February 5, 2010

CANFOR PULP INCOME FUND ANNOUNCES FOURTH QUARTER 2009 RESULTS AND MONTHLY DISTRIBUTION

Vancouver, BC – Canfor Pulp Income Fund (the Fund) (TSX: CFX.UN) announced today its fourth quarter 2009 results as well as the results of Canfor Pulp Limited Partnership (the Partnership) in which the Fund has a 49.8% ownership.

The Partnership reported sales of $220.2 million and net income of $15.2 million, or $0.21 per unit, for the quarter ended December 31, 2009. The Partnership generated EBITDA of $27.3 million in the quarter. The Fund reported net income of $6.9 million, representing the Fund's share of the Partnership's net income and a non-cash charge of $0.7 million for future income tax.

In the quarter, the Partnership generated adjusted distributable cash of $22.3 million, or $0.31 per unit, and the Partnership and the Fund declared distributions of $0.14 per unit.

Improved Partnership EBITDA and results from operations compared to the third quarter were attributable to a 12% increase in the NBSK pulp US dollar list price and higher energy sales, partially offset by the stronger Canadian dollar and the impacts of the planned maintenance curtailment at the Northwood mill in October, 2009.

For the year ended December 31, 2009, the Partnership reported revenue of $816.7 million and generated net income of $13.4 million, EBITDA of $61.8 million and adjusted distributable cash of $30.5 million, or $0.43 per unit. Cash distributions declared during the year by the Partnership and Fund totalled $0.26 per Partnership and Fund unit.

Steady pulp demand and continuation of supply reductions maintained world inventories of pulp at historic low levels throughout the quarter. The tight markets allowed further price increases in the quarter. NBSK US dollar North American list prices were US$770 per tonne in September rising to US$830 in December with announced prices for January of US$850 and for February of US$880. Mitigating the impact of stronger global pulp markets for Canadian producers was the 4% increase in the quarter in the average value of the Canadian dollar in relation to the US dollar.

We expect the market to remain strong through the first quarter of 2010 due to strong seasonal demand. Approximately 12% of global capacity is still idled and some mill restarts will help absorb the current supply shortfall. Inventory levels held by producers and customers are low, with the supply/demand balance still in the favour of producers.

A planned maintenance outage in October at our Northwood facility was extended for additional work on the recovery boiler, and resulted in total reduced production levels of approximately 31,000 tonnes. There was no scheduled maintenance downtime during the third quarter.

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. Credits may be used until the program end date of March 31, 2012. The Partnership has identified and will be submitting a number of projects for Program approval including an estimated $16.0 million in 2010. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

Reflecting the improved financial performance of the Partnership, monthly cash distributions were increased in November to $0.05 per Fund unit and increased in December to $0.08 per Fund unit for the months of December and January. Today the Fund announced a further increase in the monthly distribution to $0.12 per Fund unit for the month of February, to be paid on March 15, 2010 to unitholders of record at the close of business on February 26, 2010.

Legislation to tax distributions made by publicly traded income trusts similar to distributions made by corporations will become effective on January 1, 2011. The legislation provides for the conversion of specified trusts into a corporation on a tax-free rollover basis. The Fund has reviewed its options and intends to present a proposal for unitholders' approval at the annual general meeting on April 27, 2010 involving an internal restructuring under which unitholders will hold their beneficial interest in the Partnership through a corporation rather than a trust.

Additional Information

A conference call to discuss the fourth quarter 2009 financial and operating results will be held on Monday, February 8, 2010 at 8:00 a.m. Pacific time.

To participate in the call, please dial 416-641-2140 or Toll-Free 1-800-952-4972. For instant replay access, please dial 416-695-5800 or Toll-Free 1-800-408-3053 and enter participant pass code 4188430. The conference call will be webcast live and will be available at www.canforpulp.com/investors/webcasts.asp.

This news release is available on the Partnership's website at www.canforpulp.com.

About Canfor Pulp Income Fund

Canfor Pulp Income Fund is an unincorporated, open-ended trust established under the laws of Ontario, created to indirectly acquire and hold an interest in the Canfor Pulp Limited Partnership. The Fund indirectly holds a 49.8% interest in the Partnership with Canadian Forest Products Ltd., a subsidiary of Canfor Corporation (collectively Canfor) holding the remaining 50.2% interest in the Partnership.

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Forward-Looking Statements

Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could" and variations of such words and similar expressions are intended to identify such forward-looking statements. The risks and uncertainties are detailed from time to time in reports filed by the Fund with the securities regulatory authorities in all of the provinces and territories of Canada to which recipients of this press release are referred to for additional information concerning the Fund and Partnership, its prospects and uncertainties relating to the Fund and Partnership and its prospects. These 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 results, performance and achievements of the Fund and Partnership to be materially different from those contained in forward-looking statements. The forward-looking statements are based on current information and expectations and the Fund and Partnership assume no obligation to update such information to reflect later events or developments, except as required by law.

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

- *"Critical Accounting Estimates" on page 4;*
- *"SIFT Conversion Rules" on page 5;*
- *"Conversion to International Financial Reporting Standards" on page 5;*
- *"Outlook – Pulp" on page 9;*
- *"Outlook – Kraft Paper" on page 11;*
- *"Financial Requirements and Liquidity" on page 12;*
- *"Critical Accounting Estimates" on page 14;*
- *"Conversion to International Financial Reporting Standards" on page 15;*
- *"Distributable Cash and Cash Distributions" on page 17.*

Material risk factors that could cause actual results to differ materially from the forward-looking statements contained in this press release include: general economic, market and business conditions; product selling prices; raw material and operating costs; exchange rates; changes in law and public policy; and opportunities available to or pursued by the Fund and Partnership. Additional information concerning these and other factors can be found in the Fund's Annual Information Form dated February 17, 2009, which is available on www.sedar.com.

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
Fourth Quarter 2009
The information in this report is as at February 5, 2010.

CANFOR PULP INCOME FUND

The Fund is 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 is located at 1700 West 75th Avenue, Vancouver, BC, Canada. The Fund has been established to acquire and hold, through a wholly owned trust, the Canfor Pulp Trust (the Trust), investments in Limited Partnership Units of the Partnership, and such other investments as the Trustees of the Fund may determine. The general partner of the Partnership is Canfor Pulp Holding Inc. (the General Partner) and each limited partner holds an ownership interest in the General Partner equal to its proportionate interest in the Partnership.

At February 5, 2010, there were a total of 35,493,505 Fund units issued and outstanding, and the Fund indirectly held a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership and 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 Fund Units pursuant to the terms of an exchange agreement (Exchange Agreement) dated July 1, 2006 among Canfor, the Fund, the Trust, the Partnership and Canfor Pulp Holding Inc. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for Fund Units.

Each unitholder participates pro-rata in any distributions from the Fund. Under present income tax legislation, income tax obligations related to the distributions of the Fund are the obligations of the unitholders and the Fund is only taxable on any amount not allocated to the unitholders.

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Q4 2009**	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Equity income (loss) in Canfor Pulp Limited Partnership	**7,562**	9,098	724	(10,740)	(12,947)	5,513	9,046	21,667
Net income (loss)	**6,903**	8,497	4,406	(10,740)	(13,686)	5,208	7,015	21,667
Net income (loss) per Fund unit	**$0.20**	$0.24	$0.12	$(0.30)	$(0.39)	$0.15	$0.20	$0.61
Distributions earned from the Partnership and declared to unitholders	**4,969**	1,065	1,065	2,130	9,938	12,778	12,777	12,778
Distributions declared per Fund unit	**$0.14**	$0.03	$0.03	$0.06	$0.28	$0.36	$0.36	$0.36
Partnership adjusted distributable cash per unit[1]	**$0.31**	$0.16	$0.02	$(0.06)	$0.02	$0.54	$0.19	$0.60

Note: [1] Represents the Partnership's adjusted distributable cash for which the Fund is dependent on to make its own distributions. For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on pages 17 and 18.

Equity income (loss) in Canfor Pulp Limited Partnership represents the fund's share of the Partnership's net income (loss). Net income (loss) is also impacted by future income tax expense (recovery) which is primarily influenced by changes in substantively enacted tax rates and the difference between the tax basis of the Fund's pro-rata ownership of the Partnership's assets and liabilities and the respective amounts reported in the financial statements.

OPERATING RESULTS AND LIQUIDITY

For the quarter ended December 31, 2009, the Fund had net income of $6.9 million or $0.20 per Fund unit. The net income is the Fund's share of the Partnership's income for the fourth quarter of 2009, less a future income tax expense of $0.7 million. The future income tax expense represents an adjustment to the future income tax liability based on the Fund's share of the differences between book and income tax values of the Partnership's assets and liabilities. The Fund's equity income in the Partnership decreased by $1.5 million when compared to the prior quarter due to the Fund's share of lower non-operating items, partially offset by increased operating earnings of the Partnership. The Fund's share of non-operating items included in equity income of the Partnership for the fourth quarter of 2009 is $0.4 million, and is primarily the result of a foreign exchange gain on translation of US dollar denominated long-term debt and gain on derivative financial instruments, partially offset by a foreign exchange loss on working capital. The Fund's share of operating earnings increased by $1.0 million due primarily to higher realized prices in Canadian dollar terms for the Partnership's pulp products, partially offset by higher unit manufacturing costs. Distributions declared by the Partnership and accruing to the Fund were $5.0 million of which $2.8 million was receivable at December 31, 2009. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund's requirements for administrative services are minimal and are funded and expensed by the Partnership. For further information refer to the Partnership's discussion of operating results and liquidity on pages 7 through 13 of this press release.

FUND DISTRIBUTIONS

The Fund is entirely dependent on distributions from the Partnership to make its own distributions and declares 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 are recorded when declared. During the fourth quarter of 2009, the Fund declared distributions of $0.14 per Fund unit or $5.0 million.

Monthly cash distributions from the Partnership are 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.

