

October 24, 2011

## **CANFOR PULP PRODUCTS INC. ANNOUNCES THIRD QUARTER 2011 RESULTS AND QUARTERLY DIVIDEND**

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

CPPI reported net income of \$8.3 million or \$0.23 per share, representing CPPI's share of the Partnership's income less an income tax provision of \$3.7 million.

The Partnership reported sales of \$233.9 million and net income of \$23.9 million or \$0.33 per unit, for the quarter ended September 30, 2011. The Partnership generated EBITDA of \$49.6 million in the quarter. In the quarter, the Partnership generated distributable cash of \$26.4 million, or \$0.37 per unit.

The Partnership results were impacted by lower market pulp prices and a planned outage at the Northwood Pulp Mill, partially offset by improved paper segment earnings. A record daily production rate was achieved on the paper machine during the quarter.

Global softwood pulp markets weakened through the third quarter. Global softwood pulp producer inventories increased to 32 days of supply due to historical slow demand during the summer months from Europe and North America, and some destocking by China. As a result, NBSK pulp list prices decreased US\$70 per tonne for North America to US\$970 and US\$60 per tonne for Europe to US\$950. The Partnership's NBSK pulp list price for China decreased US\$90 per tonne to US\$840.

Reduced bleached softwood pulp demand has resulted in increased producer inventories and downward pressure on prices. However, extended fall maintenance downtime in Canada due to several large capital projects funded under the Green Transformation Program (GTP) should mitigate inventory growth in the short-term. A list price decrease of US\$20 per tonne was announced in October for North America and US\$50 per tonne for China.

The maintenance outage at the Northwood Pulp Mill has been extended into the fourth quarter to complete the installation of the recovery boiler and precipitator upgrade. This reduced production in the third quarter by approximately 45,000 tonnes with an additional 20,000 tonnes projected for the fourth quarter.

The Partnership has been allocated \$122.2 million under the Green Transformation Program to proceed with four projects. Two projects were completed in the first half of 2011 and the major Northwood recovery boiler and precipitator upgrade project was substantially completed in October. The final project at the Prince George Pulp and Paper Mill will be to upgrade the feedwater system and precipitator.

The forecast level of capital expenditures for 2011 has been increased to approximately \$143 million (\$67 million net of GTP funding) from the previously projected \$125 million (\$49 million net of GTP funding). The increase includes estimated cost increases resulting from delays in completing the Northwood recovery boiler project and also reflects amendments to the timing and costs of other projects in the Partnership's capital program. The increase in planned capital spending is projected to be funded from cash carried forward from lower than normal capital expenditures in 2010 and excess cash generated over distributions for the first three quarters of 2011. CPPI announced a quarterly dividend of \$0.40 per share to be paid on November 10, 2011 to shareholders of record at the close of business on November 3, 2011.

### **Additional Information**

A conference call to discuss the third quarter 2011 financial and operating results will be held on Tuesday, October 25, 2011 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 1512162. The conference call will be webcast live and will be available at [www.canforpulp.com/investors/webcasts.asp](http://www.canforpulp.com/investors/webcasts.asp).

This news release is available on the Partnership's website at [www.canforpulp.com](http://www.canforpulp.com).

### **About Canfor Pulp Products Inc.**

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

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

### **For further information contact:**

Terry Hodgins  
Chief Financial Officer and Secretary  
Ph. 604-661-5421  
[Terry.Hodgins@canforpulp.com](mailto:Terry.Hodgins@canforpulp.com)

Richard Remesch  
Corporate Controller  
Ph. 604-661-5221  
[Rick.Remesch@canforpulp.com](mailto:Rick.Remesch@canforpulp.com)

### **Forward-Looking Statements**

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

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

- *"Critical Accounting Estimates" on pages 6 and 17;*
- *"Changes in Accounting Policies" on pages 6, 7 and 17 -19;*
- *"Distributable Cash and Cash Distributions" on pages 10 and 11.*
- *"Outlook – Pulp" on page 13;*
- *"Outlook – Kraft Paper" on page 14;*
- *"Financial Requirements and Liquidity" on pages 15 and 16;*

*In this press release, references are made to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization and before other non-operating income and expenses) and distributable cash. The Partnership considers EBITDA to be an important indicator for identifying trends in the Partnership's performance and of the Partnership's ability to generate funds to meet its debt service, capital expenditure requirements and to make cash distributions to its partners. Distributable cash is a measure of cash flow used by management to determine the level*

*of cash distributions. EBITDA and distributable cash should not be considered as alternatives to net income or cash flow from operations as determined in accordance with Canadian generally accepted accounting principles. As there is no standardized method of calculating EBITDA, the Partnership's use of this term may not be directly comparable with similarly titled measures used by other companies or income funds.*

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

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

## Canfor Pulp Products Inc. and Canfor Pulp Limited Partnership Third quarter 2011

The information in this report is as at October 24, 2011.

### CANFOR PULP PRODUCTS INC.

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

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

At October 24, 2011, there were a total of 35,493,307 CPPI shares issued and outstanding, and CPPI held a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership. Canadian Forest Products Ltd. (Canfor) held 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable Limited Partnership Units are exchangeable for an equivalent number of CPPI shares pursuant to the terms of an amended exchange agreement (Exchange Agreement) dated January 1, 2011 between Canfor, CPPI, the Partnership and the General Partner. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for CPPI shares.

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

### SELECTED QUARTERLY FINANCIAL INFORMATION

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

(thousands of dollars, except per unit amounts, unaudited)	CPPI Q3 2011	Q2 2011	Q1 2011	The Fund Q4 2010 <sup>2</sup>	Q3 2010 <sup>2</sup>	Q2 2010 <sup>2</sup>	Q1 2010 <sup>2</sup>	Q4 2009 <sup>3</sup>
Equity income in Canfor Pulp Limited Partnership	11,928	24,023	25,227	23,639	27,374	21,681	16,473	7,562
Net income (loss)	8,299	17,754	40,625	(11,335)	3,239	(71,803)	(118,842)	6,903
Net income (loss) per share	\$0.23	\$0.50	\$1.14	(\$0.32)	\$0.09	(\$2.02)	(\$3.34)	\$0.20
Distributions earned from the Partnership	10,648	24,490	27,685	37,268	24,491	18,457	11,357	4,969
Dividends/distributions declared per share/unit	\$0.40	\$0.40	-	\$1.05	\$0.69	\$0.52	\$0.32	\$0.14
Partnership distributable cash per unit <sup>1</sup>	\$0.37	\$0.75	\$0.77	\$0.68	\$0.78	\$0.88	\$0.57	\$0.31

Notes: <sup>1</sup> Represents the Partnership's distributable cash on which CPPI is dependent to pay its own dividends. For further details on the Partnership's distributable cash see the disclosure on page 10.

<sup>2</sup> Fund results for 2010 presented under IFRS. See CPPI's disclosure on pages 6 and 7.

<sup>3</sup> Presented under previous Canadian GAAP. See CPPI's disclosure on pages 6 and 7.

## **OPERATING RESULTS AND LIQUIDITY**

For the quarter ended September 30, 2011, CPPI had net income of \$8.3 million or \$0.23 per share. The net income was CPPI's share of the Partnership's net income for the quarter and also includes an income tax expense of \$3.7 million. CPPI's equity income in the Partnership decreased by \$12.1 million when compared to the prior quarter. CPPI's share of operating earnings of the Partnership decreased \$6.7 million as a result of lower NBSK pulp US dollar list prices and the impact of lower production volumes, partially offset by the impact of a weaker Canadian dollar. CPPI's share of non-operating items of the Partnership was a net loss of \$5.9 million and was primarily the result of a foreign exchange loss on translation of US dollar denominated long-term debt, a net loss on derivative financial instruments and interest expense, partially offset by a foreign exchange gain on working capital.

At September 30, 2011 CPPI had cash and cash equivalents of \$30.0 million of which \$14.2 million was committed to pay the quarterly dividend and \$13.4 million accumulated for income taxes due in February, 2012. Distributions declared by the Partnership and accruing to CPPI were \$10.6 million of which \$3.5 million was receivable at September 30, 2011. Cash distributions received from the Partnership are the primary source of liquidity for CPPI. For further information refer to the Partnership's discussion of operating results and liquidity on pages 9 through 16 of this press release.

## **CPPI DIVIDENDS**

CPPI is entirely dependent on distributions from the Partnership to make dividend payments to its shareholders. Distributions payable by the Partnership to CPPI and dividends payable by CPPI to its shareholders are recorded when declared. During the third quarter of 2011, CPPI declared and paid a dividend of \$0.40 per share or \$14.2 million. On October 24, 2011, a dividend of \$0.40 per share was declared, payable on November 10, 2011 to shareholders of record on November 3, 2011.

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

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

## **RISKS AND UNCERTAINTIES**

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

## **CPPI SHARES**

At October 24, 2011, there were a total of 35,493,307 CPPI shares outstanding.

## **RELATED PARTY TRANSACTIONS**

All accounting, treasury, legal and administrative functions for CPPI are performed on its behalf by the Partnership pursuant to a support agreement. The value of these services for the nine months ended September 30, 2011 was \$1.1 million and included a onetime charge of \$0.8 million for costs related to conversion to a corporation on January 1, 2011. These services were included as administrative expenses of CPPI with the balance outstanding of \$0.1 million recorded in accounts payable to the Partnership at September 30, 2011.

Distributions earned from the Partnership for the three months ended September 30, 2011 were \$10.6 million of which \$7.1 million was received, with the balance of \$3.5 million receivable as at September 30, 2011.

