News Release

Canfor Pulp Products Inc.

CANFOR PULP PRODUCTS INC. REPORTS RESULTS FOR SECOND QUARTER OF 2012 AND QUARTERLY DIVIDEND

July 25, 2012 - Vancouver, B.C. - Canfor Pulp Products Inc. ("CPPI") (TSX: CFX) today reported its second quarter 2012 results.

Net income for the second quarter of 2012 was $3.3 million, or $0.05 per share, compared to net income of $10.3 million, or $0.13 per share for the first quarter of 2012 and net income of $48.2 million, or $0.68 per share for the second quarter of 2011. For the six months ended June 30, 2012, the Company's net income was $13.6 million, or $0.16 per share compared to $98.9 million, or $1.39 per share for the six months ended June 30, 2011.

During the first quarter of 2012, Canadian Forest Products Ltd. ("Canfor") exchanged its 50.2% interest in Canfor Pulp Limited Partnership ("the Partnership") for an equivalent interest in CPPI. As a result of the exchange, CPPI's interest in the Partnership increased from 49.8% to 100%. 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, and all subsequent quarters, the results of CPPI include the results of the Partnership (together referred to as "CPPI" or "the Company").

The Company reported operating income of $10.4 million for the second quarter of 2012, compared to $11.5 million in the first quarter of 2012, as weaker results in the pulp segment, substantially related to maintenance outages at the Company's mills, were partially offset by improved earnings in the paper segment.

The following table summarizes selected financial information for the Company for the comparative periods:

(millions of dollars, except for per share amounts)	**Q2 2012**	Q1 2012	**YTD 2012**	Q2 2011	YTD 2011
Sales	**$ 210.8**	$ 220.0	**$ 430.8**	$ 242.1	$ 494.4
EBITDA	**$ 25.1**	$ 28.7	**$ 53.8**	$ 64.8	$ 132.0
Operating income	**$ 10.4**	$ 11.5	**$ 21.9**	$ 49.8	$ 100.5
Net income	**$ 3.3**	$ 10.3	**$ 13.6**	$ 48.2	$ 98.9
Net income per share, basic and diluted	**$ 0.05**	$ 0.13	**$ 0.16**	$ 0.68	$ 1.39

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

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

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

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

Commenting on the quarter, CPPI's President and CEO, Joe Nemeth, said, "Our second quarter results reflected continued challenging global market conditions as well as the impact of the significant downtime at our mills. We have worked hard to mitigate the impacts of these shuts. We have now completed the majority of this year's capital plan and substantially all of the Green Transformation Program projects. Our focus going forward will be to realize the benefits of these investments."

Looking ahead, the global softwood pulp market is projected to weaken further through the remaining summer months. For the month of July, the Company projects NBSK pulp list prices to decrease US$20 per tonne in all regions with further price reductions projected in the third quarter. The scheduled maintenance outage underway at the Prince George Pulp Mill is projected to result in an additional reduction in market pulp production of approximately 26,000 tonnes in the third quarter. In addition, the unscheduled shutdown completed at Northwood in early July resulted in a further 4,000 tonnes of lost production. A scheduled maintenance outage at the Northwood Pulp Mill is also planned for the fourth quarter with an estimated 6,000 tonnes of reduced production.

The Board of Directors declared a quarterly dividend of $0.05 per share, payable on August 14, 2012 to the shareholders of record on August 7, 2012. This determination takes into consideration the operational issues resulting in the significant reduction in pulp production in the quarter, the concentration of the 2012 capital expenditures in the second and third quarters of the year and the uncertainty regarding the outlook for pulp markets over the next few months.

The Board would like to acknowledge the contributions of Terry Hodgins, who will be retiring from the CFO position effective September 30, 2012. Alan Nicholl, Senior V.P. Finance and CFO of Canfor will assume the CFO role and responsibilities for CPPI. Mr. Hodgins will work with Mr. Nicholl through the next few months to ensure a smooth transition of CPPI's CFO functions.

