News Release

Canfor Pulp Products Inc.

April 23, 2012

CANFOR PULP PRODUCTS INC. ANNOUNCES FIRST QUARTER 2012 RESULTS AND QUARTERLY DIVIDEND

Vancouver, BC – Canfor Pulp Products Inc. (CPPI) (TSX: CFX) today announced its first quarter 2012 results.

On March 2, 2012, Canadian Forest Products Ltd. (Canfor) exchanged 35,776,483 Class B Exchangeable Limited Partnership Units (the Exchange), representing a 50.2% interest in Canfor Pulp Limited Partnership (the Partnership), for an equivalent number of CPPI shares. As a result of the Exchange, CPPI increased its interest in the Partnership from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI. Unless otherwise noted, the discussion of the results for the comparative periods prior to the quarter ended March 31, 2012 refers to the results of the Partnership. For the quarter ended March 31, 2012 the results of CPPI include the results of the Partnership (together referred to as CPPI or the Company).

For the quarter, the Company reported net income of $10.3 million or $0.13 per share and EBITDA of $28.8 million on sales of $220.0 million. Results were impacted by lower market pulp prices and a strengthening Canadian dollar. The decline in pulp prices was partially offset by lower unit manufacturing costs and strong shipments of the Company's pulp and paper products.

The Northwood Pulp Mill production exceeded expectations setting an average daily production record for the quarter. There were no maintenance outages in the first quarter of 2012. Maintenance outages are planned for the second quarter of 2012 at the Intercontinental Pulp Mill and Prince George Pulp and Paper Mills.

Global softwood pulp markets have strengthened as we approach the spring maintenance period. Global producer inventory levels decreased to 31 days of supply during the quarter as compared to 36 days of supply at the end of December 2011. NBSK pulp list prices increased US$25 in Europe to US$850 and increased US$20 in China to US$710 during the quarter. However, North American prices settled at US$870 for the quarter after declining US$20 in January.

The global softwood pulp market is projected to improve modestly through the second quarter. For the month of April, the Company has announced NBSK pulp list price increases of US$30 in North America to US$900, US$20 in Europe to US$870, and US$30 in China to US$740.

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

A conference call to discuss the first quarter 2012 financial and operating results will be held on Wednesday, April 25, 2012 at 8:00 a.m. Pacific time.

To participate in the call, please dial 416-340-8018 or Toll-Free 1-866-223-7781. For instant replay access, please dial 905-694-9451 or Toll-Free 1-800-408-3053 and enter participant pass code 1616072. 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 Company's website at www.canforpulp.com.

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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 the Company 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 the Company and prospects and uncertainties relating to the Company. 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 the Company 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 the Company assumes 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:

- *"Markets – Pulp" on page 7;*
- *"Outlook – Pulp" on page 7;*
- *"Outlook – Kraft Paper" on page 8;*
- *"Financial Requirements and Liquidity" on page 10;*
- *"CPPI Dividends" on page 11.*
- *"Critical Accounting Estimates" on page 12*
- *"Changes in Accounting Policies and New Accounting Pronouncements" on pages 12 and 13*

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 Company considers EBITDA to be a relevant indicator for identifying trends in the Company's performance and of the Company's ability to generate funds to meet its debt service, capital expenditure requirements and to pay dividends. Management believes distributable cash to be a good measure of available cash generated from the Partnership. 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 Company'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 the Company. Additional information concerning these and other factors can be found in CPPI's Annual Information Form dated February 6, 2012, which is available on www.sedar.com.

Canfor Pulp Products Inc.
First quarter 2012
The information in this report is as at April 23, 2012.

CANFOR PULP PRODUCTS INC.

Canfor Pulp Products Inc. (CPPI) is the successor to Canfor Pulp Income Fund (the Fund) following the completion of the conversion of the Fund from an income trust to a corporate structure 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, 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.

CPPI was incorporated on March 12, 2010. 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).

On March 2, 2012, Canadian Forest Products Ltd. (Canfor) exchanged 35,776,483 Class B Exchangeable Limited Partnership Units (the Exchange), representing a 50.2% interest in Canfor Pulp Limited Partnership (the Partnership), for an equivalent number of CPPI shares pursuant to the terms of the exchange agreement dated January 1, 2011. As a result of the Exchange, CPPI increased its interest in both the Partnership and the General Partner from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI (see note 4 of the Company's Condensed Consolidated Financial Statements).

Prior to March 2, 2012 Canfor held a direct controlling interest in the Partnership. For all periods ending prior to March 2, 2012, the financial statements present the financial position, results of operations, and cash flows of the Pulp Business from the perspective of Canfor's controlling interest in the Pulp Business as if operated as a stand-alone partnership entity subject to Canfor control. The acquisition of the Partnership by CPPI as a result of the Exchange has been accounted for as a continuity of interests by applying reverse acquisition accounting.