## **CRITICAL ACCOUNTING ESTIMATES**

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

## **CHANGE IN ACCOUNTING POLICIES**

### **Transition to and Initial Adoption of International Financial Reporting Standards**

IFRS became Canadian GAAP for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The financial statements for the three and nine months ended September 30, 2011, have been prepared in accordance with IAS 34 and International Financial Reporting Standard 1 (IFRS 1), using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). CPPI relies on the resources of the Partnership to ensure compliance with IFRS. Accordingly, CPPI commenced reporting on this basis in its 2011 interim consolidated financial statements. The accounting policies followed in these financial statements are the same as those applied in the interim financial statements for the periods ended March 31, 2011 and June 30, 2011.

The accounting policies have been applied consistently to all periods presented in the financial statements. The policies applied in these financial statements are based on IFRS issued and effective as of October 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in CPPI's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

### **Impact of Adopting IFRS on the Company's Accounting Policies**

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

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

#### **(a) Fund Units**

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

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

Impact on Condensed Balance Sheets of the Fund:

(thousands of dollars, except for per unit amounts, unaudited)	As at December 31, 2010	As at September 30, 2010
Increase in fund unit liability	509,687	511,459
Reduction in equity	509,687	511,459
Unit market price for valuation	14.36	14.41

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

(thousands of dollars, unaudited)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Increase in value of Fund units (revaluation loss)	710	200,892
Reclassification to financing expense (distributions declared)	24,491	54,305
Reduction in comprehensive income	25,201	255,197

(b) Deferred income tax rate

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

Impact on Condensed Balance Sheets of the Fund:

(thousands of dollars, unaudited)	As at December 31, 2010	As at September 30, 2010
Increase in deferred tax liability	17,415	17,869
Reduction in equity	17,415	17,869

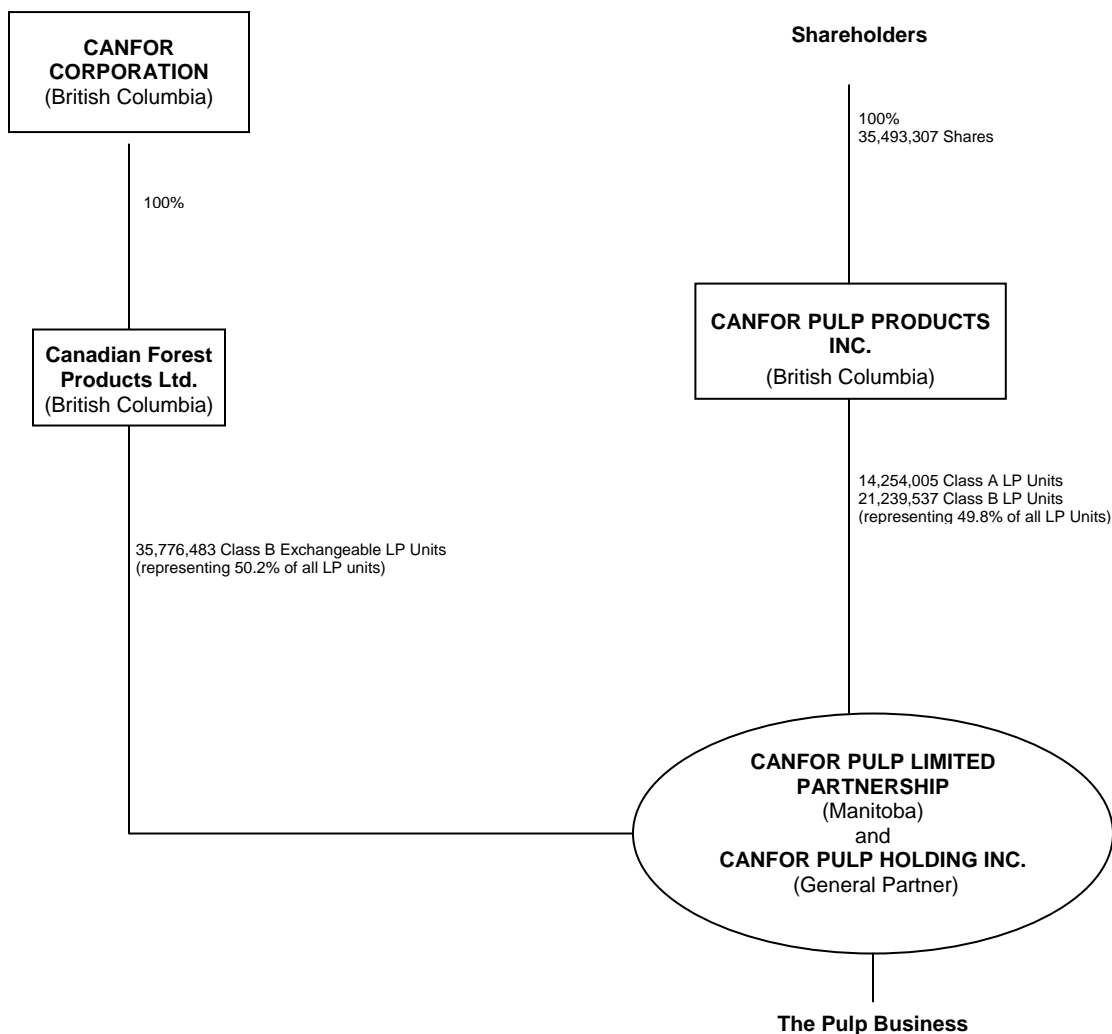
## CANFOR PULP LIMITED PARTNERSHIP

### Structure

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

At October 24, 2011, CPPI held a total of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units, representing 49.8% of the Partnership and Canfor owns the remaining 50.2%. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the General Partner.

### Ownership Structure



## The Partnership's Business and Strategic Objectives

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

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

## OVERVIEW OF PARTNERSHIP FINANCIAL RESULTS

### Highlights

*Three months ended September 30, 2011, The Partnership:*

- Reported net income of \$23.9 million or \$0.33 per Partnership unit on sales of \$233.9 million.
- Generated EBITDA of \$49.6 million.
- Generated distributable cash of \$26.4 million or \$0.37 per partnership unit and declared distributions of \$21.4 million or \$0.30 per Partnership unit.
- Achieved average daily production record on the paper machine.
- Commenced extended maintenance outage at Northwood Pulp Mill to complete the Recovery Boiler Upgrade Project partially funded under the Green Transformation Program.

*Nine months ended September 30, 2011, The Partnership:*

- Reported net income of \$122.8 million or \$1.72 per Partnership unit on sales of \$728.3 million.
- Generated EBITDA of \$180.4 million.
- Generated distributable cash of \$134.6 million or \$1.89 per partnership unit and declared distributions of \$126.2 million or \$1.77 per Partnership unit.
- Green Transformation Program qualifying spending on four approved projects totaling \$84 million.

### Financial results

(millions of dollars, except for per unit amounts, unaudited)	<b>Q3 2011</b>	Q2 2011	<b>YTD 2011</b>	Q3 2010	YTD 2010
Sales	<b>233.9</b>	242.1	<b>728.3</b>	247.9	735.0
EBITDA	<b>49.6</b>	64.1	<b>180.4</b>	68.7	187.4
Operating income	<b>35.7</b>	49.1	<b>134.7</b>	52.5	137.6
Net income	<b>23.9</b>	48.2	<b>122.8</b>	55.0	131.6
Per Partnership unit, basic and diluted					
Net income	<b>\$0.33</b>	\$0.68	<b>\$1.72</b>	\$0.77	\$1.84
EBITDA	<b>\$0.69</b>	\$0.90	<b>\$2.53</b>	\$0.96	\$2.62
Average exchange rate (US\$/Cdn\$) <sup>1</sup>	<b>1.020</b>	1.033	<b>1.023</b>	0.962	0.966

Note: <sup>1</sup> Source – Bank of Canada (average noon rate for the period).

## Reconciliation of Net Income to EBITDA

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<b>Net income</b>	\$ 23.9	\$ 55.0	\$ 122.8	\$ 131.6
Add (deduct):				
Amortization	13.9	16.5	45.4	50.0
Net interest expense	1.9	2.0	5.9	5.9
Foreign exchange loss (gain) on long-term debt	8.2	(3.4)	4.9	(1.8)
Loss (gain) on derivative financial instruments	5.7	(2.6)	3.1	0.8
Foreign exchange loss (gain) on working capital	(4.1)	1.5	(2.3)	1.2
Other expense (income)	0.1	(0.3)	0.6	(0.3)
<b>EBITDA</b>	\$ 49.6	\$ 68.7	\$ 180.4	\$ 187.4
<b>EBITDA per Partnership unit</b>	\$ 0.69	\$ 0.96	\$ 2.53	\$ 2.62

### Three months ended September 30, 2011 compared to June 30, 2011:

The Partnership generated EBITDA of \$49.6 million on sales of \$233.9 million in the third quarter of 2011 compared to EBITDA of \$64.1 million on sales of \$242.1 million in the second quarter of 2011. The decline is primarily attributable to a decrease in results from the pulp segment due to lower NBSK pulp US dollar list prices and lower production volumes, partially offset by improved results from the paper segment and a weaker Canadian dollar.

### Three months ended September 30, 2011 compared to September 30, 2010:

The \$19.1 million decrease in EBITDA was primarily attributable to lower earnings from the pulp segment, partially offset by improved paper segment earnings and lower corporate costs. Pulp segment earnings were impacted by higher unit manufacturing costs related to the extended maintenance outage at the Northwood Pulp Mill, the stronger Canadian dollar and lower shipment volumes.

