CANFOR PULP PRODUCTS INC.

Second Quarter Report

For the three and six months ended June 30, 2013

To Our Shareholders

Canfor Pulp Products Inc. reported net income of $7.6 million, or $0.11 per share, for the second quarter of 2013, compared to net income of $10.9 million, or $0.15 per share, for the first quarter of 2013 and net income of $3.0[1] million, or $0.04[1] per share, for the second quarter of 2012. For the six months ended June 30, 2013, the Company's net income was $18.5 million, or $0.26 per share compared to $13.0[1] million, or $0.15[1] per share for the six months ended June 30, 2012.

The net income for the second quarter of 2013 included various items affecting comparability with prior periods, which had an overall net negative impact on the Company's results of $7.8 million, or $0.11 per share. After adjusting for such items, the Company's adjusted net income for the second quarter of 2013 was $15.4 million, or $0.22 per share, up $3.0 million, or $0.05 per share, from an adjusted net income of $12.4 million, or $0.17 per share, for the first quarter of 2013. Adjusted net income for the second quarter of 2012 was $6.0 million, or $0.08 per share.

The Company reported operating income of $19.5 million for the second quarter of 2013, in line with operating income of $19.0 million reported for the first quarter of 2013, with improved Northern Bleached Softwood Kraft ("NBSK") pulp sales realizations offsetting higher unit manufacturing costs mostly related to scheduled outages during the quarter.

The following table summarizes selected financial information for the Company for the comparative periods[1]:

(millions of Canadian dollars, except per share amounts)	**Q2 2013**	Q1 2013	**YTD 2013**	Q2 2012	YTD 2012
Sales	**$ 227.6**	$ 217.5	**$ 445.1**	$ 210.8	$ 430.8
Operating income	**$ 19.5**	$ 19.0	**$ 38.5**	$ 10.3	$ 21.8
Net income	**$ 7.6**	$ 10.9	**$ 18.5**	$ 3.0	$ 13.0
Net income per share, basic and diluted	**$ 0.11**	$ 0.15	**$ 0.26**	$ 0.04	$ 0.15
Adjusted net income	**$ 15.4**	$ 12.4	**$ 27.8**	$ 6.0	$ 8.9
Adjusted net income per share, basic and diluted	**$ 0.22**	$ 0.17	**$ 0.39**	$ 0.08	$ 0.15

Results in the second quarter of 2013 showed a slight improvement in global softwood pulp markets, principally the result of reductions in supply due to spring maintenance downtime, while shipments were steady in the quarter. Global softwood pulp producer inventory levels were balanced during the current quarter, decreasing to 28 days supply in June 2013, from 29 days in March 2013. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range. The average list price to North America was up US$40, or 4%, to US$937 per tonne. List prices to China and Europe saw more modest gains through the quarter, with pricing to China up US$22 per tonne and pricing to Europe up US$25 per tonne from the first quarter of 2013. The Company's average pulp sales realizations were up moderately, reflecting the improved prices and a slight weakening of the Canadian dollar against the US dollar, down 1% from the first quarter of 2013.

Pulp shipments in the second quarter of 2013 were broadly in line with the previous quarter, with lower production levels due to maintenance outages during the quarter offset by a drawdown in inventories. Results in the current quarter were impacted by scheduled maintenance outages at the Northwood and Intercontinental Pulp Mills. The maintenance outage at the Intercontinental Pulp Mill reduced market pulp production by 6,000 tonnes, while the maintenance outage at the Northwood Pulp Mill reduced market pulp production by 11,500 tonnes in the second quarter. The latter outage was completed early in the third quarter and included upgrades to the recovery boiler. Pulp unit manufacturing costs were up moderately from the previous quarter, reflecting the lower production levels, as well as higher costs relating to the scheduled maintenance outages and increased fibre costs, partially offset by seasonally lower energy costs.

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits.* Further details can be found in the Company's unaudited interim consolidated financial statements.

The Company's paper segment results improved $1.2 million from the previous quarter, the result of improved paper unit sales realizations coupled with a decrease in unit manufacturing costs, largely reflecting higher production levels and reduced operating costs, offset slightly by higher costs for slush pulp.

The Company continued to manage its working capital closely and ended the quarter with cash and cash equivalents of $44.9 million and net debt to capitalization of 14.9%.

NBSK pulp markets are projected to soften during the seasonally slower third quarter and there exists a risk of price weakness from new hardwood pulp capacity projected to come online in the second half of the year. Producer inventories are forecast to rise modestly in the third quarter given minimal scheduled maintenance downtime historically taken by producers during the summer months. The Northwood outage will impact production in the third quarter by an estimated 28,500 tonnes.

On July 24, 2013, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of July 25, 2013, payable on August 14, 2013, to the shareholders of record on August 7, 2013.

Ronald L. Cliff
Co - Chairman

Don B. Kayne
Chief Executive Officer

Michael J. Korenberg
Co - Chairman

Canfor Pulp Products Inc.
Second Quarter 2013
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended June 30, 2013 relative to the quarters ended March 31, 2013 and June 30, 2012, and the financial position of the Company at June 30, 2013. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 2013 and 2012, as well as the 2012 annual MD&A and the 2012 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2012 (available at www.canforpulp.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 24, 2013.

Forward Looking Statements

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

CPPI SHARE EXCHANGE

On March 2, 2012, Canadian Forest Products Ltd. ("Canfor") acquired 35,776,483 common shares of Canfor Pulp Products, Inc. ("CPPI") in exchange for its 35,776,483 Class B Exchangeable LP Units of Canfor Pulp Limited Partnership ("the Partnership") and 35,776,483 common shares of Canfor Pulp Holding Inc. ("the General Partner"), pursuant to the terms of an Exchange Agreement made as of January 1, 2011 among Canfor, CPPI, the General Partner and the Partnership. As a result of the exchange, CPPI's interest in both the Partnership and the General Partner increased from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI. For the quarter ended March 31, 2012, and all subsequent quarters, the results of CPPI include the results of the Partnership.

SECOND QUARTER 2013 OVERVIEW

Selected Financial Information and Statistics[1]

