CANFOR PULP INCOME FUND

CANFOR PULP LIMITED PARTNERSHIP

Management's Discussion and Analysis

For the year ended December 31, 2010

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
2010 Report to Unitholders
Management's Discussion and Analysis

Canfor Pulp Income Fund (the Fund) earned income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). The Fund accounted for its investment in the Partnership on the equity basis and did not consolidate the operations of the Partnership. In order for the Fund's unitholders to understand the results of operations, the audited consolidated financial statements with accompanying notes were presented for both the Fund 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 the Fund's performance for the year ended December 31, 2010 relative to the prior year. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the Fund and the Partnership. Additional information relating to the Fund and the Partnership, including the Fund's Annual Information Form (AIF) dated February 11, 2010, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

The Fund was converted into a dividend paying public taxable Canadian corporation named Canfor Pulp Products Inc. (CPPI), on January 1, 2011 under the previously announced plan of arrangement approved by unitholders in April 2010. Under the arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of CPPI. The reorganization was completed with the winding up of the Fund and Trust.

In this document, references are made to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization and before other non-operating income and expenses) and adjusted 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. Adjusted distributable cash is a measure of cash flow used by management to determine the level of cash distributions. EBITDA and adjusted 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 these measures, the Partnership's use of these terms may not be directly comparable with similarly titled measures used by other companies or income funds.

Reconciliations of EBITDA and adjusted distributable cash are provided in a schedule at the end of this MD&A.

The information in this report is as at February 8, 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 the Fund and/or 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 the Fund, CPPI and the Partnership, their prospects and uncertainties relating to the Fund, 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 the Fund, 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 the Fund, 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 page 6;*
- *"Income Trust Conversion Rules" on page 6;*
- *"Conversion to International Financial Reporting Standards" on page 7;*
- *"Outlook – Pulp" on page 13;*
- *"Outlook – Kraft Paper" on page 14;*
- *"Financial Requirements and Liquidity" on pages 16 and 17;*
- *"Capital Requirements" on page 21;*
- *"Critical Accounting Estimates" on page 23;*
- *"Conversion to International Financial Reporting Standards" on pages 24 to 27;*

- *“Distributable Cash and Cash Distributions” on page 28.*

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 the Fund and the Partnership. Additional information concerning these and other factors can be found in the Fund's AIF dated February 11, 2010, which is available on www.sedar.com.

CANFOR PULP INCOME FUND

The Fund was an unincorporated open-ended trust established under the laws of Ontario on April 21, 2006, pursuant to the Fund Declaration. The principal head office of the Fund was located at 1700 West 75th Avenue, Vancouver, BC, Canada. The Fund was established to acquire and hold, through a wholly owned trust, the Canfor Pulp Trust (the Trust), investments in Limited Partnership Units of 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.

The Fund was converted into a dividend paying public taxable Canadian corporation named Canfor Pulp Products Inc. (CPPI), on January 1, 2011 under the previously announced plan of arrangement approved by unitholders in April 2010. Under the arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of CPPI. The reorganization was completed with the winding up of the Fund and Trust.

At February 8, 2011, there were a total of 35,493,307 CPPI shares issued and outstanding, and CPPI indirectly 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 indirectly exchangeable for an equivalent number of CPPI shares pursuant to the terms of an amended exchange agreement (Exchange Agreement) dated January 1, 2011 among 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.

Prior to the January 1, 2011 conversion, each unitholder participated pro-rata in any distributions from the Fund. Under income tax legislation, income tax obligations related to the distributions of the Fund were the obligations of the unitholders and the Fund was only taxable on any amount not allocated to the unitholders. 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.

2010 HIGHLIGHTS

- Distributions totaled $91.6 million or $2.58 per Fund unit in 2010.
- Net income of $90.5 million.
- Completed announced conversion to a corporation under the Plan of Arrangement effective January 1, 2011.

EQUITY INVESTMENT IN CANFOR PULP LIMITED PARTNERSHIP

The Fund's equity investment in the Partnership was as follows:

(thousands of dollars)	**Year ended December 31, 2010**	Year ended December 31, 2009
Balance, beginning of year	**263,644**	266,274
Equity income of the Partnership	**88,643**	6,644
Equity interest in other comprehensive income (loss) of the Partnership	**26**	(45)
Distributions from the Partnership	**(91,573)**	(9,229)
Balance, end of year	**260,740**	263,644

The Fund's investment in the Partnership units was recorded using the equity method.

SELECTED ANNUAL FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Year ended December 31, 2010**	Year ended December 31, 2009	Year ended December 31, 2008
Equity income of the Partnership	**88,643**	6,644	23,280
Net income[1]	**90,491**	9,066	20,204
Net income per Fund unit	**$2.55**	$0.26	$0.57
Distributions earned from the Partnership and declared to unitholders	**91,573**	9,229	48,271
Distributions declared per unit	**$2.58**	$0.26	$1.36
Partnership adjusted distributable cash per unit[2]	**$2.91**	$0.43	$1.35

Notes: [1] In 2010 the Fund recorded a non-cash future income tax recovery of $1.8 million compared to $2.4 million in 2009 and a non-cash future income tax expense of $3.1 million in 2008, relating to the Fund's 49.8% ownership in the Partnership and based on temporary differences between the accounting and tax basis of the Partnership's assets and liabilities expected to reverse after January 1, 2011.

[2] Represents the Partnership's adjusted distributable cash on which the Fund was dependent to make its own distributions. For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on page 28.

2010 COMPARED TO 2009

For the year ended December 31, 2010, the Fund had net income of $90.5 million, or $2.55 per unit compared to net income of $9.1 million, or $0.26 per unit for the year ended December 31, 2009. These results represent the Fund's share of the Partnership's earnings for the year, including a future income tax recovery of $1.8 million for the year ended December 31, 2010 (2009 — $2.4 million). The Fund's improved results when compared to the prior year were due to the Fund's share of increased operating earnings, partially offset by an increase in charges for non-operating items included in the equity income of the Partnership. The Fund's share of higher operating earnings were primarily attributable to higher realized prices for the Partnership's pulp and paper products, partially offset by higher fibre costs. The Fund's share of non-operating charges included in equity income of the Partnership for 2010 totaled $2.3 million, and was primarily the result of interest expense and a foreign exchange loss on working capital, partially offset by a foreign exchange gain on translation of US dollar denominated long-term debt and a gain on derivative financial instruments. Distributions declared by the Partnership and accruing to the Fund were $91.6 million, or $2.58 per Fund unit of which $19.5 million was receivable at December 31, 2010 as compared to $9.2 million, or $0.26 per Fund unit of which $2.8 million was receivable at December 31, 2009.

2010 COMPARED TO 2008

For the year ended December 31, 2010, the Fund had net income of $90.5 million, or $2.55 per unit compared to net income of $20.2 million, or $0.57 per unit for the year ended December 31, 2008. These results represent the Fund's share of the Partnership's earnings for the year, including a future income tax recovery of $1.8 million for the year ended December 31, 2010 (2008, future income tax expense — $3.1 million). The increase in earnings when compared to 2008 was primarily due to the Fund's share of improved operating earnings of the Partnership. The Partnership's higher operating earnings were primarily attributable to higher realized pulp prices in Canadian dollar terms, higher shipment volumes, lower unit manufacturing costs and higher energy sales, which were partially offset by lower realized paper prices in Canadian dollar terms. Distributions declared by the Partnership and accruing to the Fund were $91.6 million, or $2.58 per Fund unit of which $19.5 million was receivable at December 31, 2010 as compared to $48.3 million, or $1.36 per Fund unit of which $1.4 million was receivable at December 31, 2008.

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Q4 2010**	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Equity income (loss) in the Partnership	**23,867**	27,124	21,430	16,222	7,562	9,098	724	(10,740)
Net income (loss)	**23,935**	27,901	22,111	16,544	6,903	8,497	4,406	(10,740)
Net income (loss) per Fund unit	**$0.67**	$0.79	$0.62	$0.47	$0.20	$0.24	$0.12	$(0.30)
Distributions earned from the Partnership and declared to unitholders	**37,268**	24,491	18,457	11,357	4,969	1,065	1,065	2,130
Distributions declared per Fund unit	**$1.05**	$0.69	$0.52	$0.32	$0.14	$0.03	$0.03	$0.06
Partnership adjusted distributable cash per unit[1]	**$0.68**	$0.78	$0.88	$0.57	$0.31	$0.16	$0.02	$(0.06)

Note: [1] Represents the Partnership's adjusted distributable cash for which the Fund was dependent on to make its own distributions. For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on page 28.

