable cash on which CPPI is dependent to pay its own dividends. For further details on the Partnership's distributable cash see the disclosure on page 10.
[2] Fund results for 2010 presented under IFRS. See CPPI's disclosure on pages 6 and 7.

OPERATING RESULTS AND LIQUIDITY

For the quarter ended December 31, 2011, CPPI had net income of $5.9 million or $0.17 per share. The net income was CPPI's share of the Partnership's net income for the fourth quarter of 2011 and includes income tax expense of $1.9 million. Included in equity income of the Partnership for the fourth quarter of 2011 was CPPI's share of non-operating items with the foreign exchange gain on translation of US dollar denominated long-term debt and a gain on derivative financial instruments offset by a foreign exchange loss on working capital.

At December 31, 2011 CPPI had cash and cash equivalents of $27.2 million of which $8.9 million was committed to pay the quarterly dividend and $14.6 million accumulated for income taxes due in February, 2012. Distributions declared by the Partnership and accruing to CPPI were $11.7 million of which $3.9 million was receivable at December 31, 2011. Cash distributions received from the Partnership are the primary source of liquidity for CPPI. For further information refer to the Partnership's discussion of operating results and liquidity on pages 9 through 16 of this press release.

CPPI DIVIDENDS

CPPI is entirely dependent on distributions from the Partnership to make dividend payments to its shareholders. Distributions payable by the Partnership to CPPI and dividends payable by CPPI to its shareholders are recorded when declared. During the fourth quarter of 2011, CPPI declared and paid a dividend of $0.40 per share or $14.2 million. On February 6, 2012, a dividend of $0.25 per share was declared, payable on February 23, 2012 to shareholders of record on February 16, 2012.

CPPI intends to pay quarterly dividends based on estimates of full year distributions from the Partnership, less a provision for income taxes and administrative expenses.

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

RISKS AND UNCERTAINTIES

CPPI is subject to certain risks and uncertainties related to the nature of its investment in the Partnership, as well as all of the risks and uncertainties related to the business of the Partnership. A comprehensive discussion of these risks and uncertainties is contained in CPPI's Annual Information Form dated February 11, 2011, which is available on www.sedar.com and www.canforpulp.com.

CPPI SHARES

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

RELATED PARTY TRANSACTIONS

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

Distributions earned from the Partnership for the three months ended December 31, 2011 were $11.7 million of which $7.8 million was received, with the balance of $3.9 million receivable as at December 31, 2011.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGE IN ACCOUNTING POLICIES

Transition to and Initial Adoption of International Financial Reporting Standards

IFRS became Canadian GAAP for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The financial statements for the three months ended December 31, 2011, have been prepared in accordance with IAS 34, and IFRS 1, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC). CPPI relies on the resources of the Partnership to ensure compliance with IFRS. Accordingly, CPPI commenced reporting on this basis in its 2011 interim consolidated financial statements.

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

Impact of Adopting IFRS on the Company's Accounting Policies

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

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

(a) Fund Units

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

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

Impact on Condensed Balance Sheets of the Fund:

(thousands of dollars, except for per unit amounts, unaudited)	As at December 31, 2010
Increase in fund unit liability	509,687
Reduction in equity	509,687
Unit market price for valuation	14.36

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

(thousands of dollars, unaudited)	Three months ended December 31, 2010	Year ended December 31, 2010
Increase in value of Fund units (revaluation loss)	1,775	199,119
Reclassification to financing expense (distributions declared)	37,268	91,573
Reduction in comprehensive income	39,043	290,692

(b) Deferred Income Tax Rate

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

Impact on Condensed Balance Sheets of the Fund:

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

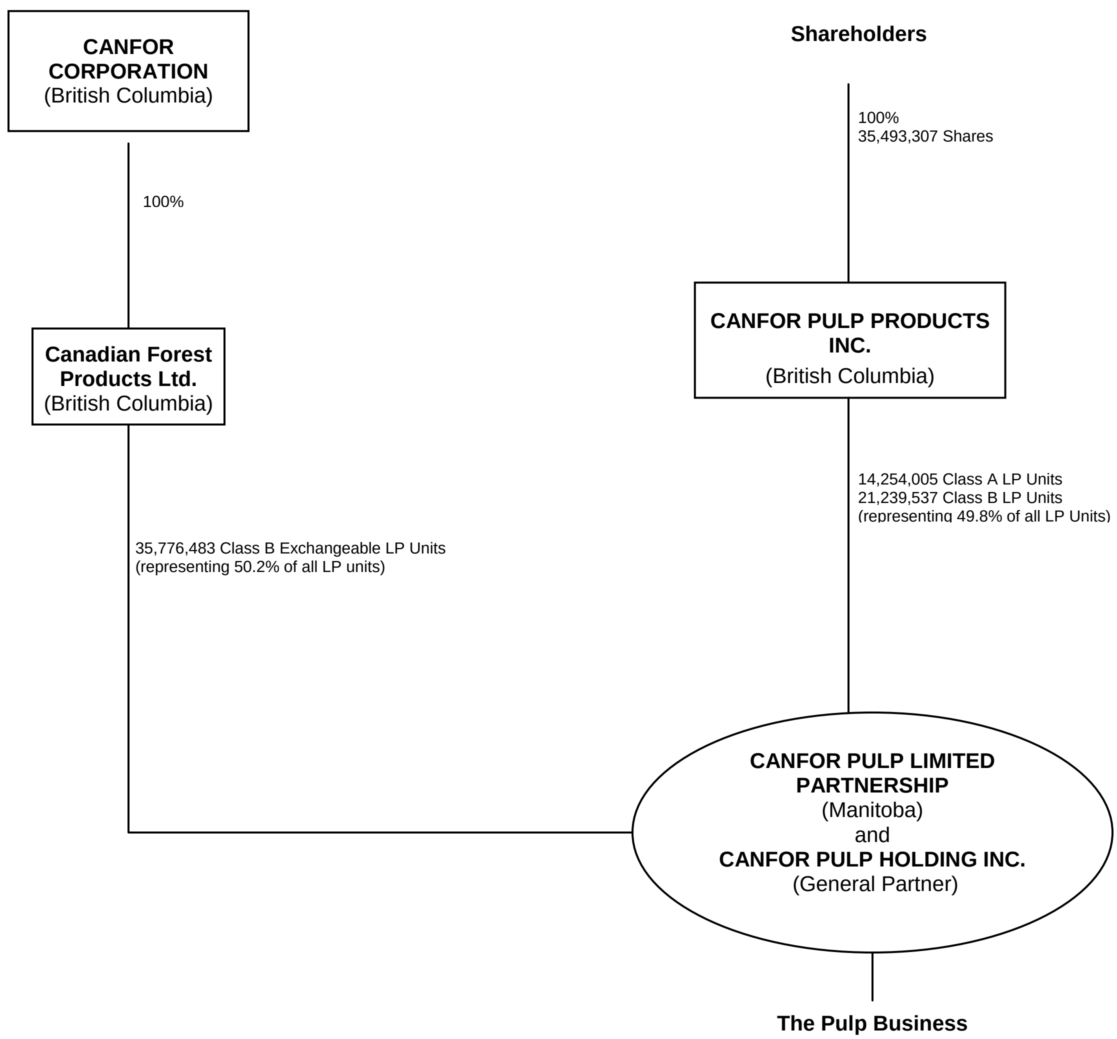
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