RISKS AND UNCERTAINTIES

The Fund is subject to certain risks and uncertainties related to the nature of its investment in the Partnership and the structure of the Fund, as well as all of the risks and uncertainties related to the business of the Partnership. A comprehensive discussion of these risks and uncertainties is contained in the Fund's Annual Information Form dated February 17, 2009, which is available on www.sedar.com and www.canforpulp.com.

FUND UNITS

At February 5, 2010, there were a total of 35,493,505 Fund units outstanding.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended December 31, 2009 were $5.0 million of which $2.2 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 accounts for its investment in the Partnership using the equity method. The Fund analyzes the carrying value of its investment in the Partnership by considering the underlying value of the Partnership's business. This assessment includes various long-term assumptions related to the Partnership's operations which may not be reflected in the current 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.

CHANGES IN ACCOUNTING POLICIES

Financial Instrument Disclosures

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance disclosures about fair value measurements and the liquidity risk of financial instruments. These amendments are intended to provide further detail on the relative reliability of the data or inputs used to measure the fair value of the entities financial instruments. Specifically, financial instruments recognized at fair value on the Consolidated Balance Sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;
- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Fund has incorporated this amendment into the unaudited interim consolidated financial statements.

SIFT 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 will become effective on January 1, 2011. On March 12, 2009 the Canadian government enacted legislation (SIFT Conversion Rules) which enables the conversion of a SIFT entity into a corporation on a tax-free rollover basis, prior to 2013. The Fund has reviewed its options and intends to present a proposal for unitholders' approval at the annual general meeting on April 27, 2010 involving an internal restructuring under which unitholders will hold their beneficial interest in the Partnership through a corporation rather than a trust.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board (AcSB) 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 Fund will rely on the resources of the Partnership to ensure compliance with IFRS. The Partnership intends to convert to these new standards according to the timetable set for these new rules.

A detailed analysis is substantively complete with a number of areas identified for further consideration before the date of transition. Various accounting policy choices have been identified to date and are being considered by the steering committee of the Partnership. The Partnership continues to monitor standards development as issued by the International Accounting Standards Board (IASB) and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Partnership's adoption of IFRS. The IASB has issued several exposure drafts for new or amended IFRS, which will likely have mandatory application for the 2011 calendar year.

The Partnership will continue to review all proposed and continuing projects of the International Accounting Standards Board to determine their impact on the Fund, and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

The impact on the Fund'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 key elements of the Partnership's transition plan see the Partnership's disclosure on pages 15 and 16.

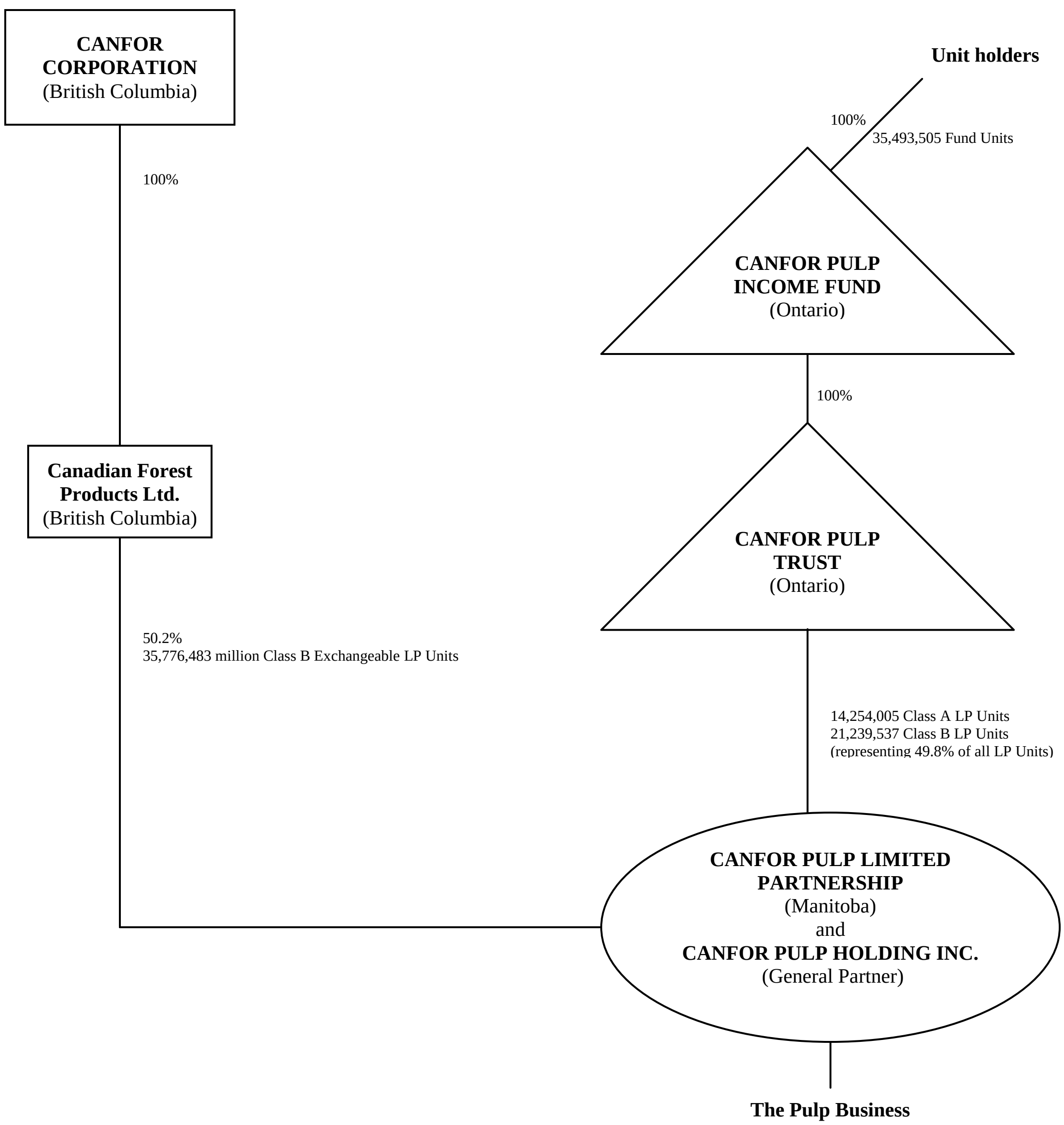
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

At February 5, 2010, the Fund 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. Below is a simplified schematic of the ownership structure.

Partnership Structure



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.

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	**Q4 2009**	Q3 2009	**Year 2009**	Q4 2008	Year 2008
Sales	**220.2**	202.0	**813.5**	186.1	825.5
EBITDA [1]	**27.3**	25.1	**61.8**	9.8	116.9
Operating income (loss)	**14.4**	12.4	**12.0**	(1.0)	68.7
Net income (loss)	**15.2**	18.3	**13.4**	(26.0)	46.8
Per Partnership unit, basic and diluted					
Net income (loss)	**0.21**	0.26	**0.19**	(0.36)	0.66
EBITDA	**0.39**	0.35	**0.87**	0.14	1.64
Average exchange rate (US$/Cdn$) [2]	**0.947**	0.912	**0.876**	0.825	0.938

Notes: [1] For calculation of EBITDA, see supplementary financial information on page 17.
[2] Source – Bank of Canada (average noon rate for the period).

EBITDA for the fourth quarter of 2009 increased by $2.2 million from the third quarter of 2009 and was $17.5 million higher when compared to the fourth quarter of 2008. The improved results when compared to the third quarter of 2009 are attributable to a 12% increase in the NBSK pulp US dollar list price, partially offset by the stronger Canadian dollar and higher unit manufacturing costs. Realized pulp prices in Canadian dollar terms increased 9% as a 12% increase in NBSK pulp US dollar list price was partially offset by a 4% strengthening of the Canadian dollar, while paper prices decreased 1% when compared to the third quarter of 2009. Unit manufacturing costs increased 13% when compared to the prior quarter due to higher spending on maintenance costs, impact of lower production volumes and higher energy and fibre costs. Market pulp production was lower than the prior quarter as a result of the scheduled maintenance outage at the Northwood Pulp Mill, which also resulted in higher spending on maintenance costs. The higher energy costs were the result of seasonal increases for winter natural gas price and usage. Fibre costs increased slightly when compared to the prior quarter as an increase in the price of sawmill residual chips was partially offset by a reduction in the cost and volume of higher cost whole log chips.

When compared to the fourth quarter of 2008, the $17.5 million increase in EBITDA was primarily attributable to lower unit manufacturing costs, higher sales volumes, lower freight costs and higher NBSK pulp US dollar list price, all of which were partially offset by a stronger Canadian dollar and lower realized paper prices in Canadian dollar terms. Realized pulp prices in Canadian dollar terms decreased 7% as a 15% strengthening of the Canadian dollar was partially offset by a 4% increase in NBSK pulp US dollar list price, and the impact of a higher proportion of sales in the fourth quarter of 2008 into lower margin business. Paper prices decreased 23% when compared to the fourth quarter of 2008 due to the stronger Canadian dollar, and the impact of weak markets as a result of global reductions in paper demand. Lower unit manufacturing costs are the result of higher production volumes, lower fibre costs, lower chemical and energy prices, and other cost reduction initiatives. Production volumes were higher primarily as a result of the market curtailment in December 2008. The lower freight costs are attributable to a reduction in fuel surcharges and lower container rates.