FOURTH QUARTER 2010 RESULTS

For the quarter ended December 31, 2010, the Fund had net income of $23.9 million or $0.67 per unit. The net income was the Fund's share of the Partnership's net income for the fourth quarter of 2010 and includes a future income tax recovery of $0.1 million. The Fund's share of non-operating items included in equity income of the Partnership for the fourth quarter of 2010 was $0.6 million, and was primarily the result of a foreign exchange gain on translation of US dollar denominated long-term debt and a gain on derivative financial instruments, partially offset by a foreign exchange loss on working capital and interest expense. Distributions declared by the Partnership and accruing to the Fund were $37.3 million of which $19.5 million was receivable at December 31, 2010. Cash distributions received from the Partnership were the only source of liquidity for the Fund. The Fund's requirements for administrative services were minimal and were funded and expensed by the Partnership.

FUND DISTRIBUTIONS

The Fund was entirely dependent on distributions from the Partnership to make its own distributions and declared distributions on a monthly basis with the record date on the last business day of each month and payable within the 15 days following. Distributions payable by the Partnership to the Fund and distributions payable by the Fund to its unitholders were recorded when declared. During 2010, the Fund declared distributions of $2.58 per Fund unit or $91.6 million.

Monthly cash distributions from the Partnership were not directly equal to the Fund's pro-rata share of the Partnership's income (loss) under the equity method. This is 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.

CPPI SHARES

At February 8, 2011, there were a total of 35,493,307 CPPI shares outstanding as a result of the aforementioned conversion of the Fund on January 1, 2011.

RISKS AND UNCERTAINTIES RELATED TO THE STRUCTURE OF THE FUND

Control of the Partnership

Pursuant to a shareholders' agreement, Canfor is entitled to appoint the majority of directors to the board of the General Partner for so long as it owns not less than a 30% interest in the Partnership. For so long as Canfor holds not less than a 20% interest in the Partnership, Canfor's consent will be required in order to approve certain significant transactions of the Partnership. In addition, under the amended Exchange Agreement, CPPI agreed not to take certain actions without the prior approval of Canfor. As a result of these rights, Canfor will exercise significant influence or control over transactions submitted to the board of the General Partner and of CPPI. Canfor may have sufficient voting power to prevent a change of control of the Partnership. CPPI has an indirect interest in the Partnership and has influence, but not control over the transactions of the Partnership.

The interests of Canfor may conflict with those of CPPI shareholders.

Dependence on the Partnership

The Fund was and CPPI is entirely dependent on the operations and assets of the Partnership. Cash dividends will be dependent on, among other things, the ability of the Partnership to make cash distributions. The ability of CPPI to make cash dividends or other payments or advances is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

Cash Dividends are not Guaranteed and will Fluctuate with the Business Performance

Although CPPI intends to pay dividends in respect of the cash distributions received from the Partnership, less income taxes and expenses, there can be no assurance regarding the amount of income to be generated by the Partnership's business or ultimately the cash distributed to CPPI. The ability of CPPI to pay cash dividends, and the actual amount paid, will be entirely dependent on the operations and assets of the Partnership, and will be subject to various factors including its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital and its capital expenditure requirements. Accordingly, there is no assurance that dividends will be maintained at current levels. The market value of CPPI shares may deteriorate if CPPI is unable to maintain its dividend levels in the future.

Future Income Taxes

Future income tax assets and liabilities were determined based on the difference between the tax basis of the Fund's and the Partnership's assets and liabilities and the respective amounts reported in the financial statements. Future tax assets or liabilities were calculated using the substantively enacted tax rates for the periods in which the differences are expected to be settled. Future tax assets were recognized to the extent that they were considered more likely than not to be realized.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for the Fund were performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the year ended December 31, 2010 were $91.6 million of which $72.1 million was received, with the balance of $19.5 million receivable on December 31, 2010. Distributions earned from the Partnership for the year ended December 31, 2009 were $9.2 million of which $6.4 million was received, with the balance of $2.8 million receivable on December 31, 2009.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 future income taxes, and assessing whether there has been an other than temporary decline in the value of the investment in the Partnership. The determination of the future income tax liability requires management to estimate the future impacts of the Partnership's amortization of capital assets, capital cost allowance claims for tax purposes, and changes to actuarial estimates of employee benefit plans. The Fund accounted for its investment in the Partnership using the equity method. The Fund 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 have been reflected in the market value of the Fund. Changes in these estimates could have a material impact on the calculation of the future income tax liability or equity investment in the Partnership.

INCOME TRUST CONVERSION RULES

On June 12, 2007, legislation was substantively enacted whereby distributions made by publicly traded income trusts and partnerships will be taxed similar to that of income earned and distributed by a corporation. The Specified Investment Flow-Through Trust (SIFT) Tax became effective on January 1, 2011. On March 12, 2009 the Canadian government enacted legislation (SIFT Conversion Rules) which enables the conversion of a SIFT into a corporation on a tax-free rollover basis, prior to 2013.

The conversion of the Fund into a dividend paying public corporation named Canfor Pulp Products Inc. (CPPI) has been completed effective January 1, 2011 under the previously announced plan of arrangement approved by unitholders in April 2010. Under the arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of CPPI.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. CPPI (as the continuing operations of the Canfor Pulp Income Fund) converted to IFRS effective January 1, 2011.

CPPI will rely on the resources of the Partnership to ensure compliance with IFRS. The Partnership will continue to review all proposed and continuing projects of the International Accounting Standards Board to determine their impact on CPPI, and will continue to invest in training and resources to ensure CPPI is making the appropriate judgments and following the IFRS accounting policies selected.

A detailed IFRS transition analysis has been substantively completed for CPPI and no significant changes compared to Canadian GAAP are expected for CPPI's 2011 consolidated financial statements other than potentially more detailed disclosure requirements.

The impact on CPPI's future financial position and results of operations is primarily dependent on changes in accounting policies that may materially impact the Partnership's consolidated financial statements.

For further details on the Partnership's transition plan see the Partnership's disclosure on pages 24 through 27.

The Partnership is currently finalizing its analysis to determine the significant IFRS transition impacts on the Fund's IFRS Opening Balance Sheet and the 2010 comparative numbers prior to conversion to a Corporation (CPPI). As a result of the specific characteristics of an Income Fund, the Partnership is focusing on the impact of International Accounting Standard (IAS 32) "Financial Instruments: Presentation" and IAS 12 "Income Taxes" on the Fund's Opening Balance Sheet and the 2010 comparative numbers.

As a result of the conversion to a corporation effective January 1, 2011, the items discussed below will not be expected to have a material impact on CPPI's 2011 consolidated financial statements:

- While under Canadian GAAP the Fund units were classified as equity, the Partnership expects that IAS 32 will require that the Fund units be classified as a current financial liability under IFRS prior to conversion to a Corporation.
- Under Canadian GAAP the Fund recorded temporary tax differences that are expected to reverse after 2010 based on specified investment flow through entity ("SIFT") tax rates. However, IAS 12 requires that companies should generally use the "undistributed" rate for recording taxes. Therefore, under IFRS the rate to apply to temporary differences existing on January 1, 2010 that are expected 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. 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 corporate tax rate.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consisted of distributions receivable from the Partnership and distributions payable to unitholders. The fair values of these financial instruments approximated their carrying values due to the relatively short period to maturity of these instruments.