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

Ownership Structure



The Partnership's Business and Strategic Objectives

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

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

OVERVIEW OF PARTNERSHIP FINANCIAL RESULTS

Highlights

Three months ended December 31, 2011, The Partnership:

- Reported net income of $15.8 million or $0.22 per Partnership unit on sales of $212.7 million.
- Generated EBITDA of $37.8 million.
- Achieved average daily production record on the paper machine.
- Completed the Recovery Boiler Upgrade Project at the Northwood Pulp Mill partially funded under the Green Transformation Program.

Year ended December 31, 2011, The Partnership:

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

Financial Results

(millions of dollars, except for per unit amounts, unaudited)	**Q4 2011**	Q3 2011	**Year 2011**	Q4 2010	Year 2010
Sales	**212.7**	233.9	**941.0**	266.1	1,001.1
EBITDA	**37.8**	49.6	**218.2**	62.3	249.7
Operating income	**15.8**	35.7	**150.5**	46.1	183.7
Net income	**15.8**	23.9	**138.6**	47.4	179.0
Per Partnership unit, basic and diluted					
Net income	**$0.22**	$0.33	**$1.94**	$0.67	$2.51
EBITDA	**$0.53**	$0.69	**$3.06**	$0.88	$3.50
Average exchange rate (US$/Cdn$) [1]	**0.977**	1.020	**1.011**	0.987	0.971

Note: [1] Source – Bank of Canada (average noon rate for the period).

Reconciliation of Net Income to EBITDA

(millions of dollars, unaudited)	Three months ended **December 31, 2011**	Three months ended December 31, 2010	Year ended **December 31, 2011**	Year ended December 31, 2010
Net income	**$ 15.8**	$ 47.4	**$ 138.6**	$ 179.0
Add (deduct):				
Amortization	**21.4**	16.1	**66.8**	66.1
Interest expense	**2.1**	1.9	**8.0**	7.8
Foreign exchange loss (gain) on long-term debt	**(2.4)**	(3.9)	**2.5**	(5.7)
Loss (gain) on derivative financial instruments	**(1.5)**	(2.3)	**1.6**	(1.5)
Foreign exchange loss (gain) on working capital	**1.3**	2.8	**(1.0)**	4.0
Loss (gain)on disposal of fixed assets	**0.6**	0.1	**0.9**	(0.2)
Other expense	**0.5**	0.2	**0.8**	0.2
EBITDA	**$ 37.8**	$ 62.3	**$ 218.2**	$ 249.7
EBITDA per Partnership unit	**$ 0.53**	$ 0.88	**$ 3.06**	$ 3.50

Three months ended December 31, 2011 compared to September 30, 2011:

The Partnership generated EBITDA of $37.8 million on sales of $212.7 million in the fourth quarter of 2011 compared to EBITDA of $49.6 million on sales of $233.9 million in the third quarter of 2011. The decline is primarily attributable to a decrease in results from the pulp segment due to lower NBSK pulp US dollar list prices and lower shipment volumes, partially offset by improved results from the paper segment and a weaker Canadian dollar.

Three months ended December 31, 2011 compared to December 31, 2010:

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

Year ended December 31, 2011 compared to December 31, 2010:

The Partnership generated EBITDA of $218.2 million on sales of $941.0 million compared to EBITDA of $249.7 million on sales of $1,001.1 million. The decrease in 2011 results were primarily attributable to lower earnings from the pulp segment due to lower shipment volumes, the impact of the extended maintenance outage at the Northwood Pulp Mill and lower realized pulp prices in Canadian dollar terms. The reduction in pulp segment earnings were partially offset by improved paper segment earnings and higher energy sales.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

(millions of dollars, unaudited)	Three months ended **December 31, 2011**	Three months ended December 31, 2010	Year ended **December 31, 2011**	Year ended December 31, 2010
CALCULATION OF DISTRIBUTABLE CASH				
Cash flow from operations before working capital changes	**$ 32.9**	$ 58.0	**$ 212.1**	$ 246.2
Add (deduct):				
Capital expenditures – net[1]	**(28.8)**	(3.6)	**(56.0)**	(12.6)
Major maintenance amortization	**(5.0)**	(4.2)	**(16.5)**	(18.7)
Interest	**(2.1)**	(1.9)	**(8.0)**	(7.8)
Distributable cash	**$ (3.0)**	$ 48.3	**$ 131.6**	$ 207.1
Distributable cash – per Partnership unit	**$ (0.04)**	$ 0.68	**$ 1.85**	$ 2.91
Cash distributions declared (paid and payable)	**$ 23.5**	$ 74.8	**$ 149.7**	$ 183.9
Cash distributions declared – per Partnership unit	**$ 0.33**	$ 1.05	**$ 2.10**	$ 2.58

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

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

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

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**Q4 2011**	Q3 2011	**Year 2011**	Q4 2010	Year 2010
Sales	**179.1**	199.0	**802.9**	224.7	857.2
EBITDA	**36.8**	48.9	**218.4**	62.3	261.4
EBITDA margin	**21%**	25%	**27%**	28%	30%
Operating income	**16.1**	36.0	**154.9**	47.0	199.0
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**920**	993	**977**	967	960
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**942**	974	**966**	980	989
Production – pulp (000 mt)	**245.7**	220.8	**996.7**	261.4	1,032.0
Shipments – Partnership-produced pulp (000 mt)	**231.0**	240.2	**978.5**	272.3	1,039.0
Marketed on behalf of HSLP[1] & Canfor (000 mt)	**44.3**	51.0	**210.1**	58.8	457.8

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

Three months ended December 31, 2011 compared to September 30, 2011:

Pulp segment operating income of $16.1 million decreased $19.9 million due primarily to lower NBSK US list price, lower shipment volumes and accelerated amortization related to end-of-life assets replaced during the Northwood recovery boiler upgrade project, partially offset by lower cash manufacturing costs.