### Nine months ended September 30, 2011 compared to September 30, 2010:

The Partnership generated EBITDA of \$180.4 million on sales of \$728.3 million compared to EBITDA of \$187.4 million on sales of \$735.0 million. The reduction is the result of lower earnings from the pulp segment due to lower production and shipment volumes and higher unit manufacturing costs, partially offset by higher realized pulp prices in Canadian dollar terms and higher energy sales. The reduction in pulp segment earnings was partially offset by improved results from the paper segment and lower corporate costs.

## DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<b>CALCULATION OF DISTRIBUTABLE CASH</b>				
<b>Cash flow from operations before working capital changes</b>	\$ 51.1	\$ 66.3	\$ 179.2	\$ 188.2
Add (deduct):				
Capital expenditures – net <sup>1</sup>	(19.3)	(4.4)	(27.2)	(9.0)
Major maintenance amortization	(3.5)	(4.6)	(11.5)	(14.5)
Interest	(1.9)	(2.0)	(5.9)	(5.9)
<b>Distributable cash</b>	\$ 26.4	\$ 55.3	\$ 134.6	\$ 158.8
Distributable cash – per Partnership unit	\$ 0.37	\$ 0.78	\$ 1.89	\$ 2.23
<b>Cash distributions declared (paid and payable)</b>	\$ 21.4	\$ 49.2	\$ 126.2	\$ 109.1
Cash distributions declared – per Partnership unit	\$ 0.30	\$ 0.69	\$ 1.77	\$ 1.53

Note: <sup>1</sup> Presented net of government funding and excludes major maintenance capital.

The Board of the General Partner determines the level of cash distributions based on the level of cash flow from operations before changes in non-cash working capital, asset retirement obligation expenditures and accruals, less regular capital expenditures, major maintenance amortization and interest expense. During the year distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is projected that normal seasonal fluctuations in working capital will be funded from cash resources or the revolving short-term credit facility.

## OPERATING RESULTS BY BUSINESS SEGMENT

### Pulp

(millions of dollars unless otherwise noted, unaudited)	Q3 2011	Q2 2011	YTD 2011	Q3 2010	YTD 2010
Sales	199.0	207.5	623.8	212.9	632.5
EBITDA	48.9	66.1	181.6	72.9	199.1
EBITDA margin	25%	32%	29%	34%	31%
Operating income	36.0	52.0	138.8	57.6	152.0
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)	993	1,025	996	1,000	958
Average NBSK pulp list price – (Cdn\$ per tonne, delivered to USA)	974	992	974	1,040	992
Production – pulp (000 mt)	220.8	265.7	751.0	253.0	770.6
Shipments – Partnership-produced pulp (000 mt)	240.2	242.0	747.5	246.0	766.7
Marketed on behalf of HSLP <sup>1</sup> & Canfor (000 mt)	51.0	61.7	165.8	116.1	399.0

Note: <sup>1</sup> HSLP (Howe Sound Pulp Limited Partnership) sales agency agreement was terminated effective October 1, 2010.

#### Three months ended September 30, 2011 compared to June 30, 2011:

Pulp segment operating income of \$36.0 million decreased \$16.0 million due primarily to lower NBSK US list price, and the impact of the extended maintenance outage at the Northwood Pulp Mill, partially offset by higher energy sales.

- o Realized pulp prices in Canadian dollar terms decreased 4% due primarily to lower North American NBSK US list prices which averaged US\$993 per tonne compared to US\$1,025 per tonne in the prior period.
- o The Canadian dollar weakened 1% averaging \$1.020 US/Cdn, (Q2 2011 – 1.033).
- o Market pulp production decreased 44,900 tonnes, primarily due to the extended maintenance outage at the Northwood Pulp Mill.
- o Unit manufacturing costs increased 6% when compared to the prior quarter due primarily to the extended outage at the Northwood Pulp Mill and related maintenance costs and higher fibre costs. Fibre costs were 3% higher primarily due to increased deliveries of higher cost whole log chips.
- o Energy sales under the Partnership's Energy Purchase Agreement (EPA) with BC Hydro increased \$0.5 million.

#### Three months ended September 30, 2011 compared to September 30, 2010:

When compared to the third quarter of 2010 operating income decreased by \$21.6 million, due to lower realized prices in Canadian dollar terms, lower shipments and higher unit manufacturing costs, partially offset by higher energy sales.

- o The decrease in realized prices in Canadian dollar terms of 4% was primarily due to a 6% stronger Canadian dollar partially offset by improved sales mix and a reduction in non-contract business.
- o The Canadian dollar strengthened 6% averaging \$1.020 US/Cdn, (Q3 2010 – 0.962).
- o Pulp shipment volumes decreased 5,800 tonnes or 2% when compared to the prior year quarter.

- o Market pulp production decreased 32,200 tonnes, due primarily to the extended maintenance outage at the Northwood Pulp Mill.
- o Unit manufacturing costs increased 7% as a result of the extended outage at the Northwood Pulp Mill and related maintenance costs and higher chemical prices, partially offset by lower fibre costs. Fibre costs decreased 3% due to lower prices for sawmill residual chips, which are tied in part to the price of pulp and reductions in the cost of whole log chips.
- o Energy sales under the Partnership's EPA with BC Hydro increased \$0.3 million.

*Nine months ended September 30, 2011 compared to September 30, 2010:*

Operating income of \$138.8 million decreased \$13.2 million when compared to the same period in 2010. The lower results were attributable to higher unit manufacturing costs and lower shipment volumes, partially offset by higher realized prices in Canadian dollar terms and increased energy sales.

- o Higher unit manufacturing costs were attributable to the impact of the extended outage at the Northwood Pulp Mill and related maintenance costs and higher chemical prices.
- o Shipment volumes decreased 19,200 tonnes or 3% when compared to 2010.
- o Realized pulp prices in Canadian dollar terms increased 1% as a 4% increase in NBSK pulp US dollar list price and an increase of sales into higher margin regions was partially offset by a strengthening of the Canadian dollar. NBSK US dollar list prices averaged US\$996 per tonne.
- o The Canadian dollar strengthened 6% averaging \$1.023 US/Cdn (2010 – 0.966).
- o Market pulp production decreased 19,600 tonnes, primarily due to the impact of the extended maintenance outage at the Northwood Pulp Mill.
- o Energy sales under the Partnership's EPA with BC Hydro increased \$1.4 million.

*Operations*

NBSK market pulp production during the third quarter declined 44,900 tonnes when compared to the second quarter of 2011, and declined 32,200 tonnes when compared to the third quarter of 2010. The maintenance outage at the Northwood Pulp Mill was extended to complete work and commissioning of the recovery boiler upgrade project funded under the Green Transformation Program (the Program), representing approximately 45,000 tonnes of reduced production.

For the nine month period ended September 30, 2011 production of 751,000 tonnes was 19,600 tonnes lower than the same period in 2010. The decrease is due to reduced production attributable to the extended maintenance outage at the Northwood Pulp Mill.

*Markets – Pulp*

Global softwood pulp markets weakened during the third quarter of 2011 due to seasonally slow demand during the summer months from Europe and North America, and some destocking by China. According to the latest published World 20<sup>1</sup> report, global bleached softwood pulp shipments for September were 4% higher when compared to the same period in 2010 and for the first nine months of 2011 were 6% higher than the same period in 2010. Pulp and Paper Products Council (PPPC) statistics reported a decrease in global demand for printing and writing papers of 1% for the first eight months of 2011 as compared to the same period in 2010.

Reduced bleached softwood pulp demand has resulted in increased producer inventories and downward pressure on prices. At the end of September 2011, World 20<sup>1</sup> producers bleached softwood pulp inventories were at 32 days of supply, an increase of 4 days from June 2011. A range of 27-30 days is generally considered a balanced market.

During the quarter, downward pressure on NBSK pulp list prices due to rising producer inventories resulted in a price of US\$970 per tonne for North America in September compared to US\$1,040 in June 2011. NBSK pulp list prices

decreased US\$60 per tonne for Europe to US\$950 and US\$90 per tonne for China to US\$840 during the third quarter of 2011.

Note: <sup>1</sup> 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*

Global softwood pulp producer inventories have risen through the third quarter of 2011. However, extended fall maintenance downtime in Canada due to several large capital projects funded under the Program should mitigate inventory growth in the short-term. The Partnership announced an NBSK pulp list price decrease in October of US\$50 per tonne to US\$790 per tonne for China. An NBSK pulp list price decrease was announced in October of US\$20 per tonne for North America.

The start-up of one line at the Northwood Pulp Mill to complete work and commissioning of the recovery boiler upgrade project primarily funded under the Program has been delayed resulting in approximately 20,000 tonnes of reduced production in the fourth quarter of 2011. There are no additional maintenance outages planned for the fourth quarter of 2011.

The forecast level of capital expenditures for 2011 has been increased to approximately \$143 million (\$67 million net of GTP funding) from the previously projected \$125 million (\$49 million net of GTP funding). The increase includes estimated cost increases resulting from delays in completing the Northwood recovery boiler project and also reflects amendments to the timing and costs of other projects in the Partnership's capital program.