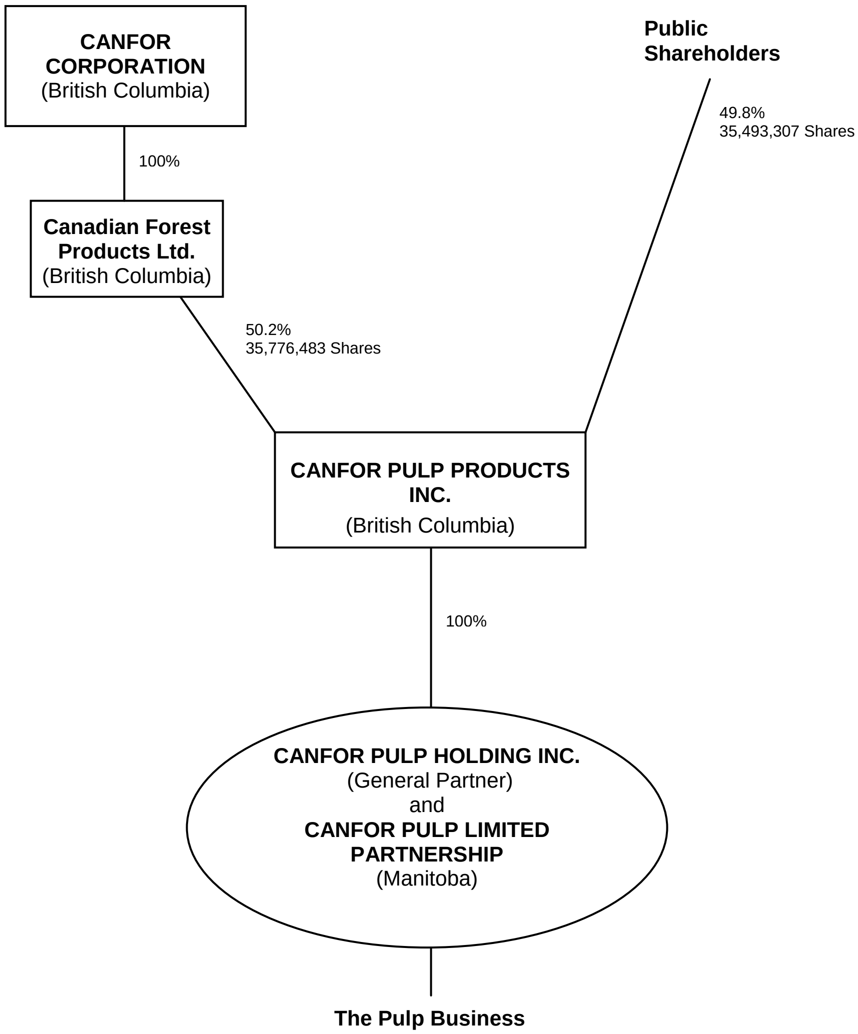
At April 23, 2012, CPPI held a total of 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units, representing 100% of the Partnership.

The discussion which follows in the Overview of Financial Results, Operating Results by Business Segment, Summary of Financial Position and Financial Requirements and Liquidity sections, refer to the results of the Partnership for the comparative periods prior to the quarter ended March 31, 2012 unless otherwise noted. For the quarter ended March 31, 2012 the results of CPPI, include the results of the Partnership (together referred to as CPPI or the Company).

Structure

The following chart illustrates, on a simplified basis, the ownership structure of CPPI and the Partnership (collectively the Company) as at March 31, 2012.

Simplified Ownership Structure



The Business and Strategic Objectives

The Company is a leading global supplier of pulp and paper products with operations based in the central interior of British Columbia. The 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 Company may also consider strategic acquisitions subject to availability of capital.

The Company 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 FINANCIAL RESULTS

Highlights

Three months ended March 31, 2012:

- Reported net income of $10.3 million or $0.13 per share on sales of $220.0 million.
- Generated EBITDA of $28.8 million.
- Achieved average daily production record at the Northwood Pulp Mill.

Financial Results

(millions of dollars, except for per share amounts, unaudited)	**Q1 2012**	Q4 2011	Q1 2011
Sales	**220.0**	212.7	252.3
EBITDA[1]	**28.8**	38.5	67.5
Operating income [1]	**11.5**	16.5	50.7
Net income	**10.3**	15.8	50.7
Per share, basic and diluted			
Net income	**$0.13**	$0.22	$0.71
EBITDA[1]	**$0.40**	$0.54	$0.95
Average exchange rate (US$/Cdn$) [2]	**0.999**	0.977	1.014

Notes: [1] Comparative figures have been reclassified to conform to current year presentation.
[2] Source – Bank of Canada (average noon rate for the period).

Reconciliation of Net Income to EBITDA

(millions of dollars, unaudited)	**Q1 2012**	Q4 2011	Q1 2011
Net income	**10.3**	15.8	50.7
Add (deduct):			
Amortization	**17.2**	21.4	16.5
Interest expense[1]	**2.8**	2.8	2.9
Foreign exchange gain on long-term debt	**(2.0)**	(2.4)	(2.5)
Gain on derivative financial instruments	**(1.3)**	(1.5)	(1.6)
Foreign exchange loss on working capital	**0.8**	1.3	1.1
Loss on disposal of fixed assets	**0.1**	0.6	0.3
Income tax expense	**0.9**	0.5	0.1
EBITDA[1]	**28.8**	38.5	67.5

Note: [1] Comparative figures have been reclassified to conform to current year presentation.

Three months ended March 31, 2012 compared to December 31, 2011:

The Company generated EBITDA of $28.8 million on sales of $220.0 million in the first quarter of 2012 compared to EBITDA of $38.5 million on sales of $212.7 million in the fourth quarter of 2011. The decline in results of the pulp segment were due to lower realized pulp prices as a result of lower NBSK pulp US dollar list prices and a stronger Canadian dollar, partially offset by lower unit manufacturing costs and higher shipment volumes. Paper segment results declined as a result of lower realised paper prices partially offset by lower costs for slush pulp.

Three months ended March 31, 2012 compared to March 31, 2011:

EBITDA for the first quarter of 2012 was $28.8 million, $38.7 million lower than the first quarter of 2011. The decline was primarily attributable to lower pulp operating segment results partially offset by improved paper segment results. The decline in pulp segment results was due to lower NBSK pulp US dollar list prices and higher unit manufacturing costs, partially offset by higher pulp shipment volumes and a weaker Canadian dollar. The improved paper segment results were due to lower prices for slush pulp, partially offset by lower realized paper prices and lower shipment volumes.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**Q1 2012**	Q4 2011	Q1 2011
Sales	**190.1**	179.1	217.3
EBITDA[1]	**28.4**	37.4	67.3
EBITDA[1] margin	**15%**	21%	31%
Operating income [1]	**12.2**	16.7	51.5
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**870**	920	970
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**871**	942	957
Production – pulp (000 mt)	**261.7**	245.7	264.5
Shipments – Partnership-produced pulp (000 mt)	**270.6**	231.0	265.3
Marketed on behalf of Canfor (000 mt)	**57.2**	44.3	53.1

Note: [1] Comparative figures have been reclassified to conform to current year presentation.