CANFOR PULP LIMITED PARTNERSHIP

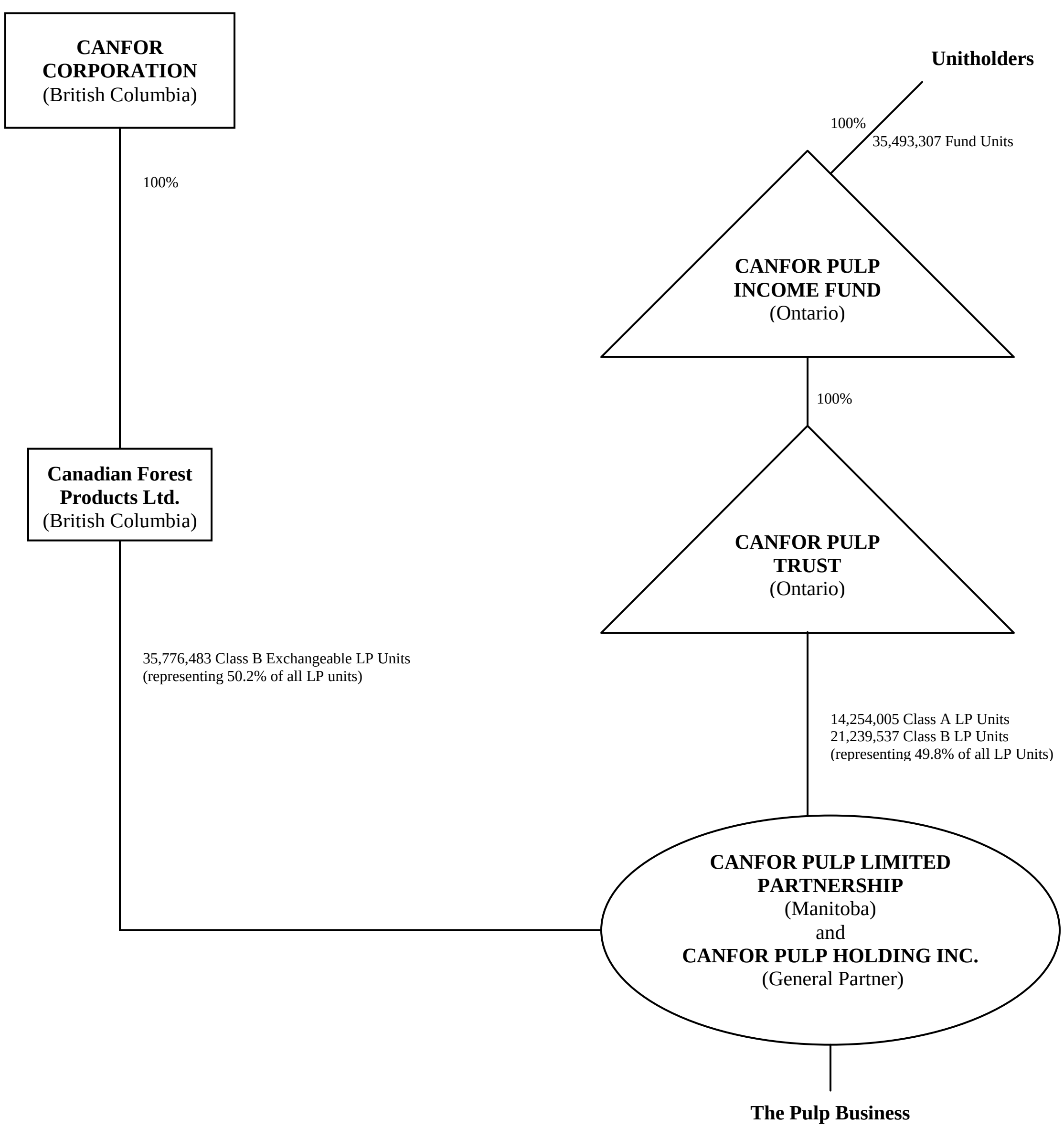
Structure

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).

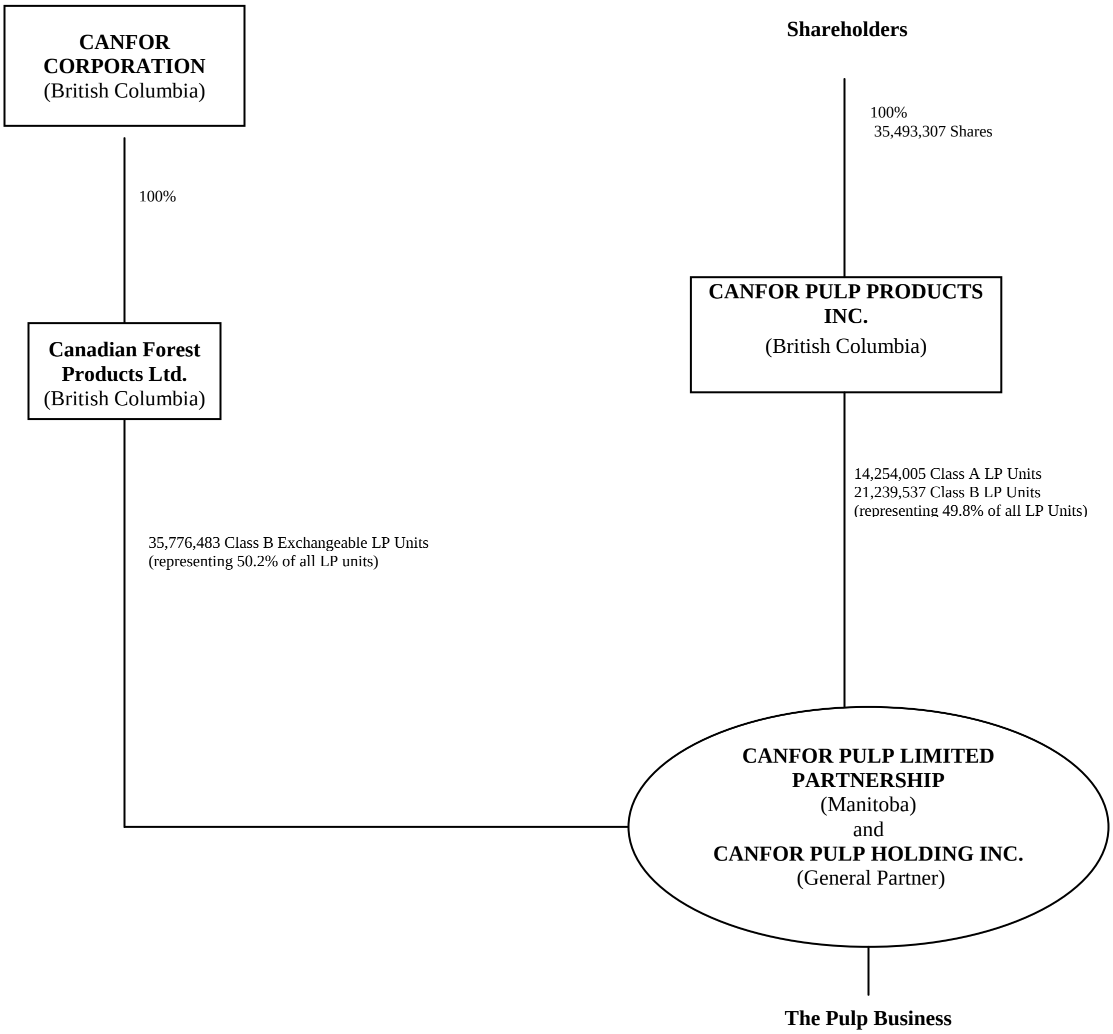
The conversion of the Fund into a dividend paying public corporation named Canfor Pulp Products Inc. (CPPI) has been completed effective January 1, 2011 under the previously announced plan of arrangement approved by unitholders in April 2010. Under the arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of CPPI. Below are simplified schematics of the ownership structure as at December 31, 2010 and after the conversion as at January 1, 2011.

At February 8, 2011, CPPI indirectly 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 as at December 31, 2010



Ownership Structure as at January 1, 2011



The Business

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.

2010 HIGHLIGHTS

- Generated record EBITDA of $230.0 million and record sales of $1.0 billion.
- Distributed $183.9 million or $2.58 per Partnership unit.
- Achieved average total daily production rate record.
- Received approval from the Canadian Federal government to proceed with three Green Transformation projects totaling $115.6 million for reimbursement of funds to be spent by March 31, 2012 on qualifying energy and environmental capital projects.
- Energy sales under the terms of the Energy Purchase Agreement with BC Hydro totaled $5.4 million in 2010.

Selected Annual Information

(millions of dollars except volumes and per unit amounts, unaudited)	**2010**	2009	2008
Sales volume - major products			
Pulp - thousands of metric tonnes	**1,039.0**	1,044.6	905.4
Paper - thousands of metric tonnes	**144.7**	135.0	124.8
Sales by segment			
Pulp	**857.2**	690.0	695.2
Paper	**142.6**	122.5	130.3
Unallocated	**1.3**	1.0	-
Total sales	**1,001.1**	813.5	825.5
Operating income			
Pulp	**198.1**	11.7	72.5
Paper	**0.5**	10.6	9.4
Unallocated costs	**(15.9)**	(10.3)	(13.2)
Total operating income	**182.7**	12.0	68.7
EBITDA			
Pulp	**242.1**	57.9	116.7
Paper	**3.5**	13.9	13.1
Unallocated costs	**(15.6)**	(10.0)	(12.9)
Total EBITDA	**230.0**	61.8	116.9
Net income	**178.0**	13.4	46.8
Net income per Partnership unit, basic and diluted	**$ 2.50**	$ 0.19	$ 0.66
Total assets	**867.3**	837.6	868.9
Total long-term debt	**109.4**	115.1	134.7
Adjusted distributable cash	**207.1**	30.5	96.1
Distributions declared	**183.9**	18.6	96.9
Distributions declared per unit	**$ 2.58**	$ 0.26	$ 1.36
Average exchange rate (US$/Cdn$)[1]	**0.971**	0.876	0.938

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

2010 Compared to 2009

Net income and EBITDA for 2010 increased by $164.6 million and by $168.2 million respectively over 2009. The increase in 2010 results were primarily attributable to higher realized prices in Canadian dollar terms for the Partnership's products and higher energy sales, partially offset by higher fibre costs. Realized pulp prices in Canadian dollar terms were 25% higher when compared to 2009 as a 34% increase in NBSK pulp US dollar list prices and increased sales volume into higher margin end uses, were partially offset by a 11% strengthening of the Canadian dollar. Realized paper prices in Canadian dollar terms increased 9% when compared to 2009. Unit manufacturing costs increased marginally when compared to 2009 due to higher fibre costs, partially offset by the impact of higher production volumes. Fibre costs increased 8% when compared to 2009 due to higher prices for sawmill residual chips which are partly tied to pulp prices, partially offset by a reduction in the price and volume of whole log chips. Energy sales increased when compared to 2009 as the energy agreement with B.C. Hydro effective September 2009, was in effect for the full year 2010. Non-operating charges, included in net income of the Partnership totaled $4.7 million in 2010, which represents an increase of $6.1 million when compared to 2009. The increase in non-operating charges is primarily the result of a reduction in foreign exchange gain on translation of US dollar denominated long-term debt, partially offset by gains on financial derivative instruments, a reduction in foreign exchange losses on working capital and lower net interest expense.