(millions of Canadian dollars, except per share amounts)	**Q2 2013**	Q1 2013	**YTD 2013**	Q2 2012	YTD 2012
Operating income (loss) by segment:					
Pulp	**$ 15.4**	$ 15.4	**$ 30.8**	$ 8.5	$ 20.7
Paper	**$ 7.1**	$ 5.9	**$ 13.0**	$ 4.8	$ 7.5
Unallocated	**$ (3.0)**	$ (2.3)	**$ (5.3)**	$ (3.0)	$ (6.4)
Total operating income	**$ 19.5**	$ 19.0	**$ 38.5**	$ 10.3	$ 21.8
Add: Amortization	**$ 19.0**	$ 18.9	**$ 37.9**	$ 14.7	$ 31.9
Total operating income before amortization	**$ 38.5**	$ 37.9	**$ 76.4**	$ 25.0	$ 53.7
Add (deduct):					
Working capital movements	**$ 5.5**	$ (7.2)	**$ (1.7)**	$ 0.6	$ 15.0
Defined benefit pension plan contributions	**$ (2.5)**	$ (2.8)	**$ (5.3)**	$ (2.6)	$ (5.2)
Other operating cash flows, net	**$ 3.1**	$ 0.4	**$ 3.5**	$ (3.8)	$ (2.8)
Cash from operating activities	**$ 44.6**	$ 28.3	**$ 72.9**	$ 19.2	$ 60.7
Add (deduct):					
Distributions / dividends paid	**$ (3.6)**	$ (3.6)	**$ (7.2)**	$ (7.8)	$ (15.6)
Finance expenses paid	**$ (3.8)**	$ (0.2)	**$ (4.0)**	$ (3.6)	$ (3.8)
Share repurchase	**$ (1.0)**	$ -	**$ (1.0)**	$ -	$ -
Capital additions, net[2]	**$ (7.9)**	$ (6.9)	**$ (14.8)**	$ (16.8)	$ (35.4)
Acquisition of CPPI cash on exchange	**$ -**	$ -	**$ -**	$ -	$ 6.8
Other, net	**$ 0.1**	$ 0.1	**$ 0.2**	$ 0.1	$ 0.2
Change in cash / operating loans	**$ 28.4**	$ 17.7	**$ 46.1**	$ (8.9)	$ 12.9
Average exchange rate (US$ per C$1.00)[3]	**$ 0.977**	$ 0.991	**$ 0.984**	$ 0.990	$ 0.994

Analysis of Specific Material Items Affecting Comparability of Net Income [1]

After-tax impact, net of non-controlling interests[4] (millions of Canadian dollars, except per share amounts)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Net Income[4]	**$ 7.6**	$ 10.9	**$ 18.5**	$ 3.0	$ 8.7
Foreign exchange (gain) loss on long-term debt and investments, net	**$ 3.4**	$ 2.0	**$ 5.4**	$ 1.9	$ 0.1
(Gain) loss on derivative financial instruments	**$ 2.0**	$ (0.5)	**$ 1.5**	$ 1.1	$ 0.1
Change in substantively enacted tax rate	**$ 2.4**	$ -	**$ 2.4**	$ -	$ -
Net impact of above items	**$ 7.8**	$ 1.5	**$ 9.3**	$ 3.0	$ 0.2
Adjusted Net Income[4]	**$ 15.4**	$ 12.4	**$ 27.8**	$ 6.0	$ 8.9
Net Income per share (EPS), as reported[4]	**$ 0.11**	$ 0.15	**$ 0.26**	$ 0.04	$ 0.15
Net impact of above items per share	**$ 0.11**	$ 0.02	**$ 0.13**	$ 0.04	$ -
Adjusted Net Income per share[4]	**$ 0.22**	$ 0.17	**$ 0.39**	$ 0.08	$ 0.15

[1] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.
[2] Additions to property, plant and equipment are shown net of amounts received under Government funding initiatives.
[3] Source – Bank of Canada (average noon rate for the period).
[4] 2012 amounts exclude the impact of non-controlling interest in partnership. Amounts are attributable to controlling interest in the Partnership.

The Company reported operating income of $19.5 million for the second quarter of 2013, in line with operating income of $19.0 million reported for the first quarter of 2013, with improved Northern Bleached Softwood Kraft ("NBSK") pulp sales realizations offsetting higher unit manufacturing costs mostly related to scheduled outages during the quarter.

Results in the second quarter of 2013 showed a slight improvement in global softwood pulp markets, principally the result of reductions in supply due to spring maintenance downtime, while shipments were steady in the quarter. Global softwood pulp producer inventory levels were balanced during the current quarter, decreasing to 28 days supply in June 2013, from 29 days in March 2013. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range. The average list price to North America was up US$40, or 4%, to US$937 per tonne. List prices to China and Europe saw more modest gains through the quarter, with pricing to China up US$22 per tonne and pricing to Europe up US$25 per tonne from the first quarter of 2013. The Company's average pulp sales realizations were up moderately, reflecting the improved prices and a slight weakening of the Canadian dollar against the US dollar, down 1% from the first quarter of 2013.

Pulp shipments in the second quarter of 2013 were broadly in line with the previous quarter, with lower production levels due to maintenance outages during the quarter offset by a drawdown in inventories. Results in the current quarter were impacted by scheduled maintenance outages at the Northwood and Intercontinental Pulp Mills. The maintenance outage at the Intercontinental Pulp Mill reduced market pulp production by 6,000 tonnes, while the maintenance outage at the Northwood Pulp Mill reduced market pulp production by 11,500 tonnes in the second quarter. The latter outage was completed early in the third quarter and included upgrades to the recovery boiler. Pulp unit manufacturing costs were up moderately from the previous quarter, reflecting the lower production levels, as well as higher costs relating to the scheduled maintenance outages and increased fibre costs, partially offset by seasonally lower energy costs.

The Company's paper segment results improved $1.2 million from the previous quarter, the result of improved paper unit sales realizations coupled with a decrease in unit manufacturing costs, largely reflecting higher production levels and reduced operating costs, offset slightly by higher costs for slush pulp.

Compared to the second quarter of 2012, operating income improved by $9.2 million, reflecting both increased pulp and paper segment earnings. Higher pulp earnings principally reflected increased shipments coupled with lower unit manufacturing costs. Pulp sales realizations were broadly in line with the second quarter of 2012, with an increase in NBSK list prices more than offset by increased volume to lower-margin regions. The lower unit manufacturing costs largely reflecting the scheduled outages and unscheduled shutdown in the second quarter of 2012, with production levels in the current quarter up 17%. Positive results in the paper segment compared to the same period in 2012 reflected higher paper sales realizations and a decrease in unit manufacturing costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp[5]

(millions of Canadian dollars unless otherwise noted)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Sales	**$ 187.7**	$ 180.4	**$ 368.1**	$ 171.9	$ 362.0
Operating income before amortization	**$ 33.4**	$ 33.3	**$ 66.7**	$ 22.3	$ 50.6
Operating income	**$ 15.4**	$ 15.4	**$ 30.8**	$ 8.5	$ 20.7
Average pulp price delivered to U.S. – US$[6]	**$ 937**	$ 897	**$ 917**	$ 900	$ 885
Average price in Cdn$	**$ 959**	$ 905	**$ 932**	$ 909	$ 890
Production – pulp (000 mt)	**250.0**	264.5	**514.5**	212.9	474.6
Shipments – pulp (000 mt)	**255.0**	257.9	**512.9**	230.2	500.8
Marketed on behalf of Canfor	**52.8**	50.3	**103.1**	51.9	109.1

[5] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.
[6] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

Operating income for the pulp segment was $15.4 million for the second quarter of 2013, in line with the previous quarter and up $6.9 million from the second quarter of 2012. Improved pulp segment results compared to the previous quarter reflected improved sales realizations, offset in part by higher unit manufacturing costs. Pulp sales realizations increased moderately from the first quarter of 2013 reflecting the previously mentioned price increases and the benefit of a further weakening of the Canadian dollar against the US dollar, which was down 1%. Contributing to improved sales realizations was also decreased volumes into lower-margin regions, principally China. Results in the current quarter were impacted by the scheduled maintenance outages at the Northwood and Intercontinental Pulp Mills, which resulted in lower production levels and higher unit manufacturing costs compared to the previous quarter. Included in the previous quarters' results was a $1.5 million non-cash benefit from scientific research and development tax credits.

