CANFOR PULP PRODUCTS INC.

Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2012

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

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

The accompanying notes are an integral part of these interim condensed consolidated financial statements.
Subsequent event (note 13).

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

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

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

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

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

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

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

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

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

Notes to the Condensed Consolidated Financial Statements as at March 31, 2012
(Unaudited, in millions of dollars unless otherwise noted)

1. General Information and Basis of Presentation

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

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

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

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

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

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

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

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

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

Economic Dependence

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

2. Basis of Preparation and Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, Interim Financial

Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Partnership for the year ended December 31, 2011 which have been prepared in accordance with IFRS as issued by the IASB.

3. Changes in Accounting Policies and New Accounting Pronouncements

Change in Accounting Policy

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

New Accounting Pronouncements

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

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement

IAS 27 – Separate Financial Statements

Amended IAS 19 – Employee Benefits

Amended IAS 28 – Investments in Associates

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

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

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

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

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

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

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

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

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

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

5. Net Income per share

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

6. Property, Plant and Equipment

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

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

7. Inventories

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

8. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

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

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

9. Income Taxes

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

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

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

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

Deferred Income Tax

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

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

10. Credit Facilities and Long-term Debt

At March 31, 2012 the Company had outstanding long-term debt of $109.9 million (December 31, 2011 – $111.9 million, US$110.0 million) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

The Company has a $40.0 million bank credit facility with a maturity date of November 30, 2013, of which $0.8 million was utilized at March 31, 2012 for a standby letter of credit issued for general business purposes. In addition, the

Company has a separate facility with a maturity date of November 30, 2013, to cover the $10.4 million standby letter of credit issued to BC Hydro under the power generation agreement. The Company also has an undrawn $30.0 million bridge loan credit facility with a maturity date of December 31, 2012 to fund timing differences between expenditures and reimbursements for projects funded under the Green Transformation Program. Interest and other costs of the credit facilities are at prevailing market rates. The leverage ratio and interest coverage ratio are consistent with the financial covenants under the Note Agreement.

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Company remained in compliance with all covenants at March 31, 2012.

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

11. Related Party Transactions

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

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

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

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

12. Derivative Financial Instruments

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

For the first quarter of 2012 the Company recorded a net gain on derivative financial instruments of $1.3 million (first quarter 2011 – $1.6 million) relating to the settlement of maturing contracts during the quarter, and the revaluation to market value of outstanding contracts at the end of the quarter, for US dollar forward contracts and West Texas Intermediate (WTI) crude oil collars.

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

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

13. Subsequent Event

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

14. Segmented Information (a)

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

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

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

(millions of dollars, unaudited)	**Pulp**	**Paper**	**Unallocated**	**Total**
Three months ended March 31, 2012				
Sales to external customers (b)	**190.1**	**29.9**	**-**	**220.0**
Sales of pulp to paper segment (c)	**17.2**	**(17.2)**	**-**	**-**
Operating income (loss)	**12.2**	**2.7**	**(3.4)**	**11.5**
Amortization	**16.1**	**1.0**	**0.1**	**17.2**
Capital expenditures, net	**7.7**	**0.1**	**0.4**	**8.2**
Identifiable assets	**677.7**	**65.5**	**36.9**	**780.1**
Three months ended March 31, 2011				
Sales to external customers (b)	217.3	34.0	1.0	252.3
Sales of pulp to paper segment (c)	22.5	(22.5)	-	-
Operating income (loss) [1]	51.5	2.1	(2.9)	50.7
Amortization	15.6	0.8	0.1	16.5
Capital expenditures, net	4.3	0.8	0.6	5.7
Identifiable assets	695.5	60.9	68.0	824.4

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

(a) Operations are presented by product lines. Operations are considered to be in one geographic area since all production facilities are in Canada. Substantially all sales are exported outside Canada, with sales to the United States representing 30% (Year 2011 – 29%).

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

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