Three months ended March 31, 2012 compared to December 31, 2011:

Pulp segment operating income of $12.2 million decreased $4.5 million due primarily to lower NBSK US list prices and a stronger Canadian dollar, partially offset by lower cash manufacturing costs and higher shipment volumes.

- Realized pulp prices in Canadian dollar terms decreased 9% due to lower North American NBSK US list prices which averaged US$870 per tonne compared to US$920 per tonne in the prior period and a stronger Canadian dollar. The Canadian dollar strengthened 2% averaging $0.999 US/Cdn, (Q4 2011 – 0.977).

- Unit manufacturing costs decreased 8% when compared to the prior quarter due to lower fibre costs, lower chemical costs and the impact of the extended maintenance outage at the Northwood Pulp Mill in the fourth quarter of 2011, resulting in higher production volumes and lower spending on maintenance costs in the current quarter.

- Market pulp production increased 16,000 tonnes, primarily due to the impact of the extended maintenance outage at the Northwood Pulp Mill in the fourth quarter of 2011.

- Fibre costs decreased approximately 9% during the quarter due primarily to a reduction in the price of sawmill residual chips which are tied in part to realized pulp prices.

- Sales volume increased 39,600 tonnes primarily as a result of improved demand in the current quarter combined with lower than average shipments in the fourth quarter of 2011.

Three months ended March 31, 2012 compared to March 31, 2011:

Pulp segment operating income of $12.2 million decreased $39.3 million due primarily to lower NBSK US list prices and higher unit manufacturing costs, partially offset by higher shipment volumes and a weaker Canadian dollar.

- Realized pulp prices in Canadian dollar terms decreased 15% due primarily to lower North American NBSK US list prices which averaged US$870 per tonne compared to US$970 per tonne in the prior year quarter.

- The Canadian dollar weakened 1% averaging $0.999 US/Cdn, (Q1 2011 – 1.014).

- Unit manufacturing costs increased 3% when compared to the prior year quarter due to higher chemical costs and higher spending on fixed costs, all of which were partially offset by lower fibre costs.

- Sales volume increased 5,300 tonnes.

Operations

The Northwood Pulp Mill set quarterly and monthly average daily production records in the first quarter of 2012. NBSK market pulp production during the quarter increased 16,000 tonnes when compared to the fourth quarter of 2011, however, declined 2,800 tonnes when compared to the first quarter of 2011. There were no maintenance outages in the first quarter of 2012 or 2011 as compared to 18,800 tonnes of reduced production as a result of the extended maintenance outage at the Northwood Pulp Mill in the fourth quarter of 2011.

Markets – Pulp

Global softwood pulp markets appear to be recovering with signs of strength heading into the spring maintenance period. Producer inventory levels decreased through the quarter resulting in price increases in March and April 2012 in some regions.

Pulp and Paper Products Council (PPPC) statistics reported an increase in shipments of bleached softwood sulphate pulp of 6% for the first two months of 2012 as compared to the same period in 2011 with continued strong shipments to China offset by reductions in Europe and North America. PPPC reported global demand for printing and writing papers remained flat for the first two months of 2012 as compared to 2011.

At the end of February 2012, World 20[1] bleached softwood pulp producer inventories were at 31 days of supply. By comparison, December 2011 inventories were at 36 days of supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Strong demand and decreasing producer inventories during the quarter enabled producers to reverse the successive price decreases seen in the previous quarter and successfully implement price increases in several markets. NBSK pulp list prices increased US$25 in Europe to US$850 and increased US$20 in China to US$710. North American prices settled at US$870 for the quarter after declining US$20 in January.

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 recover modestly through the second quarter. Producer inventories have steadily declined through the first quarter and with a majority of NBSK mills heading into the annual spring maintenance period, prices are projected to rise in the short term. For the month of April, the Company has announced NBSK pulp list price increases of US$30 in North America to US$900, US$20 in Europe to US$870, and US$30 in China to US$740.

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 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)	**Q1 2012**	Q4 2011	Q1 2011
Sales	**29.9**	33.5	34.0
EBITDA[1]	**3.7**	4.7	3.0
EBITDA[1] margin	**12%**	14%	9%
Operating income[1]	**2.7**	3.4	2.1
Production – paper (000 mt)	**32.9**	33.5	34.5
Shipments – paper (000 mt)	**29.6**	30.2	32.6

Note: [1] Comparative figures have been reclassified to conform to current year presentation.

Three months ended March 31, 2012 compared to December 31, 2011:

Operating income of the paper segment declined $0.7 million as a decrease in realized paper prices in Canadian dollar terms and lower shipment volumes were partially offset by lower unit manufacturing costs. The decrease in unit manufacturing costs was primarily attributable to lower prices for slush pulp. Realized paper prices decreased 9% due to price decreases in all regions and a lower percentage of prime bleached sales in the current quarter. The slush pulp is transferred to the paper segment at a market price with the decrease directly attributable to the decrease in the realized price of pulp.

Three months ended March 31, 2012 compared to March 31, 2011:

The $0.6 million increase in operating income was due to lower prices for slush pulp, partially offset by a 3% decrease in realized paper prices in Canadian dollar terms and lower shipment volumes. The decrease in slush pulp prices is directly attributable to the decrease in the realized pulp price in Canadian dollar terms. Sales volumes decreased in the first quarter of 2012 due in part to below target production levels and weaker demand early in the period.