#### **Paper**

<i>(millions of dollars unless otherwise noted, unaudited)</i>	<b>Q3 2011</b>	Q2 2011	<b>YTD 2011</b>	Q3 2010	YTD 2010
Sales	<b>34.9</b>	34.2	<b>103.1</b>	34.7	101.7
EBITDA	<b>4.1</b>	1.6	<b>8.6</b>	1.1	1.8
EBITDA margin	<b>12%</b>	5%	<b>8%</b>	3%	2%
Operating income (loss)	<b>3.2</b>	0.7	<b>5.9</b>	0.3	(0.7)
Production – paper (000 mt)	<b>36.7</b>	31.8	<b>103.0</b>	34.7	102.0
Shipments – paper (000 mt)	<b>32.1</b>	32.7	<b>97.4</b>	33.6	105.7

#### *Three months ended September 30, 2011 compared to June 30, 2011:*

Operating income of the paper segment improved by \$2.5 million as a result of a 4% increase in realized paper prices in Canadian dollar terms and lower unit manufacturing costs. The decrease in unit manufacturing costs was attributable to lower prices for slush pulp, lower spending on maintenance and the impact of higher production on unit costs. The slush pulp is transferred to the paper segment at a market price with the decrease directly attributable to the decrease in the realized pulp price in Canadian dollar terms.

#### *Three months ended September 30, 2011 compared to September 30, 2010:*

The \$2.9 million increase in operating earnings was due to a 5% increase in realized paper prices in Canadian dollar terms and lower unit manufacturing costs. The increase in paper prices was due to demand throughout 2010 and 2011. Lower unit manufacturing costs were primarily attributable to lower costs for slush pulp, and the impact of higher production volumes. Sales volumes decreased by 1,500 tonnes when compared to the third quarter of 2010.

#### *Nine months ended September 30, 2011 compared to September 30, 2010:*

Operating results of the paper segment improved by \$6.6 million when compared to the same period in 2010. The increase in operating earnings is attributable to a 10% increase in realized paper prices in Canadian dollar terms, partially offset by higher unit manufacturing costs and lower shipment volumes. Paper unit manufacturing costs increased 3% as a result of higher costs for slush pulp. Shipment volumes decreased 8,300 tonnes when compared to the same period in 2010.

## Operations

Paper production for the third quarter of 2011 was 36,700 tonnes, 4,900 tonnes higher than the second quarter of 2011 and 2,000 tonnes higher than the third quarter of 2010. The paper machine set a production record for average tonnes per day during the quarter. The increase in production when compared to the previous and prior year quarters was attributable to the record operating rates in the current period and the maintenance shut in the second quarter of 2011.

For the nine month period ended September 30, 2011 production of 103,000 tonnes was 1,000 tonnes higher than the same period in 2010.

## Markets – Kraft Paper

Global kraft paper demand slowed during the third quarter of 2011. American Forest and Paper Association reported that US total Kraft paper shipments for September 2011 decreased 13% compared to September 2010. Total Bleached Kraft shipments were essentially unchanged compared to September 2010, however, year to date shipments increased compared to the same nine months in 2010. The Paper Shipping Sack Manufacturers' Association shipping sack statistics for September reveal that industry paper consumption was down 8% from September 2010 and 3% from the previous month.

The Partnership's prime paper shipments in the third quarter of 2011 were unchanged from the second quarter of 2011 and down 5% from the third quarter in 2010. Prime bleached shipments were unchanged from the prior quarter and increased by 4% when compared to the same period in 2010.

## Outlook – Kraft Paper

Kraft paper demand has weakened heading into the fourth quarter. Order files for kraft paper are light with continued downward pressure on pricing projected for the fourth quarter. The Partnership's prices in US dollar terms are sensitive to the relative strength of the Canadian dollar in relation to other currencies, primarily the US dollar.

## Non-Segmented Costs

(millions of dollars, unaudited)	Q3 2011	Q2 2011	YTD 2011	Q3 2010	YTD 2010
Unallocated costs	3.5	3.6	10.0	5.4	13.7
Interest expense, net	1.9	1.9	5.9	2.0	5.9
Foreign exchange loss (gain) on long-term debt	8.2	(0.8)	4.9	(3.4)	(1.8)
Foreign exchange loss (gain) on working capital	(4.1)	0.7	(2.3)	1.5	1.2
Loss (gain) on derivative financial instruments	5.7	(1.0)	3.1	(2.6)	0.8
Other expense (income)	0.1	0.1	0.3	-	(0.1)
	15.3	4.5	21.9	2.9	19.7

## Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totaled \$3.5 million in the third quarter of 2011 compared to \$3.6 million in the second quarter of 2011 and \$5.4 million in the prior year. For the nine month period ended September 30, 2011 unallocated costs totaled \$10.0 million compared to \$13.7 million for the same period in 2010. When compared to the prior year, the decrease in unallocated costs is primarily attributable to lower accruals for performance based incentive plans and lower industry association costs.

## Interest Expense

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

### Other Non-segmented Items

The foreign exchange loss on long-term debt of \$8.2 million resulted from translating the US\$110 million debt at period-end exchange rates, reflecting the weaker Canadian dollar as of September 30, 2011.

The foreign exchange gain on working capital of \$4.1 million resulted from translating US dollar balances at period-end exchange rates.

The net loss of \$5.7 million on derivative financial instruments recorded in the third quarter of 2011 results from the settlement of maturing contracts during the quarter and the revaluation to market of outstanding contracts at the end of the quarter for US dollar forward contracts, and gains offsetting losses on natural gas swaps. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements, while the US dollar forward contracts are used to hedge the impact of currency fluctuations on US dollar working capital.

### SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	September 30, 2011		December 31, 2010	
Ratio of current assets to current liabilities	1.76		1.90	
Ratio of net debt to partners' equity <sup>1</sup>	0.17		0.09	
	Q3 2011	YTD 2011	Q3 2010	YTD 2010
Increase (decrease) in cash and cash equivalents	5.5	(32.2)	(12.8)	14.0
Comprised of cash flow from (used in):				
Operating activities	51.3	164.9	46.6	148.6
Financing activities	(31.0)	(162.2)	(45.8)	(101.0)
Investing activities	(14.8)	(34.9)	(13.6)	(33.6)

Note: <sup>1</sup> Net debt consists of long-term debt, net of cash and cash equivalents.

### Changes in Financial Position

Cash generated from operating activities was \$51.3 million in the third quarter of 2011 compared to \$46.6 million in the third quarter of 2010. The increase is the result of a decrease in cash used for working capital, partially offset by lower operating earnings. The decrease of cash used for working capital during the third quarter of 2011 was primarily the result of an increase in accounts payable balances related to the timing of payments in respect of agency agreements, chip suppliers and haulers and trade payables, a reduction in trade accounts receivable balances and a reduction in pulp finished goods inventories, partially offset by an increase in the volume of chip inventories. The reduction in cash generated from operations was primarily attributable to lower NBSK pulp US dollar list prices and the impact of lower production volumes, partially offset by the impacts of a weaker Canadian dollar.

The cash used in financing activities of \$31.0 million in the quarter represents \$30.6 million in distributions paid to the limited partners, namely Canfor and CPPI and \$0.4 million in financing expense.

The cash used in investing activities in the quarter is comprised of \$11.2 million in capital expenditures and \$24.1 million relating to expenditures under the Green Transformation Program (the Program), partially offset by \$19.2 million of funds received for claims under the Program, \$0.8 million in funds received under other grant programs and \$0.5 million in interest income.

### FINANCIAL REQUIREMENTS AND LIQUIDITY

At September 30, 2011 the Partnership had outstanding long-term debt of \$114.3 million (December 31, 2010 – \$109.4 million, US\$110.0 million for both 2011 and 2010) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

At September 30, 2011, the Partnership had cash and cash equivalents of \$32.0 million, of which \$7.1 million was committed to pay declared distributions on October 14, 2011. The Partnership has a \$40.0 million bank credit facility with a maturity date of November 30, 2013, of which \$0.5 million was utilized at September 30, 2011 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2013, to cover the \$13.2 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. The Partnership also has an undrawn \$30.0 million bridge loan credit facility with a maturity date of December 31, 2012 to fund timing differences between expenditures and reimbursements for projects funded under the Green Transformation Program. Interest and other costs of the credit facilities are at prevailing market rates.

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

The Partnership 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.

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at September 30, 2011.

The Partnership has been allocated \$122.2 million under the Canadian Federal Government Pulp and Paper Green Transformation Program (the Program). The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the Program end date of March 31, 2012. As of September 30, 2011 the Partnership has incurred \$122.1 million of qualifying expenditures under the program and received reimbursements totaling \$70.6 million with the balance of \$51.5 million receivable as at September 30, 2011. The Partnership has accounts payable in respect of reimbursable amounts under the Program totaling \$26.3 million as at September 30, 2011. The Partnership expects claims submitted representing the full Program allocation of \$122.2 million to be reached during the fourth quarter of 2011. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

The forecast level of capital expenditures for 2011 has been increased to approximately \$143 million (\$67 million net of GTP funding) from the previously projected \$125 million (\$49 million net of GTP funding). The increase includes estimated cost increases resulting from delays in completing the Northwood recovery boiler project and also reflects amendments to the timing and costs of other projects in the Partnership's capital program. The increase in planned capital spending is projected to be funded from cash carried forward from lower than normal capital expenditures in 2010 and excess cash generated over distributions for the first three quarters of 2011.

## **OUTSTANDING UNITS**

At October 24, 2011, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) were owned by CPPI and 35,776,483 Class B Exchangeable Limited Partnership Units were owned by Canfor.