Net income and EBITDA for 2009 decreased by $33.4 million and by $55.1 million respectively over 2008. The focus in 2009 was on managing cash resources and cost reduction initiatives to mitigate the impact of weak markets for the Partnership's pulp and paper products precipitated by the global financial crisis. The decline in 2009 results was attributable to lower realized prices in Canadian dollar terms for the Partnership's products, partially offset by higher sales volumes and lower unit manufacturing and freight costs. Realized pulp prices in Canadian dollar terms were 14% lower when compared to 2008 as a 16% decrease in NBSK pulp US dollar list price and a higher percentage of sales into lower margin business, were partially offset by the weaker Canadian dollar. Unit manufacturing costs decreased 10% when compared to 2008 due to the impact of higher production volumes, lower fibre, chemical and energy costs, and the impact of cost reduction initiatives. Sales volumes of NBSK market pulp and kraft papers increased by 139,200 and 10,200 tonnes respectively when compared to the prior year. The increased shipments of market pulp were attributable to higher production volumes in 2009 and increased demand from Asia. The lower freight costs are attributable to a reduction in fuel surcharges and lower container rates. Non-operating income, included in net income of the Partnership in 2009 totalled $1.4 million, an improvement of $23.3 million over 2008. The increase in non-operating income is primarily the result of a foreign exchange gain on translation of US dollar denominated long-term debt, reduction in 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)	**Q4 2009**	Q3 2009	**Year 2009**	Q4 2008	Year 2008
Sales[1]	**186.9**	170.1	**690.0**	159.1	695.2
EBITDA	**29.9**	23.4	**57.9**	9.5	116.7
EBITDA margin	**16%**	14%	**8%**	6%	17%
Operating income (loss)	**17.9**	11.6	**11.7**	(0.4)	72.5
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**820**	733	**718**	787	857
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**866**	804	**820**	954	914
Production – pulp (000 mt)	**251.9**	264.4	**1,006.8**	219.6	932.8
Shipments – Partnership-produced pulp (000 mt)	**258.6**	259.5	**1,044.6**	208.2	905.4
Marketed on behalf of HSLP & Canfor (000 mt)	**126.1**	148.4	**521.7**	79.9	495.7

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

The fourth quarter 2009 operating income for the pulp segment of $17.9 million was a $6.3 million improvement when compared to the third quarter of 2009. The improved results are 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 increased 9% as a 12% increase in NBSK pulp US dollar list price was partially offset by a 4% strengthening of the Canadian dollar. Energy sales under the terms of the new Energy Purchase Agreement with BC Hydro increased $1.7 million and are included in the pulp segment sales. The increase in unit manufacturing costs resulted from higher spending on maintenance costs, impact of lower production volumes and higher energy and fibre costs. Market pulp production was lower than the prior quarter as a result of the scheduled maintenance outage at the Northwood Pulp Mill, which also resulted in higher spending on maintenance costs. The higher energy costs were the result of seasonal increases for winter natural gas price and usage. Fibre costs increased slightly when compared to the prior quarter as an increase in the price of sawmill residual chips was partially offset by a reduction in the cost and volume of higher cost whole log chips.

Fourth quarter 2009 operating income of the pulp segment increased by $18.3 million when compared to the same period a year ago, due to lower unit manufacturing costs, higher sales volumes and higher NBSK pulp US dollar list price, partially offset by a stronger Canadian dollar. Realized pulp prices in Canadian dollar terms decreased 7% as a 15% strengthening of the Canadian dollar was partially offset by a 4% increase in NBSK pulp US dollar list price. Energy sales under the terms of the new Energy Purchase Agreement with BC Hydro totalling $1.9 million in the fourth quarter of 2009 (fourth quarter 2008 – nil) are included in the pulp segment sales. Lower unit manufacturing costs are the result of higher production volumes, lower fibre costs, lower chemical and energy prices, and other cost reduction initiatives. Production volumes were higher primarily as a result of the market curtailment in December 2008.

For the year ended December 31, 2009, operating income of $11.7 million was $60.8 million lower than in 2008. The decline in operating results was attributable to lower realized prices in Canadian dollar terms, partially offset by lower unit manufacturing costs and higher shipment volumes. Realized pulp prices in Canadian dollar terms were 14% lower when compared to 2008 as a 16% decrease in NBSK pulp US dollar list price and a higher percentage of sales into lower margin business, were partially offset by the weaker Canadian dollar. Energy sales under the terms of the new Energy Purchase Agreement with BC Hydro totalling $1.9 million in 2009 (2008 – nil) are included in the pulp segment sales. Unit manufacturing costs decreased 10% when compared to 2008 due to the impact of higher production volumes, lower fibre, chemical and energy costs, and the impact of cost reduction initiatives. The production volume increase of 74,000 tonnes or 8% was mainly the result of fewer operating days lost due to scheduled maintenance shuts, reduced market curtailment days, and the impact of the Prince George Pulp and Paper Mill fire in 2008. Fibre costs decreased approximately 13% when compared to 2008 due to lower price for residual and whole log chips, partially offset by an increase in volume of higher cost whole log chips. Sales volumes of NBSK market pulp increased by 139,200 tonnes when compared to the prior year. The increased shipments of market pulp were attributable to the Partnership having more volume available for sale as a result of the increase in production, and increased demand from Asia.

Operations

NBSK market pulp production during the fourth quarter was 12,500 tonnes lower than the third quarter of 2009, and 32,300 tonnes higher than the fourth quarter of 2008. The reduced production when compared to the prior quarter is a result of the scheduled maintenance outage completed at the Northwood Pulp Mill in the fourth quarter of 2009 with no scheduled maintenance downtime taken in the prior quarter. The increase of market pulp production when compared to the same period in the prior year is largely attributable to the market curtailment taken in December 2008 to mitigate the impact of a reduction in global demand and subsequent increase in inventory levels.

NBSK market pulp production during 2009 was 74,000 tonnes higher than in 2008. The increased production was attributable to decreased scheduled maintenance outages, a fire at the Prince George Pulp and Paper Mill in 2008 and the market curtailment. The Prince George Pulp and Paper Mill fire reduced production by approximately 37,000 tonnes in 2008.

Markets – Pulp

Pulp market conditions were strong in the fourth quarter of 2009 as a significant number of pulp mills remained idled which kept supply constrained, resulting in significant reductions in producer inventory stocks. The consumption levels have been steadily improving since earlier in the year. Although full year 2009 Pulp and Paper Products Council statistics indicate that global demand for printing and writing papers was down 11%, there has been steady improvement in monthly demand since the end of the first quarter of 2009.

The steady improvement in consumption and continued reduction of supply has resulted in lower pulp inventories. At the end of December 2009, World 20[1] producers of bleached softwood pulp inventories stood at 23 days of supply. By comparison, December 2008 inventories stood at 40 days of supply. Market conditions are considered balanced when inventories fall in the 27-30 days of supply range.

As a result of these tight market conditions, producers have been successful at implementing price increases consistently through the last three quarters of 2009. These price increases, from the bottom of the market in April 2009 totalled US$195 per tonne or 30%, bringing December list prices before discounts in the US and Northern Europe markets to US$830 and US$800 per tonne respectively, and China, with no discounts, to US$710 per tonne. In Canadian dollar terms the price increases were somewhat mitigated by a 20% strengthening of the Canadian dollar over the same period.

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 (PPPC).

Outlook – Pulp

We expect the market to remain strong through the first quarter of 2010 due to strong seasonal demand. Approximately 12% of global capacity is still idled and some mill restarts will help absorb the current supply shortfall. Inventories held by producers and customers are at low levels compared to what is considered a balanced market.

With the supply/demand balance still in the favour of producers, there is potential for further price increases in March or April. Any relative weakness of the US dollar versus the Canadian dollar and the Euro will also exert upward pressure on US$ list prices.

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q4 2009**	Q3 2009	**Year 2009**	Q4 2008	Year 2008
Sales[1]	**32.3**	31.9	**122.5**	27.0	130.3
EBITDA	**0.9**	4.0	**13.9**	3.3	13.1
EBITDA margin	**3%**	13%	**11%**	12%	10%
Operating income	**0.1**	3.2	**10.6**	2.5	9.4
Production – paper (000 mt)	**38.4**	33.6	**131.0**	30.1	132.6
Shipments – paper (000 mt)	**38.1**	37.4	**135.0**	24.4	124.8

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

The operating income of the paper segment for the fourth quarter of 2009 was $3.1 million lower than the third quarter of 2009 and $2.4 million lower than the same period last year. The decrease when compared to the third quarter of 2009 was primarily attributable to higher unit manufacturing costs. Higher unit manufacturing costs were the result of higher costs for slush pulp and higher maintenance costs, partially offset by the impact of higher production volumes. The slush pulp is transferred to the paper segment at a market price with the increase directly attributable to the increase in the realized pulp price in Canadian dollar terms. Higher production volumes are the result of an increase in operating rate when compared to the prior quarter. Realized prices in Canadian dollar terms decreased by approximately 1%.

When compared to the fourth quarter of 2008 the reduction in operating earnings was due to a 23% decrease in realized prices in Canadian dollar terms, partially offset by higher sales volumes and lower unit manufacturing costs. Lower unit manufacturing costs were primarily attributable to lower costs for slush pulp and higher production volumes. Production volumes were higher primarily as a result of the market curtailment in December 2008. Sales volumes increased 13,700 tonnes due to the market curtailment and weak demand in the fourth quarter of 2008.

The 2009 operating results for the paper segment were $1.2 million favourable when compared to 2008. The increase was attributable to lower unit manufacturing costs and higher sales volumes, partially offset by a 13% drop in realized prices in Canadian dollar terms. Lower unit manufacturing costs were the result of lower costs for slush pulp, which is transferred to the paper segment at market price, and the impact of cost reduction initiatives in 2009. Shipments increased by 8% when compared to 2008.

Operations

When compared to the third quarter of 2009, paper production increased by 4,800 tonnes due to overall higher operating rates. When compared to the same period in the prior year, production was 8,300 tonnes higher due to the impact of the market curtailment and a scheduled maintenance outage in the fourth quarter of 2008, and higher overall operating rates in the current period.

Paper production in 2009 decreased by 1,600 tonnes when compared to 2008. The decrease was attributable to fewer operating days due to the scheduled maintenance outage in 2009 and the impact of the market curtailment, partially offset by the impact of the Prince George Pulp and Paper Mill fire in 2008. The Partnership commenced a curtailment of paper production in the third week of December 2008 which extended into January 2009, reducing paper production by approximately 3,400 tonnes in 2008 and approximately 4,800 tonnes in January 2009.

Markets

Kraft paper demand in the fourth quarter remained strong as customers replenished stock levels that had been drawn down in many cases to critically low levels. The American Forest and Paper Association reported that US total kraft paper shipments for December 2009 increased 1% from November and 20% when compared to December 2008.