Additional Information and Conference Call

A conference call to discuss the second quarter's financial and operating results will be held on Thursday, July 26, 2012 at 8:00 AM Pacific time. To participate in the call, please dial 416-340-8018 or Toll-Free 866-223-7781. For instant replay access until August 9, 2012, please dial 905-694-9451 or 800-408-3053 and enter participant pass code 8069732#. The conference call will be webcast live and will be available at www.canforpulp.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at http://www.canforpulp.com/investors/webcasts.

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

CPPI is a leading global supplier of pulp and paper products with operations based in the central interior of British Columbia. 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. CPPI shares are traded on the Toronto Stock Exchange under the symbol CFX.

For further information contact:

Terry Hodgins
Chief Financial Officer and Secretary
(604) 661-5421
Terry.Hodgins@canforpulp.com

Richard Remesch
Corporate Controller
(604) 661-5221
Rick.Remesch@canforpulp.com

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

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

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 25, 2012.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

CPPI SHARE EXCHANGE

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

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

SECOND QUARTER 2012 OVERVIEW

Selected Financial Information and Statistics[1]

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

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

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

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

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

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

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

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

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

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

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

Overview

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

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

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

Markets

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

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

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

Sales

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

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

Compared to the second quarter of 2011, pulp sales realizations were well down as NBSK pulp list prices to all markets decreased. The average NBSK list price for North America decreased US$125 per tonne, while prices to Europe and China decreased US$180 and US$240 per tonne, respectively. The price reductions were offset in part by the 4 cent weaker Canadian dollar compared to the US dollar in the current quarter.

Operations

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

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

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

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

Paper

Selected Financial Information and Statistics –Paper

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

Overview

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

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

Markets

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

Sales

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

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

Operations

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

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

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

Unallocated Items

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

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

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

The Company recorded a foreign exchange translation loss on its US dollar denominated debt of $2.2 million for the second quarter of 2012, as a result of the weakening of the Canadian dollar against the US dollar, which fell by 2% between the respective quarter ends. In the first quarter of 2012, a strengthening of the Canadian dollar resulted in a translation gain of $2.0 million, while the second quarter of 2011 showed a gain of $0.8 million.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in both foreign exchange rates and crude oil rates affecting freight surcharges. For the second quarter of 2012, the Company recorded a net loss of $1.4 million related to its derivative financial instruments, primarily reflecting losses on US dollar forward contracts related to the weakening of the Canadian dollar.

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

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

Other Comprehensive Income (Loss)

In the second quarter of 2012, the Company recorded an after-tax charge to the statements of other comprehensive income (loss) of $3.7 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The charge reflects a reduction in the discount rate used to value the plans, and a lower than expected rate of return for the period. In the previous quarter a charge of $2.4 million was recorded, reflecting a reduction in discount rates, offset in part by a gain on plan assets due to a higher than expected gain for the quarter. An after-tax loss of $1.1 million was recorded in the second quarter of 2011.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars)	Q2 2012	Q1 2012	YTD 2012	Q2 2011	YTD 2011
Increase (decrease) in cash and cash equivalents	**$ (8.9)**	$ 21.8	**$ 12.9**	$ (24.2)	$ (37.7)
Operating activities	**$ 19.2**	$ 41.5	**$ 60.7**	$ 38.4	$ 113.6
Financing activities	**$ (11.4)**	$ (8.0)	**$ (19.4)**	$ (54.6)	$ (131.2)
Investing activities	**$ (16.7)**	$ (11.7)	**$ (28.4)**	$ (8.0)	$ (20.1)
Ratio of current assets to current liabilities			**2.1 : 1**		2.1 : 1
Net debt to capitalization			**20.4%**		14.3%

Changes in Financial Position

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

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

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

Liquidity and Financial Requirements

At June 30, 2012, CPPI had cash of $10.9 million and a bank credit facility of $40.0 million which was unused, except for $0.8 million reserved for several standby letters of credit. In addition, the Company had a separate facility with a maturity date of November 30, 2013, to cover the $10.4 million standby letter of credit issued to BC Hydro under a power generation agreement. The Company also had an undrawn bridge loan credit facility with a maturity date of December 31, 2012 to fund timing differences between expenditures and reimbursements for projects funded under the Green Transformation Program, for which the maximum amount available is $30.0 million.