Compared to the second quarter of 2012, higher operating earnings in the current period principally reflected increased shipments coupled with lower unit manufacturing costs. Pulp sales realizations were broadly in line with the same period in 2012, with increased volume to lower-margin regions, principally China, offset in part by an increase in NBSK pulp list prices to all regions and a weaker average Canadian dollar. Production levels in the current quarter were up 17% compared to the same period in 2012 largely due to an unscheduled shutdown at the Northwood Pulp Mill in the comparative period. Lower unit manufacturing costs for the most part reflected the absence of unscheduled outages in the current quarter and to a lesser extent improved productivity. Partially offsetting the reduced manufacturing costs were higher fibre costs, reflecting the increase in sawmill residual chips market prices (linked to NBSK market pulp prices). Other contributing factors included an accrual of $3.7 million recorded in the second quarter of 2012 for an anticipated business interruption insurance recovery related to the Northwood Pulp Mill shutdown.

Markets

Global softwood pulp markets improved slightly through the second quarter of 2013, principally the result of industry reductions in supply due to annual spring maintenance downtime, while shipments were steady in the quarter. Global softwood pulp producer inventory levels were balanced during the current quarter, decreasing to 28 days supply in June 2013, from 29 days in March 2013[7]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

PPPC[8] statistics reported an increase in bleached softwood sulphate pulp shipments of 2.1% for the first half of 2013 compared to the same period in 2012. Improved shipments to North America and Europe were partially offset by moderated demand from China. Looking ahead, global softwood pulp markets are projected to soften heading into the seasonally slow summer months as producers ramp-up production after the spring maintenance period.

[7] 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.
[8] As reported by Pulp and Paper Products Council ("PPPC") statistics.

Sales

The Company's pulp shipments in the second quarter of 2013 were 255,000 tonnes, a decrease of 3,000 tonnes, or 1%, from the previous quarter, mostly due to the scheduled maintenance outages which were offset by reductions in inventory levels. Compared to the second quarter of 2012, shipments were up 25,000 tonnes, or 11%, mostly reflecting the unscheduled shutdown at the Northwood Pulp Mill in the comparative period. In the second quarter of 2013, a scheduled maintenance outage was completed at the Intercontinental Pulp Mill, and an extended maintenance outage was commenced at the Northwood Pulp Mill.

Average NBSK pulp list prices increased in all regions moving up US$20 to US$40 per tonne reflecting reduced supply due to spring maintenance and to a lesser extent, improving demand. The NBSK pulp list price to North America averaged US$937 per tonne for the quarter, up US$40, or 4%, from the previous quarter. The North American market continued to experience increased pressure on discounts during the second quarter of 2013. List prices to China and Europe saw more modest price increases in the quarter, with list prices to China up US$22 per tonne and to Europe up US$25 per tonne. Current quarter sales realizations increased moderately as a result of the previously mentioned price increases and a weakening of the Canadian dollar against the US dollar, which was down 1% compared to the previous quarter. Contributing to improved sales realizations was also decreased volumes into lower-margin regions, principally China.

Compared to the second quarter of 2012, pulp sales realizations were relatively unchanged, with a 4% gain in the average NBSK pulp list price to North America offset by increased volume to lower-margin regions, principally China. The North America average NBSK pulp list price increased US$37 per tonne from the previous quarter, while NBSK pulp list price movements to China and Europe were more modest, increasing US$10 and $US20 per tonne, respectively. Realizations were favourably impacted by the 1% weaker average Canadian dollar compared to the second quarter of 2012. Sales realizations in the second quarter of 2012 also included the accrual of $3.7 million for anticipated business interruption insurance related to the Northwood Pulp Mill shutdown.

Operations

Pulp production in the current quarter was 250,000 tonnes, down 15,000 tonnes, or 6%, from the previous quarter, and up 37,000 tonnes, or 17%, compared to the second quarter of 2012.

Production in the current quarter reflected scheduled maintenance outages at the Northwood and Intercontinental Pulp Mills and overall improved operating rates compared to both prior periods. The maintenance outage at the Intercontinental Pulp Mill reduced market pulp production by 6,000 tonnes, while the maintenance outage at the Northwood Pulp Mill reduced market pulp production by 11,500 tonnes in the second quarter. The outage at the Northwood Pulp Mill was completed early in the third quarter and included upgrades to the recovery boiler. In the comparative second quarter of 2012, production levels included the scheduled maintenance outages at the Intercontinental Pulp Mill and the Prince George Pulp Mill, which reduced market pulp production by 18,000 tonnes and the unscheduled shutdown at the Northwood Pulp Mill which reduced market pulp production by 31,000 tonnes. Excluding the impact of scheduled and unscheduled outages, production was up 3,000 tonnes reflecting improved productivity.

Pulp unit manufacturing costs increased moderately from the previous quarter, reflecting the lower production levels in the quarter, as well as higher costs relating to the scheduled maintenance outages. Fibre costs showed a moderate increase compared to the previous quarter, as a result of higher-cost sawmill residual chips, where prices are linked to NBSK pulp sales realizations and other seasonal factors. Partially offsetting these increased costs were lower energy costs due to seasonally lower usage in the current quarter.

Compared to the second quarter of 2012, unit manufacturing costs decreased modestly, primarily reflecting the impact of higher production levels in the current quarter and reduced chemical costs, partially offset by an increase in energy costs. Production increased 17% primarily due to the Northwood unscheduled shutdown in the comparative period, as well as improved operating rates in the current quarter. Fibre costs saw a moderate increase, largely as a result of an increase in usage and prices of higher-cost whole log chips and, to a lesser extent, increased prices for sawmill residual chips (linked to NBSK market pulp prices).

Paper

Selected Financial Information and Statistics – Paper[9]

(millions of Canadian dollars unless otherwise noted)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Sales	**$ 39.7**	$ 36.1	**$ 75.8**	$ 38.2	$ 68.1
Operating income before amortization	**$ 8.0**	$ 6.9	**$ 14.9**	$ 5.7	$ 9.4
Operating income	**$ 7.1**	$ 5.9	**$ 13.0**	$ 4.8	$ 7.5
Production – paper (000 mt)	**35.3**	34.8	**70.1**	30.0	62.9
Shipments – paper (000 mt)	**37.2**	35.0	**72.2**	36.8	66.4

[9] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.

Overview

Operating income for the paper segment was $7.1 million for the second quarter of 2013, up $1.2 million from the previous quarter and up $2.3 million from the second quarter of 2012.

The improved earnings in relation to the prior period resulted from improved paper unit sales realizations and higher shipment levels. Unit manufacturing costs were relatively unchanged as higher costs for slush pulp were offset by a largely production level driven decrease in operating costs.