2010 Compared to 2008

Net income and EBITDA for 2010 increased by $131.2 million and $113.1 million respectively when compared to 2008. The improved results in 2010 were attributable to higher realized pulp prices in Canadian dollar terms, higher sales volumes, lower unit manufacturing costs and higher energy sales, which were partially offset by lower realized paper prices in Canadian dollar terms. Realized pulp prices in Canadian dollar terms increased by 7% from 2008, as a 12% increase in NBSK pulp US dollar list prices was partially offset by the stronger Canadian dollar. Realized paper prices in Canadian dollar terms decreased by 5% when compared to 2008. Sales volumes for NBSK market pulp in 2010 were 133,600 tonnes or 15% higher than 2008 and paper sales volumes were up 19,900 tonnes or 16% when compared to 2008. The increased shipment levels were attributable to additional market pulp available as a result of increased production from the Partnership's facilities, strong global softwood demand and the impact of deteriorating market conditions in the last quarter of 2008 as a result of the global economic recession. Unit manufacturing costs decreased 9% when compared to 2008 as a result of lower fibre, chemical and energy prices and the impact of higher production volumes. Fibre costs decreased by approximately 6% when compared to 2008 due to lower prices and volumes of higher cost whole log chips. Non-operating charges, included in net income of the Partnership totaled $4.7 million in 2010, which represents a reduction in charges of $17.2 million when compared to 2008. The reduced non-operating charges are primarily the result of a foreign exchange gain on translation of US dollar denominated long-term debt and reduced losses on financial derivative instruments, partially offset by a foreign exchange loss on working capital.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	2010	2009
Sales	**857.2**	690.0
EBITDA	**242.1**	57.9
EBITDA margin	**28%**	8%
Operating income	**198.1**	11.7
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**960**	718
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**989**	820
Production – pulp (000 mt)	**1,032.0**	1,006.8
Shipments – Partnership produced pulp (000 mt)	**1,039.0**	1,044.6
Marketed on behalf of HSLP & Canfor (000 mt)	**457.8**	521.7

For the year ended December 31, 2010, operating income of $198.1 million was $186.4 million higher than in 2009. The improved operating results were attributable to higher realized prices in Canadian dollar terms and higher energy sales, partially offset by higher unit manufacturing costs. Realized pulp prices in Canadian dollar terms were 25% higher when compared to 2009 as a 34% increase in NBSK pulp US dollar list price and increased sales volumes into higher margin end uses, were partially offset by an 11% stronger Canadian dollar. Energy sales under the terms of the Energy Purchase Agreement with BC Hydro totaling $5.4 million in 2010 (2009 – $1.9 million) were included in the pulp segment sales. Unit manufacturing costs increased by 1% when compared to 2009 as a result of higher fibre and maintenance costs, which were partially offset by the impact of higher production volumes and lower chemical costs. Fibre costs increased 8% when compared to 2009 due to higher prices for sawmill residual chips which are partly tied to pulp prices, partially offset by a reduction in the price and volume of higher cost whole log chips. Market pulp production increased by 25,200 tonnes or 3%, and was mainly the result of strong operating rates at all facilities. Sales volumes of NBSK market pulp decreased 5,600 tonnes when compared to 2009 as a reduction in shipments to China were partially offset by increased shipments to North America.

Operations

An average daily production rate record was achieved on a combined basis for the Partnership's facilities in 2010, exceeding the previous record set in 2007 by 2%. In addition, the Northwood and Intercontinental Pulp Mills surpassed previous records for average daily production rates.

NBSK market pulp production during 2010 was 25,200 tonnes higher than in 2009. The increased production was mainly attributable to a 4% increase in the average daily production rate in 2010, partially offset by an overall reduction in operating days in 2010 due to extended maintenance outages at the Prince George and Northwood Pulp Mills.

Markets – Pulp

Tight market conditions through 2010 kept inventories held by producers and customers at levels in a range that is considered to be low to balanced. Price increases were supported through the first half of 2010 as a result of constrained supply and strong printing and writing paper demand. Pulp and Paper Products Council (PPPC) statistics reported an increase in global demand for printing and writing papers of 6% for full year 2010 as compared to 2009. PPPC reported an increase in global production for tissue of 1% for November year-to-date 2010 as compared to the same period in 2009.

The tight supply conditions and low producer inventory levels through the second half of 2009 were prolonged as a result of the Chilean earthquake on February 27, 2010 that impacted approximately 8% of global softwood pulp supply. In addition, restarts of pulp mills idled during 2009 were delayed until late in 2010.

The improvement in consumption and constrained supply resulted in stabilizing global softwood inventories at a relatively low level. At the end of December 2010, World 20[1] producers of bleached softwood pulp inventories were at 25 days of supply. By comparison, December 2009 inventories were at 23 days of supply. Market conditions are generally considered balanced when inventories fall in the 27-30 days of supply range.

As a result of these tight market conditions, producers were successful at implementing price increases through the first half of 2010. North American US list prices peaked in July 2010 at US$1020 per tonne, an increase of 60% from the low in April 2009 of US$635 per tonne. Modest downward pressure was exerted on pricing in the latter half of 2010 with the restarts of the majority of the Chilean pulp mills after the earthquake and two idled North American pulp mills. North American NBSK pulp list prices closed 2010 at US$960 per tonne representing a US$60 per tonne decrease from the peak in 2010, however, when compared to the same period in 2009, pricing was up US$110 per tonne or 13%. In Canadian dollar terms the price increases were somewhat mitigated by the strengthening of the Canadian dollar during 2010.

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 Pulp and Paper Products Council.

Outlook – Pulp

The global softwood pulp market is expected to remain balanced through the first quarter of 2011 with inventory stocks in a range that is expected to support current pricing levels. Demand remains solid with continued strong shipments into China and sustained demand in the North America Printing and Writing paper sector. Pulp mill operating rates are expected to increase in January and February with minimal scheduled downtime and as previously idled mills reach full capacity. However, in the second quarter of 2011, annual maintenance downtime coupled with extended outages due to several large capital projects in Canada funded under the Canadian Federal government Green Transformation Program, are expected to curtail supply. Any relative weakness of the US dollar versus the Canadian dollar and the Euro also is expected to exert upward pressure on US dollar list prices.

There are no scheduled maintenance outages planned for the first quarter of 2011. Scheduled maintenance outages are planned at the Prince George and Intercontinental Pulp Mills in the second quarter of 2011 with an estimated 10,000 tonnes of reduced production. A maintenance outage is planned at the Northwood Pulp Mill in the third quarter of 2011 which will be extended to complete work and commissioning of the recovery boiler upgrade project funded under the Canadian Federal government's Green Transformation Program, with a total of 40,000 tonnes of estimated reduced production.

Paper

(millions of dollars unless otherwise noted, unaudited)	**2010**	2009
Sales	**142.6**	122.5
EBITDA	**3.5**	13.9
EBITDA margin	**2%**	11%
Operating income	**0.5**	10.6
Production – paper (000 mt)	**136.7**	131.0
Shipments – paper (000 mt)	**144.7**	135.0

The 2010 operating results for the paper segment were $10.1 million lower when compared to 2009. The decrease was primarily attributable to higher costs for slush pulp, partially offset by a 9% increase of realized prices in Canadian dollar terms and higher shipment volumes. Slush pulp costs, which are transferred to the paper segment at market price, increased 35% when compared to 2009. Partially offsetting the higher slush pulp costs was the impact of higher production volumes on unit costs. Paper shipments increased by 7% when compared to 2009.

Operations

The paper division produced a record 136,700 tonnes in 2010, an increase of 5,700 tonnes when compared to 2009. The increase was attributable to a record average daily production rate achieved in 2010 and an increase in operating days, mainly attributable to the impact of the market curtailment, which commenced in the third week of December 2008 and extended into January 2009.