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

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

Dividends

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

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

Collective Agreements with Labour Unions

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

OUTLOOK

Pulp

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

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

Paper

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

OUTSTANDING SHARES

At July 25, 2012, there were 71,269,790 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGES IN ACCOUNTING POLICY

Effective January 1, 2012, the Company retroactively changed its accounting policy for the presentation of interest expense and expected rate of return on assets of defined benefit post-retirement plans. The net expense has been reclassified from operating income, included in manufacturing and product costs, to net finance expense. Management considers the classification of net pension interest expense with the Company’s other interest expense to provide more relevant information on the operating results of the Company. The effect on the three months ended June 30, 2012 and six months ended June 30, 2012 is an increase in operating income and an increase in net finance expense of $0.8 million and $1.6 million, respectively (2011 - $0.7 million and $1.5 million, respectively). There is no impact on amounts recorded in the consolidated balance sheet or opening equity as at January 1, 2012.

NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY FINANCIAL INFORMATION[7]

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

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

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

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2012**		As at December 31, 2011 (Note 11)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**10.9**	$	-
Accounts receivable - Trade (Note 10)		**74.4**		70.8
- Green Transformation Program		**10.7**		19.7
- Other (Note 12)		**27.4**		20.7
Inventories (Note 2)		**130.8**		141.6
Prepaid expenses and other assets		**7.1**		5.8
Total current assets		**261.3**		258.6
Property, plant and equipment		**539.6**		532.0
Other long-term assets		**0.5**		0.6
Total assets	**$**	**801.4**	$	791.2
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**-**	$	2.0
Accounts payable and accrued liabilities		**125.8**		117.9
Distributions payable		**-**		7.8
Total current liabilities		**125.8**		127.7
Long-term debt (Note 3(b))		**112.1**		111.9
Retirement benefit obligations		**102.1**		94.8
Long-term provisions		**3.2**		3.1
Deferred income taxes, net (Note 6)		**62.6**		-
Total liabilities	**$**	**405.8**	$	337.5
SHAREHOLDERS' EQUITY				
Share capital (Note 11)	**$**	**525.3**	$	294.9
Retained earnings (deficit)		**(129.7)**		(67.3)
Non-controlling interests in the Partnership (Note 11)		**-**		226.1
Total equity	**$**	**395.6**	$	453.7
Total liabilities and equity	**$**	**801.4**	$	791.2

Subsequent Event (Note 13)

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

APPROVED BY THE BOARD

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

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2012	3 months ended June 30, 2011	6 months ended June 30, 2012	6 months ended June 30, 2011
Sales (Note 12)	**$ 210.8**	$ 242.1	**$ 430.8**	$ 494.4
Costs and expenses				
Manufacturing and product costs (Note 12)	**149.7**	142.1	**302.8**	290.3
Freight and other distribution costs	**29.4**	28.7	**61.5**	59.4
Amortization	**14.7**	15.0	**31.9**	31.5
Selling and administration costs	**6.6**	6.5	**12.7**	12.7
	200.4	192.3	**408.9**	393.9
Operating income	**10.4**	49.8	**21.9**	100.5
Finance expense, net	**(2.8)**	(2.6)	**(5.6)**	(5.5)
Foreign exchange gain (loss) on long-term debt	**(2.2)**	0.8	**(0.2)**	3.3
Gain (loss) on derivative financial instruments (Note 5)	**(1.4)**	1.0	**(0.1)**	2.6
Foreign exchange gain (loss) on working capital	**0.8**	(0.7)	**-**	(1.8)
Net income before income taxes	**4.8**	48.3	**16.0**	99.1
Income tax expense (Note 6)	**(1.5)**	(0.1)	**(2.4)**	(0.2)
Net income	**$ 3.3**	$ 48.2	**$ 13.6**	$ 98.9
Net income attributable to:				
Controlling interest in the Partnership	**$ 3.3**	$ 24.2	**$ 9.3**	$ 49.7
Non-controlling interest in the Partnership (Note 11)	**-**	24.0	**4.3**	49.2
Net income	**$ 3.3**	$ 48.2	**$ 13.6**	$ 98.9
Net income per common share: (in dollars)				
Attributable to controlling interest in the Partnership				
- Basic and diluted (Note 7)	**$ 0.05**	$ 0.68	**$ 0.16**	$ 1.39