Full year 2009 shipments were 12% lower when compared to the same period in 2008. The Paper Shipping Sack Manufacturers' Association shipping sack statistics for December reveal that industry paper consumption was up 1% from the previous month, however, for the full year was down 13%. The announced price increase for North America was fully implemented in November and the European increases will take effect in the first quarter of 2010.

The Partnership's total prime paper shipments in the fourth quarter of 2009 remained unchanged from the third quarter of 2009, while bleached shipments increased by 5% from the prior quarter. For the full year 2009, total prime paper shipments increased 5% and prime bleached shipments decreased by 21% when compared to 2008. Prime bleached shipments in 2009 were constrained by the Partnership's prime bleached production, which declined 23% when compared to 2008.

Outlook – Kraft Paper

The current strong demand is expected to continue through the first quarter of 2010. Prices are expected to increase as price announcements in the fourth quarter of 2009 are expected to be fully implemented in all markets in the first quarter of 2010. The impact of increased prices in US dollar terms is 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)	**Q4 2009**	Q3 2009	**Year 2009**	Q4 2008	Year 2008
Unallocated costs	**3.6**	2.4	**10.3**	3.1	13.2
Interest expense, net	**2.2**	2.8	**10.1**	2.6	8.1
Foreign exchange (gain) loss on long-term debt	**(2.9)**	(9.9)	**(19.6)**	18.1	26.0
Loss (gain) on derivative financial instruments	**(0.5)**	(3.4)	**1.5**	11.1	8.9
Foreign exchange loss (gain) on working capital	**0.5**	4.6	**6.7**	(7.0)	(13.1)
Net property damage insurance (gain) loss	**-**	-	**(0.2)**	0.3	(8.2)
Other (income) expense	**(0.1)**	-	**0.1**	(0.1)	0.2
	2.8	(3.5)	**8.9**	28.1	35.1

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled $3.6 million in the fourth quarter of 2009 compared to $2.4 million in the third quarter of 2009 and $3.1 million in the fourth quarter of 2008. The increase in unallocated costs is mainly due to higher accruals for performance based incentive plans, partially offset by settlement of an outstanding legal claim.

For the full year ended December 31, 2009, unallocated costs of $10.3 million were $2.9 million lower than the same period a year ago. The lower costs were primarily attributable to cost reduction initiatives and settlement of an outstanding legal claim.

Interest Expense

The decreased net interest expense in the quarter is attributable to the reduction in operating line borrowing. The increased net interest expense for the full year 2009 was due to the cost of funding short-term working capital requirements and fees relating to the new financing facility.

Other Non-segmented Items

The foreign exchange gain on long-term debt resulted from translating the US$110 million debt at period-end exchange rates.

The net gain of $0.5 million on derivative financial instruments recorded in the fourth quarter of 2009 relates to the settlement of maturing contracts during the quarter and the revaluation to market of outstanding contracts at the end of the quarter for natural gas swaps and US dollar forward contracts. A loss of $1.6 million on settlement of natural gas swaps was recorded in the fourth quarter of 2009. 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 the fourth quarter of 2009 resulted in a net gain for the quarter of $1.2 million on settlement of US dollar forward contracts to hedge the impact of currency fluctuations on US dollar working capital. This gain was offset by the foreign exchange loss on working capital of $0.5 million. The revaluation to market of outstanding derivative instruments recorded in the quarter resulted in a gain of $0.9 million and relates to a revaluation to market of outstanding natural gas swaps and outstanding US dollar forward contracts at the end of the quarter.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)		**December 31, 2009**		December 31, 2008
Ratio of current assets to current liabilities		**2.04**		1.91
Ratio of net debt to partners' equity [1]		**0.19**		0.30
	Q4 2009	**Year 2009**	Q4 2008	Year 2008
Increase (decrease) in cash and cash equivalents	**(30.4)**	**13.1**	6.4	(2.2)
Comprised of cash flow from (used in):				
Operating activities	**(22.5)**	**71.2**	22.0	105.2
Financing activities	**(5.0)**	**(40.9)**	(4.7)	(77.5)
Investing activities	**(2.9)**	**(17.2)**	(10.9)	(29.9)

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

Changes in Financial Position

Cash used in operating activities was $22.5 million in the fourth quarter of 2009 compared to cash generated of $22.0 million in the fourth quarter of 2008. The increased usage of cash was primarily due to an increase of cash used in working capital partially offset by higher cash generated from operations. The increase of cash used in working capital during the fourth quarter of 2009 was primarily the result of timing of payments for products sold under agency sales agreements with Howe Sound Limited Partnership, and timing of payments in respect of chips and corporate services, partially offset by lower pulp finished goods inventories. The increase in cash generated from operations was primarily attributable to lower unit manufacturing costs, higher sales volumes, and lower freight costs, partially offset by higher realized pulp prices in Canadian dollar terms.

The cash used in financing activities of $5.0 million in the quarter represents distributions paid to the limited partners, namely Canfor and the Fund. For the full year 2009, the cash used in financing activities of $40.9 million represents $15.7 million of distributions paid to the limited partners, and a reduction of $25.2 million in utilization of the Partnership's bank credit facility.

The cash used in investing activities in the quarter is comprised of $2.9 million relating to capital expenditures. For the full year 2009 the cash used in investing activities is comprised primarily of $17.3 million relating to capital expenditures. A payment to BC Hydro totalling $4.3 million is included in capital expenditures in the third quarter of 2009. This represents a payment to reduce the Partnership's obligation for power production from the 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, is reduced to 338 GWh per year from 390 GWh effective September 15, 2009.

FINANCIAL REQUIREMENTS AND LIQUIDITY

At December 31, 2009 the Partnership has outstanding long-term debt of $115.1 million (2008 – $134.7 million, US$110.0 million for both 2008 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.

At the end of the year, the Partnership had cash and cash equivalents of $13.5 million. On September 30, 2009 the Partnership completed a new $40 million bank credit facility with a maturity date of November 30, 2011, of which $0.5 million was utilized at December 31, 2009 for standby letters of credit issued for general business purposes. In addition, the Partnership has arranged a separate facility with a maturity date of November 30, 2011, to cover the $16.0 million standby letter of credit issued to BC Hydro under the Energy Purchase Agreement. The general terms and conditions of the new financing are similar to the previous bank credit facility, with interest and other costs at prevailing market rates. The leverage ratio and interest coverage ratio remain consistent with the financial covenants under the long-term Note agreement, which agreement was unchanged and not affected by the new bank financing.

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

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at December 31, 2009 and throughout the year.

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 identified and will be submitting a number of projects for Program approval. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

OUTSTANDING UNITS

At February 5, 2010, 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) are owned by the Fund through Canfor Pulp Trust and 35,776,483 Class B Exchangeable Limited Partnership Units are owned indirectly by Canfor.

RELATED PARTY TRANSACTIONS

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2008 audited consolidated financial statements and are based on agreed upon amounts, and are summarized in note 11 of the unaudited interim consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending December 31, 2009, there were no changes in the Partnership's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Fund's Annual Information Form dated February 17, 2009, which is available on www.sedar.com and www.canforpulp.com.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	**Q4 2009**	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Sales and Income								
Sales	**220.2**	202.0	205.0	186.3	186.1	215.4	212.6	211.4
Operating income (loss)	**14.4**	12.4	(5.0)	(9.8)	(1.0)	27.5	11.6	30.6
EBITDA	**27.3**	25.1	7.2	2.2	9.8	40.6	24.0	42.5
Net income (loss)	**15.2**	18.3	1.5	(21.6)	(26.0)	11.1	18.2	43.5
Per Partnership unit (dollars) [1]								
Net income (loss) basic and diluted	**0.21**	0.26	0.02	(0.30)	(0.36)	0.15	0.26	0.61
Statistics								
Pulp shipments (000 mt)	**258.6**	259.5	286.2	240.3	208.2	234.5	233.8	228.9
Paper shipments (000 mt)	**38.1**	37.4	34.3	25.2	24.4	31.6	33.7	35.1
Average exchange rate (US$/Cdn$) [2]	**0.947**	0.912	0.858	0.803	0.825	0.960	0.990	0.996
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**820**	733	645	673	787	880	880	880
Per Partnership unit (dollars) [1]								
Adjusted distributable cash per unit[3]	**0.31**	0.16	0.02	(0.06)	0.02	0.54	0.19	0.60
Distributions declared per unit	**0.14**	0.03	0.03	0.06	0.28	0.36	0.36	0.36

Notes: [1] Based on Partnership units outstanding at December 31, 2009 (71,270,025) for all periods.
[2] Source – Bank of Canada (average noon rate for the period).
[3] For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on pages 17 and 18.

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 and fluctuations of fibre, chemicals 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, market price of natural gas, the revaluation to the period end rate of US dollar denominated working capital balances and long-term debt, and revaluation of outstanding natural gas swaps and US dollar forward contracts.

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.

CHANGES IN ACCOUNTING POLICIES

Financial Instrument Disclosures

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance disclosures about fair value measurements and the liquidity risk of financial instruments. These amendments are intended to provide further detail on the relative reliability of the data or inputs used to measure the fair value of the entities financial instruments. Specifically, financial instruments recognized at fair value on the Consolidated Balance Sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;

- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Partnership has incorporated this amendment into the unaudited interim consolidated financial statements.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board (AcSB) 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 intends to convert to these new standards according to the timetable set for these new rules.

The Partnership has substantively 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 further detailed analyses by the Partnership and other changes in IFRS prior to the Partnership's conversion to IFRS in 2011.

The Partnership anticipates additional disclosure resulting from the adoption of IFRS and is identifying and assessing these additional disclosure requirements, as well as systems changes if any, that will be necessary to compile the required disclosures.

The key elements of the transition plan are as follows:

Project Structure

The Partnership has appointed a dedicated project manager to lead the conversion to IFRS. The project manager is working with other members of the finance team to execute the implementation plan. The Partnership's finance team completed detailed training on IFRS standards and preliminary policy choices in 2009. An implementation team is working closely with senior management in a number of different business areas to ensure that the impacts of the conversion throughout the business are managed in a timely and efficient manner. A steering committee has been established to oversee the project. On a quarterly basis, the Partnership's Audit Committee is updated on the progress of the conversion plan.