Markets

Kraft paper demand remained strong through the end of the year and paper markets were balanced with supply. American Forest and Paper Association reported that US total Kraft paper shipments for December 2010 were unchanged from November and increased 1% when compared to December 2009. Full year 2010 shipments were 10% higher when compared to 2009. The Pulp Shipping Sack Manufacturers' Association shipping sack statistics for December reveal that industry paper consumption was up 3% from the previous month, and increased 7% for full year 2010 when compared to 2009. During the latter half of 2010, North American prices remained relatively stable while export prices continued to increase.

The Partnership's prime paper shipments in the fourth quarter of 2010 increased 18% from the third quarter of 2010. For the full year 2010, prime paper shipments increased 11% and prime bleached shipments increased by 32% when compared to 2009.

Outlook – Kraft Paper

Kraft paper demand is currently strong and the supply/demand balance is expected to remain positive through the first quarter of 2011. Prices are expected to remain stable through the first quarter of 2011 with some potential for modest price increases as higher than expected consumer spending in the latter half of 2010 is representative of demand growth which may provide pricing momentum heading into 2011. The Partnership's prices in US dollar terms are vulnerable to the relative strength of the Canadian dollar in relation to other currencies, primarily the US dollar.

Non-Segmented Costs

(millions of dollars, unaudited)	**2010**	2009
Net unallocated costs	**15.9**	10.3
Interest expense, net	**7.8**	10.1
Foreign exchange gain on long-term debt	**(5.7)**	(19.6)
Loss (gain) on derivative financial instruments	**(1.5)**	1.5
Foreign exchange loss on working capital	**4.0**	6.7
Other expense (income)	**0.1**	(0.1)
	20.6	8.9

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, for 2010 of $15.9 million were $5.6 million higher than the same period a year ago. The increased costs were primarily attributable to higher accruals for performance based incentive plans, higher consulting costs and corporate conversion expenses, which were partially offset by a one-time fee received in respect of the termination of the agency sales agreement with HSLP due to the sale by Canfor of its ownership interest in HSLP.

Interest Expense

The lower net interest expense in 2010 was due to a reduction in borrowing costs as a result of lower requirements to fund short-term working capital than in 2009.

Other Non-segmented Items

The foreign exchange gain on long-term debt was the result of the strengthening Canadian dollar in 2010 and translating the US$110.0 million debt at the year-end exchange rate.

The foreign exchange loss on working capital of $4.0 million resulted from translating US dollar balances at period-end exchange rates.

The net gain of $1.5 million on derivative financial instruments recorded in 2010 relates to the settlement of maturing contracts during the year and the revaluation to market of outstanding contracts at the end of the year for natural gas swaps and US dollar forward contracts.

The declining price of natural gas in 2010 resulted in a loss for the year of $3.7 million on settlement of contracts. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements. The increasing value of the Canadian dollar in 2010 resulted in a gain of $4.2 million on the settlement of US dollar forward contracts, which were used to mitigate the impact of currency fluctuations on US dollar working capital. This gain was offset by the foreign exchange loss on working capital of $4.0 million.

A net gain of $1.0 million was recorded in the year on outstanding derivative financial instruments relating to a revaluation to market of outstanding natural gas swaps and outstanding US dollar forward contracts at December 31, 2010.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	**Q4 2010**	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Sales and Income								
Sales	**266.1**	247.9	247.6	239.5	220.2	202.0	205.0	186.3
Operating income (loss)	**46.6**	52.0	51.6	32.5	14.4	12.4	(5.0)	(9.8)
EBITDA	**58.6**	63.6	63.7	44.1	27.3	25.1	7.2	2.2
Net income (loss)	**47.9**	54.5	43.1	32.5	15.2	18.3	1.5	(21.6)
Per Partnership unit (dollars) [1]								
Net income (loss) basic and diluted	**$0.68**	$0.76	$0.60	$0.46	$0.21	$0.26	$0.02	($0.30)
Statistics								
Pulp shipments (000 mt)	**272.3**	246.0	252.3	268.4	258.6	259.5	286.2	240.3
Paper shipments (000 mt)	**39.0**	33.6	34.4	37.7	38.1	37.4	34.3	25.2
Average exchange rate (US$/Cdn$) [2]	**0.987**	0.962	0.973	0.961	0.947	0.912	0.858	0.803
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**967**	1,000	993	880	820	733	645	673
Per Partnership unit (dollars) [1]								
Adjusted distributable cash per unit[3]	**$0.68**	$0.78	$0.88	$0.57	$0.31	$0.16	$0.02	($0.06)
Distributions declared per unit	**$1.05**	$0.69	$0.52	$0.32	$0.14	$0.03	$0.03	$0.06

Notes: [1] Based on Partnership units outstanding at December 31, 2010 (71,270,025) for all periods.
[2] Source – Bank of Canada (average noon rate for the year).
[3] For further details on the Partnership's adjusted distributable cash see the disclosure on page 28.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and EBITDA are primarily impacted by: the level of sales; freight costs; fluctuations of fibre, chemical, and energy prices; level of spending and the timing of scheduled maintenance downtime; and production curtailments. Net income (loss) is also impacted by fluctuations in Canadian dollar exchange rates, the market price of natural gas, the revaluation to the year-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.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	**2010**	2009
Ratio of current assets to current liabilities	**1.96**	2.04
Ratio of net debt to partners' equity [1]	**0.09**	0.19

Increase (decrease) in cash and cash equivalents	**50.7**	13.1
Comprised of cash flow from (used in):		
Operating activities	**219.6**	71.2
Financing activities	**(150.4)**	(40.9)
Investing activities	**(18.5)**	(17.2)

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

Changes in Financial Position

For the year, operating activities generated cash of $219.6 million compared to $71.2 million in 2009. The increase was primarily due to higher cash generated from operations, partially offset by a reduction of cash generated from working capital. The higher cash generated from operations was primarily attributable to increases in the price for the Partnership's pulp and paper products and higher sales volumes. The reduction in cash generated from working capital was primarily the result of a large decrease in the volume and price of pulp finished goods inventories in 2009 as compared to 2010, and a cash receipt during 2009 of the outstanding insurance claim relating to the Prince George Pulp and Paper Mill fire, which were partially offset by differences in the timing of trade receivable and accounts payable balances.

The cash used in financing activities of $150.4 million represents distributions paid to the limited partners, namely Canfor and the Fund.

The cash used in investing activities in the year was comprised primarily of $38.7 million relating to capital expenditures, partially offset by $20.2 million in payments received for reimbursable amounts under the Canadian Federal government's Green Transformation Program.

FINANCIAL REQUIREMENTS AND LIQUIDITY

Long-term Debt

At December 31, 2010 the Partnership had outstanding long-term debt of $109.4 million (2009 – $115.1 million, US$110.0 million for both 2010 and 2009) 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.

Operating Loans

At the end of the year, the Partnership had cash and cash equivalents of $64.2 million, of which $39.2 million was used to pay declared distributions on January 14, 2011. The Partnership has a $40.0 million bank credit facility with a maturity date of November 30, 2011, of which $0.5 million was utilized at December 31, 2010 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, 2011, to cover the $13.2 million standby letter of credit issued to BC Hydro under the Energy Purchase Agreement. Interest and other costs of the bank credit facility are at prevailing market rates.

Cash Management

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 periodically 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.

Debt Covenants

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 December 31, 2010 and throughout the year.

Pulp and Paper Green Transformation Program

On October 9, 2009 the Canadian Federal government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the Program). The Partnership has been allocated $122.2 million from the Program announced by the Canadian government on June 17, 2009. 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. The Partnership has received Program approval to proceed with three projects totaling $115.6 million. The Partnership expects to submit further projects over the balance of 2011. As of December 31, 2010 the Partnership has incurred $38.1 million and received reimbursements totaling $20.2 million with the balance of $17.9 million receivable on December 31, 2010**.** The Partnership submits claims for expenditures on approved projects under the Program on a monthly basis. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

Commitments

The Partnership is committed to the following operating leases for property, plant and equipment. At December 31, 2010, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)	
2011	2.4
2012	1.6
2013	0.8
Thereafter	1.1
Total minimum lease payments	5.9

Other contractual obligations not included in the table above are:

- The Partnership has an Energy agreement with BC Hydro which provides for the sale of power production that exceeds an amended commitment of the original cogeneration project at the Prince George Pulp and Paper Mill. The obligation to produce power for the remainder of the term of the agreement, extending to August 2020, was reduced to 338 GWh per year from 390 GWh effective September 15, 2009. Under the agreement, the Partnership is required to post a standby letter of credit as security in annually decreasing amounts as a minimum required amount of electricity is generated. As of December 31, 2010, the Partnership had no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of $13.2 million was issued to BC Hydro as security for future power generation commitments.