## **RELATED PARTY TRANSACTIONS**

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

## SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 <sup>2</sup> 2009
<b>Sales and Income</b>								
Sales	233.9	242.1	252.3	266.1	247.9	247.6	239.5	220.2
Operating income	35.7	49.1	49.9	46.1	52.5	52.1	33.0	14.4
EBITDA	49.6	64.1	66.7	62.3	68.7	69.4	49.3	27.3
Net income	23.9	48.2	50.7	47.4	55.0	43.6	33.0	15.2
<b>Per Partnership unit (dollars)</b>								
Net income basic and diluted	\$0.33	\$0.68	\$0.71	\$0.67	\$0.77	\$0.61	\$0.46	\$0.21
<b>Statistics</b>								
Pulp shipments (000 mt)	240.2	242.0	265.3	272.3	246.0	252.3	268.4	258.6
Paper shipments (000 mt)	32.1	32.7	32.6	39.0	33.6	34.4	37.7	38.1
Average exchange rate (US\$/Cdn\$) <sup>1</sup>	1.020	1.033	1.014	0.987	0.962	0.973	0.961	0.947
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)	993	1,025	970	967	1,000	993	880	820
<b>Per Partnership unit (dollars)</b>								
Distributable cash per unit <sup>3</sup>	\$0.37	\$0.75	\$0.77	\$0.68	\$0.78	\$0.88	\$0.57	\$0.31
Distributions declared per unit	\$0.30	\$0.69	\$0.78	\$1.05	\$0.69	\$0.52	\$0.32	\$0.14

Notes: <sup>1</sup> Source – Bank of Canada (average noon rate for the period).

<sup>2</sup> Presented under previous Canadian GAAP. See the Partnership's disclosure on pages 17 – 19.

<sup>3</sup> For further details on the Partnership's distributable cash see the Partnership's disclosure on page 10.

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 September 30, 2011, there were no changes in the Partnership's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

### RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in CPPI's Annual Information Form dated February 11, 2011, which is available on [www.sedar.com](http://www.sedar.com) and [www.canforpulp.com](http://www.canforpulp.com).

### CRITICAL ACCOUNTING ESTIMATES

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

### CHANGE IN ACCOUNTING POLICIES

#### Transition to and Initial Adoption of IFRS

IFRS became Canadian GAAP for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The financial statements for the three and nine months ended September 30, 2011, have been prepared in accordance with IAS 34, and IFRS 1, using accounting policies consistent with IFRS as issued by the

IASB and IFRIC. Accordingly, the Partnership commenced reporting on this basis in its 2011 interim consolidated financial statements. The accounting policies followed in these financial statements are the same as those applied in the interim financial statements for the periods ended March 31, 2011 and June 30, 2011.

The accounting policies have been applied consistently to all periods presented in the financial statements. The policies applied in these financial statements are based on IFRS issued and effective as of October 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Partnership's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

### Impact of Adopting IFRS on the Partnership's Accounting Policies

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

#### (a) Major Maintenance

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

#### Impact on Condensed Consolidated Balance Sheets

(millions of dollars, unaudited)	As at December 31, 2010	As at September 30, 2010
Increase in property, plant and equipment	13.9	17.5
Reduction in prepaid expenses and other assets	10.8	14.0
Reduction in other long-term assets	3.1	3.5

#### Impact on Condensed Consolidated Statements of Comprehensive Income

(millions of dollars, unaudited)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Increase in amortization expense	4.6	14.5
Reduction in manufacturing and product costs	4.6	14.5

#### Impact on Condensed Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Increase in net cash from operations	0.8	14.3
Reduction in cash from investing activities	0.8	14.3
Net change in cash and cash equivalents	-	-

#### (b) Employee Future Benefits

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

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

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

#### Impact on Condensed Consolidated Balance Sheets

(millions of dollars, unaudited)	As at December 31, 2010	As at September 30, 2010
Increase in post employment benefits obligation	26.8	35.6
Reduction in other long-term assets	14.0	10.4
Reduction in Partners' equity	40.8	46.0

#### Impact on Condensed Consolidated Statements of Comprehensive Income

(millions of dollars, unaudited)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Decrease in employee benefits expense	0.5	1.5
Reduction in other comprehensive income	2.0	19.3

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

(thousands of dollars)	As at September 30, 2011	As at December 31, 2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 29,993	\$ -
Distributions receivable from Canfor Pulp Limited Partnership (note 7)	3,549	19,521
<b>Total current assets</b>	<b>33,542</b>	<b>19,521</b>
<b>Equity investment in Canfor Pulp Limited Partnership (note 6)</b>	<b>232,407</b>	<b>240,425</b>
	<b>\$ 265,949</b>	<b>\$ 259,946</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Due to Canfor Pulp Limited Partnership (note 7)	\$ 60	\$ -
Accrued liabilities	2	-
Distributions payable	-	19,521
Income taxes payable	13,424	-
<b>Total current liabilities</b>	<b>13,486</b>	<b>19,521</b>
<b>Fund units (note 5)</b>	<b>-</b>	<b>509,687</b>
<b>Deferred income tax liability (note 8)</b>	<b>31,391</b>	<b>52,854</b>
	<b>\$ 44,877</b>	<b>\$ 582,062</b>
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Unitholders' deficit (note 5)	\$ -	\$ (322,116)
Shareholders' capital (note 5)	509,687	-
Retained earnings (deficit)	(288,615)	-
<b>Total Shareholders' equity (deficit)</b>	<b>221,072</b>	<b>(322,116)</b>
	<b>\$ 265,949</b>	<b>\$ 259,946</b>

Subsequent event (note 10)

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

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<i>(thousands of dollars, except unit and per unit amounts)</i>				
<b>Income</b>				
Equity income in Canfor Pulp Limited Partnership	\$ 11,928	\$ 27,374	\$ 61,178	\$ 65,527
Interest Income	87	-	164	-
<b>Total income</b>	<b>12,015</b>	<b>27,374</b>	<b>61,342</b>	<b>65,527</b>
<b>Cost and expenses</b>				
Administrative expenses (note 7)	60	-	1,111	-
Increase in amortized cost of Fund units (note 5)	-	710	-	200,892
Financing expense - distributions declared	-	24,491	-	54,305
	<b>60</b>	<b>25,201</b>	<b>1,111</b>	<b>255,197</b>
Net income (loss) before income taxes	11,955	2,173	60,231	(189,670)
Income tax expense (recovery) (note 8)	3,656	(1,065)	(6,447)	(2,263)
Net income (loss)	\$ 8,299	\$ 3,238	\$ 66,678	\$ (187,407)
Equity interest in other comprehensive loss of Canfor Pulp Limited Partnership	(5,736)	(996)	(6,373)	(9,592)
Income tax recovery of other comprehensive loss of Canfor Pulp Limited Partnership	1,449	-	1,589	-
<b>Comprehensive income (loss)</b>	<b>\$ 4,012</b>	<b>\$ 2,242</b>	<b>\$ 61,894</b>	<b>\$ (196,999)</b>
<b>Net income (loss) per share/unit, basic and diluted</b>	<b>\$ 0.23</b>	<b>\$ 0.09</b>	<b>\$ 1.88</b>	<b>\$ (5.28)</b>
<b>Weighted average number of shares/units (note 4)</b>	<b>35,493,307</b>	<b>35,493,307</b>	<b>35,493,307</b>	<b>35,493,307</b>

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

(thousands of dollars)	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<b>Share capital (unitholders' capital)</b>				
Balance beginning of period	\$ 509,687	\$ -	\$ -	\$ -
Corporate conversion	-	-	509,687	-
<b>Balance at end of period</b>	<b>\$ 509,687</b>	<b>\$ -</b>	<b>\$ 509,687</b>	<b>\$ -</b>
<b>Retained earnings (deficit)</b>				
Balance beginning of period	\$ (278,430)	\$ (315,853)	\$ (322,116)	\$ (116,612)
Net income (loss) for the period	8,299	3,238	66,678	(187,407)
Equity interest in other comprehensive loss of Canfor Pulp Limited Partnership	(5,736)	(996)	(6,373)	(9,592)
Income tax recovery of other comprehensive loss of Canfor Pulp Limited Partnership	1,449	-	1,589	-
Dividends paid during the period	(14,197)	-	(28,393)	-
<b>Balance at end of period</b>	<b>\$ (288,615)</b>	<b>\$ (313,611)</b>	<b>\$ (288,615)</b>	<b>\$ (313,611)</b>
<b>Total equity (deficit)</b>	<b>\$ 221,072</b>	<b>\$ (313,611)</b>	<b>\$ 221,072</b>	<b>\$ (313,611)</b>

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

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

(thousands of dollars)	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<b>Cash generated from (used in)</b>				
<b>Operating activities</b>				
Net income (loss) before tax	\$ 11,955	\$ 2,173	\$ 60,231	\$ (189,670)
Items not affecting cash:				
Equity income in Canfor Pulp Limited Partnership	(11,928)	(27,374)	(61,178)	(65,527)
Increase in amortized cost of Fund units	-	710	-	200,892
Financing expense (distributions declared)	-	24,491	-	54,305
Distributions received from Canfor Pulp Limited Partnership	15,260	22,716	78,792	48,271
Cash flow from operations before working capital changes	15,287	22,716	77,845	48,271
Due to Canfor Pulp Limited Partnership	(989)	-	62	-
<b>Net cash from operations</b>	<b>14,298</b>	<b>22,716</b>	<b>77,907</b>	<b>48,271</b>
<b>Financing activities</b>				
Distributions paid to unitholders	\$ -	\$ (22,716)	\$ (19,521)	\$ (48,271)
Dividends paid to shareholders	(14,197)	-	(28,393)	-
	(14,197)	(22,716)	(47,914)	(48,271)
<b>Change in cash and cash equivalents</b>	<b>\$ 101</b>	<b>\$ -</b>	<b>\$ 29,993</b>	<b>\$ -</b>
<b>Beginning balance in cash and cash equivalents</b>	<b>29,892</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Ending balance in cash and cash equivalents</b>	<b>\$ 29,993</b>	<b>\$ -</b>	<b>\$ 29,993</b>	<b>\$ -</b>

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

## **Canfor Pulp Products Inc.**

### **Notes to the Condensed Financial Statements as at September 30, 2011 (unaudited)**

#### **1. General information and reporting entity**

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

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

At September 30, 2011, Canadian Forest Products Ltd. (Canfor) owns 50.2% and CPPI owns 49.8% of the issued and outstanding units of the Partnership.