- Realized pulp prices in Canadian dollar terms decreased 7% due primarily to lower North American NBSK US list prices which averaged US$920 per tonne compared to US$993 per tonne in the prior period, partially offset by the weakening Canadian dollar. The Canadian dollar weakened 4% averaging $0.977 US/Cdn, (Q3 2011 – 1.020).
- Sales volume decreased 9,200 tonnes as a result of softening global demand in the fourth quarter of 2011.
- Market pulp production increased 24,900 tonnes, primarily due to the impact of the extended maintenance outage at the Northwood Pulp Mill in the third quarter of 2011.
- Unit manufacturing costs increased 2% when compared to the prior quarter due to higher chemical costs and accelerated amortization related to end-of-life assets replaced during the Northwood recovery boiler upgrade project partially offset by lower spending on maintenance and operating costs.
- Fibre costs increased marginally during the quarter due to the consumption of higher cost opening inventories and an increase in the volume of higher cost whole log chips, partially offset by a reduction in the price of sawmill residual chips which are tied in part to realized pulp prices.

Three months ended December 31, 2011 compared to December 31, 2010:

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

- Realized pulp prices in Canadian dollar terms decreased 6% due primarily to lower North American NBSK US list prices which averaged US$920 per tonne compared to US$967 per tonne in the prior period.

- The Canadian dollar weakened 1% averaging $0.977 US/Cdn, (Q4 2010 – 0.987).

- Market pulp production decreased 15,700 tonnes, primarily due to completion of the extended maintenance outage at the Northwood Pulp Mill in the fourth quarter of 2011.

- Unit manufacturing costs increased 6% when compared to the prior quarter due to the extended outage at the Northwood Pulp Mill, higher chemical costs and accelerated amortization related to end-of-life assets replaced during the Northwood recovery boiler upgrade project, all of which were partially offset by lower fibre cost.

- Sales volume decreased 41,300 tonnes as a result of softening global demand and reduced tonnage available for sale due to the extended maintenance outage at the Northwood Pulp Mill.

Year ended December 31, 2011 compared to December 31, 2010:

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

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

- Market pulp production decreased 35,300 tonnes, primarily due to the extended maintenance outage at the Northwood Pulp Mill.

- Pulp shipment volumes decreased approximately 60,500 tonnes compared to 2011. The reduction was due in part to the extended maintenance outage at the Northwood Pulp Mill and some rebuilding of inventory to a target range in 2011 from the low levels at the end of 2010.

- Realized pulp prices in Canadian dollar terms decreased 1% due primarily to the 4% strengthening of the Canadian dollar averaging $1.011 US/Cdn, (2010 – $0.971), partially offset by slightly higher NBSK US list prices and a shift in volumes to higher margin geographic regions and customers.

- North American NBSK US list prices averaged US$977 per tonne compared to US$960 per tonne in 2010.

- Energy sales under the Partnership's Energy Purchase Agreement (EPA) with BC Hydro increased $1.6 million.

Operations

NBSK market pulp production during the fourth quarter increased 24,900 tonnes when compared to the third quarter of 2011, and declined 15,700 tonnes when compared to the fourth quarter of 2010. The extended maintenance outage at the Northwood Pulp Mill was completed resulting in approximately 45,000 tonnes of reduced production in the fourth quarter of 2011 and 20,000 tonnes in the third quarter of 2011.

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

Markets – Pulp

Global softwood pulp markets remained weak during the fourth quarter of 2011. Producer inventory levels increased through the period resulting in successive price decreases. According to the latest published World 20[1] report, global bleached softwood pulp shipments for December were unchanged compared to the same period in 2010.

Pulp and Paper Products Council (PPPC) statistics reported increased global demand for printing and writing papers and tissue of 1% for full year 2011 as compared to 2010. PPPC reported an increase in shipments of bleached softwood sulphate pulp of 3% for full year 2011 as compared to 2010 with increased shipments to Asia offset by reductions in Europe and North America.

At the end of December 2011, World 20[1] producers of bleached softwood pulp inventories were at 36 days of supply. By comparison, December 2010 inventories were at 25 days of supply and September 2011 was at 32 days of supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

During the quarter, downward pressure on NBSK pulp list prices due to rising producer inventories resulted in a December price of US$890 per tonne for North America, a decrease of US$80 when compared to the September 2011 price of US$970. NBSK pulp list prices decreased US$125 per tonne for Europe to US$825 and US$150 per tonne for China to US$690 during the fourth quarter of 2011.

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

Outlook – Pulp

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

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

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q4 2011**	Q3 2011	**Year 2011**	Q4 2010	Year 2010
Sales	**33.5**	34.9	**136.6**	40.9	142.6
EBITDA	**4.6**	4.1	**13.2**	2.1	3.9
EBITDA margin	**14%**	12%	**10%**	5%	3%
Operating income	**3.3**	3.2	**9.2**	1.3	0.6
Production – paper (000 mt)	**33.5**	36.7	**136.5**	34.7	136.7
Shipments – paper (000 mt)	**30.2**	32.1	**127.6**	39.0	144.7

Three months ended December 31, 2011 compared to September 30, 2011:

Operating income of the paper segment was unchanged as a 2% increase in realized paper prices in Canadian dollar terms was offset by higher unit manufacturing costs and lower shipment volumes. The increase in unit manufacturing costs was attributable to higher spending on fixed costs and the impact of lower production on unit costs, partially offset by lower prices for slush pulp. The slush pulp is transferred to the paper segment at a market price with the decrease directly attributable to the decrease in the realized pulp price in Canadian dollar terms.

Three months ended December 31, 2011 compared to December 31, 2010:

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

Year ended December 31, 2011 compared to December 31, 2010:

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

Operations

Paper production for the fourth quarter of 2011 was 33,500 tonnes, 3,200 tonnes lower than the third quarter of 2011 and 1,200 tonnes lower than the fourth quarter of 2010. For the full year 2011 the paper division produced 136,500 tonnes, slightly below the record of 136,700 tonnes set in 2010.

Markets – Kraft Paper

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

The Partnership's prime paper shipments in the fourth quarter of 2011 were down 5.3% from the third quarter and down 23% from the same quarter 2010. Prime bleached shipments were down 8.9% from last quarter and 6.2% from the fourth quarter 2010.