Compared to the second quarter of 2012, the positive results also reflected higher paper sales realizations coupled with a modest decrease in unit manufacturing costs largely reflecting the higher production levels and reduced operating costs in the current quarter. Slush pulp costs were up marginally reflecting a higher percentage of bleached production.

Markets

Kraft paper markets were impacted by unseasonably wet weather in Europe and the eastern U.S., which dampened demand in the second quarter. To some extent, North American and European producers looked to overseas markets as an outlet resulting in pressure on export prices. During the quarter, customers' stocks remained at low levels and as a result, prices remained relatively stable through the quarter.

Sales

The Company's paper shipments in the second quarter of 2013 were 37,200 tonnes, up 2,000 tonnes, or 6% from the previous quarter and in line with the second quarter of 2012. Prime bleached shipments, which attract higher prices, were up 16% from the previous quarter and up 11% from the second quarter of 2012.

Unit sales realizations for paper products improved slightly from both comparable periods, mainly due to increased prime bleached product sales and the weaker Canadian dollar.

Operations

Paper production in the second quarter of 2013 was 35,300 tonnes, in line with the previous quarter. Production was up 5,300 tonnes, or 18% compared to the second quarter of 2012, reflecting improved operating rates as well as the impact in the second quarter of 2012 of a scheduled maintenance outage at the Company's paper machine.

Paper unit manufacturing costs were in line with the previous quarter as a result of higher costs for slush pulp, principally reflecting higher market pulp prices, and higher chemical costs, offset by a reduction in operating costs and higher production levels.

Compared to the second quarter of 2012, unit manufacturing costs were down slightly, largely reflecting higher production levels in the current quarter coupled with lower operating costs and a reduction in energy costs. Slush costs were marginally higher reflecting a higher percentage of bleached production.

Unallocated Items

Selected Financial Information[10]

(millions of Canadian dollars)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Corporate costs	**$ (3.0)**	$ (2.3)	**$ (5.3)**	$ (3.0)	$ (6.4)
Finance expense, net	**$ (2.5)**	$ (3.1)	**$ (5.6)**	$ (3.1)	$ (6.3)
Foreign exchange gain (loss) on long-term debt	**$ (3.9)**	$ (2.3)	**$ (6.2)**	$ (2.2)	$ (0.2)
Gain (loss) on derivative financial instruments	**$ (2.6)**	$ 0.7	**$ (1.9)**	$ (1.4)	$ (0.1)
Other Income, net	**$ 3.8**	$ 0.7	**$ 4.5**	$ 0.8	$ -

[10] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. Further details can be found in the Company's unaudited interim consolidated financial statements.

Corporate costs were $3.0 million for the second quarter of 2013, up slightly from the previous quarter and in line with the second quarter of 2012. The increase from the previous period was mainly due to the timing of income from annual green energy credits which are not allocated to segment results, offset slightly by reduced corporate overhead costs.

Net finance expense for the second quarter of 2013 was $2.5 million, down slightly from the comparative quarters, primarily reflecting lower accretion expense on the asset retirement obligations due to increased interest rates. The finance expense for each period principally represents interest expense on long-term debt and stand-by fees for the Company's operating lines, as well as the finance expense relating to the Company's defined benefit post-retirement benefit plans.

The Company recorded a foreign exchange translation loss on its US dollar denominated debt of $3.9 million for the second quarter of 2013, as a result of the weakening of the Canadian dollar against the US dollar, with the closing quarter end exchange rate falling by 4% from the rate at the end of the first quarter. In the first quarter of 2013 and the second quarter of 2012, the Company recorded a translation loss of $2.3 million and $2.2 million, respectively, also reflecting the weakening of the Canadian dollar over those periods.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs and interest rates. For the second quarter of 2013, the Company recorded a net loss of $2.6 million related to derivative financial instruments, primarily reflecting unrealized losses on the US dollar collars, related to the weakening of the Canadian dollar.

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

(millions of Canadian dollars)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Foreign exchange collars and forward contracts	**$ (2.7)**	$ 0.7	**$ (2.0)**	$ (1.1)	$ 0.1
Crude oil collars	**$ -**	$ 0.1	**$ 0.1**	$ (0.3)	$ (0.2)
Interest rate swaps	**$ 0.1**	$ (0.1)	**$ -**	$ -	$ -
	$ (2.6)	$ 0.7	**$ (1.9)**	$ (1.4)	$ (0.1)

Other income, net for the second quarter of 2013 of $3.8 million includes favourable exchange movements on US dollar denominated cash, receivables and payables of $1.7 million, compared to $0.7 million in the previous quarter and $0.8 million in the second quarter of 2012.

Other Comprehensive Income (Loss)

In the second quarter of 2013, the Company recorded an after-tax credit to the statements of other comprehensive income (loss) of $6.8 million in relation to changes in the valuation of its defined benefit post-employment compensation plans. The gain principally reflects the return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation. In the previous quarter, a credit of $0.2 million (after-tax) was recorded, while an after-tax charge of $3.4 million was recorded in the second quarter of 2012.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q2 2013	Q1 2013	YTD 2013	Q2 2012	YTD 2012
Increase (decrease) in cash and cash equivalents	**$ 28.4**	$ 17.7	**$ 46.1**	$ (8.9)	$ 12.9
Operating activities	**$ 44.6**	$ 28.3	**$ 72.9**	$ 19.2	$ 60.7
Financing activities	**$ (7.4)**	$ (3.8)	**$ (11.2)**	$ (11.4)	$ (19.4)
Investing activities	**$ (8.8)**	$ (6.8)	**$ (15.6)**	$ (16.7)	$ (28.4)
Ratio of current assets to current liabilities			**1.2 : 1**		2.1 : 1
Net debt to capitalization			**14.9%**		20.4%
ROIC – Consolidated[11]	**3.6%**	**3.0%**	**6.6%**	**1.4%**	3.2%

[11] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.

Changes in Financial Position

Cash generated from operating activities was $44.6 million in the second quarter of 2013, up $16.3 million from $28.3 million generated in the previous quarter. The increase resulted from a small increase in operating earnings coupled with a decrease in working capital balances. The increase in cash generated from working capital movements in part reflected an increase in accounts payable balances due to the timing of payments related to maintenance outages and capital projects in the current quarter, partially offset by a build of wood chip inventory to target levels and higher trade accounts receivable balances reflecting the improved pricing in the quarter. Compared to the second quarter of 2012, cash generated from operating activities increased by $25.4 million, reflecting higher cash earnings in the current quarter coupled with a decrease in working capital balances. The second quarter of 2012 operating cash flows also included a $4.3 million income tax payment.

Financing activities used cash of $7.4 million in the current quarter, compared to $3.8 million in the previous quarter and $11.4 million in the second quarter of 2012. Cash flows in the current period included a $3.6 million dividend, the same amount as the previous quarter. In the second quarter of 2012, distributions paid to unit holders were $7.8 million. Finance payments in the current quarter were $3.8 million, in line with the same quarter in 2012, up from finance payments in the previous quarter of $0.2 million as the second quarter of both years includes interest payments on the Company's debt.