#### *Corporate Conversion Arrangement*

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

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

#### **2. Basis of preparation and adoption of IFRS**

##### *Statement of Compliance and Conversion to International Financial Reporting Standards*

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

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

CPPI has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on CPPI's equity as at September 30, 2010 and statements of comprehensive income (loss) for the three and nine months ended September 30, 2010, including the nature and effect of significant changes in accounting policies from those used in CPPI's financial statements for the year ended December 31, 2010 under Canadian GAAP.

The policies applied in these financial statements are based on IFRS issued and effective as of October 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in CPPI's annual financial statements for the year ending December 31, 2011 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS. The financial statements should be read in conjunction with CPPI's Canadian GAAP annual financial statements for the year ended December 31, 2010 and CPPI's interim consolidated financial statements for the quarters ended March 31, 2011 and June 30, 2011, prepared in accordance with IFRS applicable to interim financial statements.

### **3. New Accounting Pronouncements**

The following IFRS have been issued by the International Accounting Standards Board, and adopted for use in Canada by the Accounting Standards Board, effective for annual periods beginning on or after January 1, 2013. CPPI has not applied these new standards as their use is not yet mandatory:

*IFRS 9 – Financial Instruments*

*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 Partnership is still in the process of assessing the impact on the financial statements of CPPI of this revised standard.

These new standards have not yet been adopted and CPPI has not completed assessing the impact that the new and amended standards may have on its financial statements or whether to proceed with early adoption of any of the new requirements.

### **4. Net Income per Share**

Basic net income per Share is based on the weighted average number of Shares outstanding during the year. At September 30, 2011 and December 31, 2010 the Partnership had 35,776,483 Class B Exchangeable Limited Partnership Units outstanding which can be exchanged for Shares of CPPI at the option of the holder Canfor. Any issuance of new Shares as a result of such an exchange would be accompanied by a corresponding increase in CPPI's investment in the Partnership through the acquisition of Class B Exchangeable Limited Partnership Units. As a result, this potential conversion would not result in any dilution of CPPI's net income per share.

### **5. Reconciliations between IFRS and Canadian GAAP**

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

## Reconciliation of equity (deficit) at September 30, 2010

(thousands of dollars, unaudited)	September 30, 2010
<b>Total equity – Previous Canadian GAAP</b>	<b>\$ 238,640</b>
Fund units <sup>1</sup>	(511,459)
CPPI share of Partnership IFRS transition adjustments <sup>2</sup>	(14,051)
Deferred income taxes <sup>3</sup>	(17,869)
Effect of the increase in equity income from the Partnership under IFRS	752
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS	(9,624)
<b>Total equity (deficit) – IFRS</b>	<b>\$ (313,611)</b>

## Reconciliation of comprehensive income for the three months ended September 30, 2010

(thousands of dollars, unaudited)	Three months ended September 30, 2010
<b>Comprehensive income – previous Canadian GAAP</b>	<b>\$ 27,909</b>
Effect of the increase in equity income from the Partnership under IFRS	251
Fund units <sup>1</sup>	(710)
Distributions classified as a financing expense <sup>1</sup>	(24,491)
Deferred income taxes <sup>3</sup>	287
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS	(1,004)
<b>Comprehensive income – IFRS</b>	<b>\$ 2,242</b>

## Reconciliation of comprehensive income (loss) for the nine months ended September 30, 2010

(thousands of dollars, unaudited)	Nine months ended September 30, 2010
<b>Comprehensive income – previous Canadian GAAP</b>	<b>\$ 66,588</b>
Effect of the increase in equity income from the Partnership under IFRS	752
Fund units <sup>1</sup>	(200,892)
Distributions classified as a financing expense <sup>1</sup>	(54,305)
Deferred income taxes <sup>3</sup>	482
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS	(9,624)
<b>Comprehensive loss – IFRS</b>	<b>\$ (196,999)</b>

### Notes to the Reconciliations

- IAS 32 Classification** – Under Canadian GAAP the Fund units were classified as equity. IAS 32 requires that the Fund units be classified as a financial liability under IFRS prior to conversion to a corporation. Under the terms of the Fund's trust indenture, unitholders had a puttable option, whereby the Fund would have been required to redeem Fund units at the request of the unitholder and required the Fund to distribute all of the taxable income received from the Partnership. In addition, the Fund's distributions were classified as a financing expense recorded in the statement of comprehensive income. The liability was recorded at amortized cost with changes recorded in the statement of comprehensive income. Upon conversion to a corporation effective January 1, 2011, the Fund units were converted on a one-for-one basis into shares of CPPI and the shares are classified as equity with dividends treated as an equity distribution.
- Canfor Pulp Limited Partnership conversion** – As a result of a change in accounting policies for the Partnership due to the conversion to IFRS, CPPI's equity income, investment and other comprehensive income has been restated. For further details on the impact of the transition on the Partnership see the Partnership's disclosure on pages 34 and 35.

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

## 6. Equity Investment in Canfor Pulp Limited Partnership

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

(thousands of dollars, unaudited)	<b>Nine months ended September 30, 2011</b>		Year ended December 31, 2010
Balance, beginning of period	\$	<b>240,425</b>	\$ 249,593
Equity interest in income of the Partnership		<b>61,178</b>	89,166
Equity interest in other comprehensive loss of the Partnership		<b>(6,373)</b>	(6,761)
Distributions from the Partnership		<b>(62,823)</b>	(91,573)
Balance, end of period	\$	<b>232,407</b>	\$ 240,425

## 7. Related Party Transactions

All accounting, treasury, legal and administrative functions for CPPI are performed on its behalf by the Partnership pursuant to a support agreement. The value of these services during the third quarter of 2011 was \$60,000 (nine months ended September 30, 2011 – \$1.1 million) and was included as an administrative expense of CPPI and as an accounts payable to the Partnership at September 30, 2011.

Distributions earned from the Partnership for the three months ended September 30, 2011 were \$10.6 million of which \$7.1 million was received, with the balance of \$3.5 million receivable as at September 30, 2011.

## 8. Income Taxes

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

(thousands of dollars, unaudited)	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30, 2011</b>	September 30, 2010	<b>September 30, 2011</b>	September 30, 2010
Current	\$ 2,912	\$ -	\$ 13,424	\$ -
Deferred	744	(1,065)	(19,871)	(2,263)
Income tax expense (recovery)	\$ 3,656	\$ (1,065)	\$ (6,447)	\$ (2,263)

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

(thousands of dollars, unaudited)	<b>Three months ended September 30, 2011</b>	<b>Nine months ended September 30, 2011</b>
Income tax expense at statutory rate 2011 – 26.5% (2010 – nil)	\$ 3,168	\$ 15,961
Add (deduct):		
Permanent difference from translation of US denominated debt & other non deductible items	488	218
Change in SIFT tax rate (note 5)	-	(22,626)
	<b>\$ 3,656</b>	<b>\$ (6,447)</b>

## 9. Segmented Information

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

## 10. Subsequent Event

Subsequent to the period end, dividends were declared in the amount of \$0.40 per share to be paid on November 10, 2011 to shareholders of record at the close of business on November 3, 2011.

**Canfor Pulp Limited Partnership**  
**Condensed Consolidated Balance Sheets**  
**(unaudited)**

(millions of dollars)	As at September 30, 2011	As at December 31, 2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 32.0	\$ 64.2
Accounts receivable (note 10)		
Trade	105.2	108.0
Other	19.7	14.8
Green Transformation Program (note 13)	51.5	17.9
Inventories (note 7)	132.2	123.4
Prepaid expenses and other assets	9.4	11.0
<b>Total current assets</b>	<b>350.0</b>	<b>339.3</b>
<b>Non-current assets</b>		
Property, plant and equipment (note 5)	523.4	513.5
Other long-term assets	0.6	0.5
	<b>\$ 874.0</b>	<b>\$ 853.3</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable		
Trade payable and accrued liabilities	\$ 165.8	\$ 130.0
Green Transformation Program payable (note 13)	26.3	9.3
Distributions payable	7.1	39.2
<b>Total current liabilities</b>	<b>199.2</b>	<b>178.5</b>
<b>Non-current liabilities</b>		
Long-term debt (note 9)	114.3	109.4
Post employment benefits (note 8)	90.8	79.8
Long-term provisions	3.3	3.1
<b>Total liabilities</b>	<b>\$ 407.6</b>	<b>\$ 370.8</b>
<b>PARTNERS' EQUITY</b>		
Partnership units (note 6)	587.5	587.5
Cumulative distributions in excess of income	(121.1)	(105.0)
<b>Total Partners' equity</b>	<b>466.4</b>	<b>482.5</b>
	<b>\$ 874.0</b>	<b>\$ 853.3</b>