Operations

Paper production was slightly below target for the first quarter of 2012 due to minor operational issues. Total paper machine production was 32,900 tonnes, 600 tonnes lower than the fourth quarter of 2011 and 1,600 tonnes lower than the first quarter of 2011.

Markets – Kraft Paper

Global Kraft paper demand showed signs of improvement in all regions by the end of the first quarter. The Paper Shipping Sack Manufacturers' Association (PSSMA) statistics for the first quarter of 2012 revealed that the industry operating rates increased to 81% from 72% in the fourth quarter of 2011. The PSSMA also reported that shipments for the first quarter of 2012 increased 2% when compared to the fourth quarter of 2011, however, when compared to the first quarter of 2011 shipments decreased 7%.

The Company's paper shipments in the first quarter of 2012 were down 3% from the fourth quarter of 2011 and down 12% from the first quarter of 2011. Prime bleached shipments were down 8% from the prior quarter and down 3% when compared to the first quarter 2011.

Outlook – Kraft Paper

Kraft paper demand increased steadily through the first quarter resulting in healthy order files heading into the second quarter. Prices are beginning to recover in some export markets and are projected to continue to improve through the second quarter. A scheduled maintenance outage on the Company's paper machine in June 2012 will result in approximately 2,000 tonnes of reduced production.

Non-Segmented Costs

(millions of dollars, unaudited)	**Q1 2012**	Q4 2011	Q1 2011
Net unallocated costs	**3.4**	3.6	2.9
Interest expense, net[1]	**2.8**	2.8	2.9
Foreign exchange gain on long-term debt	**(2.0)**	(2.4)	(2.5)
Foreign exchange loss on working capital	**0.8**	1.3	1.1
Gain on derivative financial instruments	**(1.3)**	(1.5)	(1.6)
Other expense	**0.9**	0.5	0.1
	4.6	4.3	2.9

Note: [1] Comparative figures have been reclassified to conform to current year presentation.

Net Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totaled $3.4 million in the first quarter of 2012 compared to $3.6 million in the fourth quarter of 2011 and $2.9 million in the first quarter of 2011.

Interest Expense

For the first quarter of 2012 the net interest expense of $2.8 million remained unchanged from the prior quarter. The Company retroactively changed its accounting policy to reclassify pension interest expense from employee benefits expense to interest expense. The effect on the three months ended March 31, 2012 is an increase in interest expense and a decrease in manufacturing and product costs of $0.8 million (three months ended March 31, 2011 - $0.8 million).

Other Non-segmented Items

The foreign exchange gain on long-term debt of $2.0 million resulted from translating the US$110 million debt at period-end exchange rates, reflecting the stronger Canadian dollar as of March 31, 2012.

The foreign exchange loss on working capital of $0.8 million resulted from translating US dollar balances at period-end exchange rates.

The net gain of $1.3 million on derivative financial instruments recorded in the first quarter of 2012 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 West Texas Intermediate (WTI) crude oil collars. The US dollar forward contracts are used to hedge the impact of currency fluctuations on US dollar working capital while the WTI crude oil collars are used to hedge exposure to fluctuations in fuel costs related to the Company's inbound and outbound freight charges.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	**March 31, 2012**	December 31, 2011
Ratio of current assets to current liabilities	**2.49**	2.03
Ratio of net debt to shareholders' equity [1]	**0.22**	0.25

	Q1 2012	Q1 2011
Increase (decrease) in cash and cash equivalents	**21.8**	(13.5)
Comprised of cash flow from (used in):		
Operating activities	**41.5**	75.2
Financing activities	**(8.0)**	(76.6)
Investing activities	**(11.7)**	(12.1)

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 $41.5 million in the first quarter of 2012 compared to $75.2 million in the first quarter of 2011. The decrease is the result of lower operating earnings partially offset by an increase in cash generated from working capital. The lower operating earnings are attributable to lower realized pulp and paper prices, partially offset by lower unit manufacturing costs and higher pulp shipments. The increase of cash generated from working capital during the first quarter of 2012 was primarily the result of a decrease in the volume and carrying cost of finished pulp inventories and differences in the timing of collection and payment of trade receivable and accounts payable balances related to sales under agency agreements and receipts in respect of HST credits.

The cash used in financing activities of $8.0 million in the quarter represents $7.8 million in distributions paid in January 2012, and $0.2 million in interest payments. The distributions paid related to amounts declared and outstanding at December 31, 2011 and these amounts were paid prior to the exchange by Canfor of Partnership units for CPPI shares on March 2, 2012. Included in the first quarter of 2011 financing activities were distributions totalling $76.3 million of which $39.2 million related to the final Fund distribution declared in December 2010.

The cash used in investing activities in the quarter is comprised of $20.7 million in sustaining and discretionary capital expenditures, $3.9 million in major maintenance expenditures and $2.1 million relating to expenditures under the government funded programs, partially offset by $8.1 million of funds received for claims under the Green Transformation and other government funded programs, and $0.1 million in interest income and $6.8 million of CPPI cash included on consolidation at March 2, 2012 as a result of Canfor's acquisition of CPPI through the share exchange.

FINANCIAL REQUIREMENTS AND LIQUIDITY

Long-term Debt

At March 31, 2012 the Company had outstanding long-term debt of $109.9 million (December 31, 2011 – $111.9 million, US$110.0 million for both 2012 and 2011) 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 Company has a $40.0 million bank credit facility with a maturity date of November 30, 2013, of which $0.8 million was utilized at March 31, 2012 for a standby letter of credit issued for general business purposes. In addition, the Company 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 a power generation agreement. The Company 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 Company 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 Company uses the bank credit facility to meet short-term working capital requirements. The Company also reviews on an ongoing basis, the level of capital expenditures, dividends and timing of scheduled major maintenance outages and may adjust these periodically to manage cash resources.