Cash used in investing activities of $8.8 million in the current quarter principally related to the turbine upgrades at the Company's Northwood Pulp Mill planned for late 2013, upgrades to the recovery boiler at the Northwood Pulp Mill and the turbo-generator at the Intercontinental Pulp Mill, as well as maintenance capital related to the outages. Cash used for investing activities in the current quarter also included share repurchases of $1.0 million – see further discussion of the shares repurchased under the Normal Course Issuer Bid in the "Liquidity and Financial Requirements" section later in this document.

Liquidity and Financial Requirements

At June 30, 2013, CPPI had cash of $44.9 million and an operating loan facility of $110.0 million which was unused, except for $3.6 million reserved for several standby letters of credit. In addition, the Company has a separate facility with a maturity date of November 30, 2013, to cover a $7.5 million standby letter of credit issued to BC Hydro under a power generation agreement.

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

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

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 3,563,480 million common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid may continue until March 4, 2014. During the second quarter of 2013, CPPI purchased 165,018 common shares for $1.5 million. As a result of the share repurchases during the quarter, Canfor's interest in CPPI increased to 50.3%.

Dividends

On July 24, 2013, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of July 25, 2013, payable on August 14, 2013, to the shareholders of record on August 7, 2013.

OUTLOOK

Pulp

NBSK pulp markets are projected to soften during the seasonally slower third quarter and there exists a risk of price weakness from new hardwood pulp capacity projected to come online in the second half of the year. Producer inventories are forecast to rise modestly given minimal scheduled maintenance downtime historically taken by producers during the summer months. The Northwood Pulp Mill outage was completed early in the third quarter with an estimated 28,500 tonnes of reduced production in the third quarter.

Paper

Kraft paper markets are relatively stable heading into the third quarter. Prices for bleached and unbleached papers in North America and Europe are projected to remain flat through the third quarter of 2013.

OUTSTANDING SHARES

At July 24, 2013, there were 71,104,772 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- The Company adopted amended IAS 19, *Employee Benefits,* which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset).

  The effect on the consolidated balance sheet as at December 31, 2012, as a result of the adoption of amended IAS 19, was a decrease in retirement benefit obligations of $1.2 million and an increase in deferred tax liability of $0.3 million.

  The effect on the consolidated income statement for the three months ended June 30, 2012 was an increase in finance expense of $0.3 million and a decrease in the net income of $0.3 million. For six months ended June 30, 2012 there was an increase in finance expense of $0.7 million and a decrease in net income of $0.6 million due to the adoption of amended IAS 19.

The effect on the consolidated statement of other comprehensive income (loss) for the three months ended June 30, 2012 was a decrease in defined benefit plan actuarial losses of $0.3 million (after tax). The effect for six months ended June 30, 2012 was a decrease in defined benefit plan actuarial losses of $0.6 million (after tax).

- The Company also adopted IFRS 10, *Consolidated Financial Statements,* IFRS 13, *Fair Value Measurement,* IFRS 11, *Joint Arrangements* and IAS 1, *Presentation of Financial Statements,* effective January 1, 2013. These Standards did not result in material impacts on the amounts recorded in the financial statements of CPPI.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

Further details of the new accounting Standard and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2012.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2013, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2012 annual statutory reports which are available on www.canforpulp.com or www.sedar.com.

SELECTED QUARTERLY FINANCIAL INFORMATION[12]

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Sales and income (millions of Canadian dollars)								
Sales	**$ 227.6**	$ 217.5	$ 201.9	$ 177.7	$ 210.8	$ 220.0	$ 212.7	$ 233.9
Operating income before amortization	**$ 38.5**	$ 37.9	$ 32.1	$ 6.9	$ 25.0	$ 28.7	$ 37.9	$ 50.3
Operating income (loss)	**$ 19.5**	$ 19.0	$ 12.1	$ (8.3)	$ 10.3	$ 11.5	$ 16.5	$ 36.4
Net income (loss)	**$ 7.6**	$ 10.9	$ 5.4	$ (5.0)	$ 3.0	$ 10.0	$ 15.8	$ 23.9
Per common share (dollars)								
Net income (loss) – basic and diluted	**$ 0.11**	$ 0.15	$ 0.08	$ (0.07)	$ 0.04	$ 0.12	$ 0.22	$ 0.33
Statistics								
Pulp shipments (000 mt)	**255.0**	257.9	246.6	214.4	230.2	270.6	231.0	240.2
Paper shipments (000 mt)	**37.2**	35.0	32.0	30.6	36.8	29.6	30.2	32.1
Average exchange rate – US$/Cdn$	**$ 0.977**	$ 0.991	$ 1.009	$ 1.005	$ 0.990	$ 0.999	$ 0.977	$ 1.020
Average NBSK pulp list price delivered to U.S. (US$)	**$ 937**	$ 897	$ 863	$ 853	$ 900	$ 870	$ 920	$ 993

[12] Certain prior period amounts have been restated due to the adoption of amended IAS 19, *Employee Benefits*. 2011 amounts have not been restated. Further details can be found in the Company's unaudited interim consolidated financial statements.

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

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2013**		As at December 31, 2012 (Note 1)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**44.9**	$	-
Accounts receivable - Trade (Note 10)		**83.9**		61.6
- Other		**13.3**		22.8
Inventories (Note 2)		**138.0**		134.1
Prepaid expenses and other assets		**2.8**		8.3
Total current assets		**282.9**		226.8
Property, plant and equipment		**520.9**		530.8
Other long-term assets		**2.5**		0.4
Total assets	**$**	**806.3**	$	758.0
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**-**	$	1.2
Accounts payable and accrued liabilities		**128.8**		93.4
Current portion of long-term debt (Note 3(b))		**115.6**		109.4
Total current liabilities		**244.4**		204.0
Retirement benefit obligations		**94.0**		103.9
Other long-term provisions		**3.0**		3.6
Deferred income taxes, net		**61.5**		59.9
Total liabilities	**$**	**402.9**	$	371.4
EQUITY				
Share capital	**$**	**524.1**	$	525.3
Retained earnings (deficit)		**(120.7)**		(138.7)
Total equity	**$**	**403.4**	$	386.6
Total liabilities and equity	**$**	**806.3**	$	758.0

Subsequent Event (Note 13)