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

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

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
(millions of dollars, except units and per unit amounts)				
<b>Revenue</b>				
Sales	\$ 233.9	\$ 247.9	\$ 728.3	\$ 735.0
	<b>233.9</b>	<b>247.9</b>	<b>728.3</b>	<b>735.0</b>
<b>Costs and expenses</b>				
Manufacturing and product costs	149.9	142.8	441.7	436.6
Freight and other distribution costs	28.8	29.5	88.2	90.4
Amortization	13.9	16.5	45.4	50.0
Selling and administration costs	5.6	6.6	18.3	20.4
	<b>198.2</b>	<b>195.4</b>	<b>593.6</b>	<b>597.4</b>
<b>Operating income</b>	<b>35.7</b>	<b>52.5</b>	<b>134.7</b>	<b>137.6</b>
Interest expense	(1.9)	(2.0)	(5.9)	(5.9)
Foreign exchange gain (loss) on long-term debt	(8.2)	3.4	(4.9)	1.8
Gain (loss) on derivative financial instruments	(5.7)	2.6	(3.1)	(0.8)
Foreign exchange gain (loss) on working capital	4.1	(1.5)	2.3	(1.2)
Other income (expense)	(0.1)	-	(0.3)	0.1
	<b>(11.8)</b>	<b>2.5</b>	<b>(11.9)</b>	<b>(6.0)</b>
<b>Net income</b>	<b>23.9</b>	<b>55.0</b>	<b>122.8</b>	<b>131.6</b>
Other comprehensive income	0.2	-	0.2	0.1
Actuarial losses recognized in accumulated distributions in excess of income	(11.6)	(2.0)	(12.9)	(19.3)
<b>Total comprehensive income</b>	<b>\$ 12.5</b>	<b>\$ 53.0</b>	<b>\$ 110.1</b>	<b>\$ 112.4</b>
<b>Net income per Partnership unit, basic and diluted</b>	<b>\$ 0.33</b>	<b>\$ 0.77</b>	<b>\$ 1.72</b>	<b>\$ 1.84</b>
<b>Weighted average Partnership units outstanding</b>	<b>71,270,025</b>	<b>71,270,025</b>	<b>71,270,025</b>	<b>71,270,025</b>

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

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

(millions of dollars)	Three months ended September 30, 2011		September 30, 2010	Nine months ended September 30, 2011		September 30, 2010
<b>Partnership units</b>						
Balance at beginning and end of period	\$	587.5	\$	587.5	\$	587.5
<b>Cumulative distributions in excess of income</b>						
Balance beginning of period	\$	(112.2)	\$	(87.1)	\$	(86.6)
Net income for the period		23.9		55.0		131.6
Defined benefit plan actuarial losses		(11.6)		(2.0)		(19.3)
Other comprehensive income		0.2		-		0.1
Distributions declared during the period (note 12)		(21.4)		(49.2)		(109.1)
Balance at end of period	\$	(121.1)	\$	(83.3)	\$	(83.3)
<b>Total equity</b>	<b>\$</b>	<b>466.4</b>	<b>\$</b>	<b>504.2</b>	<b>\$</b>	<b>504.2</b>

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

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

(millions of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2011	September 30, 2010	2011	September 30, 2010
<b>Cash and cash equivalents generated from (used in)</b>				
<b>Operating activities</b>				
Net income	\$ 23.9	\$ 55.0	\$ 122.8	\$ 131.6
Adjustments for:				
Amortization	13.9	16.5	45.4	50.0
Unrealized foreign exchange loss (gain) on long-term debt	8.2	(3.4)	4.9	(1.8)
Interest expense	1.9	2.0	5.9	5.9
Reduction (increase) in value of outstanding derivative instruments	3.7	(4.1)	1.9	0.4
Employee future benefits	1.4	1.4	4.1	4.3
Other	0.1	(0.4)	0.3	(0.3)
Salary pension plan contribution	(2.0)	(0.7)	(6.1)	(1.9)
Cash flow from operations before working capital changes	51.1	66.3	179.2	188.2
Decrease (increase) in non-cash working capital				
Accounts receivable – trade and other	3.6	10.1	(9.3)	(18.7)
Inventories	(2.0)	(4.8)	(8.7)	(7.8)
Prepaid expenses and other assets	(3.5)	(13.6)	1.6	(14.6)
Accounts payable and accrued liabilities	2.1	(11.4)	2.1	1.5
<b>Net cash from operations</b>	<b>51.3</b>	<b>46.6</b>	<b>164.9</b>	<b>148.6</b>
<b>Financing activities</b>				
Distributions paid to partners	(30.6)	(45.6)	(158.2)	(96.9)
Interest paid	(0.4)	(0.2)	(4.0)	(4.1)
<b>Net cash used in financing</b>	<b>(31.0)</b>	<b>(45.8)</b>	<b>(162.2)</b>	<b>(101.0)</b>
<b>Investing activities</b>				
Property, plant and equipment	(11.2)	(4.0)	(28.3)	(22.4)
Green Transformation Program expenditures	(24.1)	(10.8)	(61.0)	(12.4)
Green Transformation Program reimbursements	19.2	1.1	50.4	1.1
Government grants received	0.8	-	3.5	-
Interest received	0.5	0.1	0.5	0.1
<b>Net cash used in investing</b>	<b>(14.8)</b>	<b>(13.6)</b>	<b>(34.9)</b>	<b>(33.6)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>5.5</b>	<b>(12.8)</b>	<b>(32.2)</b>	<b>14.0</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>26.5</b>	<b>40.3</b>	<b>64.2</b>	<b>13.5</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 32.0</b>	<b>\$ 27.5</b>	<b>\$ 32.0</b>	<b>\$ 27.5</b>

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

## Canfor Pulp Limited Partnership

### Notes to the Condensed Consolidated Financial Statements as at September 30, 2011

(Unaudited, in millions of dollars unless otherwise noted)

#### 1. General information and reporting entity

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

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

At September 30, 2011, Canfor owns 50.2% and Canfor Pulp Products Inc. (CPPI) owns 49.8% of the issued and outstanding units of the Partnership.

#### *Economic Dependence*

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

#### 2. Basis of preparation and adoption of IFRS

##### *Statement of Compliance and Conversion to International Financial Reporting Standards*

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

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

The Partnership has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Partnership's equity as at September 30, 2010 and statements of comprehensive income for the three and nine months ended September 30, 2010, including the nature and effect of significant changes in accounting policies from those used in the Partnership's consolidated financial statements for the year ended December 31, 2010 under Canadian GAAP.

The policies applied in these financial statements are based on IFRS issued and effective as of October 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Partnership's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS. The financial statements should be read in conjunction with the Partnership's Canadian GAAP annual financial statements for the year ended December 31, 2010 and the Partnership's interim consolidated financial statements for

the quarters ended March 31, 2011 and June 30, 2011 prepared in accordance with IFRS applicable to interim financial statements.

### 3. New Accounting Pronouncements

The following IFRS have been issued by the International Accounting Standards Board, and adopted for use in Canada by the Accounting Standards Board, effective for annual periods beginning on or after January 1, 2013. The Partnership has not applied these new standards as their use is not yet mandatory:

*IFRS 9 – Financial Instruments*

*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 Partnership is still in the process of assessing the impact on the financial statements of this revised standard.

These new standards have not yet been adopted and the Partnership has not completed assessing the impact that the new and amended standards may have on its financial statements or whether to proceed with early adoption of any of the new requirements.

### 4. Reconciliations between IFRS and Canadian GAAP

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

#### Reconciliation of equity at September 30, 2010

(millions of dollars, unaudited)	As at September 30, 2010
<b>Total equity – Previous Canadian GAAP</b>	<b>\$ 550.2</b>
Recognition of unamortized actuarial losses at date of transition <sup>1</sup>	(28.2)
Lower pension expense for the nine months ended September 30, 2010 <sup>1</sup>	1.5
Actuarial losses on defined benefit plans for the nine months ended September 30, 2010 <sup>1</sup>	(19.3)
<b>Total equity – IFRS</b>	<b>\$ 504.2</b>

#### Reconciliation of comprehensive income for three months ended September 30, 2010

(millions of dollars, unaudited)	Three months ended September 30, 2010
<b>Comprehensive income – Previous Canadian GAAP</b>	<b>\$ 54.5</b>
Lower pension expense for period <sup>1</sup>	0.5
	<b>\$ 55.0</b>
Actuarial losses on defined benefit plans during the period <sup>1</sup>	(2.0)
<b>Comprehensive income – IFRS</b>	<b>\$ 53.0</b>

## Reconciliation of comprehensive income for nine months ended September 30, 2010

(millions of dollars, unaudited)	Nine months ended September 30, 2010	
<b>Comprehensive income – Previous Canadian GAAP</b>	<b>\$</b>	<b>130.2</b>
Lower pension expense for period <sup>1</sup>		1.5
	<b>\$</b>	<b>131.7</b>
Actuarial losses on defined benefit plans during the period <sup>1</sup>		(19.3)
<b>Comprehensive income – IFRS</b>	<b>\$</b>	<b>112.4</b>

### Notes to the Reconciliations

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

All actuarial gains and losses arising in 2010 were recognized in other comprehensive income. A charge to accumulated earnings and distributions of \$19.3 million for actuarial losses related to the nine months ended September 30, 2010 was recorded (third quarter of 2010 a charge of \$2.0 million was recorded to accumulated earnings and distributions). As a result of immediate recognition of previously unrecognized cumulative actuarial gains and losses the total pension expense for the nine months ended was reduced by \$1.5 million under IFRS (third quarter of 2010 employee benefits expense was \$0.5 million lower than previously reported). This reduced manufacturing costs by \$1.5 million for the nine months ended September 30, 2010 (reduced manufacturing costs for the third quarter of 2010 by \$0.5 million).

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

The impact on the Statement of Comprehensive Income for the nine months ended September 30, 2010 was an increase in amortization of \$14.5 million with an offsetting decrease to manufacturing costs. The impact on the third quarter of 2010 was an increase in amortization of \$4.6 million with an offsetting decrease to manufacturing costs.