Outlook – Kraft Paper

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

Non-Segmented Costs

(millions of dollars, unaudited)	**Q4 2011**	Q3 2011	**Year 2011**	Q4 2010	Year 2010
Net unallocated costs	**3.6**	3.5	**13.6**	2.2	15.9
Interest expense, net	**2.1**	1.9	**8.0**	1.9	7.8
Foreign exchange loss (gain) on long-term debt	**(2.4)**	8.2	**2.5**	(3.9)	(5.7)
Foreign exchange loss (gain) on working capital	**1.3**	(4.1)	**(1.0)**	2.8	4.0
Loss (gain) on derivative financial instruments	**(1.5)**	5.7	**1.6**	(2.3)	(1.5)
Other expense	**0.5**	0.1	**0.8**	0.2	0.1
	3.6	15.3	**25.5**	0.9	20.6

Net Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totaled $3.6 million in the fourth quarter of 2011 compared to $3.5 million in the third quarter of 2011 and $2.2 million in the fourth quarter of 2010. The lower unallocated costs in the fourth quarter of 2010 were primarily attributable to a one-time fee received in respect of the termination of the agency sales agreement with Howe Sound Limited Partnership (HSLP) due to the sale by Canfor of their ownership interest in HSLP. For the full year 2011 unallocated costs totaled $13.6 million compared to $15.9 million in 2010. When compared to the prior year, the decrease in unallocated costs is primarily attributable to lower accruals for performance based incentive plans and a reduction in payments to industry associations, partially offset by higher consulting costs.

Interest Expense

For the fourth quarter of 2011 the net interest expense remained relatively unchanged from the prior quarter.

Other Non-segmented Items

The foreign exchange gain on long-term debt of $2.4 million resulted from translating the US$110 million debt at period-end exchange rates, reflecting the stronger Canadian dollar as of December 31, 2011.

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

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

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	**December 31, 2011**	December 31, 2010
Ratio of current assets to current liabilities	**2.03**	1.90
Ratio of net debt to partners' equity [1]	**0.25**	0.09

	Q4 2011	**Year 2011**	Q4 2010	Year 2010
Increase (decrease) in cash and cash equivalents	**(34.0)**	**(66.2)**	36.7	50.7
Comprised of cash flow from (used in):				
Operating activities	**34.1**	**199.0**	93.1	241.7
Financing activities	**(26.6)**	**(188.8)**	(57.1)	(158.1)
Investing activities	**(41.5)**	**(76.4)**	0.7	(32.9)

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

Changes in Financial Position

Cash generated from operating activities was $34.1 million in the fourth quarter of 2011 compared to $93.1 million in the fourth quarter of 2010. The decrease is the result of a reduction in cash used for working capital and lower operating earnings. The decrease of cash used for working capital during the fourth quarter of 2011 was primarily the result of increased volumes of pulp and paper finished goods and chip inventories and differences in the timing of trade receivable and accounts payable balances. The lower operating earnings are attributable to lower realized pulp prices, higher unit manufacturing costs, lower shipment volumes of the Partnership's pulp and paper products and higher unallocated costs, partially offset by higher realized paper prices.

The cash used in financing activities of $26.6 million in the quarter represents $22.8 million in distributions paid to the limited partners, namely Canfor and CPPI, and $3.8 million in interest payments.

The cash used in investing activities in the quarter is comprised of $24.8 million in sustaining and discretionary capital expenditures, $15.4 million in major maintenance expenditures and $26.6 million relating to expenditures under the Green Transformation Program (the Program), partially offset by $25.2 million of funds received for claims under the Program and $0.1 million in interest income.

FINANCIAL REQUIREMENTS AND LIQUIDITY

Long-term Debt

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

Operating Loans

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

Cash Management

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

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

Debt Covenants

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

Pulp and Paper Green Transformation Program

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

OUTSTANDING UNITS

At February 6, 2012, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) were owned by CPPI and 35,776,483 Class B Exchangeable Limited Partnership Units were owned indirectly by Canfor.

RELATED PARTY TRANSACTIONS

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2010 audited consolidated financial statements and are based on agreed upon amounts, and are summarized in note 10 of the unaudited interim consolidated financial statements of the Partnership.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

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

Notes: [1] Source – Bank of Canada (average noon rate for the period).
[2] For further details on the Partnership's distributable cash see the Partnership's disclosures.
[3] Results for the Partnership are presented under IFRS.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income, net income and EBITDA are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical, and energy prices; level of spending and the 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending December 31, 2011, there were no changes in the Partnership'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 CPPI's Annual Information Form dated February 11, 2011, which is available on www.sedar.com and www.canforpulp.com.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGE IN ACCOUNTING POLICIES

Transition to and Initial Adoption of IFRS

IFRS became Canadian GAAP for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The financial statements for the three months ended December 31, 2011, have been prepared in accordance with IAS 34 and IFRS 1, using accounting policies consistent with IFRS as issued by the IASB and IFRIC. Accordingly, the Partnership commenced reporting on this basis in its 2011 interim consolidated financial statements.

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

Impact of Adopting IFRS on the Partnership's Accounting Policies

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

(a) Major Maintenance

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

Impact on Condensed Consolidated Balance Sheets

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

Impact on Condensed Consolidated Statements of Comprehensive Income

(millions of dollars, unaudited)	Three months ended December 31, 2010	Year ended December 31, 2010
Increase in amortization expense	4.2	18.7
Reduction in manufacturing and product costs	4.2	18.7

Impact on Condensed Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	Three months ended December 31, 2010	Year ended December 31, 2010
Increase in net cash from operations	0.3	14.6
Reduction in cash from investing activities	0.3	14.6
Net change in cash and cash equivalents	-	-

(b) Employee Future Benefits

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

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

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

Impact on Condensed Consolidated Balance Sheets

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

Impact on Condensed Consolidated Statements of Comprehensive Income

(millions of dollars, unaudited)	Three months ended December 31, 2010	Year ended December 31, 2010
Decrease (increase) in employee benefits expense	(0.5)	1.0
Reduction (increase) in other comprehensive income	(5.7)	13.6

Canfor Pulp Products Inc.
Condensed Balance Sheets
(unaudited)