- Obligations to pay pension and other post-employment benefits, for which a liability of $53.0 million was recorded at December 31, 2010 (2009 – $49.0 million). The Partnership has funded and unfunded defined benefit plans, as well as a defined contribution plan, that provide pension and other retirement and post-employment benefits to all salaried employees and to its hourly employees that are covered under collective agreements. The regular Salary Pension Plan (SPP) is a registered pension plan and as such, requires funding of future obligations.

- The Partnership's asset retirement obligations represent estimated undiscounted future payments of $40.6 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 32 to 40 years which have been discounted at 5.8% and 6.3%, respectively. The estimated fair value is $3.1 million (2009 – $3.0 million) and the amount is included in long-term liabilities.

- Significant contractual commitments relating to the construction of capital assets totaled $6.5 million at December 31, 2010 (2009 – nil). These commitments related to projects funded under the Canadian Federal government's Green Transformation Program.

Pension Obligations

As a result of a new funding valuation as of December 31, 2009, the Partnership increased its funding contributions to its defined benefit salary pension plans in 2010 by $4.0 million to $6.5 million (2009 – total contributions $2.5 million). The Partnership is currently committed to annual payments in relation to its main salary pension plan of $7.9 million for the next four years, or until such a time as a new funding valuation may lead to a reduction in the amount of payments required. Of this amount, approximately $2.6 million will relate to current service costs of active employees.

RELATED PARTY TRANSACTIONS

The Partnership purchased wood chips and hog fuel from Canfor sawmills in the amount of $126.2 million in 2010 (2009 – $119.4 million). The Partnership also purchased wood chips from Lakeland Mills Ltd., in which Canfor owns a one-third interest. Purchases from this entity in 2010 were $6.1 million (2009 – $3.9 million). Purchased wood chips and hog fuel are included in manufacturing and product costs.

Effective July 1, 2006, the Partnership entered into a services agreement under which Canfor provides certain business and administrative services to the Partnership. Total value of the services provided in 2010 was $3.0 million (2009 – $3.0 million), included in manufacturing and product costs and selling and administration costs.

Effective July 1, 2006, the Partnership entered into an incidental services agreement with Canfor, under which the Partnership provides certain business and administrative services to Canfor. Total value of the services provided in 2010 was $1.7 million (2009 – $1.7 million), included in manufacturing and product costs and selling and administration costs.

The Partnership markets bleached chemi-thermo mechanical pulp production from Canfor's Taylor Pulp Mill (Taylor) for which it earned commissions totaling $1.7 million in 2010 (2009 – $1.9 million), included in sales. The Partnership also purchased chemi-thermo mechanical pulp from Taylor for resale totaling $1.5 million in 2010 (2009 – $1.7 million). The Partnership sold NBSK pulp to Taylor for packaging use totaling $3.0 million in 2010 (2009 – $2.3 million). In respect of the products marketed and services provided for Taylor, the Partnership held balances of $22.2 million in accounts receivable - trade (2009 – $24.4 million) and $23.6 million in accounts payable (2009 – $24.5 million) to Canfor at December 31, 2010.

In October of 2010, Canfor sold its 50% ownership of Howe Sound Pulp and Paper Limited Partnership (HSLP). Until this time, the Partnership marketed the NBSK pulp produced by HSLP, for which it earned commissions totaling $1.8 million in 2010 (2009 – $2.4 million), included in sales. In respect of the products marketed and service provided for HSLP, the Partnership held balances of $1.0 million in accounts receivable - trade (2009 – $16.5 million) and $8.9 million in accounts payable (2009 – $17.6 million) to Canfor at December 31, 2010. As a result of the sale of HSLP by Canfor, the Partnership's agreement to market HSLP pulp was terminated by the buyer and as compensation the Partnership received a contract termination fee of $1.3 million from HSLP, included in selling and administration costs.

Under the agreements for the marketing of production from Taylor, the Partnership assumes the customer credit risk. Accordingly, the Partnership records on its balance sheet the accounts receivable from the customer and the accounts payable to Canfor for sales made under those agreements.

At December 31, 2010, a total of $12.0 million (2009 – $16.3 million) was outstanding as accounts payable to Canfor in respect of purchases of wood chips, hog fuel, services and amounts paid on behalf of the Partnership. At December 31, 2010 a total of $0.4 million (2009 – $0.4 million) was payable to Lakeland Mills Ltd. for wood chips.

During 2010, the Partnership declared distributions totaling $183.9 million to its limited partners. Distributions to Canfor were $92.3 million, of which $72.6 million was paid, with the balance of $19.7 million recorded in accounts payable as at December 31, 2010. Distributions to the Fund were $91.6 million, of which $72.1 million was paid, with the balance of $19.5 million recorded in accounts payable as at December 31, 2010. For the year ended December 31, 2009, the Partnership declared distributions totaling $18.6 million to its limited partners. Distributions to Canfor were $9.4 million, of which $6.5 million was paid, with the balance of $2.9 million recorded in accounts payable as at December 31, 2009. Distributions to the Fund were $9.2 million, of which $6.4 million was paid, with the balance of $2.8 million recorded in accounts payable as at December 31, 2009.

Related party transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

FOURTH QUARTER 2010 RESULTS

EBITDA for the fourth quarter of 2010 was $58.6 million, $31.3 million higher when compared to the fourth quarter of 2009. The improved results when compared to the fourth quarter of 2009 were primarily attributable to higher realized prices for the Partnership's pulp and paper products and higher shipment volumes, partially offset by higher unit manufacturing costs. Realized pulp prices in Canadian dollar terms increased by 15% as an 18% increase in NBSK pulp US dollar list prices and an increase in the proportion of sales into higher margin business, was partially offset by a 4% strengthening of the Canadian dollar. Realized paper prices in Canadian dollar terms increased by 24% when compared to the fourth quarter of 2009 due to strong paper demand and a higher proportion of prime grade sales in the fourth quarter of 2010. Higher unit manufacturing costs were the result of higher fibre costs, partially offset by the impact of higher production volumes.

NBSK market pulp production during the fourth quarter was 9,500 tonnes higher than the fourth quarter of 2009. The increased production was a result of higher overall average daily production rates and an increase in operating days at the Northwood Pulp Mill due to a scheduled maintenance outage completed in the fourth quarter of 2009.

The fourth quarter 2010 operating income of the pulp segment increased by $29.5 million when compared to the same period a year ago, due to higher NBSK pulp US dollar list prices and higher sales volumes, partially offset by a stronger Canadian dollar and higher unit manufacturing costs. Realized pulp prices in Canadian dollar terms increased by 15% as an 18% increase in NBSK pulp US dollar list prices and a higher proportion of sales into higher margin business, primarily in China, was partially offset by a 4% strengthening of the Canadian dollar. Higher unit manufacturing costs were the result of higher fibre costs, partially offset by the impact of higher production volumes, and reduced natural gas consumption. Fibre costs increased 18% due to higher prices for sawmill residual chips, which are tied to the price of pulp, partially offset by reductions in the cost and volume of whole log chips. Energy sales under the terms of the Energy Purchase Agreement with BC Hydro totaled $1.9 million, unchanged from the fourth quarter of 2009.

Operating income of the paper segment for the fourth quarter of 2010 was $1.3 million higher than the same period last year. The improved results were due to a 24% increase in realized paper prices in Canadian dollar terms, partially offset by higher unit manufacturing costs. The increase in paper prices were due to improved demand and pressure to raise paper prices as margins of paper makers eroded with the substantial increase in global pulp prices through the latter half of 2009 to mid 2010. Increased unit manufacturing costs were primarily attributable to higher costs for slush pulp and the impact of lower production volumes, partially offset by lower spending on fixed costs. Sales volumes increased slightly in the fourth quarter of 2010 due to solid demand.

More detailed analysis of the fourth quarter 2010 results can be found in the Fourth Quarter 2010 press release dated February 8, 2011.

RISKS AND UNCERTAINTIES RELATED TO THE BUSINESS AND INDUSTRY

Cyclicality of Product Prices

The Partnership's financial performance is dependent upon the selling prices of its pulp and paper products, which have fluctuated significantly in the past. The markets for these products are highly cyclical and characterized by (i) periods of excess product supply due to industry capacity additions, increased production and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Partnership's products are sold has a significant impact upon the demand, and therefore, the prices for pulp and paper. In particular, the list prices of pulp have historically been unpredictable.

Currency Exchange Risk

The Partnership's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US dollar, as prices for the Partnership's products are denominated in US dollars or linked to prices quoted in US dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the amount of revenue in Canadian dollar terms realized by the Partnership from sales made in US dollars, which in turn, reduces the Partnership's operating margin and the cash flow available to fund distributions.

Dependence on Canfor

Approximately 56% of the fibre currently used by the Partnership is derived from the Fibre Supply Agreement with Canfor. The Partnership's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Raw Material Costs

The principal raw material utilized by the Partnership in its manufacturing operations is wood chips. The Partnership's Fibre Supply Agreement with Canfor contains a pricing formula that currently results in the Partnership paying market price for wood chips and contains provisions to adjust the pricing formula to reflect market conditions. Prices for wood chips are not within the Partnership's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The Partnership is not always able to increase the selling prices of its products in response to increases in raw material costs.