The Company 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 Company remained in compliance with all covenants at March 31, 2012.

OUTSTANDING SHARES

At April 23, 2012, there were a total of 71,269,790 CPPI shares outstanding, of which Canfor owns 35,776,483 shares representing a 50.2% interest in CPPI.

CPPI DIVIDENDS

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

CPPI is entirely dependent on cash generated from the Partnership to make dividend payments to its shareholders. Management believes distributable cash to be a good measure of available cash generated from the Partnership. Cash available for distributions from the Partnership is 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.

(millions of dollars, unaudited)	Three months ended **March 31, 2012**	March 31, 2011
Cash flow from operations before working capital changes	**$ 28.4**	$ 66.0
Add (deduct):		
Capital expenditures – net[1]	**(7.9)**	(5.7)
Major maintenance amortization	**(5.4)**	(3.6)
Interest[2]	**(2.0)**	(2.1)
Distributable cash	**$ 13.1**	$ 54.6
Distributable cash – per share	**$ 0.18**	$ 0.77

Note: [1] Presented net of government funding and excludes major maintenance capital.
[2] Represents interest expense on credit facilities and long-term debt and excludes pension interest expense.

RELATED PARTY TRANSACTIONS

The transactions with related parties are consistent with the transactions described in the December 31, 2011 audited consolidated financial statements and are based on agreed upon amounts, and are summarized in note 11 of the unaudited interim condensed consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	**Q1 2012**	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Sales and Income								
Sales	**220.0**	212.7	233.9	242.1	252.3	266.1	247.9	247.6
Operating income[1]	**11.5**	16.5	36.4	49.8	50.7	46.7	53.1	52.7
EBITDA [1]	**28.8**	38.5	50.3	64.8	67.5	62.9	69.3	70.0
Net income	**10.3**	15.8	23.9	48.2	50.7	47.4	55.0	43.6
Per share (dollars)								
Net income basic and diluted[2]	**$0.13**	$0.22	$0.33	$0.68	$0.71	$0.67	$0.77	$0.61
Statistics								
Pulp shipments (000 mt)	**270.6**	231.0	240.2	242.0	265.3	272.3	246.0	252.3
Paper shipments (000 mt)	**29.6**	30.2	32.1	32.7	32.6	39.0	33.6	34.4
Average exchange rate (US$/Cdn$)[3]	**0.999**	0.977	1.020	1.033	1.014	0.987	0.962	0.973
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**870**	920	993	1,025	970	967	1,000	993

Notes: [1] Comparative figures have been reclassified to conform to current year presentation.
[2] Based on CPPI shares outstanding at March 31, 2012.
[3] Source – Bank of Canada (average noon rate for the period).

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 March 31, 2012, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

The Company is subject to certain risks and uncertainties related to its investment in the Partnership, as well as all of the risks and uncertainties related to the business of the Partnership. The Company's collective labour agreements expire on April 30, 2012. A comprehensive discussion of these and other risks and uncertainties is contained in CPPI's Annual Information Form dated February 6, 2012, which is available on www.sedar.com and www.canforpulp.com.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, based upon currently available information, 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. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

CHANGE IN ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Change in Accounting Policy

Effective January 1, 2012, the Company retroactively changed its accounting policy to reclassify pension interest expense from employee benefits expense included in manufacturing and product costs to interest expense included in non-operating items on the Condensed Consolidated Statement of Comprehensive Income. Management considers classification of pension interest expense with the Company's other interest expenses to provide more relevant information on the operating results of the Company. The effect on the three months ended March 31, 2012 is an increase in interest expense and a decrease in manufacturing and product costs of $0.8 million (three months ended March 31, 2011 - $0.8 million), with no impact to opening equity as at January 1, 2012. The impact on operating activities in the Company's Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2012 was an increase of $0.8 million (three months ended March 31, 2011 - $0.8 million) to interest expense with a corresponding decrease to employee future benefits.

New Accounting Pronouncements

As of January 1, 2013, the Company will be required to adopt the following International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as issued by the International Accounting Standards Board (IASB). Refer to the Company's 2011 annual financial statements for a more detailed description of the below noted standards. The adoption of the following standards is not expected to have a material impact on the Company's consolidated financial statements:

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement

IAS 27 – Separate Financial Statements

Amended IAS 19 – Employee Benefits

Amended IAS 28 – Investments in Associates

In June 2011, the IASB also issued amended IAS 1, Presentation of Financial Statements, which is effective for annual periods beginning on or after July 1, 2012. The amendment 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 adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements.

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets
(unaudited)

(millions of dollars)		As at March 31, 2012		(note 4) As at December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**19.8**	$	-
Accounts receivable (note 11)				
Trade		**73.6**		70.8
Green Transformation Program		**11.8**		19.7
Other		**11.4**		20.7
Inventories (note 7)		**134.2**		141.6
Prepaid expenses and other assets		**6.1**		5.8
Total current assets		**256.9**		258.6
Non-current assets				
Property, plant and equipment (note 6)		**523.0**		532.0
Other long-term assets		**0.2**		0.6
	$	**780.1**	$	791.2
LIABILITIES				
Current liabilities				
Bank Indebtedness	**$**	**-**	$	2.0
Trade accounts payable and accrued liabilities		**103.2**		117.9
Distributions payable		**-**		7.8
Total current liabilities		**103.2**		127.7
Non-current liabilities				
Long-term debt (note 10)		**109.9**		111.9
Post employment benefits (note 8)		**97.4**		94.8
Deferred income taxes (note 9)		**61.4**		-
Long-term provisions		**4.4**		3.1
Total liabilities	**$**	**376.3**	$	337.5
SHAREHOLDERS' EQUITY				
Share capital (note 5)		**525.3**		294.9
Retained earnings (deficit)		**(121.5)**		(67.3)
Non-controlling interests		**-**		226.1
Total equity		**403.8**		453.7
	$	**780.1**	$	791.2

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

Subsequent event (note 13).