(thousands of dollars)		As at December 31, 2011		As at December 31, 2010
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**27,171**	$	-
Distributions receivable from Canfor Pulp Limited Partnership (note 7)		**3,904**		19,521
Total current assets		**31,075**		19,521
Equity investment in Canfor Pulp Limited Partnership (note 6)		**226,079**		240,425
	$	**257,154**	$	259,946
LIABILITIES				
Current liabilities				
Due to Canfor Pulp Limited Partnership (note 7)	**$**	**73**	$	-
Distributions payable		**-**		19,521
Income taxes payable (note 8)		**14,645**		-
Total current liabilities		**14,718**		19,521
Fund units (note 5)		**-**		509,687
Deferred income tax liability (note 8)		**31,520**		52,854
	$	**46,238**	$	582,062
SHAREHOLDERS' EQUITY (DEFICIT)				
Unitholders' deficit (note 5)	**$**	**-**	$	(322,116)
Shareholders' capital (note 5)		**509,687**		-
Retained earnings (deficit) (note 5)		**(298,771)**		-
Total Shareholders' equity (deficit)		**210,916**		(322,116)
	$	**257,154**	$	259,946

Subsequent event (note 10)

Canfor Pulp Products Inc.
Condensed Statements of Comprehensive Income (loss)
(unaudited)

(thousands of dollars, except unit and per unit amounts)	Three months ended December 31, 2011	Three months ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2010
Income				
Equity income in Canfor Pulp Limited Partnership	**$ 7,861**	$ 23,639	**$ 69,039**	$ 89,166
Interest Income	**79**	-	**243**	-
Total income	**7,940**	23,639	**69,282**	89,166
Costs and expenses				
Administrative expenses (note 7)	**73**	-	**1,184**	-
Increase (decrease) in amortized cost of Fund units (note 5)	**-**	(1,775)	**-**	199,119
Financing expense/distributions declared (note 5)	**-**	37,268	**-**	91,573
	73	35,493	**1,184**	290,692
Net income (loss) before income taxes	**7,867**	(11,854)	**68,098**	(201,526)
Income tax expense (recovery) (note 8)	**1,944**	(520)	**(4,503)**	(2,783)
Net income (loss)	**$ 5,923**	$ (11,334)	**$ 72,601**	$ (198,743)
Equity interest in other comprehensive income (loss) of Canfor Pulp Limited Partnership	**(2,478)**	2,829	**(8,850)**	(6,761)
Income tax recovery of other comprehensive loss of Canfor Pulp Limited Partnership	**596**	-	**2,186**	-
Comprehensive income (loss)	**$ 4,041**	$ (8,505)	**$ 65,937**	$ (205,504)
Net income (loss) per share/unit, basic and diluted	**$ 0.17**	$ (0.32)	**$ 2.05**	$ (5.60)
Weighted average number of shares/units (note 4)	**35,493,307**	35,493,307	**35,493,307**	35,493,307

Canfor Pulp Products Inc.
Condensed Statements of Changes in Equity
(unaudited)

(thousands of dollars)	Three months ended December 31, 2011	Three months ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2010
Share capital (unitholders' capital)				
Balance beginning of period	**$ 509,687**	$ -	**$ -**	$ -
Corporate conversion (notes 1, 5)	**-**	-	**509,687**	-
Balance at end of period	**$ 509,687**	$ -	**$ 509,687**	$ -
Retained earnings (deficit)				
Balance beginning of period	**$ (288,615)**	$ (313,611)	**$ (322,116)**	$ (116,612)
Net income (loss) for the period	**5,923**	(11,334)	**72,601**	(198,743)
Equity interest in other comprehensive income (loss) of Canfor Pulp Limited Partnership	**(2,478)**	2,829	**(8,850)**	(6,761)
Income tax recovery of other comprehensive loss of Canfor Pulp Limited Partnership	**596**	-	**2,186**	-
Dividends paid during the period	**(14,197)**	-	**(42,592)**	-
Balance at end of period	**$ (298,771)**	$ (322,116)	**$ (298,771)**	$ (322,116)
Total equity (deficit)	**$ 210,916**	**$** (322,116)	**$ 210,916**	$ (322,116)

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

Canfor Pulp Products Inc.
Condensed Statements of Cash Flows
(unaudited)

(thousands of dollars)	Three months ended December 31, 2011	Three months ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2010
Cash generated from (used in)				
Operating activities				
Net income (loss) before tax	**$ 7,867**	$ (11,854)	**$ 68,098**	$ (201,526)
Items not affecting cash:				
Equity income in Canfor Pulp Limited Partnership	**(7,861)**	(23,639)	**(69,039)**	(89,166)
Increase (decrease) in amortized cost of Fund units	**-**	(1,775)	**-**	199,119
Financing expense/distributions declared	**-**	37,268	**-**	91,573
Distributions received from Canfor Pulp Limited Partnership	**11,358**	26,620	**90,154**	74,891
Cash flow from operations before working capital changes	**11,364**	26,620	**89,213**	74,891
Due to Canfor Pulp Limited Partnership	**11**	-	**73**	-
Net cash from operations	**11,375**	26,620	**89,286**	74,891
Financing activities				
Distributions paid to unitholders	**$ -**	$ (26,620)	**$ (19,523)**	$ (74,891)
Dividends paid to shareholders	**(14,197)**	-	**(42,592)**	-
	(14,197)	(26,620)	**(62,115)**	(74,891)
Change in cash and cash equivalents	**$ (2,822)**	$ -	**$ 27,171**	$ -
Beginning balance in cash and cash equivalents	**29,993**	-	**-**	-
Ending balance in cash and cash equivalents	**$ 27,171**	$ -	**$ 27,171**	$ -

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

1. General Information and Reporting Entity

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

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

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

Corporate Conversion Arrangement

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

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

Economic Dependence

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

2. Basis of Preparation and Adoption of IFRS

Statement of Compliance and Conversion to International Financial Reporting Standards

CPPI prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, CPPI has commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and IFRS 1, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

CPPI has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on CPPI's equity as at December 31, 2010 and statements of comprehensive income (loss) for the three months and year ended December 31, 2010, including the nature and effect of significant changes in accounting policies from those used in CPPI's financial statements for the year ended December 31, 2010 under Canadian GAAP.

The financial statements should be read in conjunction with CPPI's Canadian GAAP annual financial statements for the year ended December 31, 2010 and CPPI's interim consolidated financial statements for the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011 prepared in accordance with IFRS applicable to interim financial statements.