Competitive Markets

The Partnership's products are sold primarily in North America, Europe, and Asia. The markets for the Partnership's products are highly competitive on a global basis, with a number of major companies competing in each market with no company holding a dominant position. Competitive factors include quality of product, reliability of supply and customer service. The Partnership's competitive position is influenced by: the availability, quality, and cost of raw materials; energy and labour costs; free access to markets; currency exchange rates; plant deficiencies; and productivity in relation to its competitors.

Dependence on Key Customers

In 2010, the Partnership's top five customers accounted for approximately 36% of its pulp sales. The Partnership is therefore dependent on these customers. In the event that the Partnership cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Partnership would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins and distributable cash.

Increased Production Capacity

The Partnership currently faces substantial competition in the pulp industry and may face increased competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Partnership's business, financial condition, results of operations and cash flows, and the Partnership may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

Maintenance Obligations and Facility Disruptions

The Partnership's manufacturing processes are vulnerable to operational problems that can impair the Partnership's ability to manufacture its products. The Partnership could experience a breakdown in any of its machines, or other important equipment, and from time to time the Partnership schedules planned and unplanned outages to conduct maintenance that cannot be performed safely or efficiently during operations. Such disruptions could cause significant loss of production, which could have a material adverse effect on the Partnership's business, financial condition and operating results.

Governmental Regulation

The Partnership is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities. If the Partnership is unable to extend or renew a material approval, license or permit required by such laws, or if there is a delay in renewing any material approval, license or permit, the Partnership's business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to unexpected expenditures or liabilities.

Capital Requirements

The pulp and paper industries are capital intensive, and the Partnership regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Partnership's total capital expenditures during 2010 were approximately $51.2 million of which approximately $38.1 million will be incurred under qualifying projects under the Canadian Federal government's Green Transformation Program (the Program), and it expects to spend about $131.0 million on capital expenditures during 2011, of which approximately $84.1 million will be incurred under qualifying projects under the Program. The Partnership anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Work Stoppages

Any labour disruptions and any costs associated with labour disruptions at the Partnership's mills could have a material adverse effect on the Partnership's production levels and results of operations. The Partnership's collective agreements with the CEP and PPWC have terms expiring on April 30, 2012. Any future inability to negotiate acceptable contracts could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers.

Native Land Claims

Much of the fibre used by the Partnership is sourced from areas where there are claims of Aboriginal rights and title. The courts have held that the Crown has an obligation to consult Aboriginal people, and accommodate their concerns, where there is a reasonable possibility that a Crown-authorized activity, such as a public forest tenure, may infringe asserted Aboriginal rights or title, even if those claims have not yet been proven. If the Crown has not consulted and accommodated Aboriginal people as required, the courts may quash a tenure or attach conditions to the exercise of harvesting rights under the tenure that may affect the quantity of fibre that can be harvested from such tenure.

Transportation Services

The Partnership relies on third parties for transportation of its products, as well as delivery of raw materials principally by railroad, trucks and ships. If any significant third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, the Partnership may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which may have a material adverse effect on its financial condition and operating results. In addition, if any of these significant third parties were to cease operations or cease doing business with the Partnership, the Partnership may be unable to replace them at a reasonable cost.

Senior Management

The Partnership's success depends, in part, on the efforts of its senior management. The senior management team has significant industry experience and would be difficult to replace. Members of the senior management team possess sales, marketing, engineering, manufacturing, financial and administrative skills that are critical to the operation of the Partnership's business. If the Partnership loses or suffers an extended interruption in the services provided by one or more of its senior officers, the Partnership may become unable to implement its business strategy, resulting in lower profitability. Moreover, the market for qualified individuals is highly competitive, and the Partnership may not be able to attract and retain qualified personnel to replace or succeed members of senior management should the need arise. The Partnership does not maintain any key-man or similar insurance policies covering any of its senior management.

Environmental Laws, Regulations and Compliance

The Partnership is subject to a wide range of general and industry-specific laws and regulations relating to the protection of the environment, including those governing air emissions, wastewater discharges, the storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, and health and safety matters. These laws and regulations require the Partnership to obtain authorizations from and comply with the authorization requirements of the appropriate governmental authorities, which have considerable discretion over the terms and timing of permits.

The Partnership has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. The provision for these future environmental remediation expenditures was $3.1 million as of December 31, 2010 (see note 7 of the accompanying consolidated financial statements). It is possible that the Partnership could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Partnership's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Partnership's or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact the Partnership's financial condition or preclude the Partnership from making capital expenditures that would otherwise benefit the Partnership's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Partnership.

Pension Obligations

The Partnership in participation with Canfor has several defined benefit plans, which provide pension benefits to certain salaried employees. Benefits are based on a combination of years of service and final average salary. The cash payments required to fund the plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan being completed as at December 31, 2009.

The funded surplus (deficit) of each defined benefit plan is calculated as the difference between the fair market value of plan assets and an actuarial estimate of future liabilities. Any deficit in the registered plans determined following an actuarial valuation must be funded in accordance with regulatory requirements, normally over 5 or 10 years. Some of the unregistered plans are also partially funded.

Through its pension funding requirements, the Partnership through Canfor, is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities.

For the main Salary Pension Plan, a one percentage point increase in the rate of return on plan assets over one year would reduce the funded deficit by an estimated $0.6 million. 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 $7.4 million. These changes would only impact the Partnership's funding requirements in years where a new actuarial funding valuation was performed and approval for a change in annual funding contributions was obtained from the regulator.

Sensitivities

In addition, the sensitivity of the Partnership's results to currency fluctuations and price changes for its principal products and input costs, when operating at full capacity, is estimated to be as follows:

(millions of dollars, unaudited)	Impact on annual Net income
Canadian dollar – US $0.01 change per Canadian dollar	$ 6
NBSK pulp – US $10 change per tonne	7
Natural gas cost - $1 change per gigajoule	4
Chip cost - $2 change per tonne	5

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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, asset retirement obligations, and provisions for insurance claims, 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.

The Partnership reviewed the carrying values of the pulp and paper finished goods inventories as at December 31, 2010. The Partnership estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates there is no requirement to write-down the Partnership's finished goods inventories, which are carried at cost at December 31, 2010.

On an ongoing basis, management reviews the asset retirement obligations in respect of useful lives and landfill closure costs. The obligations represent estimated undiscounted future payments of $40.6 million. Payments relating to landfill closure costs are expected to occur at periods ranging from 32 to 40 years which have been discounted at 5.8% and 6.3% respectively.

FINANCIAL INSTRUMENTS

Periodically, the Partnership considers the use of derivative instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, and natural gas prices.

For the year ended December 31, 2010 the Partnership recorded a net gain on derivative financial instruments of $1.5 million (2009 – net loss of $1.5 million) relating to the settlement of maturing contracts during the year and the revaluation to market of outstanding contracts at the end of the year, for natural gas swaps and US dollar forward contracts.

For the year ended December 31, 2010 the Partnership recorded losses of $3.7 million (2009 – $7.6 million) relating to the settlement of maturing natural gas swaps as a charge to non-operating income. At December 31, 2010 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 0.6 million gigajoules extending to October 2011. At December 31, 2010 the unrealized loss of $2.5 million (2009 – $3.5 million) on these outstanding commodity swaps was recorded as a liability in accounts payable and accrued liabilities.

For the year ended December 31, 2010 the Partnership recorded a net gain of $4.2 million (2009 – $4.0 million) on settlement of maturing US dollar forward contracts as a credit to non-operating income. At December 31, 2010 the Partnership had outstanding US dollar forward contracts of $60.0 million extending to April 2011. At December 31, 2010 the unrealized gain of $1.1 million (2009 – 1.1 million) on these outstanding US dollar forward contracts was recorded as an asset in other accounts receivable.

OUTSTANDING UNITS

At February 8, 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 indirectly by Canfor.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Partnership has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board and the Audit Committee. The Partnership's chief executive officer (CEO) and chief financial officer (CFO) evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2010, and have concluded that they were operating effectively.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting (ICFR), and confirmed that there were no changes in these controls that occurred during the most recent year ended December

31, 2010 which materially affected, or are reasonably likely to materially affect, the Partnership's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2010, the CEO and CFO have concluded that these controls were operating effectively.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Project Update

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Partnership converted to these new standards effective January 1, 2011.

The Partnership has completed the detailed diagnostic activities of its transition plan. Differences between IFRS and Canadian generally accepted accounting principles (GAAP), in addition to those referenced below, may continue to be identified based on changes in IFRS prior to the release of the Partnership's first full set of financial statements in compliance with IFRS for the year ending December 31, 2011.