Process and Timing

The process of converting to IFRS has been divided into a number of different stages, many of which will run concurrently. A detailed analysis is substantively complete and a number of accounting policy choices have been recommended by the Steering Committee but have not been finalized. At December 31, 2009, the Partnership cannot reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects the Partnership's most recent assumptions and expectations; circumstances may arise, such as changes in existing IFRS, or changes in the regulatory or economic environment, which could alter these assumptions and/or expectations. These disclosures reflect the Partnership's expectations based on information available at December 31, 2009. Changes in IFRS standards or circumstances relating to the Partnership may cause the Partnership to revise its expectations, its project plan, and its potential IFRS accounting policy choices prior to the conversion date.

No significant changes to information technology systems or business processes have been identified to date. The implementation team will continue to assess the impact on systems as the project progresses.

A draft opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) is currently planned to be completed during 2010. Draft financial statements and disclosure information will be prepared for each quarter in 2010 (to be used for comparative purposes in 2011) and reporting under IFRS will commence for interim and annual periods in 2011.

Progress to Date

At December 31, 2009, the Partnership has substantively completed a detailed diagnostic of the impact of IFRS on the Partnership's financial statements. Set out below are the key areas where changes in accounting policies are expected that may materially impact the Partnership's consolidated financial statements. The list and comments below should not be regarded as a complete list of changes that will result from transition to IFRS. It is intended to highlight the more significant areas we have identified to date; however, analysis of changes is still in process and not all decisions have been finalized where choices of accounting policies are available.

Accounting Policy Impacts and Decisions

- Property, plant and equipment (PP&E):

  For major maintenance, International Accounting Standard (IAS) 16 allows 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 major maintenance required on the Partnership's plant and equipment would likely qualify for treatment under this standard with major maintenance being classified as property, plant and equipment. Currently under Canadian GAAP major maintenance is classified as prepaid expense and other assets, and other long-term assets, as appropriate.

- Employee Benefits:

  IAS 19, "Employee Benefits", requires past service costs associated with 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 average remaining service period of active employees expected under the plan. In addition, actuarial gains and losses are permitted to be recognized immediately in other comprehensive income under IFRS rather than amortized through earnings, and IFRS 1 also provides an option to recognize immediately in equity all cumulative actuarial gains and losses existing as at the date of transition to IFRS.

- Impairment of Assets:

  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. This may potentially result in more write-downs where carrying values of assets were not previously impaired under Canadian GAAP when compared to undiscounted cash flows, but could be impaired under IFRS when compared to fair value or value in use. However, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses.

- Provisions (Including Asset Retirement Obligations):

  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.

Disclosure Controls and Internal Controls over Financial Reporting

Financial reporting controls will change due to the transition to IFRS. The majority of change surrounds new processes, or modified process, due to the fact that IFRS requires more judgment with respect to various accounting treatments. Processes and controls will be put in place to ensure the Partnership is making the appropriate judgments and following the IFRS accounting policies selected.

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Three months ended December 31, 2009	Three months ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2008
RECONCILIATION OF NET INCOME (LOSS) TO EBITDA				
Net income (loss)	**$ 15.2**	$ (26.0)	**$ 13.4**	$ 46.8
Add (deduct):				
Amortization	**12.6**	10.8	**49.4**	47.6
Net interest expense	**2.2**	2.6	**10.1**	8.1
Foreign exchange (gain) loss on long-term debt	**(2.9)**	18.1	**(19.6)**	26.0
Loss (gain) on derivative financial instruments	**(0.5)**	11.1	**1.5**	8.9
Foreign exchange loss (gain) on working capital	**0.5**	(7.0)	**6.7**	(13.1)
Loss on disposal of fixed assets	**0.2**	-	**0.2**	1.2
Net property damage insurance loss (gain)	**-**	0.3	**(0.2)**	(8.2)
Gain on settlement of asset retirement obligation	**-**	-	**-**	(0.9)
Other expense (recovery)	**-**	(0.1)	**0.3**	0.5
EBITDA	**$ 27.3**	$ 9.8	**$ 61.8**	$ 116.9
EBITDA per Partnership unit	**$ 0.39**	$ 0.14	**$ 0.87**	$ 1.64

(millions of dollars, unaudited)	Three months ended December 31, 2009	Three months ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2008
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH				
Cash flow from operating activities	**$ (22.5)**	$ 22.0	**$ 71.2**	$ 105.2
Deduct: Capital expenditures – cash	**(2.9)**	(8.7)	**(17.3)**	(30.0)
Standardized distributable cash	**$ (25.4)**	$ 13.3	**$ 53.9**	$ 75.2
Adjustments to standardized distributable cash:				
Add (deduct):				
Increase (decrease) in non-cash working capital	**43.8**	(14.5)	**(31.8)**	14.4
Net long-term deferred maintenance	**3.5**	0.6	**4.6**	(0.5)
Capital expenditures accruals – net	**0.4**	1.9	**3.8**	4.7
Asset retirement obligation – current expenditures and accruals	**-**	0.2	**-**	2.3
Adjusted distributable cash	**$ 22.3**	$ 1.5	**$ 30.5**	$ 96.1
Standardized distributable cash – per Partnership unit (in dollars)	**$ (0.35)**	$ 0.19	**$ 0.76**	$ 1.06
Adjusted distributable cash – per Partnership unit (in dollars)	**$ 0.31**	$ 0.02	**$ 0.43**	$ 1.35
Cash distributions declared (paid and payable)	**$ 10.0**	$ 19.9	**$ 18.6**	$ 96.9
Cash distributions declared – per Partnership unit (in dollars)	**$ 0.14**	$ 0.28	**$ 0.26**	$ 1.36

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. 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.

Distributions are declared monthly with date of record on the last day of the month and payable within 15 days following.

Canfor Pulp Income Fund
Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Accumulated Earnings and Distributions

(thousands of dollars, except unit and per unit amounts, unaudited)	Three months ended **December 31, 2009**	Three months ended December 31, 2008	Year ended **December 31, 2009**	Year ended December 31, 2008
Income				
Equity income (loss) in Canfor Pulp Limited Partnership	**$ 7,562**	$ (12,947)	**$ 6,644**	$ 23,280
Net income (loss) before future income taxes	**7,562**	(12,947)	**6,644**	23,280
Future income taxes (recovery) (note 7)	**659**	739	**(2,422)**	3,076
Net income (loss)	**6,903**	(13,686)	**9,066**	20,204
Distributions declared (note 5)	**(4,969)**	(9,938)	**(9,229)**	(48,271)
Earnings in excess of distributions – surplus (deficit)	**$ 1,934**	$ (23,624)	**$ (163)**	$ (28,067)
Net income (loss) per unit, basic and diluted	**$ 0.20**	$ (0.39)	**$ 0.26**	$ 0.57
Weighted average number of units	**35,493,505**	35,493,505	**35,493,505**	35,493,514

Net income (loss) for the period	**$ 6,903**	$ (13,686)	**$ 9,066**	$ 20,204
Equity interest in other comprehensive income (loss) of Canfor Pulp Limited Partnership	**(30)**	91	**(45)**	(193)
Comprehensive income (loss)	**$ 6,873**	$ (13,595)	**$ 9,021**	$ 20,011

Accumulated Earnings and Distributions				
Balance, beginning of period – distributions in excess of earnings	**$ (74,960)**	$ (49,239)	**$ (72,863)**	$ (44,796)
Earnings in excess of distributions – surplus (deficit), current period	**1,934**	(23,624)	**(163)**	(28,067)
Balance, end of period – Accumulated distributions in excess of earnings	**$ (73,026)**	$ (72,863)	**$ (73,026)**	$ (72,863)

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

Canfor Pulp Income Fund
Consolidated Statements of Cash Flows

(thousands of dollars, unaudited)	Three months ended December 31, 2009	Three months ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2008
Cash generated from (used in)				
Operating activities				
Net income (loss)	**$ 6,903**	$ (13,686)	**$ 9,066**	$ 20,204
Items not affecting cash:				
Equity (income) loss in Canfor Pulp Limited Partnership	**(7,562)**	12,947	**(6,644)**	(23,280)
Future income taxes (recovery)	**659**	739	**(2,422)**	3,076
Distributions received from Canfor Pulp Limited Partnership	**2,485**	12,778	**7,809**	51,111
	2,485	12,778	**7,809**	51,111
Financing activities				
Distributions paid to unitholders	**$ (2,485)**	$ (12,778)	**$ (7,809)**	$ (51,111)
Beginning, change and ending balance in cash and cash equivalents	**$ -**	$ -	**$ -**	$ -

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

Canfor Pulp Income Fund
Consolidated Balance Sheets

(thousands of dollars, unaudited)		**As at December 31, 2009**		As at December 31, 2008
ASSETS				
Current assets				
Distributions receivable from Canfor Pulp Limited Partnership (notes 5,6)	$	**2,839**	$	1,420
Total current assets		**2,839**		1,420
Equity investment in Canfor Pulp Limited Partnership (note 4)		**263,644**		266,274
	$	**266,483**	$	267,694
LIABILITIES				
Current liabilities				
Distributions payable (note 5)	$	**2,839**	$	1,420
Total current liabilities		**2,839**		1,420
Future income taxes (note 7)		**37,287**		39,709
	$	**40,126**	$	41,129
UNITHOLDERS' EQUITY				
Unitholders' equity – 35,493,505 Fund units outstanding	$	**299,351**	$	299,351
Accumulated earnings and distributions		**(73,026)**		(72,863)
Accumulated other comprehensive income (note 8)		**32**		77
Total Unitholders' Equity		**226,357**		226,565
	$	**266,483**	$	267,694

Description of the Fund and basis of presentation of financial statements (note 1).