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

APPROVED BY THE BOARD

Director, S.E. Bracken-Horrocks

Director, R.L. Cliff

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2013**	3 months ended June 30, 2012 (Note 1)	6 months ended June 30, **2013**	6 months ended June 30, 2012 (Note 1)
Sales	**$ 227.6**	$ 210.8	**$ 445.1**	$ 430.8
Costs and expenses				
Manufacturing and product costs	**151.7**	149.8	**295.0**	302.9
Freight and other distribution costs	**31.9**	29.4	**62.8**	61.5
Amortization	**19.0**	14.7	**37.9**	31.9
Selling and administration costs	**5.5**	6.6	**10.9**	12.7
	208.1	200.5	**406.6**	409.0
Operating income	**19.5**	10.3	**38.5**	21.8
Finance expense, net	**(2.5)**	(3.1)	**(5.6)**	(6.3)
Foreign exchange loss on long-term debt	**(3.9)**	(2.2)	**(6.2)**	(0.2)
Loss on derivative financial instruments (Note 5)	**(2.6)**	(1.4)	**(1.9)**	(0.1)
Other income, net	**3.8**	0.8	**4.5**	-
Net income before income taxes	**14.3**	4.4	**29.3**	15.2
Income tax expense (Note 6)	**(6.7)**	(1.4)	**(10.8)**	(2.2)
Net income	**$ 7.6**	$ 3.0	**$ 18.5**	$ 13.0
Net income attributable to:				
Controlling interest in the Partnership	**$ 7.6**	$ 3.0	**$ 18.5**	$ 8.7
Non-controlling interest in the Partnership (Note 11)	**-**	-	**-**	4.3
Net income	**$ 7.6**	$ 3.0	**$ 18.5**	$ 13.0
Net income per common share: (in dollars)				
Attributable to controlling interest in the Partnership				
- Basic and diluted (Note 7)	**$ 0.11**	$ 0.04	**$ 0.26**	$ 0.15

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2013	2012 (Note 1)	6 months ended June 30, 2013	2012 (Note 1)
Net income	**$ 7.6**	$ 3.0	**$ 18.5**	$ 13.0
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 4)	**9.1**	(4.5)	**9.4**	(7.3)
Income tax recovery (expense) on defined benefit plan actuarial losses (gains) (Note 6)	**(2.3)**	1.1	**(2.4)**	1.8
Other comprehensive income (loss), net of tax	**6.8**	(3.4)	**7.0**	(5.5)
Total comprehensive income (loss)	**$ 14.4**	$ (0.4)	**$ 25.5**	$ 7.5
Total comprehensive income (loss) attributable to:				
Controlling interest in the Partnership	**$ 14.4**	$ (0.4)	**$ 25.5**	$ 3.2
Non-controlling interest in the Partnership (Note 11)	**-**	-	**-**	4.3
Total comprehensive income (loss)	**$ 14.4**	$ (0.4)	**$ 25.5**	$ 7.5

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2013	2012 (Note 1)	6 months ended June 30, 2013	2012 (Note 1)
Share capital				
Balance at beginning of period	**$ 525.3**	$ 525.3	**$ 525.3**	$ 294.9
Exchange transaction (Note 11)	**-**	-	**-**	230.4
Share repurchases (Note 7)	**(1.2)**	-	**(1.2)**	-
Balance at end of period	**$ 524.1**	$ 525.3	**$ 524.1**	$ 525.3
Retained earnings (deficit)				
Balance at beginning of period	**$ (131.2)**	$ (121.5)	**$ (138.7)**	$ (67.3)
Net income excluding amount attributable to non-controlling interests in the Partnership	**7.6**	3.0	**18.5**	8.7
Defined benefit plan actuarial gains (losses), net of tax	**6.8**	(3.4)	**7.0**	(5.5)
Dividends declared	**(3.6)**	(7.8)	**(7.2)**	(7.8)
Share repurchases (Note 7)	**(0.3)**	-	**(0.3)**	-
Exchange transaction (Note 11)	**-**	-	**-**	(57.8)
Balance at end of period	**$ (120.7)**	$ (129.7)	**$ (120.7)**	$ (129.7)
Total equity attributable to equity holders of the Company	**$ 403.4**	$ 395.6	**$ 403.4**	$ 395.6
Non-controlling interests in the Partnership				
Balance at beginning of period	**$ -**	$ -	**$ -**	$ 226.1
Net income attributable to non-controlling interests in the Partnership	**-**	-	**-**	4.3
Exchange transaction (Note 11)	**-**	-	**-**	(230.4)
Balance at end of period	**$ -**	$ -	**$ -**	$ -
Total equity	**$ 403.4**	$ 395.6	**$ 403.4**	$ 395.6

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2013	3 months ended June 30, 2012 (Note 1)	6 months ended June 30, 2013	6 months ended June 30, 2012 (Note 1)
Cash generated from (used in):				
Operating activities				
Net income	**$ 7.6**	$ 3.0	**$ 18.5**	$ 13.0
Items not affecting cash:				
Amortization	**19.0**	14.7	**37.9**	31.9
Income tax expense	**6.7**	1.4	**10.8**	2.2
Foreign exchange loss on long-term debt	**3.9**	2.2	**6.2**	0.2
Changes in mark-to-market value of derivative financial instruments	**2.6**	(0.4)	**2.0**	-
Employee future benefits	**1.3**	1.5	**2.7**	2.8
Net finance expense	**2.5**	3.1	**5.6**	6.3
Other, net	**(2.0)**	-	**(3.8)**	-
Defined benefit pension plan contributions	**(2.5)**	(2.6)	**(5.3)**	(5.2)
Income taxes paid, net	**-**	(4.3)	**-**	(5.5)
Net change in non-cash working capital (Note 8)	**5.5**	0.6	**(1.7)**	15.0
	44.6	19.2	**72.9**	60.7
Financing activities				
Finance expenses paid	**(3.8)**	(3.6)	**(4.0)**	(3.8)
Dividends paid	**(3.6)**	(7.8)	**(7.2)**	(15.6)
	(7.4)	(11.4)	**(11.2)**	(19.4)
Investing activities				
Additions to property, plant and equipment	**(8.6)**	(19.3)	**(15.5)**	(44.9)
Expenditures under Green Transformation Program	**-**	-	**-**	(1.1)
Reimbursements under Green Transformation Program	**-**	1.1	**-**	9.0
Other government grants received	**0.7**	1.4	**0.7**	1.6
Share repurchases (Note 7)	**(1.0)**	-	**(1.0)**	-
Acquisition of CPPI cash on exchange (Note 11)	**-**	-	**-**	6.8
Other, net	**0.1**	0.1	**0.2**	0.2
	(8.8)	(16.7)	**(15.6)**	(28.4)
Increase (decrease) in cash and cash equivalents*	**28.4**	(8.9)	**46.1**	12.9
Cash and cash equivalents at beginning of period*	**16.5**	19.8	**(1.2)**	(2.0)
Cash and cash equivalents at end of period*	**$ 44.9**	$ 10.9	**$ 44.9**	$ 10.9

* Cash and cash equivalents include cash on hand less unpresented cheques.

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

1. Basis of Preparation

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

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

At June 30, 2013, CPPI held a 100% interest in the Partnership and the General Partner and Canfor held a 50.3% interest in CPPI. The financial statements at June 30, 2013 include the accounts of CPPI, the Partnership and its subsidiaries (together referred to as "CPPI" or "the Company").

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2012, available at www.canforpulp.com or www.sedar.com.

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

Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- The Company adopted amended IAS 19, *Employee Benefits,* which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset).

  The effect on the consolidated balance sheet as at December 31, 2012, as a result of the adoption of amended IAS 19, was a decrease in retirement benefit obligations of $1.2 million and an increase in deferred tax liability of $0.3 million.