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2012	3 months ended June 30, 2011	6 months ended June 30, 2012	6 months ended June 30, 2011
Net income	**$ 3.3**	$ 48.2	**$ 13.6**	$ 98.9
Other comprehensive income (loss)				
Defined benefit plan actuarial losses (Note 4)	**(4.9)**	(1.1)	**(8.1)**	(1.3)
Income tax recovery on defined benefit plan actuarial losses (Note 6)	**1.2**	-	**2.0**	-
Other comprehensive loss, net of tax	**(3.7)**	(1.1)	**(6.1)**	(1.3)
Total comprehensive income (loss)	**$ (0.4)**	$ 47.1	**$ 7.5**	$ 97.6
Total comprehensive income (loss) attributable to:				
Controlling interest in the Partnership	**$ (0.4)**	$ 23.6	**$ 3.2**	$ 49.0
Non-controlling interest in the Partnership (Note 11)	**-**	23.5	**4.3**	48.6
Total comprehensive income (loss)	**$ (0.4)**	$ 47.1	**$ 7.5**	$ 97.6

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2012	3 months ended June 30, 2011	6 months ended June 30, 2012	6 months ended June 30, 2011
Share capital				
Balance at beginning of period	**$ 525.3**	$ 294.9	**$ 294.9**	$ 294.9
Exchange transaction (Note 11)	**-**	-	**230.4**	-
Balance at end of period	**$ 525.3**	$ 294.9	**$ 525.3**	$ 294.9
Retained earnings (deficit)				
Balance at beginning of period	**$ (121.5)**	$ (55.4)	**$ (67.3)**	$ (52.9)
Exchange transaction (Note 11)	**-**	-	**(57.8)**	-
Net income excluding amount attributable to non-controlling interest in the Partnership	**3.3**	24.2	**9.3**	49.7
Defined benefit plan actuarial losses, net of tax	**(3.7)**	(0.6)	**(6.1)**	(0.7)
Dividends/distributions declared excluding amount attributable to non-controlling interest in the Partnership	**(7.8)**	(24.7)	**(7.8)**	(52.6)
Balance at end of period	**$ (129.7)**	$ (56.5)	**$ (129.7)**	$ (56.5)
Total equity attributable to equity holders of the Company	**$ 395.6**	$ 238.4	**$ 395.6**	$ 238.4
Non-controlling interest in the Partnership				
Balance at beginning of period	**$ -**	$ 237.9	**$ 226.1**	$ 240.5
Net income attributable to non-controlling interest in the Partnership	**-**	24.0	**4.3**	49.2
Defined benefit plan actuarial losses attributable to non-controlling interest in the Partnership	**-**	(0.5)	**-**	(0.6)
Distributions to non-controlling interest in the Partnership	**-**	(24.5)	**-**	(52.2)
Exchange transaction (Note 11)	**-**	-	**(230.4)**	-
Balance at end of period	**$ -**	$ 236.9	**$ -**	$ 236.9
Total equity	**$ 395.6**	$ 475.3	**$ 395.6**	$ 475.3