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

Approved by the Trustees

"Stan Bracken-Horrocks" *"Charles Jago"*

Stan Bracken-Horrocks Charles Jago

Notes to the Unaudited Interim Consolidated Financial Statements as at December 31, 2009

1. Description of the Fund and Basis of Presentation of Financial Statements

Canfor Pulp Income Fund (the Fund) is 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 is located at 1700 West 75th Avenue, Vancouver, BC, Canada. The Fund has been established to acquire and hold, through a wholly owned trust, the Canfor Pulp Trust (the Trust), investments in the Limited Partnership Units of the Canfor Pulp Limited Partnership (the Partnership), and such other investments as the Trustees of the Fund may determine. The general partner of the Partnership is Canfor Pulp Holding Inc. (the General Partner) and each partner holds an ownership interest in the General Partner equal to its Partnership interest.

Each unitholder participates pro-rata in any distributions from the Fund.

The Fund is entirely dependent on distributions from the Partnership to make its own distributions.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements and notes included in the Fund's 2008 Annual Report available at www.canforpulp.com or www.sedar.com. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2008 audited consolidated financial statements except as described in note 3 below.

3. Changes in Accounting Policies

Financial Instrument Disclosures

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance disclosures about fair value measurements and the liquidity risk of financial instruments. These amendments are intended to provide further detail on the relative reliability of the data or inputs used to measure the fair value of the entities financial instruments. Specifically, financial instruments recognized at fair value on the Consolidated Balance Sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;
- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Fund has incorporated this amendment into these unaudited interim consolidated financial statements.

4. Equity Investment in Canfor Pulp Limited Partnership

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

(thousands of dollars, unaudited)	**Year ended December 31, 2009**	Year ended December 31, 2008
Balance, beginning of year	**266,274**	291,458
Equity interest in income of the Partnership	**6,644**	23,280
Equity interest in other comprehensive loss of the Partnership	**(45)**	(193)
Distributions from the Partnership	**(9,229)**	(48,271)
Balance, end of year	**263,644**	266,274

5. Distributions

The Fund declared distributions during the twelve months of 2009 as follows:

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

Record Date	**Payable Date**	**Amount per Fund Unit $**	**Amount $**
January 30, 2009	February 13, 2009	0.04	1,420
February 27, 2009	March 13, 2009	0.01	355
March 31, 2009	April 15, 2009	0.01	355
April 30, 2009	May 15, 2009	0.01	355
May 29, 2009	June 15, 2009	0.01	355
June 30, 2009	July 15, 2009	0.01	355
July 31, 2009	August 14, 2009	0.01	355
August 31, 2009	September 15, 2009	0.01	355
September 30, 2009	October 15, 2009	0.01	355
October 30, 2009	November 13, 2009	0.01	355
November 30, 2009	December 15, 2009	0.05	1,775
December 31, 2009	January 15, 2010	0.08	2,839
		0.26	9,229

The Fund's monthly distributions are based on the Partnership's monthly distributions.

Monthly cash distributions from the Partnership are based on the Partnership's cash flow and are not directly equal to the Fund's pro-rata share of the Partnership's income under the equity method.

6. Related Party Transactions

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended December 31, 2009 were $5.0 million of which $2.2 million was received, with the balance of $2.8 million receivable on December 31, 2009.

7. Future Income Taxes

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

(thousands of dollars, unaudited)	**Year ended December 31, 2009**	Year ended December 31, 2008
Expected income tax expense at statutory tax rate of nil (2008 – nil)	**-**	-
Future income taxes (recovery) on temporary differences	**(2,422)**	3,076
	(2,422)	3,076

The temporary differences based on the Fund's 49.8% ownership of the Partnership are as follows:

(thousands of dollars, unaudited)	**December 31, 2009**	December 31, 2008
Future income tax liability:		
Equity investment in the Partnership	**42,347**	44,453
Expected reversal of temporary differences prior to 2011	**(5,060)**	(4,744)
	37,287	39,709

In 2009 a future income tax recovery of $3.7 million was recorded as a result of a change in legislation impacting future taxation rates for Specified Investment Flow Through Trusts.

The future income tax liability is based on a current estimate of the balance at the beginning of 2011. The balance relates to the Fund's 49.8% ownership in the Partnership and is based on temporary differences between the accounting and tax basis of the Partnership's assets and liabilities expected to reverse after January 1, 2011.

8. Accumulated Other Comprehensive Income

(thousands of dollars, unaudited)	**Year ended December 31, 2009**	Year ended December 31, 2008
Balance, beginning of year	**77**	270
Other comprehensive loss	**(45)**	(193)
Balance, end of year	**32**	77

9. Financial Instruments

The Fund's financial instruments consist of distributions receivable from the Partnership and distributions payable to unitholders. Distributions receivable are classified as loans and receivables, and are measured at amortized cost. Distributions payable are classified as other liabilities and are measured at amortized cost. The carrying values of these financial instruments approximate their fair values due to the relatively short period to maturity of these instruments.

Financial instruments recognized at fair value on the Consolidated Balance Sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;
- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Fund is not required to disclose fair value hierarchy levels for distributions receivable from the Partnership and distributions payable to unitholders, as the fair values of these financial instruments approximate the carrying value due to their short-term nature.

The Fund is exposed to certain risks related to the nature of its investment in the Partnership and the structure of the Fund, as well as the underlying risks related to the business of the Partnership. The Fund relies on the objectives, policies and processes of the Partnership for managing these risks.

10. Segmented Information

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

Canfor Pulp Limited Partnership

Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Partners' Equity

(millions of dollars, except units and per unit amounts, unaudited)	Three months ended December 31, 2009	Three months ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2008
Revenue				
Sales	**$ 220.2**	$ 186.1	**$ 813.5**	$ 825.5
Business interruption insurance	**-**	0.9	**3.2**	19.1
	220.2	187.0	**816.7**	844.6
Costs and expenses				
Manufacturing and product costs	**158.8**	144.3	**611.2**	595.8
Freight and other distribution costs	**29.6**	26.5	**121.1**	108.8
Amortization	**12.6**	10.8	**49.4**	47.6
Selling and administration costs	**4.8**	6.4	**23.0**	24.6
Settlement of asset retirement obligation	**-**	-	**-**	(0.9)
	205.8	188.0	**804.7**	775.9
Operating income (loss)	**14.4**	(1.0)	**12.0**	68.7
Interest expense, net	**(2.2)**	(2.6)	**(10.1)**	(8.1)
Foreign exchange gain (loss) on long-term debt	**2.9**	(18.1)	**19.6**	(26.0)
Gain (loss) on derivative financial instruments (note 13)	**0.5**	(11.1)	**(1.5)**	(8.9)
Foreign exchange gain (loss) on working capital	**(0.5)**	7.0	**(6.7)**	13.1
Net property damage insurance gain (loss)	**-**	(0.3)	**0.2**	8.2
Other	**0.1**	0.1	**(0.1)**	(0.2)
	0.8	(25.0)	**1.4**	(21.9)
Net income (loss)	**15.2**	(26.0)	**13.4**	46.8
Other comprehensive income (loss)				
Adjustment for derivatives (note 16)	**-**	0.1	**(0.1)**	(0.4)
Comprehensive income (loss)	**$ 15.2**	$ (25.9)	**$ 13.3**	$ 46.4
Net income (loss) per Partnership unit (note 12)				
Basic and diluted	**$ 0.21**	$ (0.36)	**$ 0.19**	$ 0.66
Weighted average Partnership units outstanding	**71,270,025**	71,270,025	**71,270,025**	71,270,025
Partners' Equity				
Balance, beginning of period	**$ 523.9**	$ 580.2	**$ 534.4**	$ 584.9
Net income (loss)	**15.2**	(26.0)	**13.4**	46.8
Distributions declared to partners (note 15)	**(10.0)**	(19.9)	**(18.6)**	(96.9)
Other comprehensive income (loss) (note 16)	**-**	0.1	**(0.1)**	(0.4)
Balance, end of period	**$ 529.1**	$ 534.4	**$ 529.1**	$ 534.4

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

Canfor Pulp Limited Partnership
Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	Three months ended December 31, 2009	Three months ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2008
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income (loss)	**$ 15.2**	$ (26.0)	**$ 13.4**	$ 46.8
Items not affecting cash:				
Amortization	**12.6**	10.8	**49.4**	47.6
Foreign exchange (gain) loss on long-term debt	**(2.9)**	18.1	**(19.6)**	26.0
Reduction (increase) in value of outstanding derivative instruments (note 13)	**(0.9)**	3.3	**(2.1)**	1.1
Employee future benefits	**1.5**	2.3	**5.2**	8.4
Loss on disposal of fixed assets	**0.2**	-	**0.2**	1.2
Settlement of asset retirement obligation	**-**	-	**-**	(0.9)
Change in long-term maintenance provision	**3.6**	0.9	**5.9**	9.2
Net property damage insurance loss (gain)	**-**	0.3	**(0.2)**	(8.2)
Other	**(0.1)**	0.2	**0.4**	0.6
Asset retirement obligation expenditures	**-**	(0.2)	**-**	(1.4)
Salary pension plan contribution	**(0.6)**	(0.7)	**(2.5)**	(2.1)
Other deferred expenditure	**(0.2)**	-	**(0.2)**	-
Long-term maintenance expenditure	**(7.1)**	(1.5)	**(10.5)**	(8.7)
Cash flow from operations before working capital changes	**21.3**	7.5	**39.4**	119.6
Decrease (increase) in non-cash working capital (note 14)	**(43.8)**	14.5	**31.8**	(14.4)
	(22.5)	22.0	**71.2**	105.2
Financing activities				
Distributions paid to partners	**(5.0)**	(25.7)	**(15.7)**	(102.7)
Operating loan draw (repayment) (note 9)	**-**	21.0	**(25.2)**	25.2
	(5.0)	(4.7)	**(40.9)**	(77.5)
Investing activities				
Property, plant and equipment, net (note 14)	**(2.9)**	(12.4)	**(17.3)**	(39.4)
Net insurance proceeds	**-**	1.5	**0.1**	9.5
	(2.9)	(10.9)	**(17.2)**	(29.9)
Increase (decrease) in cash and cash equivalents	**(30.4)**	6.4	**13.1**	(2.2)
Cash and cash equivalents, beginning of period	**43.9**	(6.0)	**0.4**	2.6
Cash and cash equivalents, end of period	**$ 13.5**	$ 0.4	**$ 13.5**	$ 0.4

Supplementary cash flow information (note 14).