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

(millions of dollars, except shares and per share amounts)	Three months ended March 31, 2012	March 31, 2011
Revenue	**$ 220.0**	$ 252.3
Costs and expenses		
Manufacturing and product costs	**153.1**	148.2
Freight and other distribution costs	**32.1**	30.7
Amortization	**17.2**	16.5
Selling and administration costs	**6.1**	6.2
	208.5	201.6
Operating income	**11.5**	50.7
Interest expense	**(2.8)**	(2.9)
Foreign exchange gain on long-term debt	**2.0**	2.5
Gain on derivative financial instruments	**1.3**	1.6
Foreign exchange loss on working capital	**(0.8)**	(1.1)
Net income before income taxes	**11.2**	50.8
Income taxes (note 9)	**(0.9)**	(0.1)
Net income	**10.3**	50.7
Other comprehensive income		
Defined benefit plan actuarial losses, net of tax	**(2.3)**	(0.2)
Other loss	**(0.1)**	-
Total comprehensive income	**$ 7.9**	$ 50.5
Net income per share, basic and diluted	**$ 0.13**	$ 0.71
Weighted average shares outstanding	**47,087,537**	35,776,483
Net income attributable to:		
Controlling shareholder of the Company	**$ 6.0**	$ 25.5
Non-controlling shareholders' interest (note 4)	**4.3**	25.2
Total net income	**$ 10.3**	$ 50.7
Total comprehensive income attributable to:		
Controlling shareholder of the Company	**$ 3.6**	$ 25.4
Non-controlling shareholders' interest (note 4)	**4.3**	25.1
Total comprehensive income	**$ 7.9**	$ 50.5

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

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

(millions of dollars)	Three months ended March 31, 2012		March 31, 2011	
Share capital				
Balance beginning of period	**$**	**294.9**	$	294.9
Exchange transaction (note 4)		**230.4**		-
Balance at end of period	**$**	**525.3**	$	294.9
Retained earnings (deficit)				
Balance beginning of period		**(67.3)**		(52.9)
Exchange transaction (note 4)		**(57.8)**		-
Net income attributable to controlling shareholder of the Company		**6.0**		25.5
Defined benefit plan actuarial losses, net of tax		**(2.3)**		(0.1)
Other loss		**(0.1)**		-
Distributions declared to controlling shareholder of the Company		**-**		(27.9)
Balance at end of period	**$**	**(121.5)**	$	(55.4)
Total equity attributable to equity shareholders of the Company	**$**	**403.8**	$	239.5
Non-controlling interest				
Balance beginning of period	**$**	**226.1**	$	240.5
Net income attributable to non-controlling shareholders' interests		**4.3**		25.2
Defined benefit plan actuarial losses attributable to non-controlling shareholders' interests		**-**		(0.1)
Distributions declared to non-controlling shareholders' interests		**-**		(27.7)
Exchange transaction (note 4)		**(230.4)**		-
Balance at end of period	**$**	**-**	$	237.9
Total equity	**$**	**403.8**	$	477.4

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

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

(millions of dollars)	Three months ended March 31, 2012	March 31, 2011
Cash and cash equivalents generated from (used in)		
Operating activities		
Net income	**$ 10.3**	$ 50.7
Adjustments for:		
Amortization	**17.2**	16.5
Unrealized foreign exchange gain on long-term debt	**(2.0)**	(2.5)
Income taxes	**0.9**	0.1
Interest expense	**2.8**	2.9
Decrease (increase) in value of outstanding derivative instruments	**0.4**	(0.4)
Employee future benefits	**0.6**	0.5
Other	**-**	0.3
Income tax payment	**(1.2)**	(0.1)
Salary pension plan contribution	**(1.9)**	(2.0)
Cash flow from operations before working capital changes	**27.1**	66.0
Decrease (increase) in non-cash working capital		
Accounts receivable – trade and other	**7.1**	2.5
Inventories	**7.4**	7.2
Prepaid expenses and other assets	**(0.2)**	1.8
Accounts payable and accrued liabilities	**0.1**	(2.3)
Net cash from operations	**41.5**	75.2
Financing activities		
Distributions paid to partners	**(7.8)**	(76.3)
Interest paid	**(0.2)**	(0.3)
Net cash used in financing	**(8.0)**	(76.6)
Investing activities		
Property, plant and equipment	**(25.6)**	(6.8)
Green Transformation Program expenditures	**(1.1)**	(16.7)
Green Transformation Program reimbursements	**7.9**	9.6
Other government grants received	**0.2**	1.8
Acquisition of CPPI cash on exchange (note 4)	**6.8**	-
Interest received	**0.1**	-
Net cash used in investing	**(11.7)**	(12.1)
Increase (decrease) in cash and cash equivalents	**21.8**	(13.5)
Cash and cash equivalents (bank indebtedness), beginning of period	**(2.0)**	64.2
Cash and cash equivalents, end of period	**$ 19.8**	$ 50.7

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

Canfor Pulp Products Inc.

Notes to the Condensed Consolidated Financial Statements as at March 31, 2012

(Unaudited, in millions of dollars unless otherwise noted)

1. General Information and Basis of Presentation

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's operations consist of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia (the Pulp Business).

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 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.