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2012**	3 months ended June 30, 2011	6 months ended June 30, **2012**	6 months ended June 30, 2011
Cash generated from (used in):				
Operating activities				
Net income	**$ 3.3**	$ 48.2	**$ 13.6**	$ 98.9
Items not affecting cash:				
Amortization	**14.7**	15.0	**31.9**	31.5
Income tax expense	**1.5**	0.1	**2.4**	0.2
Foreign exchange (gain) loss on long-term debt	**2.2**	(0.8)	**0.2**	(3.3)
Changes in mark-to-market value of derivative financial instruments	**(0.4)**	(1.4)	**-**	(1.8)
Employee future benefits	**0.8**	0.7	**1.4**	1.2
Net finance expense	**2.8**	2.6	**5.6**	5.5
Other, net	**-**	(0.1)	**-**	0.2
Salary pension plan contributions	**(2.0)**	(2.1)	**(3.9)**	(4.1)
Income taxes paid, net	**(4.3)**	-	**(5.5)**	(0.1)
Net change in non-cash working capital (Note 8)	**0.6**	(23.8)	**15.0**	(14.6)
	19.2	38.4	**60.7**	113.6
Financing activities				
Dividends / distributions paid	**(7.8)**	(51.3)	**(15.6)**	(127.6)
Finance expenses paid	**(3.6)**	(3.3)	**(3.8)**	(3.6)
	(11.4)	(54.6)	**(19.4)**	(131.2)
Investing activities				
Additions to property, plant and equipment	**(19.3)**	(10.3)	**(44.9)**	(17.1)
Expenditures under Green Transformation Program	**-**	(20.2)	**(1.1)**	(36.9)
Reimbursements under Green Transformation Program	**1.1**	21.6	**9.0**	31.2
Other government grants received	**1.4**	0.9	**1.6**	2.7
Acquisition of CPPI cash on exchange (Note 11)	**-**	-	**6.8**	-
Other, net	**0.1**	-	**0.2**	-
	(16.7)	(8.0)	**(28.4)**	(20.1)
Increase (decrease) in cash and cash equivalents	**(8.9)**	(24.2)	**12.9**	(37.7)
Cash and cash equivalents at beginning of period	**19.8**	50.7	**(2.0)**	64.2
Cash and cash equivalents at end of period	**$ 10.9**	$ 26.5	**$ 10.9**	$ 26.5

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

1. Basis of Preparation

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

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

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

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

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

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

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

Change in accounting policy

Effective January 1, 2012, the Company retroactively changed its accounting policy for the presentation of interest expense and expected rate of return on assets of defined benefit post-retirement plans. The net expense has been reclassified from operating income, included in manufacturing and product costs, to net finance expense. Management considers the classification of net pension interest expense with the Company's other interest expense to provide more relevant information on the operating results of the Company. The effect on the three months ended June 30, 2012 and six months ended June 30, 2012 is an increase in operating income and an increase in net finance expense of $0.8 million and $1.6 million, respectively (2011 - $0.7 million and $1.5 million, respectively). There is no impact on amounts recorded in the consolidated balance sheet or opening equity as at January 1, 2012.

Accounting standards issued and not applied

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

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

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

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

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

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

2. Inventories

(millions of Canadian dollars)		**As at June 30, 2012**		As at December 31, 2011
Pulp	**$**	**50.1**	$	64.1
Paper		**14.7**		17.0
Wood chips		**20.8**		16.0
Processing materials and supplies		**45.2**		44.5
	$	**130.8**	$	141.6

3. Operating Lines and Long-Term Debt

(a) Available Operating Lines

(millions of Canadian dollars)		**As at June 30, 2012**		As at December 31, 2011
Main bank loan facility	**$**	**40.0**	$	40.0
Bridge loan credit facility (maximum $30.0 million)		**10.7**		19.7
Facility for BC Hydro letter of credit		**10.4**		10.4
Total operating lines		**61.1**		70.1
Letters of credit (for general business purposes)		**(0.8)**		(0.5)
BC Hydro letter of credit		**(10.4)**		(10.4)
Total available operating lines	**$**	**49.9**	$	59.2

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

The Company has a maximum $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 Canadian Federal Government Green Transformation Program, with the amount available at a point in time equal to the outstanding unreimbursed expenditures. The bridge facility terms are similar to the Company's main facility, with interest and other costs at prevailing market rates. The Company also has a separate facility with a maturity date of November 30, 2013 to cover a $10.4 million standby letter of credit issued to BC Hydro.