3. New Accounting Pronouncements

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

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

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

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

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

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

4. Net Income per Share

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

5. Reconciliations between IFRS and Canadian GAAP

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

Reconciliation of equity (deficit) at December 31, 2010

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

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

(thousands of dollars, unaudited)		Three months ended December 31, 2010
Comprehensive income – Canadian GAAP	**$**	**23,929**
Effect of the increase in equity income from the Partnership under IFRS		(229)
Fund units [i]		1,775
Distributions classified as a financing expense [i]		(37,268)
Deferred income taxes [iii]		453
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS		2,835
Comprehensive loss – IFRS	**$**	**(8,505)**

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

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

Notes to the Reconciliations

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

ii) **Canfor Pulp Limited Partnership conversion** – As a result of a change in accounting policies for the Partnership due to the conversion to IFRS, CPPI's equity income, investment and other comprehensive income have been restated. For further details on the impact of the transition on the Partnership see the Partnership's disclosure on pages 34 – 36.

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

6. Equity Investment in Canfor Pulp Limited Partnership

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

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

7. Related Party Transactions

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

Distributions earned from the Partnership for the three months ended December 31, 2011 were $11.7 million of which $7.8 million was received, with the balance of $3.9 million receivable as at December 31, 2011.

8. Income Taxes

Immediately prior to converting to a corporation on January 1, 2011, the Fund, as a publicly traded income trust, was to be taxed on income starting in 2011, similarly to rules applying to corporations.

	Three months ended				**Year ended**			
(thousands of dollars, unaudited)		**December 31, 2011**		December 31, 2010		**December 31, 2011**		December 31, 2010
Current income tax expense	**$**	**1,221**	$	-	**$**	**14,645**	$	-
Deferred income tax expense (recovery)		**723**		(520)		**(19,148)**		(2,783)
Income tax expense (recovery)	**$**	**1,944**	$	(520)	**$**	**(4,503)**	$	(2,783)

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

(thousands of dollars, unaudited)		Three months ended December 31, 2011		Year ended December 31, 2011
Income tax expense at statutory rate 2011 – 26.5% (2010 – nil)	$	**2,085**	$	**18,046**
Add (deduct):				
Permanent difference from translation of US denominated debt & other non deductible items		(141)		77
Change in tax rate (note 5)		-		(22,626)
	$	**1,944**	$	**(4,503)**

9. Segmented Information

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

10. Subsequent Event

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

Canfor Pulp Limited Partnership
Condensed Consolidated Balance Sheets
(unaudited)

(millions of dollars)		**As at December 31, 2011**		As at December 31, 2010
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**-**	$	64.2
Accounts receivable (note 10)				
Trade		**70.8**		108.0
Green Transformation Program (note 13)		**19.7**		17.9
Other		**20.7**		14.8
Inventories (note 7)		**141.6**		123.4
Prepaid expenses and other assets		**5.8**		11.0
Total current assets		**258.6**		339.3
Non-current assets				
Property, plant and equipment (note 5)		**532.0**		513.5
Other long-term assets		**0.6**		0.5
	$	**791.2**	$	853.3
LIABILITIES				
Current liabilities				
Bank Indebtedness	**$**	**2.0**		-
Trade accounts payable and accrued liabilities		**117.9**	$	139.3
Distributions payable		**7.8**		39.2
Total current liabilities		**127.7**		178.5
Non-current liabilities				
Long-term debt (note 9)		**111.9**		109.4
Post employment benefits (note 8)		**94.8**		79.8
Long-term provisions		**3.1**		3.1
Total liabilities	**$**	**337.5**	$	370.8
PARTNERS' EQUITY				
Partnership units (note 6)		**587.5**		587.5
Cumulative distributions in excess of income		**(133.8)**		(105.0)
Total Partners' equity		**453.7**		482.5
	$	**791.2**	$	853.3

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

Canfor Pulp Limited Partnership
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(millions of dollars, except units and per unit amounts)	Three months ended December 31, 2011	Three months ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2010
Revenue	**$ 212.7**	$ 266.1	**$ 941.0**	$ 1,001.1
Costs and expenses				
Manufacturing and product costs	**140.7**	165.7	**582.4**	602.3
Freight and other distribution costs	**27.8**	32.3	**116.0**	122.7
Amortization	**21.4**	16.1	**66.8**	66.1
Selling and administration costs	**7.0**	5.9	**25.3**	26.3
	196.9	220.0	**790.5**	817.4
Operating income	**15.8**	46.1	**150.5**	183.7
Interest expense	**(2.1)**	(1.9)	**(8.0)**	(7.8)
Foreign exchange gain (loss) on long-term debt	**2.4**	3.9	**(2.5)**	5.7
Gain (loss) on derivative financial instruments	**1.5**	2.3	**(1.6)**	1.5
Foreign exchange gain (loss) on working capital	**(1.3)**	(2.8)	**1.0**	(4.0)
Other expense	**(0.5)**	(0.2)	**(0.8)**	(0.1)
	-	1.3	**(11.9)**	(4.7)
Net income	**15.8**	47.4	**138.6**	179.0
Other comprehensive income (loss)	**(0.1)**	-	**0.1**	0.1
Actuarial gains (losses) recognized in accumulated distributions in excess of income	**(4.9)**	5.7	**(17.8)**	(13.6)
Total comprehensive income	**$ 10.8**	$ 53.1	**$ 120.9**	$ 165.5
Net income per Partnership unit, basic and diluted	**$ 0.22**	$ 0.67	**$ 1.94**	$ 2.51
Weighted average Partnership units outstanding	**71,270,025**	71,270,025	**71,270,025**	71,270,025

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

Canfor Pulp Limited Partnership
Condensed Consolidated Statements of Changes in Equity
(Unaudited)

(millions of dollars)	Three months ended December 31, 2011	Three months ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2010
Partnership units				
Balance at beginning and end of period	**$ 587.5**	$ 587.5	**$ 587.5**	$ 587.5
Cumulative distributions in excess of income				
Balance beginning of period	**$ (121.1)**	$ (83.3)	**$ (105.0)**	$ (86.6)
Net income for the period	**15.8**	47.4	**138.6**	179.0
Defined benefit plan actuarial gains (losses) (note 4)	**(4.9)**	5.7	**(17.8)**	(13.6)
Other comprehensive income	**(0.1)**	-	**0.1**	0.1
Distributions declared during the period (note 12)	**(23.5)**	(74.8)	**(149.7)**	(183.9)
Balance at end of period	**$ (133.8)**	$ (105.0)	**$ (133.8)**	$ (105.0)
Total equity	**$ 453.7**	$ 482.5	**$ 453.7**	$ 482.5