  The effect on the consolidated income statement for the three months ended June 30, 2012 was an increase in finance expense of $0.3 million and a decrease in the net income of $0.3 million. For the six months ended June 30, 2012 there was an increase in finance expense of $0.7 million and a decrease in net income of $0.6 million due to the adoption of amended IAS 19.

  The effect on the consolidated statement of other comprehensive income (loss) for the three months ended June 30, 2012 was a decrease in defined benefit plan actuarial losses of $0.3 million (after tax). The effect for the six months ended June 30, 2012 was a decrease in defined benefit plan actuarial losses of $0.6 million (after tax).

- The Company also adopted IFRS 10, *Consolidated Financial Statements,* IFRS 13, *Fair Value Measurement,* IFRS 11, *Joint Arrangements* and IAS 1, *Presentation of Financial Statements,* effective January 1, 2013. These Standards did not result in material impacts on the amounts recorded in the financial statements of CPPI.

Accounting Standards Issued and Not Applied

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of CPPI.

Further details of the new accounting Standard and potential impact on CPPI can be found in the Company's Annual Report for the year ended December 31, 2012.

2. Inventories

(millions of Canadian dollars)		**As at June 30, 2013**		As at December 31, 2012
Pulp	**$**	**63.3**	$	59.4
Paper		**16.6**		18.2
Wood chips		**12.4**		10.9
Processing materials and supplies		**45.7**		45.6
	$	**138.0**	$	134.1

3. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars)		**As at June 30, 2013**		As at December 31, 2012
Operating loan facility	**$**	**110.0**	$	110.0
Facility for BC Hydro letter of credit		**7.5**		7.5
Total operating loans		**117.5**		117.5
Letters of credit (for general business purposes)		**(3.6)**		(1.7)
BC Hydro letter of credit		**(7.5)**		(7.5)
Total available operating loans	**$**	**106.4**	$	108.3

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation, amortization and certain other non-cash items, and is based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. In addition, the facility has certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity. The maturity date of this facility is November 13, 2016.

The company has a separate facility with a maturity date of November 30, 2013 to cover a $7.5 million standby letter of credit issued to BC Hydro.

As at June 30, 2013, the Company was in compliance with all covenants relating to its operating loans.

(b) Long-Term Debt

At June 30, 2013, the fair value of the Company's long-term debt, which was measured at its amortized cost of $115.6 million (US$110.0 million), was $117.4 million. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

4. Employee Future Benefits

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

For the six months ended June 30, 2013, an amount of $9.4 million (before tax) was credited to other comprehensive income. The gain reflects the return on plan assets coupled with a higher discount rate used to value the net defined benefit obligation at June 30, 2013. For the three months ended June 30, 2013, the gain was $9.1 million (before tax). For the six months ended June 30, 2012, an amount of $7.3 million (before tax) was charged to other comprehensive income. For the three months ended June 30, 2012, the charge was $4.5 million (before tax).

For the Company's single largest pension plan, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the funded deficit by an estimated $12.8 million.

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

Pension Benefit Plans	
Discount rate	
June 30, 2013	**4.60%**
March 31, 2013	4.10%
December 31, 2012	4.20%
June 30, 2012	4.65%
March 31, 2012	4.80%
December 31, 2011	5.00%
Rate of return on plan assets	
6 months ended June 30, 2013	**3.20%**
3 months ended March 31, 2013	4.00%
6 months ended June 30, 2012	2.60%
3 months ended March 31, 2012	4.30%
Other Benefit Plans	
Discount rate	
June 30, 2013	**4.70%**
March 31, 2013	4.30%
December 31, 2012	4.40%
June 30, 2012	4.90%
March 31, 2012	5.00%
December 31, 2011	5.30%

5. Financial Instruments

CPPI's cash and cash equivalents, accounts receivable, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition.

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement,* requires classification of these items within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The following table summarizes CPPI's financial instruments at June 30, 2013 and December 31, 2012, and shows the level within the fair value hierarchy in which they have been classified (for financial instruments measured at fair value):

(millions of Canadian dollars)	Fair Value Hierarchy Level	**As at June 30, 2013**	As at December 31, 2012
Financial assets			
Held for trading			
Derivative financial instruments	Level 2	**$ 0.1**	$ 0.1
Loans and receivables			
Cash and cash equivalents	n/a	**44.9**	-
Accounts receivable	n/a	**97.2**	84.3
		$ 142.2	$ 84.4
Financial liabilities			
Held for trading			
Derivative financial instruments	Level 2	**$ 2.0**	$ -
Other liabilities			
Cheques issued in excess of cash on hand	n/a	**-**	1.2
Accounts payable and accrued liabilities (excluding derivatives)	n/a	**126.8**	93.4
Long-term debt (including current portion)	n/a	**115.6**	109.4
		$ 244.4	$ 204.0

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs, and interest rates. At June 30, 2013, the fair value of derivative financial instruments was a net liability of $1.9 million (December 31, 2012 – net asset of $0.1 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three and six month periods ended June 30, 2013 and 2012:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Foreign exchange collars and forward contracts	**$ (2.7)**	$ (1.1)	**$ (2.0)**	$ 0.1
Crude oil collars	**-**	(0.3)	**0.1**	(0.2)
Interest rate swaps	**0.1**	-	**-**	-
	$ (2.6)	$ (1.4)	**$ (1.9)**	$ (0.1)

The following table summarizes the fair value of the derivative financial instruments included in the balance sheet at June 30, 2013 and December 31, 2012:

(millions of Canadian dollars)	**As at June 30, 2013**	As at December 31, 2012
Foreign exchange collars and forward contracts	**$ (2.0)**	$ -
Crude oil collars	**0.1**	0.1
Total asset (liability), net	**(1.9)**	0.1
Less: current portion asset (liability), net	**(2.0)**	0.1
Long-term portion asset, net	**$ 0.1**	$ -

6. Income Taxes

Income tax expense for the three and six months ended June 30, 2012 includes current tax expense on income subsequent to the Exchange on March 2, 2012. Prior to the Exchange, taxes were minimal reflecting the non-taxable status of the Partnership (Note 11).

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Current	**$ (6.4)**	$ 0.8	**$ (11.7)**	$ (0.9)
Deferred	**(0.3)**	(2.2)	**0.9**	(1.3)
Income tax expense	**$ (6.7)**	$ (1.4)	**$ (10.8)**	$ (2.2)

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Income tax expense at statutory rate 2013 – 25.75% (2012 – 25.0%)[1]	**$ (3.7)**	$ (1.1)	**$ (7.5)**	$ (3.8)
Add (deduct):				
Permanent difference from capital gains and other non-deductible items	**(0.5)**	(0.1)	**(0.8)**	-
Tax expense at rates other than statutory rate	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Change in substantively enacted tax rate[1]	**(2.4)**	-	**(2.4)**	-
Permanent difference – exchange transaction	**-**	-	**-**	0.9
Tax included in equity – exchange transaction	**-**	-	**-**	0.9
Income tax expense	**$ (6.7)**	$ (1.4)	**$ (10.8)**	$ (2.2)

[1] In the second quarter of 2013, the British Columbia Provincial Government increased corporate tax rate from 10% to 11%.