The process of converting to IFRS has been divided into a number of different stages, several which have run concurrently. A number of accounting policy choices have been recommended by the Partnership's Steering Committee but have not been finalized. At December 31, 2010, the full impact the IFRS transition would have on the Partnership's financial statements could not be reasonably determined. The disclosures in this MD&A reflect the Partnership's expectations based on information available at December 31, 2010. Changes in IFRS standards or circumstances relating to the Partnership may cause the Partnership to revise its expectations and its potential IFRS accounting policy choices.

The Partnership anticipates additional disclosure resulting from the adoption of IFRS and has identified and assessed these additional disclosure requirements. No significant systems changes have been identified, that will be necessary to compile the required disclosures.

The Partnership does not expect that the transition to IFRS will have a significant impact on its financial covenants contained in the existing Notes and bank credit facility agreements.

First-time Adoption of International Financial Reporting Standards (IFRS 1)

At adoption of IFRS, an entity is required to apply IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires an entity to apply all IFRS effective at the end of the first reporting period retrospectively. However, IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions in specified areas of certain standards from this general requirement. The Partnership expects to take the following optional elections provided by IFRS 1. All other available elections are either not applicable or not material to the Partnership. Elections are subject to change as new information becomes available.

- Borrowing costs:

  IAS 23, Borrowing Costs, requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Under Canadian GAAP, you have an accounting policy choice to expense these costs as incurred or capitalize them. The Partnership expects to elect to apply the requirements of IAS 23 prospectively from January 1, 2010.

- Employee Benefits:

  The Partnership expects to elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS. Actuarial gains and losses would have to be recalculated under IFRS from the inception of each of our defined benefit plans if the exemption is not taken.

- Business combinations:

  The Partnership expects to apply the business combinations exemption in IFRS 1. Accordingly, the Partnership will not modify the carrying amounts of assets and liabilities arising on business combinations occurring before the transition date.

Accounting Policies

Below is a summary of expected changes to the Partnership's accounting policies for those standards which are expected to materially impact the Partnership's consolidated financial statements. The list and comments below should not be regarded as a final list of changes that will result from the transition to IFRS. It is intended to highlight the significant areas the Partnership has identified to date; however, some decisions are pending final approval where choices of accounting policies are available. Any changes to recognized financial figures may affect non-GAAP and performance measures including but not limited to, EBITDA and distributable cash.

Accounting Policy Area	**Impact of Policy Adoption**
Property, Plant and Equipment	**Choices:** Either a historical cost model or a revaluation model can be used to value property, plant and equipment. **Policy Selection:** The Partnership will value property, plant and equipment using the historical cost model.
Major Maintenance	**Choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP:** For major maintenance, IAS 16 requires for major inspections and overhauls to be accounted as a separate component of 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 would likely qualify for treatment under this standard with the expenditures being classified as property, plant and equipment. **Policy status:** As at January 1, 2010 under Canadian GAAP, expenditures during the Partnership's major maintenance outages are classified as prepaid expense and other assets ($15.3 million), and other long-term assets ($5.4 million), as appropriate and amortized over the period between scheduled major maintenance outages. The impact on the Partnership's opening balance sheet as at January 1, 2010 as a result of this treatment will be a decrease in the Partnership's prepaid expense and other assets, and other long-term assets, with a corresponding increase in PP&E. In addition the Partnership's amortization will increase with a corresponding decrease in manufacturing and product costs, with no net impact to net income or operating income.
Employee Benefits	**Choices:** Actuarial gains and losses are permitted under IAS 19, "Employee Benefits", to be recognized directly in other comprehensive income rather than through profit or loss. **Policy Selection:** Actuarial gains and losses will be recognized in other comprehensive income. **Differences from existing Canadian GAAP:** 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 are generally amortized on a straight-line basis over the expected average remaining service period of active employees under the plan. 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, those amounts will not be permitted to remain unrecognized and must be recognized on transition to IFRS. **Policy status:** The Partnership's actuarial valuation is currently being finalized under IFRS including potential IFRIC 14 adjustments and related accounting policy choices.

Accounting Policy Area	Impact of Policy Adoption
Impairment of assets	**Choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP:** Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36, “Impairment of Assets”, uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (discounted cash flows). This may potentially result in more write downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. In addition, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairments where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses. **Policy status:** Based on the Partnership’s analysis no impairment charges under IFRS are necessary as at January 1, 2010.
Provisions (Including Asset Retirement Obligations)	**Choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP**: IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”, requires a provision to be recognized when there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation, where “probable” in this context, means more likely than not. The criteria for recognition in the financial statements under Canadian GAAP, is “likely”, which is a higher threshold than “probable”. Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low-end of the range), and the requirement under IFRS for provisions to be discounted where material. **Policy status:** The Partnership does not expect this change in accounting policy to have a significant impact as at January 1, 2010.
Borrowing Costs	**Choices:** There are no policy choices available under IFRS. **Differences from existing Canadian GAAP:** Under Canadian GAAP, an entity can choose whether to expense or capitalize borrowing costs, whereas IFRS requires qualifying borrowing costs to be capitalized.
Statement of Cash Flows	**Choices:** Either the direct or the indirect method may be presented. Distributions and interest paid and interest received can be presented as operating, financing or investing activities respectively. **Policy selection:** The Partnership expects to use the indirect method. Distributions and interest paid would be presented as financing activities and interest received would be presented as an investing activity. **Differences from existing Canadian GAAP:** None

Post-Implementation

The post-implementation work will involve continuous monitoring of changes in IFRS throughout the implementation process (through to the end of 2011). We note that the standard-setting bodies that determine Canadian GAAP and

IFRS have significant ongoing projects that could impact the differences between Canadian GAAP and IFRS and their impact on our financial statements. In particular, we expect that there may be additional new or revised IFRS in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases and employee benefits. We have processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS will be evaluated as they are drafted and published.

Disclosure Controls and Internal Controls over Financial Reporting

Due to the fact that IFRS requires more judgment with respect to various accounting treatments additional or modified processes and controls have been put in place. These changes to financial reporting controls will ensure that the Partnership is making the appropriate judgments and adhering to the IFRS accounting policies selected.

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CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Year ended December 31, 2010	December 31, 2009
RECONCILIATION OF NET INCOME TO EBITDA		
Net Income	**$ 178.0**	$ 13.4
Add (deduct):		
Amortization	**47.4**	49.4
Net interest expense	**7.8**	10.1
Foreign exchange gain on long-term debt	**(5.7)**	(19.6)
Loss (gain) on derivative financial instruments	**(1.5)**	1.5
Foreign exchange loss on working capital	**4.0**	6.7
Other expense	**-**	0.3
EBITDA	**$ 230.0**	$ 61.8
EBITDA per Partnership unit	**$ 3.23**	$ 0.87

(millions of dollars, unaudited)	Year ended December 31, 2010	December 31, 2009
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH		
Cash flow from operating activities	**$ 219.6**	$ 71.2
Deduct: Capital expenditures – cash[1]	**(12.0)**	(17.3)
Standardized distributable cash	**$ 207.6**	$ 53.9
Adjustments to standardized distributable cash:		
Add (deduct):		
Increase (decrease) in non-cash working capital	**2.4**	(31.8)
Net long-term deferred maintenance	**(2.3)**	4.6
Capital expenditure accruals – net	**(0.6)**	3.8
Adjusted distributable cash	**$ 207.1**	$ 30.5
Standardized distributable cash – per Partnership unit (in dollars)	**$ 2.91**	$ 0.76
Adjusted distributable cash – per Partnership unit (in dollars)	**$ 2.91**	$ 0.43
Cash distributions declared (paid and payable)	**$ 183.9**	$ 18.6
Cash distributions declared – per Partnership unit (in dollars)	**$ 2.58**	$ 0.26

Note: [1] Presented net of Canadian Federal government Green Transformation Program expenditures.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

The Partnership reports standardized distributable cash in accordance with the Canadian Institute of Chartered Accountants July 2007 interpretive release "Standardized Distributable Cash in Income Trusts and other Flow-Through Entities". In summary, for the purposes of the Partnership, standardized distributable cash is defined as the periodic cash flows from operating activities, including the effects of changes in non-cash working capital less total capital expenditures as reported in the GAAP financial statements.

Adjusted distributable cash is defined as the standardized distributable cash prior to the effects of changes in non-cash working capital and long-term deferred maintenance, asset retirement obligation expenditures and accruals, and after provision for accrued capital expenditures.

The Board determines the level of cash distributions based on the level of cash flow from operations before changes in non-cash working capital and long-term deferred maintenance, asset retirement obligation expenditures and accruals, less capital expenditures. In addition, management estimates of short-term liquidity requirements may influence the level of distributions. 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 expected that normal seasonal fluctuations in working capital will be funded from cash resources or the revolving short-term credit facility.