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

Canfor Pulp Limited Partnership
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(millions of dollars)	Three months ended December 31, 2011	Three months ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2010
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income	**$ 15.8**	$ 47.4	**$ 138.6**	$ 179.0
Adjustments for:				
Amortization	**21.4**	16.1	**66.8**	66.1
Unrealized foreign exchange loss (gain) on long-term debt	**(2.4)**	(3.9)	**2.5**	(5.7)
Interest expense	**2.1**	1.9	**8.0**	7.8
Increase in value of outstanding derivative instruments	**(3.7)**	(1.4)	**(1.8)**	(1.0)
Employee future benefits	**1.0**	2.4	**5.1**	6.7
Other	**0.5**	0.1	**0.8**	(0.2)
Salary pension plan contribution	**(1.8)**	(4.6)	**(7.9)**	(6.5)
Cash flow from operations before working capital changes	**32.9**	58.0	**212.1**	246.2
Decrease (increase) in non-cash working capital				
Accounts receivable – trade and other	**41.8**	15.2	**32.5**	(3.5)
Inventories	**(9.4)**	19.7	**(18.1)**	11.9
Prepaid expenses and other assets	**3.6**	6.7	**5.2**	(7.9)
Accounts payable and accrued liabilities	**(34.8)**	(6.5)	**(32.7)**	(5.0)
Net cash from operations	**34.1**	93.1	**199.0**	241.7
Financing activities				
Distributions paid to partners	**(22.8)**	(53.5)	**(181.0)**	(150.4)
Interest paid	**(3.8)**	(3.6)	**(7.8)**	(7.7)
Net cash used in financing	**(26.6)**	(57.1)	**(188.8)**	(158.1)
Investing activities				
Property, plant and equipment	**(40.2)**	(4.2)	**(68.5)**	(26.6)
Green Transformation Program expenditures	**(26.6)**	(14.3)	**(87.6)**	(26.7)
Green Transformation Program reimbursements	**25.2**	19.1	**75.6**	20.2
Other government grants received	**-**	-	**3.5**	-
Interest received	**0.1**	0.1	**0.6**	0.2
Net cash used in investing	**(41.5)**	0.7	**(76.4)**	(32.9)
Increase (decrease) in cash and cash equivalents	**(34.0)**	36.7	**(66.2)**	50.7
Cash and cash equivalents, beginning of period	**32.0**	27.5	**64.2**	13.5
Cash and cash equivalents (bank indebtedness), end of period	**$ (2.0)**	$ 64.2	**$ (2.0)**	$ 64.2

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

Canfor Pulp Limited Partnership

Notes to the Condensed Consolidated Financial Statements as at December 31, 2011

(Unaudited, in millions of dollars unless otherwise noted)

1. General Information and Reporting Entity

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

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

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

Economic Dependence

The Partnership depends on Canfor to provide approximately 55% (2010 – 56%) of its fibre supply as well as to provide certain key business and administrative services as described in note 10. As a result of these relationships the Partnership considers its operations to be dependent on its ongoing relationship with Canfor.

2. Basis of Preparation and Adoption of IFRS

Statement of Compliance and Conversion to International Financial Reporting Standards

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

These financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and IFRS 1, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The accounting policies followed in these financial statements are the same as those applied in the interim consolidated financial statements for the periods ended March 31, 2011, June 30, 2011 and September 30, 2011.

Subject to certain transition elections disclosed in note 4, the Partnership has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Partnership's equity as at December 31, 2010 and statements of comprehensive income for the three months and year ended December 31, 2010, including the nature and effect of significant changes in accounting policies from those used in the Partnership's consolidated financial statements for the year ended December 31, 2010 under Canadian GAAP.

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

3. New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

4. Reconciliations between IFRS and Canadian GAAP

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

Reconciliation of equity at December 31, 2010

(millions of dollars, unaudited)		As at December 31, 2010
Total equity – Canadian GAAP	**$**	**523.3**
Recognition of unamortized actuarial losses at date of transition[i]		(28.2)
Lower pension expense for the year ended December 31, 2010[i]		1.0
Actuarial losses on defined benefit plans for the year ended December 31, 2010[i]		(13.6)
Total equity – IFRS	**$**	**482.5**

Reconciliation of comprehensive income for three months ended December 31, 2010

(millions of dollars, unaudited)		Three months ended December 31, 2010
Comprehensive income – Canadian GAAP	**$**	**47.9**
Higher pension expense for period[i]		(0.5)
	$	**47.4**
Actuarial gains on defined benefit plans during the period[i]	$	5.7
Comprehensive income – IFRS	**$**	**53.1**

Reconciliation of comprehensive income for year ended December 31, 2010

(millions of dollars, unaudited)		Year ended December 31, 2010
Comprehensive income – Canadian GAAP	**$**	**178.1**
Lower pension expense for period[i]		1.0
	$	**179.1**
Actuarial losses on defined benefit plans during the period[i]		(13.6)
Comprehensive income – IFRS	**$**	**165.5**

Notes to the Reconciliations

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

All actuarial gains and losses arising in 2010 were recognized in other comprehensive income. A charge to accumulated earnings and distributions of $13.6 million for actuarial losses related to the year ended December 31, 2010 was recorded (fourth quarter of 2010 a credit of $5.7 million was recorded to accumulated earnings and distributions). As a result of immediate recognition of previously unrecognized cumulative actuarial gains and losses the total pension expense for the year ended was reduced by $1.0 million under IFRS (fourth quarter of 2010 employee benefits expense was $0.5 million higher than previously reported). This reduced manufacturing costs by $1.0 million for the year ended December 31, 2010 (increased manufacturing costs for the fourth quarter of 2010 by $0.5 million).

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

The impact on the Statement of Comprehensive Income for the year ended December 31, 2010 was an increase in amortization of $18.7 million with an offsetting decrease to manufacturing costs. The impact on the fourth quarter of 2010 was an increase in amortization of $4.2 million with an offsetting decrease to manufacturing costs.

The change in policy also increased the reported capital expenditures in the statements of cash flows by $11.9 million for the year ended December 31, 2010 and an increase of $0.6 million for the quarter ended December 31, 2010 restated to conform to IFRS. The long-term maintenance provision and long-term maintenance expenditure line items on the consolidated statements of cash flows are no longer applicable and those amounts are now included in PP&E.