On March 2, 2012, Canadian Forest Products Ltd. (Canfor) exchanged 35,776,483 Class B Exchangeable Limited Partnership Units (the Exchange), representing a 50.2% interest in the Partnership, for an equivalent number of CPPI shares pursuant to the terms of the exchange agreement dated January 1, 2011 between Canfor, CPPI, the Partnership and Canfor Pulp Holding Inc., the general partner of the Partnership (the General Partner). As a result of the Exchange, CPPI increased its interest in both the Partnership and the General Partner from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI (see note 4).

At March 31, 2012, CPPI held a 100% interest in the Partnership and the General Partner and Canfor held a 50.2% interest in CPPI.

The condensed consolidated interim financial statements (the financial statements) at March 31, 2012 include the accounts of CPPI, the Partnership and its subsidiaries (together referred to as CPPI or the Company).

Prior to March 2, 2012 Canfor held a direct controlling interest in the Partnership. For all periods ending prior to March 2, 2012, the financial statements present the financial position, results of operations, and cash flows of the Pulp Business from the perspective of Canfor's controlling interest in the Pulp Business as if operated as a stand-alone partnership entity subject to Canfor control. The acquisition of the Partnership by CPPI as a result of the Exchange has been accounted for as a continuity of interests by applying reverse acquisition accounting.

The balance sheet at December 31, 2011 includes all assets and liabilities of the Pulp Business.

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

Economic Dependence

The Company depends on Canfor to provide approximately 58% (2011 – 54%) of its fibre supply as well as to provide certain key business and administrative services as described in note 11. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor.

2. Basis of Preparation and Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Partnership for the year ended December 31, 2011 which have been prepared in accordance with IFRS as issued by the IASB.

3. Changes in Accounting Policies and New Accounting Pronouncements

Change in Accounting Policy

Effective January 1, 2012, the Company retroactively changed its accounting policy to reclassify pension interest expense from employee benefits expense included in manufacturing and product costs to interest expense included in non-operating items on the Condensed Consolidated Statement of Comprehensive Income. Management considers classification of pension interest expense with the Company's other interest expense to provide more relevant information on the operating results of the Company. The effect on the three months ended March 31, 2012 was an increase in interest expense and a decrease in manufacturing and product costs of $0.8 million (three months ended March 31, 2011 - $0.8 million), with no impact to opening equity as at January 1, 2012. The impact on operating activities in the Company’s Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2012 was an increase of $0.8 million (three months ended March 31, 2011 - $0.8 million) to interest expense with a corresponding decrease to employee future benefits.

New Accounting Pronouncements

As of January 1, 2013, the Company will be required to adopt the following standards as issued by the International Accounting Standards Board (IASB). Refer to the Company’s 2011 annual financial statements for a more detailed description of the below noted standards. The adoption of the following standards is not expected to have a material impact on the Company’s consolidated financial statements:

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement

IAS 27 – Separate Financial Statements

Amended IAS 19 – Employee Benefits

Amended IAS 28 – Investments in Associates

In June 2011, the IASB also issued amended IAS 1, Presentation of Financial Statements, which is effective for annual periods beginning on or after July 1, 2012. The amendment will require companies to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the statement of comprehensive income (commonly referred to as “recycling”). The adoption of this amendment is not expected to have a material impact on the Company’s consolidated financial statements.

4. Company’s Acquisition of Interest in Canfor Pulp Limited Partnership

The acquisition was accounted for as a reverse acquisition under IFRS, with Canfor’s interest in the Pulp Business being the acquirer for accounting purposes and CPPI the acquiree for accounting purposes. The Pulp Business is continuing to operate under CPPI, the legal parent. The financial statements have been presented, along with the comparative periods, from the accounting perspective that Canfor’s interest in the Pulp Business is the continuing entity after the exchange transaction as it has gained control of the Company through a reverse transaction. Prior to March 2, 2012 49.8% of the Pulp Business was held by CPPI and reflected as non-controlling interest. Net income and comprehensive income attributable to CPPI’s non-controlling interest in the Pulp business was $4.3 million for the three months ended March 31, 2012. Canfor’s interest in the Pulp Business was deemed to acquire CPPI on March 2, 2012 and the non-controlling interest was eliminated on that date.

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

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

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

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

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

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

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

5. Net Income per share

Basic net income per share is calculated by dividing the net income attributable to equity shareholders by the weighted average number of common shares outstanding during the period. As a result of the exchange transaction and the application of reverse acquisition accounting, the outstanding CPPI shares prior to March 2, 2012 were deemed issued at March 2, 2012. This transaction resulted in an increase in the weighted average number of shares outstanding, resulting in 71,269,790 shares outstanding as at March 31, 2012. The issuance of the new shares as a result of the exchange was accompanied by a corresponding increase in CPPI's investment in the Partnership and as a result there is no dilution of CPPI's net income per share.

6. Property, Plant and Equipment

(millions of dollars, unaudited)	March 31, 2012 Cost	Accumulated amortization	Net
Land and improvements	**5.4**	**-**	**5.4**
Asset retirement – Landfill	**2.1**	**0.9**	**1.2**
Buildings, machinery and equipment	**1,387.0**	**913.5**	**473.5**
Major Maintenance	**40.1**	**17.8**	**22.3**
Construction in progress	**20.6**	**-**	**20.6**
	1,455.2	**932.2**	**523.0**

(millions of dollars, unaudited)	December 31, 2011 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

7. Inventories

(millions of dollars, unaudited)	**March 31, 2012**	December 31, 2011
Pulp	**56.8**	64.1
Paper	**19.0**	17.0
Wood chips	**13.6**	16.0
Processing materials and supplies	**44.8**	44.5
	134.2	141.6

8. Employee Future Benefits

The Company, 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:

(millions of dollars, unaudited)	**Three months ended March 31, 2012**	March 31, 2011
Pension plans [1]	**1.1**	1.1
Other employee future benefit plans [1]	**0.5**	0.4
Contributions to forest industry union plans	**1.7**	1.6
	3.3	3.1

Note: [1] Comparative figures have been reclassified to conform to current year presentation.