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

(b) Long-Term Debt

At June 30, 2012, the fair value of the Company's long-term debt, which was measured at its amortized cost of $112.1 million (US$110.0 million), was $115.7 million. The fair value of long-term debt was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

4. Employee Future Benefits

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

For the six months ended June 30, 2012, $8.1 million (before tax) was charged to other comprehensive income. The charge reflected losses on retirement benefit plan liabilities due to a reduction in the discount rate coupled with an actual rate of return on plan assets which was lower than the expected gain. For the three months ended June 30, 2012, the charge was $4.9 million (before tax). For the six months ended June 30, 2011 an amount of $1.3 million was charged to other comprehensive income, and for the three months ended June 30, 2011 the charge was $1.1 million.

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

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

Pension Benefit Plans	
Discount rate	
June 30, 2012	**4.65%**
March 31, 2012	4.80%
December 31, 2011	5.00%
June 30, 2011	5.50%
March 31, 2011	5.50%
December 31, 2010	5.50%
Rate of return on plan assets	
6 months ended June 30, 2012	**2.60%**
3 months ended March 31, 2012	4.30%
6 months ended June 30, 2011	1.80%
3 months ended March 31, 2011	1.65%
Other Benefit Plans	
Discount rate	
June 30, 2012	**4.90%**
March 31, 2012	5.00%
December 31, 2011	5.30%
June 30, 2011	5.75%
March 31, 2011	5.75%
December 31, 2010	5.75%

5. Derivative Financial Instruments

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

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

(millions of Canadian dollars)	3 months ended June 30, **2012**	3 months ended June 30, 2011	6 months ended June 30, **2012**	6 months ended June 30, 2011
Foreign exchange collars and forward contracts	**$ (1.1)**	$ 1.0	**$ 0.1**	$ 2.7
Natural gas swaps	**-**	-	**-**	(0.1)
Crude oil collars	**(0.3)**	-	**(0.2)**	-
	$ (1.4)	$ 1.0	**$ (0.1)**	$ 2.6

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

(millions of Canadian dollars)	**As at June 30, 2012**	As at December 31, 2011
Foreign exchange collars and forward contracts	**$ 0.5**	$ 0.3
Crude oil collars	**(0.1)**	0.1
Net Current asset (liability)	**$ 0.4**	$ 0.4

6. Income Taxes

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

(millions of Canadian dollars)	**3 months ended June 30, 2012**	**6 months ended June 30, 2012**
Current	**$ 0.8**	**$ (0.9)**
Deferred	**(2.3)**	**(1.5)**
Income tax expense	**$ (1.5)**	**$ (2.4)**

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

(millions of Canadian dollars)	**3 months ended June 30, 2012**	**6 months ended June 30, 2012**
Income tax expense at statutory rate 2012 – 25.0%	**$ (1.2)**	**$ (4.0)**
Add (deduct):		
Permanent difference from capital gains and other non-deductible items	**(0.1)**	**-**
Tax expense at rates other than statutory rate	**(0.2)**	**(0.2)**
Permanent difference – exchange transaction	**-**	**0.9**
Tax included in equity – exchange transaction	**-**	**0.9**
Income tax expense	**$ (1.5)**	**$ (2.4)**

In addition to the amounts recorded to net income, a tax recovery of $1.2 million was recorded to other comprehensive income for the three month period ended June 30, 2012 in relation to the actuarial losses on defined benefit employee compensation plans. For the six months ended June 30, 2012, the related tax recovery was $2.0 million.

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

(millions of Canadian dollars)		As at June 30, 2012
Deferred income tax assets		
Retirement benefit obligations	$	**25.5**
Other		**0.9**
	$	**26.4**
Deferred income tax liabilities		
Depreciable capital assets	$	**(86.9)**
Unrealized foreign exchange gains on debt		**(1.7)**
Other		**(0.4)**
	$	**(89.0)**
Total deferred income taxes, net	$	**(62.6)**

7. Earnings Per Share

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

	3 months ended June 30,		6 months ended June 30,	
	2012	2011	**2012**	2011
Weighted average number of common shares	**71,269,790**	35,776,483	**59,178,663**	35,776,483

8. Net Change in Non-Cash Working Capital

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars)		**2012**		2011		**2012**		2011
Accounts receivable	**$**	**(15.0)**	$	(15.4)	**$**	**(7.9)**	$	(12.9)
Inventories		**3.4**		(13.9)		**10.8**		(6.7)
Prepaid expenses and other assets		**(1.1)**		3.3		**(1.3)**		5.1
Accounts payable and accrued liabilities		**13.3**		2.2		**13.4**		(0.1)
Net increase (decrease) in non-cash working capital	**$**	**0.6**	$	(23.8)	**$**	**15.0**	$	(14.6)