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

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

5. Property, Plant and Equipment

	December 31, 2011		
(millions of dollars, unaudited)	Cost	Accumulated amortization	Net
Land and improvements	**5.4**	**-**	**5.4**
Asset retirement – Landfill	**2.1**	**0.9**	**1.2**
Buildings, machinery and equipment	**1,384.6**	**901.8**	**482.8**
Major Maintenance	**40.2**	**12.4**	**27.8**
Construction in progress	**14.8**	**-**	**14.8**
	1,447.1	**915.1**	**532.0**

	December 31, 2010		
(millions of dollars, unaudited)	Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.9	1.4
Buildings, machinery and equipment	1,356.1	867.0	489.1
Major Maintenance	37.0	23.1	13.9
Construction in progress	3.7	-	3.7
	1,404.5	891.0	513.5

6. Net Income per Partnership Unit

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

7. Inventories

(millions of dollars, unaudited)	**December 31, 2011**	December 31, 2010
Pulp	**64.1**	52.7
Paper	**17.0**	10.1
Wood chips	**16.0**	16.4
Processing materials and supplies	**44.5**	44.2
	141.6	123.4

8. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

	Three months ended		**Year ended**	
(millions of dollars, unaudited)	**December 31, 2011**	December 31, 2010	**December 31, 2011**	December 31, 2010
Pension plans	**1.0**	1.1	**3.9**	4.3
Other employee future benefit plans	**0.7**	2.0	**4.3**	5.1
Contributions to forest industry union plans	**1.4**	1.3	**6.7**	6.4
	3.1	4.4	**14.9**	15.8

In the fourth quarter of 2011, the Partnership recorded a net charge to other comprehensive income of $4.9 million in relation to changes in the valuation of its post-employment defined benefit plans. The charge reflected a reduction over the period of the discount rate used to value the accrued benefit obligations and changes to other assumptions for the non-pension benefit plans. Partially offsetting this loss was a credit reflecting a gain on plan assets that was higher than the expected gain for the quarter. In the previous quarter, when movements in the rate of return and discount rate were more significant, the charge was $11.6 million. In the fourth quarter of 2010, a credit to other comprehensive income of $5.7 million was recorded reflecting an increase in the discount rate used at the end of the quarter compared to the end of the previous quarter, as well as gains on assets which were higher than the expected gain.

9. Credit Facilities and Long-term Debt

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

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

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

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

10. Related Party Transactions

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2010 audited consolidated financial statements and are based on agreed upon amounts between the parties, and are summarized below:

	Three months ended		**Year ended**	
(millions of dollars, unaudited)	**December 31, 2011**	December 31, 2010	**December 31, 2011**	December 31, 2010
Transactions				
Canfor – purchase of wood chips and other	**29.6**	25.9	**119.0**	124.3
CPPI – administrative cost recovery	**0.1**	-	**1.1**	-
Howe Sound LP – commission	**-**	-	**-**	1.8
Howe Sound LP – contract termination fee	**-**	-	**-**	1.3
Lakeland Mills Ltd. – purchase of wood chips	**3.3**	1.8	**11.5**	6.1

	December 31, 2011	December 31, 2010
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**18.2**	44.5
Lakeland Mills Ltd.	**0.9**	0.4
Included in other accounts receivable:		
CPPI	**0.1**	-
Included in trade accounts receivable:		
Product marketed for Canfor	**3.2**	23.2

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

11. Derivative Financial Instruments

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

For the fourth quarter of 2011 the Partnership recorded a net gain on derivative financial instruments of $1.5 million (fourth quarter 2010 – $2.3 million) relating to the settlement of maturing contracts during the quarter, and the revaluation to market value of outstanding contracts at the end of the quarter, for natural gas swaps and US dollar forward contracts.

The Partnership recorded losses of $0.3 million during the fourth quarter of 2011 (fourth quarter 2010 – $1.1 million) relating to settlement of maturing natural gas contracts as a charge to non-operating income. At December 31, 2011 the Partnership's outstanding commodity swaps hedging future natural gas purchases have all been settled.

The Partnership recorded losses of $1.9 million during the fourth quarter of 2011 (fourth quarter 2010 net gain –$2.0 million) on settlement of maturing US dollar forward contracts as a charge to non-operating income. At December 31, 2011 the Partnership had outstanding US dollar forward contracts of $56.0 million extending to April 2012. At December 31, 2011 the unrealized gain of $0.3 million (2010 – $1.1 million) on these outstanding US dollar forward contracts was recorded as an asset in other accounts receivable.

12. Distributions

The Partnership declared distributions in 2011 as follows:

(millions of dollars, except per unit amounts, unaudited)

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

13. Green Transformation Program

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

14. Segmented Information [a]

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

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

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

(millions of dollars, unaudited)	Pulp	Paper	Unallocated	Total
Three months ended December 31, 2011				
Sales to external customers [b]	**179.1**	**33.5**	**0.1**	**212.7**
Sales of pulp to paper segment [c]	**19.9**	**(19.9)**	**-**	**-**
Operating income (loss)	**16.1**	**3.3**	**(3.6)**	**15.8**
Amortization	**20.4**	**1.0**	**-**	**21.4**
Capital expenditures, net	**30.0**	**0.7**	**0.1**	**30.8**
Three months ended December 31, 2010				
Sales to external customers [b]	224.7	40.9	0.5	266.1
Sales of pulp to paper segment [c]	22.8	(22.8)	-	-
Operating income (loss)	47.0	1.3	(2.2)	46.1
Amortization	15.2	0.8	0.1	16.1
Capital expenditures, net	3.7	0.3	0.2	4.2
Year ended December 31, 2011				
Sales to external customers [b]	**802.9**	**136.6**	**1.5**	**941.0**
Sales of pulp to paper segment [c]	**87.9**	**(87.9)**	**-**	**-**
Operating income (loss)	**154.9**	**9.2**	**(13.6)**	**150.5**
Amortization	**63.0**	**3.6**	**0.2**	**66.8**
Capital expenditures, net	**82.7**	**2.7**	**1.0**	**86.4**
Identifiable assets	**702.5**	**63.8**	**24.9**	**791.2**
Year ended December 31, 2010				
Sales to external customers [b]	857.2	142.6	1.3	1,001.1
Sales of pulp to paper segment [c]	89.6	(89.6)	-	-
Operating income (loss)	199.0	0.6	(15.9)	183.7
Amortization	62.5	3.3	0.3	66.1
Capital expenditures, net	22.7	1.3	0.9	24.9
Identifiable assets	707.5	63.7	82.1	853.3

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

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

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