The change in policy also increased the reported capital expenditures in the statements of cash flows by \$11.3 million for the nine months ended September 30, 2010 and a decrease of \$0.2 million for the quarter ended September 30, 2010 restated to conform to IFRS. The long-term maintenance provision and long-term maintenance expenditure line items on the consolidated statements of cash flows are no longer applicable and those amounts are now included in PP&E.

- 3) **Statement of cash flows (interest received / paid)** – Under IFRS an accounting policy choice is available as to where interest and distributions paid and interest and distributions received are presented in the statements of cash flows. The Partnership has elected to present distributions paid to partners and interest paid in financing activities and interest received in investing activities. Under Canadian GAAP interest received and paid were presented within operating activities.
- 4) **Reclassification of Employee Future Benefits and Asset Retirement Obligations** – Under Canadian GAAP employee pension obligations, other retirees benefits and asset retirement obligations were included in long-term liabilities. Under IFRS, pension and other retirees benefits have been classified on the consolidated balance sheets as post employment benefits and asset retirement obligations have been included in long-term provisions.

## 5. Property, Plant and Equipment

(millions of dollars, unaudited)	<b>September 30, 2011</b>		
	Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.9	1.4
Buildings, machinery and equipment	1,365.1	899.3	465.8
Major Maintenance	30.8	7.4	23.4
Construction in progress	27.4	-	27.4
	<b>1,431.0</b>	<b>907.6</b>	<b>523.4</b>
	<b>December 31, 2010</b>		
(millions of dollars, unaudited)	Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.9	1.4
Buildings, machinery and equipment	1,356.1	867.0	489.1
Major Maintenance	37.0	23.1	13.9
Construction in progress	3.7	-	3.7
	1,404.5	891.0	513.5

## 6. Net Income per Partnership Unit

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

## 7. Inventories

(millions of dollars, unaudited)	<b>September 30, 2011</b>	December 31, 2010
Pulp	57.5	52.7
Paper	14.8	10.1
Wood chips	15.7	16.4
Processing materials and supplies	44.2	44.2
	<b>132.2</b>	123.4

## 8. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

(millions of dollars, unaudited)	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30, 2011</b>	September 30, 2010	<b>September 30, 2011</b>	September 30, 2010
Pension plans	0.9	1.1	2.9	3.2
Other employee future benefit plans	1.2	1.0	3.6	3.1
Contributions to forest industry union plans	1.9	1.8	5.3	5.1
	<b>4.0</b>	3.9	<b>11.8</b>	11.4

In the third quarter of 2011, the Partnership recorded a charge to other comprehensive income of \$11.6 million in relation to changes in the valuation of its post-employment defined benefit plans. The charge reflected a loss on the plan assets during the quarter, compared to an expected gain, as well as a reduction over the period of the discount rates used to value the accrued benefit obligations of 0.50% for the pension benefit plans and 0.35% for the non-pension benefit plans. In the previous quarter and the third quarter of 2010, when movements in the rate of return and discount rate were less significant, the charge was \$1.1 million and \$2.0 million, respectively.

## 9. Credit Facilities and Long-term Debt

At September 30, 2011 the Partnership had outstanding long-term debt of \$114.3 million (December 31, 2010 – \$109.4 million, US\$110.0 million) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

The Partnership has a \$40.0 million bank credit facility with a maturity date of November 30, 2013, of which \$0.5 million was utilized at September 30, 2011 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2013, to cover the \$13.2 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. The Partnership also has an undrawn \$30.0 million bridge loan credit facility with a maturity date of December 31, 2012 to fund timing differences between expenditures and reimbursements for projects funded under the Canadian Federal Government Green Transformation Program. Interest and other costs of the credit facilities are at prevailing market rates. The leverage ratio and interest coverage ratio are consistent with the financial covenants under the Note Agreement.

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at September 30, 2011 and throughout the period.

The fair value of long-term debt at September 30, 2011 was \$120.2 million (US\$115.7 million).

## 10. Related Party Transactions

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

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<b>Transactions</b>				
Canfor – purchase of wood chips and other	33.2	28.7	89.4	98.4
CPPI – administrative cost recovery	0.1	-	1.0	-
Howe Sound LP – commission	-	0.6	-	1.8
Lakeland Mills Ltd. – purchase of wood chips	2.0	1.6	8.2	4.3
			<b>September 30, 2011</b>	<b>December 31, 2010</b>
<b>Balance Sheet</b>				
Included in accounts payable and accrued liabilities:				
Canfor			44.5	44.5
Lakeland Mills Ltd.			0.8	0.4
Included in other accounts receivable:				
CPPI			0.1	-
Included in trade accounts receivable:				
Product marketed for Canfor			27.9	23.2

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

## 11. Derivative Financial Instruments

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

For the third quarter of 2011 the Partnership recorded a net loss on derivative financial instruments of \$5.7 million (third quarter 2010 – net gain of \$2.6 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 natural gas swaps and US dollar forward contracts.

The Partnership recorded losses of \$0.6 million during the third quarter of 2011 (third quarter 2010 – \$0.9 million) relating to settlement of maturing natural gas contracts as a charge to non-operating income. At September 30, 2011 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 50,000 gigajoules maturing in October 2011. At September 30, 2011 the unrealized loss of \$0.2 million (September 30, 2010 – \$3.7 million) on these outstanding commodity swaps was recorded as a liability in accounts payable and accrued liabilities.

The Partnership recorded a net loss of \$1.4 million during the third quarter of 2011 (third quarter 2010 – \$0.6 million) on settlement of maturing US dollar forward contracts as a charge to non-operating income. At September 30, 2011 the Partnership had outstanding US dollar forward contracts of \$74.5 million extending to January 2012. At September 30, 2011 the unrealized loss of \$3.1 million (September 30, 2010 – gain of \$0.8 million) on these outstanding US dollar forward contracts was recorded as a liability in accounts payable and accrued liabilities.

## 12. Distributions

The Partnership declared distributions in the first nine months of 2011 as follows:

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

<b>Record Date</b>	<b>Payable Date</b>	<b>Amount per Partnership Unit \$</b>	<b>Amount \$</b>
January 31, 2011	February 15, 2011	0.26	<b>18.5</b>
February 28, 2011	March 15, 2011	0.26	<b>18.6</b>
March 31, 2011	April 15, 2011	0.26	<b>18.5</b>
April 29, 2011	May 13, 2011	0.23	<b>16.4</b>
May 31, 2011	June 15, 2011	0.23	<b>16.4</b>
June 30, 2011	July 15, 2011	0.23	<b>16.4</b>
July 29, 2011	August 15, 2011	0.10	<b>7.2</b>
August 31, 2011	September 15, 2011	0.10	<b>7.1</b>
September 30, 2011	October 14, 2011	0.10	<b>7.1</b>
		<b>1.77</b>	<b>126.2</b>

## 13. Green Transformation Program

The Partnership has been allocated \$122.2 million under the Canadian Federal Government Pulp and Paper Green Transformation Program (the Program). The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the Program end date of March 31, 2012. As of September 30, 2011 the Partnership has incurred \$122.1 million of qualifying expenditures under the program and received reimbursements totaling \$70.6 million with the balance of \$51.5 million receivable as at September 30, 2011. The Partnership has accounts payable in respect of reimbursable amounts under the Program totaling \$26.3 million as at September 30, 2011. The Partnership submits claims for expenditures on approved projects under the Program on a monthly basis. Management expects these projects to provide economic and environmental benefits to the Partnership's operations.

## 14. Segmented Information <sup>(a)</sup>

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

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

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

(millions of dollars, unaudited)	Pulp	Paper	Unallocated	Total
<b>Three months ended September 30, 2011</b>				
Sales to external customers <sup>(b)</sup>	199.0	34.9	-	233.9
Sales of pulp to paper segment <sup>(c)</sup>	23.9	(23.9)	-	-
Operating income (loss)	36.0	3.2	(3.5)	35.7
Amortization	12.9	0.9	0.1	13.9
Capital expenditures, net	40.8	0.2	0.3	41.3
Three months ended September 30, 2010				
Sales to external customers <sup>(b)</sup>	212.9	34.7	0.3	247.9
Sales of pulp to paper segment <sup>(c)</sup>	23.9	(23.9)	-	-
Operating income (loss)	57.6	0.3	(5.4)	52.5
Amortization	15.6	0.8	0.1	16.5
Capital expenditures, net	4.2	0.2	0.2	4.6
<b>Nine months ended September 30, 2011</b>				
Sales to external customers <sup>(b)</sup>	623.8	103.1	1.4	728.3
Sales of pulp to paper segment <sup>(c)</sup>	68.0	(68.0)	-	-
Operating income (loss)	138.8	5.9	(10.0)	134.7
Amortization	42.6	2.6	0.2	45.4
Capital expenditures, net	52.7	2.0	0.9	55.6
Identifiable assets	755.0	64.2	54.8	874.0
Nine months ended September 30, 2010				
Sales to external customers <sup>(b)</sup>	632.5	101.7	0.8	735.0
Sales of pulp to paper segment <sup>(c)</sup>	66.8	(66.8)	-	-
Operating income (loss)	152.0	(0.7)	(13.7)	137.6
Amortization	47.3	2.5	0.2	50.0
Capital expenditures, net	19.0	1.0	0.7	20.7
Identifiable assets	761.9	64.6	46.0	872.5

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

(b) Sales to the largest customer represented approximately 8% of pulp segment sales (Year 2010 – 12%).

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