9. Income Taxes

Income tax expense includes current tax on income for the March 2, 2012 to March 31, 2012 period. Taxes are not reported prior to March 2, 2012 as the reporting entity held its interest in CPLP directly.

(millions of dollars, unaudited)		Three months ended March 31, 2012
Current income tax expense	$	1.7
Deferred income tax recovery		(0.8)
Income tax expense	$	0.9

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

(millions of dollars, unaudited)		Three months ended March 31, 2012
Net income before tax	$	11.2
Income tax expense at statutory rate 2012 – 25.0%		2.8
Deduct:		
Permanent difference from capital gains on translation of US denominated debt and other non-deductible items		(0.1)
Permanent difference – exchange transaction		(0.9)
Tax included in equity – exchange transaction		(0.9)
Income tax expense	$	0.9

Deferred Income Tax

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

(millions of dollars, unaudited)		As at March 31, 2012
Deferred income tax assets		
Post employment benefits	$	24.2
Other		1.1
		25.3
Deferred income tax liabilities		
Property, Plant & Equipment		84.6
Unrealized foreign exchange gains on debt		1.9
Other		0.2
		86.7
Deferred income tax liability, net	$	61.4

10. Credit Facilities and Long-term Debt

At March 31, 2012 the Company had outstanding long-term debt of $109.9 million (December 31, 2011 – $111.9 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 Company has a $40.0 million bank credit facility with a maturity date of November 30, 2013, of which $0.8 million was utilized at March 31, 2012 for a standby letter of credit issued for general business purposes. In addition, the Company 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 power generation agreement. The Company 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 Company remained in compliance with all covenants at March 31, 2012.

The fair value of long-term debt at March 31, 2012 was $116.7 million (US$116.8 million).

11. Related Party Transactions

The transactions with related parties are consistent with the transactions described in the December 31, 2011 audited consolidated financial statements and are based on agreed upon amounts between the parties, and are summarized below:

(millions of dollars, unaudited)	**Three months ended March 31, 2012**	March 31, 2011
Transactions		
Canfor – purchase of wood chips and other	**28.3**	29.0
Lakeland Mills Ltd. – purchase of wood chips	**2.3**	3.4

	March 31, 2012	December 31, 2011
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**16.9**	18.2
Lakeland Mills Ltd.	**0.4**	0.9
Included in trade accounts receivable:		
Product marketed for Canfor	**6.3**	3.2

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

12. Derivative Financial Instruments

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

For the first quarter of 2012 the Company recorded a net gain on derivative financial instruments of $1.3 million (first quarter 2011 – $1.6 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 US dollar forward contracts and West Texas Intermediate (WTI) crude oil collars.

The Company recorded gains to non-operating income of $1.7 million during the first quarter of 2012 (first quarter 2011 – $2.3 million) on settlement of maturing US dollar forward contracts. At March 31, 2012 the Company had outstanding US dollar forward contracts of $59.0 million extending to July 2012. At March 31, 2012 the unrealized loss of $0.2 million (March 31, 2011 unrealized gain – $0.5 million) on these outstanding US dollar forward contracts was recorded as a liability in accounts payable.

At March 31, 2012 the Company had outstanding WTI crude oil collars of 43,506 barrels extended to December 2012. At March 31, 2012 the unrealized gain of $0.2 million (March 31, 2011 – nil) on these outstanding WTI crude oil collars was recorded as an asset in other accounts receivable.

13. Subsequent Event

As part of Canfor's exchange of its Partnership interest for shares of CPPI on March 2, 2012, Canfor waived its right to receive dividends paid from cash accumulated from Partnership distributions and not distributed to CPPI shareholders prior to that exchange. On April 23, 2012, the Board of Directors declared a quarterly dividend payable on May 11, 2012 to the non-Canfor shareholders of record on May 4, 2012 of $0.22 per share, being the amount of such accumulated cash in CPPI at the date of the exchange.

14. Segmented Information (a)

The Company is a producer of market NBSK Pulp and fully bleached, high performance Kraft Paper. For management purposes, the Company has two reporting segments which operate as separate business units: Pulp and Paper. These divisions are the basis on which the Company reports its primary segment information. This segment reporting is consistent with the internal reporting provided to the executive management team, who operate as the Company'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 Company 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 March 31, 2012				
Sales to external customers (b)	**190.1**	**29.9**	**-**	**220.0**
Sales of pulp to paper segment (c)	**17.2**	**(17.2)**	**-**	**-**
Operating income (loss)	**12.2**	**2.7**	**(3.4)**	**11.5**
Amortization	**16.1**	**1.0**	**0.1**	**17.2**
Capital expenditures, net	**7.7**	**0.1**	**0.4**	**8.2**
Identifiable assets	**677.7**	**65.5**	**36.9**	**780.1**
Three months ended March 31, 2011				
Sales to external customers (b)	217.3	34.0	1.0	252.3
Sales of pulp to paper segment (c)	22.5	(22.5)	-	-
Operating income (loss) [1]	51.5	2.1	(2.9)	50.7
Amortization	15.6	0.8	0.1	16.5
Capital expenditures, net	4.3	0.8	0.6	5.7
Identifiable assets	695.5	60.9	68.0	824.4

Notes: [1] Comparative figures have been reclassified to conform to current year presentation.

(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 30% (Year 2011 – 29%).

(b) Sales to the largest customer represented approximately 8% of pulp segment sales (Year 2011 – 10%).

(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.