9. Segment Information

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

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

(millions of Canadian dollars)		Pulp	Paper	Unallocated	Elimination Adjustment		Consolidated
3 months ended June 30, 2012							
Sales to external customers	**$**	**171.9**	**38.2**	**0.7**	**-**	**$**	**210.8**
Sales to other segments	**$**	**16.5**	**-**	**-**	**(16.5)**	**$**	**-**
Operating income (loss)	**$**	**8.6**	**4.8**	**(3.0)**	**-**	**$**	**10.4**
Amortization	**$**	**13.8**	**0.9**	**-**	**-**	**$**	**14.7**
Capital expenditures[1]	**$**	**18.7**	**0.4**	**0.2**	**-**	**$**	**19.3**
3 months ended June 30, 2011							
Sales to external customers	$	207.5	34.2	0.4	-	$	242.1
Sales to other segments	$	21.6	-	-	(21.6)	$	-
Operating income (loss)	$	52.6	0.8	(3.6)	-	$	49.8
Amortization	$	14.1	0.9	-	-	$	15.0
Capital expenditures[1]	$	29.3	1.2	-	-	$	30.5
6 months ended June 30, 2012							
Sales to external customers	**$**	**362.0**	**68.1**	**0.7**	**-**	**$**	**430.8**
Sales to other segments	**$**	**33.7**	**-**	**-**	**(33.7)**	**$**	**-**
Operating income (loss)	**$**	**20.8**	**7.5**	**(6.4)**	**-**	**$**	**21.9**
Amortization	**$**	**29.9**	**1.9**	**0.1**	**-**	**$**	**31.9**
Capital expenditures[1]	**$**	**45.1**	**0.5**	**0.4**	**-**	**$**	**46.0**
Identifiable assets	**$**	**703.9**	**63.6**	**33.9**	**-**	**$**	**801.4**
6 months ended June 30, 2011							
Sales to external customers	$	424.8	68.2	1.4	-	$	494.4
Sales to other segments	$	44.1	-	-	(44.1)	$	-
Operating income (loss)	$	104.1	2.9	(6.5)	-	$	100.5
Amortization	$	29.7	1.7	0.1	-	$	31.5
Capital expenditures[1]	$	51.7	1.7	0.6	-	$	54.0
Identifiable assets	$	715.7	65.0	42.8	-	$	823.5

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

10. Related Party Transactions

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 below. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor.

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

(millions of Canadian dollars)	3 months ended June 30,				6 months ended June 30,			
		2012		2011		**2012**		2011
Transactions								
Canfor – purchase of wood chips and other	**$**	**23.5**	$	27.2	**$**	**51.8**	$	56.2

(millions of Canadian dollars)		**As at June 30, 2012**		As at December 31, 2011
Balance Sheet				
Included in accounts payable and accrued liabilities:				
Canfor	**$**	**16.6**	$	18.2
Included in trade accounts receivable:				
Products marketed for Canfor	**$**	**6.7**	$	3.2

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

11. Acquisition of Interest in Canfor Pulp Limited Partnership

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

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

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

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

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

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

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

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

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

12. Insurance Claim Receivable

During the quarter, an unscheduled shutdown of a recovery boiler at the Northwood Pulp Mill resulted in reduced production and subsequent repairs. As at June 30, 2012, the Company has recognized a property damage insurance receivable of $5.5 million, which substantially offsets the additional maintenance costs related to this failure. This amount has been included as a reduction in Manufacturing and Product Costs in the income statement.

The Company has also recognized a business interruption insurance receivable of $8.7 million, less a deductible of $5.0 million, to recover the estimated impact of lost production during the quarter. The net insurance proceeds of $3.7 million have been included in revenue.

The total insurance receivable amount of $9.2 million is included within Other Accounts Receivable.

13. Subsequent Event

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