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

Canfor Pulp Limited Partnership
Consolidated Balance Sheets

(millions of dollars, unaudited)		**As at December 31, 2009**		As at December 31, 2008
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**13.5**	$	0.4
Accounts receivable (note 11)				
Trade		**110.5**		77.0
Insurance		**-**		7.4
Other		**8.6**		7.5
Inventories (note 4)		**135.4**		176.7
Prepaid expenses and other assets		**18.4**		16.5
Total current assets		**286.4**		285.5
Property, plant and equipment (note 5)		**534.1**		570.2
Other long-term assets (note 6)		**17.1**		13.2
	$	**837.6**	$	868.9
LIABILITIES				
Current liabilities				
Operating loan (note 9)	**$**	**-**	$	25.2
Accounts payable and accrued liabilities (note 11)		**134.5**		121.6
Distributions payable (note 15)		**5.7**		2.8
Total current liabilities		**140.2**		149.6
Long-term debt (note 9)		**115.1**		134.7
Long-term liabilities (note 10)		**53.2**		50.2
	$	**308.5**	$	334.5
PARTNERS' EQUITY – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units (note 1)		**529.1**		534.4
	$	**837.6**	$	868.9

Description of the Partnership and basis of presentation of financial statements (note 1).
The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Approved on behalf of Canfor Pulp Limited Partnership by its
General Partner, Canfor Pulp Holding Inc.,

"Stan Bracken-Horrocks"

Stan Bracken-Horrocks
Director

"Paul Richards"

Paul Richards
Director

Canfor Pulp Limited Partnership

Notes to the Unaudited Interim Consolidated Financial Statements as at December 31, 2009

1. Business Description and Basis of Presentation of Financial Statements

Canfor Pulp Limited Partnership (the Partnership) is a limited partnership formed on April 21, 2006, under the laws of Manitoba, to acquire and carry on the NBSK pulp and paper business of Canadian Forest Products Ltd. a subsidiary of Canfor Corporation (collectively Canfor). The business consists of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia (the Pulp Business).

At December 31, 2009, Canfor owned 50.2% and Canfor Pulp Income Fund (the Fund) indirectly owned 49.8% of the issued and outstanding units of the Partnership.

The general partner of the Partnership is Canfor Pulp Holding Inc. (the General Partner), which holds an interest of 0.001% of the Partnership.

These unaudited interim consolidated financial statements are those of the Partnership and do not include the assets, liabilities, revenues and expenses of its partners. The Partnership, other than its incorporated subsidiaries, is not subject to income taxes as its income is allocated for tax purposes to its partners. Accordingly, no recognition has been made for income taxes related to Partnership income in these financial statements. The tax attributes of the Partnership's net assets flow directly to the partners.

Certain comparative figures have been reclassified to conform to current year presentation.

Economic Dependence

The Partnership depends on Canfor to provide approximately 63% (2008 Year – 64%) of its fibre supply as well as to provide certain key business and administrative services as described in the Fund's 2008 Annual Report available at www.canforpulp.com or www.sedar.com. As a result of these relationships the Partnership considers its operations to be dependent on its ongoing relationship with Canfor.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements do not include all of the note disclosures required by Canadian generally accepted accounting principles for annual financial statements. The Partnership's accounting policies are as disclosed in the annual consolidated financial statements of the Partnership included in the Fund's 2008 Annual Report available at www.canforpulp.com or www.sedar.com. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2008 audited consolidated financial statements except as described in note 3 below.

3. Changes in Accounting Policies

Financial Instrument Disclosures

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance disclosures about fair value measurements and the liquidity risk of financial instruments. These amendments are intended to provide further detail on the relative reliability of the data or inputs used to measure the fair value of the entities financial instruments. Specifically, financial instruments recognized at fair value on the Consolidated Balance Sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;

- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Partnership has incorporated this amendment into these unaudited interim consolidated financial statements.

4. Inventories

(millions of dollars, unaudited)	**December 31, 2009**	December 31, 2008
Pulp	**55.2**	86.7
Paper	**15.9**	20.6
Wood chips	**21.5**	23.3
Processing materials and supplies	**42.8**	46.1
	135.4	176.7

5. Property, Plant and Equipment

	December 31, 2009		
(millions of dollars, unaudited)	Cost	Accumulated amortization	Net
Land and improvements	**5.4**	**-**	**5.4**
Asset retirement - Landfill	**2.3**	**0.8**	**1.5**
Buildings, machinery and equipment	**1,344.1**	**820.1**	**524.0**
Construction in progress	**3.2**	**-**	**3.2**
	1,355.0	**820.9**	**534.1**

	December 31, 2008		
(millions of dollars, unaudited)	Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.8	1.5
Buildings, machinery and equipment	1,332.6	771.7	560.9
Construction in progress	2.4	-	2.4
	1,342.7	772.5	570.2

6. Other Long-term Assets

(millions of dollars, unaudited)	**December 31, 2009**	December 31, 2008
Pension benefit plan	**11.3**	11.7
Maintenance shutdown costs	**5.4**	0.9
Other	**0.4**	0.6
	17.1	13.2

7. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

(millions of dollars, unaudited)	Three months ended **December 31, 2009**	 December 31, 2008	Year ended **December 31, 2009**	 December 31, 2008
Pension plans	**1.3**	0.9	**5.0**	3.7
Other employee future benefit plans	**0.9**	1.5	**3.5**	6.0
Contributions to forest industry union plans	**1.5**	1.2	**6.5**	6.3
	3.7	3.6	**15.0**	16.0

8. Asset Retirement Obligations

(millions of dollars, unaudited)	**December 31, 2009**	December 31, 2008
Balance beginning of year	**2.8**	11.3
Accretion expense	**0.2**	0.4
Current expenditures	**-**	(1.2)
Gain on settlement	**-**	(0.9)
Change in estimate	**-**	(6.8)
Balance end of year	**3.0**	2.8

9. Credit Facilities and Long-term Debt

At December 31, 2009 the Partnership has outstanding long-term debt of $115.1 million (2008 – $134.7 million, US$110.0 million for both 2008 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.

On September 30, 2009 the Partnership completed a new $40 million bank credit facility with a maturity date of November 30, 2011, of which $0.5 million was utilized at December 31, 2009 for standby letters of credit issued for general business purposes. In addition, the Partnership has arranged a separate facility with a maturity date of November 30, 2011, to cover the $16.0 million standby letter of credit issued to BC Hydro under the Energy Purchase Agreement. The general terms and conditions of the new financing are similar to the previous bank credit facility, with interest and other costs at prevailing market rates. The leverage ratio and interest coverage ratio remain consistent with the financial covenants under the long-term Note agreement, which agreement was unchanged and not affected by the new bank financing. The effective interest rate on the bank credit facility for the year ended December 31, 2009 was 2.9%.

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, 2009 and throughout the year.

The fair value of long-term debt at December 31, 2009 was $120.9 million (US$115.6 million).

10. Long-term Liabilities

(millions of dollars, unaudited)	**December 31, 2009**	December 31, 2008
Accrued pension obligations	**5.8**	5.9
Post-employment benefits	**43.2**	40.8
Derivative financial instruments (note 13)	**1.2**	0.7
Asset retirement obligations (note 8)	**3.0**	2.8
	53.2	50.2

11. Related Party Transactions

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2008 audited consolidated financial statements and are based on agreed upon amounts between the parties, and are summarized below:

	Three months ended		Year ended	
(millions of dollars, unaudited)	**December 31, 2009**	December 31, 2008	**December 31, 2009**	December 31, 2008
Transactions				
Canfor	**29.5**	34.3	**118.2**	145.3
Howe Sound LP – commission	**0.5**	0.5	**2.4**	2.6
Howe Sound LP – sale of wood chips	**-**	0.2	**0.1**	0.7
Lakeland Mills Ltd. and Winton Global Lumber Ltd. – purchase of wood chips	**1.2**	0.9	**3.9**	6.0

	December 31, 2009	December 31, 2008
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**40.8**	27.4
Howe Sound LP	**17.6**	20.4
Lakeland Mills Ltd.	**0.4**	0.2
Included in trade accounts receivable:		
Product marketed for Canfor	**24.4**	9.9
Product marketed for Howe Sound LP	**16.5**	16.9

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

12. Net Income (Loss) per Partnership Unit

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

13. Financial Instruments

Classification of Financial Instruments

The Partnership has classified its cash and cash equivalents as held-for-trading. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, distributions payable, operating loan and long-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost. Derivative instruments are recorded in the balance sheet at fair value. The Partnership has no derivatives embedded in its financial or non-financial contracts that are not closely related to the host contract.

Financial Risk Management

The Partnership is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

Risk management is carried out by the risk management committee under a "Risk Management Controls Policy". The policy sets out the responsibilities, reporting and counter party credit and communication requirements associated with all Partnership risk management activity. Responsibility for overall philosophy, direction and approval is that of the Board of Directors.

I. Credit risk:

Credit risk is the risk of financial loss to the Partnership if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Partnership to credit risk include cash and cash equivalents, accounts receivable and derivatives.

In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions. The Partnership does not have holdings in asset backed commercial paper. The cash and cash equivalents balance at December 31, 2009 was $13.5 million. The Partnership does not believe there is any significant credit risk associated with cash on deposit held in major Canadian and international financial institutions.

The Partnership utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 81% of the outstanding trade receivables are covered under credit insurance. In addition, the Partnership requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. The Partnership recognizes the sale of the letters of credit at the settlement date, and accordingly reduces the related trade accounts receivable balance. At December 31, 2009, the Partnership had reduced the trade accounts receivable balance by $11.9 million due to discounting of letters of credit. The Partnership's trade receivable balance at December 31, 2009 was $110.5 million. The Partnership believes that its approach to managing credit risk associated with the collection of outstanding trade accounts receivable is appropriate in the current credit market.

