CANFOR PULP PRODUCTS INC.

Third Quarter Report

For the three and nine months ended September 30, 2011

Canfor Pulp Products Inc. and Canfor Pulp Limited Partnership

Third Quarter 2011
Management's Discussion and Analysis

Canfor Pulp Products Inc. (CPPI) earns income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). CPPI accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for CPPI's unitholders to understand the results of operations, the unaudited consolidated financial statements with accompanying notes are presented for both CPPI and the Partnership. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and CPPI's performance for the quarter ended September 30, 2011 relative to the same period in the prior year and relative to the previous quarter. This MD&A should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the quarters ended September 30, 2011 and 2010, as well as the annual MD&A and audited consolidated financial statements and notes which are included in CPPI's 2010 Annual Report. Additional information relating to CPPI and the Partnership, including CPPI's Annual Information Form (AIF) dated February 11, 2011, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

In this MD&A, references are made to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization and before other non-operating income and expenses) and distributable cash. The Partnership considers EBITDA to be an important indicator for identifying trends in the Partnership's performance and of the Partnership's ability to generate funds to meet its debt service, capital expenditure requirements and to make cash distributions to its partners. Distributable cash is a measure of cash flow used by management to determine the level of cash distributions. EBITDA and distributable cash should not be considered as alternatives to net income or cash flow from operations as determined in accordance with Canadian generally accepted accounting principles. As there is no standardized method of calculating EBITDA or distributable cash, the Partnership's use of this term may not be directly comparable with similarly titled measures used by other companies.

Calculations of EBITDA and distributable cash are provided in this MD&A.

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

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

Forward-looking statements in this MD&A include statements made under:

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

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

Canfor Pulp Products Inc. and Canfor Pulp Limited Partnership
Third quarter 2011
The information in this report is as at October 24, 2011.

CANFOR PULP PRODUCTS INC.

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

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

Notes: [1] Represents the Partnership's distributable cash on which CPPI is dependent to pay its own dividends. For further details on the Partnership's distributable cash see the disclosure on page 10.
[2] Fund results for 2010 presented under IFRS. See CPPI's disclosure on pages 6 and 7.
[3] Presented under previous Canadian GAAP. See CPPI's disclosure on pages 6 and 7.

OPERATING RESULTS AND LIQUIDITY

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

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

CPPI DIVIDENDS

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

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

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

RISKS AND UNCERTAINTIES

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

CPPI SHARES

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

RELATED PARTY TRANSACTIONS

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

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

CRITICAL ACCOUNTING ESTIMATES

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

CHANGE IN ACCOUNTING POLICIES

Transition to and Initial Adoption of International Financial Reporting Standards

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

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

Impact of Adopting IFRS on the Company's Accounting Policies

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

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

(a) Fund Units

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

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

Impact on Condensed Balance Sheets of the Fund:

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

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

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

(b) Deferred income tax rate

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

Impact on Condensed Balance Sheets of the Fund:

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

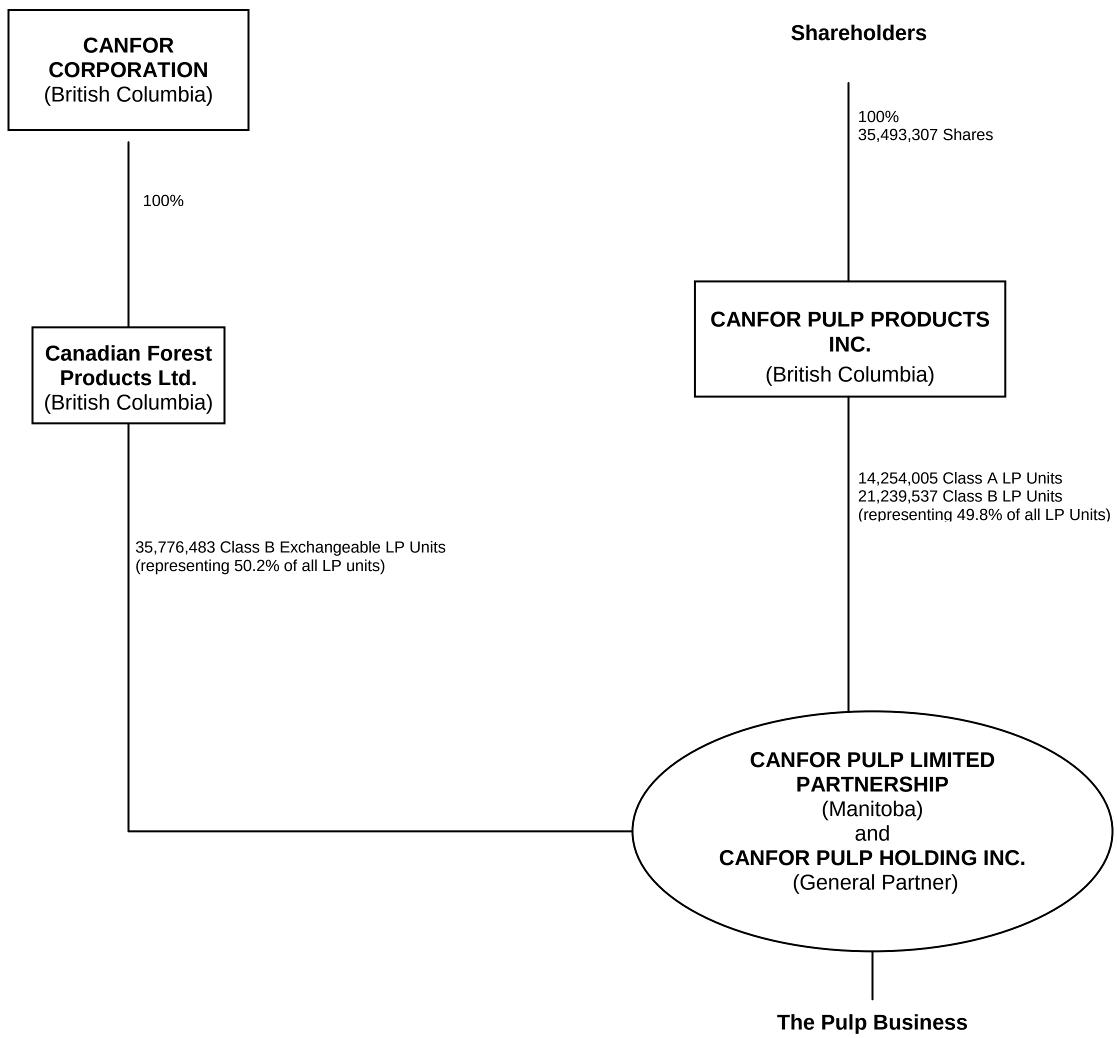
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

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

Ownership Structure



The Partnership's Business and Strategic Objectives

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

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

OVERVIEW OF PARTNERSHIP FINANCIAL RESULTS

Highlights

Three months ended September 30, 2011, The Partnership:

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

Nine months ended September 30, 2011, The Partnership:

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

Financial results

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

Note: [1] Source – Bank of Canada (average noon rate for the period).

Reconciliation of Net Income to EBITDA

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

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

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

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

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

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

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

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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

Note: [1] Presented net of government funding and excludes major maintenance capital.

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

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

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

Note: [1] HSLP (Howe Sound Pulp Limited Partnership) sales agency agreement was terminated effective October 1, 2010.

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

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

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

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

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

- The decrease in realized prices in Canadian dollar terms of 4% was primarily due to a 6% stronger Canadian dollar partially offset by improved sales mix and a reduction in non-contract business.
- The Canadian dollar strengthened 6% averaging $1.020 US/Cdn, (Q3 2010 – 0.962).
- Pulp shipment volumes decreased 5,800 tonnes or 2% when compared to the prior year quarter.
- Market pulp production decreased 32,200 tonnes, due primarily to the extended maintenance outage at the Northwood Pulp Mill.
- Unit manufacturing costs increased 7% as a result of the extended outage at the Northwood Pulp Mill and related maintenance costs and higher chemical prices, partially offset by lower fibre costs. Fibre costs

decreased 3% due to lower prices for sawmill residual chips, which are tied in part to the price of pulp and reductions in the cost of whole log chips.