In addition to the amounts recorded to net income, a tax expense of $2.3 million was recorded to other comprehensive income for the three month period ended June 30, 2013 (three months ended June 30, 2012 – recovery of $1.1 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the six month period ended June 30, 2013, a tax expense of $2.4 million was recorded to other comprehensive income (six months ended June 30, 2012 – recovery $1.8 million) in relation to the actuarial gains (losses) on defined benefit plans.

7. Earnings per Share

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. As a result of the exchange transaction and the application of reverse acquisition accounting, the CPPI shares relating to the non-controlling interest shareholders were not included until March 2, 2012. 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 was no dilution of CPPI's net income per share.

	3 months ended June 30,		6 months ended June 30,	
	2013	2012	**2013**	2012
Weighted average number of common shares	**71,252,370**	71,269,790	**71,261,032**	59,178,663

Normal course issuer bid

On March 5, 2013, the Company commenced a normal course issuer bid whereby it can purchase for cancellation up to 3,563,489 common shares or approximately 5% of its issued and outstanding common shares. The normal course issuer bid may continue until March 4, 2014. During the second quarter of 2013, CPPI purchased 165,018 common shares for $1.5 million, of which $1.0 million was paid in cash in the period. As a result of the share repurchases during the quarter, Canfor's interest in CPPI increased to 50.3%.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	3 months ended June 30, 2013	3 months ended June 30, 2012	6 months ended June 30, 2013	6 months ended June 30, 2012
Accounts receivable	**$ (2.9)**	$ (15.0)	**$ (17.0)**	$ (7.9)
Inventories	**(3.6)**	3.4	**(3.9)**	10.8
Prepaid expenses and other assets	**4.3**	(1.1)	**5.5**	(1.3)
Accounts payable and accrued liabilities	**7.7**	13.3	**13.7**	13.4
Net decrease (increase) in non-cash working capital	**$ 5.5**	$ 0.6	**$ (1.7)**	$ 15.0

9. Segment Information

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

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

(millions of Canadian dollars)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended June 30, 2013					
Sales to external customers	**$ 187.7**	**39.7**	**0.2**	**-**	**$ 227.6**
Sales to other segments	**$ 19.9**	**-**	**-**	**(19.9)**	**$ -**
Operating income (loss)	**$ 15.4**	**7.1**	**(3.0)**	**-**	**$ 19.5**
Amortization	**$ 18.0**	**0.9**	**0.1**	**-**	**$ 19.0**
Capital expenditures[1]	**$ 8.5**	**0.1**	**-**	**-**	**$ 8.6**
3 months ended June 30, 2012					
Sales to external customers	$ 171.9	38.2	0.7	-	$ 210.8
Sales to other segments	$ 16.5	-	-	(16.5)	$ -
Operating income (loss)	$ 8.5	4.8	(3.0)	-	$ 10.3
Amortization	$ 13.8	0.9	-	-	$ 14.7
Capital expenditures[1]	$ 18.7	0.4	0.2	-	$ 19.3
6 months ended June 30, 2013					
Sales to external customers	**$ 368.1**	**75.8**	**1.2**	**-**	**$ 445.1**
Sales to other segments	**$ 38.0**	**-**	**-**	**(38.0)**	**$ -**
Operating income (loss)	**$ 30.8**	**13.0**	**(5.3)**	**-**	**$ 38.5**
Amortization	**$ 35.9**	**1.9**	**0.1**	**-**	**$ 37.9**
Capital expenditures[1]	**$ 15.1**	**0.3**	**0.1**	**-**	**$ 15.5**
Identifiable assets	**$ 681.0**	**66.9**	**58.4**	**-**	**$ 806.3**
6 months ended June 30, 2012					
Sales to external customers	$ 362.0	68.1	0.7	-	$ 430.8
Sales to other segments	$ 33.7	-	-	(33.7)	$ -
Operating income (loss)	$ 20.7	7.5	(6.4)	-	$ 21.8
Amortization	$ 29.9	1.9	0.1	-	$ 31.9
Capital expenditures[1]	$ 45.1	0.5	0.4	-	$ 46.0
Identifiable assets	$ 703.9	63.6	33.9	-	$ 801.4

[1] Capital expenditures represent cash paid for capital assets during the period. For 2012, capital expenditures includes amounts that are financed by the federal government-funded Green Transportation Program.

10. Related Party Transactions

The Company depends on Canfor to provide approximately 62% (2012 – 58%) of its fibre supply as well as to provide certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor.

The transactions with Canfor are consistent with the transactions described in the December 31, 2012 audited consolidated financial statements of CPPI and the Partnership and are based on agreed upon amounts between the parties. Transactions and payables to Canfor include purchases of wood chips, pulp and administrative services. These are summarized below:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars)	**2013**	2012	**2013**	2012
Transactions				
Canfor – purchase of wood chips and other	**$ 28.5**	$ 23.5	**$ 59.8**	$ 51.8

(millions of Canadian dollars)	**As at June 30, 2013**	As at December 31, 2012
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**$ 20.6**	$ 12.9
Included in trade and other accounts receivable:		
Products marketed for Canfor	**$ 6.5**	$ 4.4
Canfor[1]	**-**	3.0

[1] Market rate of interest is charged on all amounts receivable from Canfor.

11. Acquisition of Interest in Canfor Pulp Limited Partnership

In the first quarter of 2012, as a result of the Exchange described in Note 1, CPPI increased its interest in both the Partnership and the General Partner from 49.8% to 100% and Canfor acquired a 50.2% interest in CPPI.

The transaction was accounted for as a reverse acquisition under IFRS, with Canfor's interest in the Pulp Business being the acquirer for accounting purposes and CPPI the acquiree for accounting purposes. The Pulp Business is continuing to operate under CPPI, the legal parent. The financial statements have been presented from the accounting perspective that Canfor's interest in the Pulp Business is the continuing entity after the exchange transaction as it 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 30, 2012. Canfor's interest in the Pulp Business was deemed to acquire CPPI on March 2, 2012 and the non-controlling interest was eliminated on that date.

12. Insurance Claim Receivable

During the second quarter of 2012, an incident at the Northwood Pulp Mill resulted in an unscheduled shutdown and subsequent repairs of the recovery boiler. The Company recognized a property damage insurance receivable of $5.6 million, which substantially offset the repair costs related to this incident. In addition, the Company recognized a business interruption insurance receivable of $9.7 million, less a deductible of $5.0 million, to recover the estimated impact of lost production. As at June 30, 2013, the total insurance receivable amount, net of advances received, of $4.1 million is included within Other Accounts Receivable.

13. Subsequent Event

On July 24, 2013, the Board of Directors declared a quarterly dividend of $0.05 per share with a declaration date of July 25, 2013, payable on August 14, 2013, to shareholders of record on August 7, 2013.