The Partnership does not believe that there is any significant counter party credit risk in respect of outstanding derivatives.

II. Liquidity risk:

Liquidity risk is the risk that the Partnership will be unable to meet its financial obligations as they fall due. The Partnership manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities, and use of 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 amounts periodically to manage cash resources. In addition, the Partnership is utilizing discounting of letters of credit on outstanding trade receivables to manage liquidity risk. At December 31, 2009, the impact of discounting of letters of credit accelerated cash collection and reduced the trade accounts receivable balance by $11.9 million. The Partnership believes it will be able to meet all financial obligations as they come due.

At December 31, 2009, the Partnership's accounts payable and accrued liabilities totalled $134.5 million, all of which fall due for payment within one year of the balance sheet date. The Partnership's distributions payable at December 31, 2009 totalled $5.7 million, which fall due for payment on January 15, 2010.

III. Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency and commodity prices.

a. Interest rate risk:

The Partnership is exposed to interest rate risk through its financial assets and financial obligations bearing variable interest rates and through its off-balance sheet lease obligations.

The Partnership manages interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to meet day-to-day operating cash flow requirements and payment of monthly declared distributions to unitholders.

Fluctuations in the market interest rates are not expected to have a material impact on the Partnership's results of operations due to the short-term nature of the respective financial assets and obligations and the fixed interest rate on long-term debt.

The Partnership currently does not use derivative instruments to reduce its exposure to interest rate risk.

b. Currency risk:

The Partnership is exposed to foreign exchange risk. The Partnership's products are sold globally with prices primarily denominated in US dollars or linked to prices quoted in US dollars with certain expenditures transacted in US dollars. In addition the Partnership holds financial assets and liabilities in US dollars. These primarily include US dollar bank accounts and investments, trade accounts receivable and long-term debt.

The Partnership enters into US dollar forward sales contracts to reduce exposure to fluctuations in US exchange rates on US dollar denominated accounts receivable and accounts payable balances.

c. Commodity price risk:

The Partnership's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Subsequently, the Partnership is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and natural gas prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, the Partnership is subject to reduced revenues and margins, which adversely impact profitability.

The Partnership may periodically use derivative instruments to mitigate commodity price risk. For the year ended December 31, 2009 the Partnership used derivative instruments to reduce exposure to natural gas prices.

Fair Value Hierarchy

Financial instruments recognized at fair value on the Consolidated Balance Sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;
- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The following table sets forth the carrying value and the fair value of the Partnership's financial assets and liabilities. The table also identifies the levels per the fair value hierarchy where fair value is recognized in the balance sheet.

As at December 31, 2009 (millions of dollars)	**Carrying Value**	**Fair Value**	**Fair Value Hierarchy Level**
Financial assets:			
Cash and cash equivalents[1]	13.5	13.5	1
Accounts receivable[1]	118.0	118.0	2
Derivative assets[2]	1.1	1.1	2
Financial liabilities:			
Account payable and accrued liabilities[1]	132.2	132.2	2
Distributions payable[1]	5.7	5.7	2
Long-term debt[3]	115.1	120.9	N/A
Derivative liabilities[2]	3.5	3.5	2

1 Fair value approximates carrying value due to the short term nature of these instruments.

2 The fair value of derivative instruments is based on quoted market prices for comparable contracts and represent the amount the Partnership would have received from, or paid to, a counterparty to unwind the contract at the market rates in effect at the balance sheet dates and therefore derivative instruments are classified within Level 2 of the fair value hierarchy established by section 3862. Derivative assets are recorded in other accounts receivable and derivative liabilities are recorded in accounts payable and accrued liabilities and in long-term liabilities in the consolidated balance sheet.

3 Recorded at amortized cost.

Derivative Instruments

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

For the fourth quarter of 2009 the Partnership recorded a net gain on derivative financial instruments of $0.5 million (fourth quarter 2008 – loss of $11.1 million) relating to the settlement of maturing contracts during the quarter, and the revaluation to market of outstanding contracts at the end of the quarter, for natural gas swaps and US dollar forward contracts.

The Partnership recorded losses of $1.6 million during the fourth quarter of 2009 (fourth quarter 2008 – loss of $0.6 million) relating to settlement of maturing natural gas contracts as a charge to non-operating income. At December 31, 2009 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 1.7 million gigajoules extending to October 2011. At December 31, 2009 the unrealized loss of $3.5 million (December 31, 2008 – $3.2 million) on these outstanding commodity swaps was recorded as a liability in accounts payable and accrued liabilities and in long-term liabilities.

The Partnership recorded a gain of $1.2 million during the fourth quarter of 2009 (fourth quarter 2008 – loss of $7.8 million) on settlement of maturing US dollar forward contracts as a charge to non-operating income. At December 31, 2009 the Partnership had outstanding US dollar forward contracts of $77.8 million extending to March 2010. At December 31, 2009 the unrealized gain of $1.1 million (December 31, 2008 – loss of $1.3 million) on these outstanding US dollar forward contracts was recorded as an asset in other accounts receivable.

14. Supplementary Cash Flow Information

(millions of dollars, unaudited)	Three months ended **December 31, 2009**	 December 31, 2008	Year ended **December 31, 2009**	 December 31, 2008
Decrease (increase) in non-cash working capital				
Accounts receivable – trade and other	**(12.3)**	49.4	**(33.4)**	71.0
Insurance receivable	**-**	1.3	**7.3**	(7.5)
Inventories	**4.5**	(13.0)	**41.3**	(46.7)
Prepaid expenses and other assets	**(4.8)**	6.8	**(1.8)**	(0.9)
Accounts payable and accrued liabilities	**(31.2)**	(30.0)	**18.4**	(30.3)
	(43.8)	14.5	**31.8**	(14.4)
Capital expenditures				
Capital expenditures – cash	**2.9**	12.4	**17.3**	39.4
Less property damage insurance proceeds	**-**	(3.7)	**-**	(9.4)
Net capital expenditures – cash	**2.9**	8.7	**17.3**	30.0
Capital expenditures accruals – net	**(0.4)**	(1.9)	**(3.8)**	(4.7)
Change in asset retirement obligations – long-term	**-**	(6.8)	**-**	(6.8)
	2.5	-	**13.5**	18.5
Net interest paid	**3.7**	4.4	**9.0**	8.1

15. Distributions

The Partnership declared distributions in the twelve months of 2009 as follows:

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

Record Date	Payable Date	Amount per Partnership Unit $	Amount $
January 30, 2009	February 13, 2009	0.04	**2.9**
February 27, 2009	March 13, 2009	0.01	**0.7**
March 31, 2009	April 15, 2009	0.01	**0.7**
April 30, 2009	May 15, 2009	0.01	**0.7**
May 29, 2009	June 15, 2009	0.01	**0.7**
June 30, 2009	July 15, 2009	0.01	**0.7**
July 31, 2009	August 14, 2009	0.01	**0.8**
August 31, 2009	September 15, 2009	0.01	**0.7**
September 30, 2009	October 15, 2009	0.01	**0.7**
October 30, 2009	November 13, 2009	0.01	**0.7**
November 30, 2009	December 15, 2009	0.05	**3.6**
December 31, 2009	January 15, 2010	0.08	**5.7**
		0.26	**18.6**

16. Accumulated Other Comprehensive Income

(millions of dollars, unaudited)	**Year ended December 31, 2009**	Year ended December 31, 2008
Balance, beginning of year	**0.1**	0.5
Adjustment for exchange translation	**(0.2)**	0.2
Adjustment for derivatives recorded in other comprehensive income	**0.1**	(0.6)
Balance, end of year	**-**	0.1

Since the inception of the Partnership, the total of the cumulative comprehensive income, less cumulative distributions is as follows:

(millions of dollars, unaudited)	**December 31, 2009**
Cumulative comprehensive income	**276.7**
Cumulative distributions	**(335.1)**
	(58.4)
Partners' capital – at July 1, 2006	**587.5**
Partners' equity, end of year	**529.1**

17. Segmented Information [a]

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs	Total
Three months ended December 31, 2009				
Sales to external customers [b]	**186.9**	**32.3**	**1.0**	**220.2**
Sales of pulp to paper segment [c]	**20.9**	**(20.9)**	**-**	**-**
Operating income (loss)	**17.9**	**0.1**	**(3.6)**	**14.4**
Amortization	**11.8**	**0.8**	**-**	**12.6**
Capital expenditures, net	**2.3**	**0.1**	**0.1**	**2.5**
Three months ended December 31, 2008				
Sales to external customers [b]	159.1	27.0	-	186.1
Sales of pulp to paper segment [c]	17.3	(17.3)	-	-
Operating income (loss)	(0.4)	2.5	(3.1)	(1.0)
Amortization	9.9	0.8	0.1	10.8
Capital expenditures, net	3.2	-	0.5	3.7
Year ended December 31, 2009				
Sales to external customers [b]	**690.0**	**122.5**	**1.0**	**813.5**
Sales of pulp to paper segment [c]	**63.7**	**(63.7)**	**-**	**-**
Operating income (loss)	**11.7**	**10.6**	**(10.3)**	**12.0**
Amortization	**45.9**	**3.3**	**0.2**	**49.4**
Capital expenditures, net	**13.2**	**0.1**	**0.2**	**13.5**
Identifiable assets	**739.3**	**64.4**	**33.9**	**837.6**
Year ended December 31, 2008				
Sales to external customers [b]	695.2	130.3	-	825.5
Sales of pulp to paper segment [c]	78.7	(78.7)	-	-
Operating income (loss)	72.5	9.4	(13.2)	68.7
Amortization	43.7	3.7	0.2	47.6
Capital expenditures, net	26.7	0.4	0.8	27.9
Identifiable assets	772.6	73.9	22.4	868.9

(a) Operations are presented by product lines. Operations are considered to be in one geographic area since all production facilities are in Canada. Substantially all sales are exported outside Canada, with sales to the United States representing 36% (Year 2008 – 43%).

(b) Sales to the largest customer represented approximately 7% of pulp segment sales (Year 2008 – 12%).

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