- o Energy sales under the Partnership's EPA with BC Hydro increased $0.3 million.

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

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

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

Operations

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

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

Markets – Pulp

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

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

During the quarter, downward pressure on NBSK pulp list prices due to rising producer inventories resulted in a price of US$970 per tonne for North America in September compared to US$1,040 in June 2011. NBSK pulp list prices decreased US$60 per tonne for Europe to US$950 and US$90 per tonne for China to US$840 during the third quarter of 2011.

Note: [1] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the PPPC.

Outlook – Pulp

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

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

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

Paper

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

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

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

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

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

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

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

Operations

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

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

Markets – Kraft Paper

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

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

Outlook – Kraft Paper

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

Non-Segmented Costs

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

Unallocated Costs

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

Interest Expense

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

Other Non-segmented Items

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

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

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

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	**September 30, 2011**	December 31, 2010
Ratio of current assets to current liabilities	**1.76**	1.90
Ratio of net debt to partners' equity [1]	**0.17**	0.09

	Q3 2011	**YTD 2011**	Q3 2010	YTD 2010
Increase (decrease) in cash and cash equivalents	**5.5**	**(32.2)**	(12.8)	14.0
Comprised of cash flow from (used in):				
Operating activities	**51.3**	**164.9**	46.6	148.6
Financing activities	**(31.0)**	**(162.2)**	(45.8)	(101.0)
Investing activities	**(14.8)**	**(34.9)**	(13.6)	(33.6)

Note: [1] Net debt consists of long-term debt, net of cash and cash equivalents.

Changes in Financial Position

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

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

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

FINANCIAL REQUIREMENTS AND LIQUIDITY

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

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

The Partnership manages cash resources to fund current and future operations through management of its capital structure in conjunction with cash flow forecasting, including anticipated investing and financing activities. The

Partnership uses the bank credit facility to meet short-term working capital requirements. The Partnership also reviews on an ongoing basis, the level of distributions, capital expenditures and timing of scheduled major maintenance outages and may adjust these periodically to manage cash resources.

The Partnership discounts letters of credit on outstanding trade receivables to reduce borrowing costs, to reduce credit and foreign currency exposure, and to increase short-term liquidity.

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

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

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

OUTSTANDING UNITS

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

RELATED PARTY TRANSACTIONS

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

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

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

Notes: [1] Source – Bank of Canada (average noon rate for the period).
[2] Presented under previous Canadian GAAP. See the Partnership's disclosure on pages 17 – 19.
[3] For further details on the Partnership's distributable cash see the Partnership's disclosure on page 10.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

CRITICAL ACCOUNTING ESTIMATES

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

CHANGE IN ACCOUNTING POLICIES

Transition to and Initial Adoption of IFRS

IFRS became Canadian GAAP for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The financial statements for the three and nine months ended September 30, 2011, have been prepared in accordance with IAS 34, and IFRS 1, using accounting policies consistent with IFRS as issued by the IASB and IFRIC. Accordingly, the Partnership commenced reporting on this basis in its 2011 interim consolidated financial statements. The accounting policies followed in these financial statements are the same as those applied in the interim financial statements for the periods ended March 31, 2011 and June 30, 2011.

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

Impact of Adopting IFRS on the Partnership's Accounting Policies

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

(a) Major Maintenance

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

Impact on Condensed Consolidated Balance Sheets

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

Impact on Condensed Consolidated Statements of Comprehensive Income

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

Impact on Condensed Consolidated Statements of Cash Flows

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

(b) Employee Future Benefits

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

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

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

Impact on Condensed Consolidated Balance Sheets

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

Impact on Condensed Consolidated Statements of Comprehensive Income

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