CANFOR PULP INCOME FUND

CANFOR PULP LIMITED PARTNERSHIP

Management's Discussion and Analysis

For the year ended December 31, 2008

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
2008 Report to Unitholders
Management's Discussion and Analysis

Canfor Pulp Income Fund (the Fund) earns income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). The Fund accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for the Fund's unitholders to understand the results of operations, the audited consolidated financial statements with accompanying notes are presented for both the Fund and the Partnership. The Partnership did not have an operating business prior to July 1, 2006, and the comparative results prior to this date represent the northern bleached softwood kraft (NBSK) business of Canadian Forest Products Ltd., a subsidiary of Canfor Corporation (collectively Canfor), which the Partnership acquired on July 1, 2006. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and the Fund's performance for the year ended December 31, 2008 relative to the prior year. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the Fund and the Partnership. Additional information relating to the Fund and the Partnership, including the Fund's Annual Information Form (AIF) dated February 17, 2009, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

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

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

In this MD&A, for the 2006 year, the financial information presented for the Partnership represents its business on a carve out basis (continuity of interests) from Canfor, as if operated as a stand-alone partnership entity for the full periods. The financial information presented includes allocations of certain of Canfor's assets, liabilities and costs. The financial condition, results of operations and cash flows for these periods are not necessarily indicative of the financial condition, results of operations or cash flows that would have been incurred if the business was a separate legal entity.

The information in this report is as at February 17, 2009.

Forward-Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could" and variations of such words and similar expressions are intended to identify such forward-looking statements. 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 MD&A 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 MD&A include statements made under:

- "RISKS AND UNCERTAINTIES RELATED TO THE STRUCTURE OF THE FUND" on pages 5, 6;
- "CRITICAL ACCOUNTING ESTIMATES" on pages 6, 22, 23;
- "CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS" on pages 7, 24;
- "*Outlook – Pulp*" on page 12;
- "*Outlook – Kraft Paper*" on page 13;

- "LIQUIDITY AND FINANCIAL REQUIREMENTS" on page 15;
- "CONTRACTUAL OBLIGATIONS AND CONTINGENCIES" on page 18;
- "SUBSEQUENT EVENT" on page 18;
- "RISKS AND UNCERTAINTIES RELATED TO THE BUSINESS AND INDUSTRY" on pages 19-21; and
- ""DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS" on pages 25, 26.

Material risk factors that could cause actual results to differ materially from the forward-looking statements contained in this MD&A include: general economic, market and business conditions; product selling prices; raw material and operating costs; exchange rates; changes in law and public policy; and opportunities available to or pursued by the Fund and Partnership. Additional information concerning these and other factors can be found in this MD&A under the headings "Risks and Uncertainties Relating to the Structure of the Fund" and "Risks and Uncertainties Related to the Business and the Industry".

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 17, 2009, there are a total of 35,493,505 Fund units issued and outstanding, and the Fund indirectly holds a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership and Canfor holds 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable LP 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 Canadian Forest Products Ltd. ("CFP"), the Fund, Canfor Pulp Trust, Canfor Pulp Limited Partnership and Canfor Pulp Holding Ltd. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable LP 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.

2008 HIGHLIGHTS

- Distributions totaled $48.3 million or $1.36 per Fund unit in 2008.
- Net income before future income taxes of $23.3 million.

EQUITY INVESTMENT IN CANFOR PULP LIMITED PARTNERSHIP

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

(thousands of dollars)	**Year ended December 31, 2008**	Year ended December 31, 2007
Balance, beginning of period	**291,458**	290,938
Equity interest in income of the Partnership	**23,280**	64,643
Equity interest in other comprehensive income (loss) of the Partnership	**(193)**	1,185
Distributions from the Partnership	**(48,271)**	(65,308)
Balance, end of period	**266,274**	291,458

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

SELECTED ANNUAL FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Year ended December 31, 2008**	Year ended December 31, 2007	Six months ended December 31, 2006
Equity interest in income of the Partnership	**23,280**	64,643	20,558
Net income[1]	**20,204**	28,010	20,558
Net income per Fund unit	**$0.57**	$0.79	$1.15
Distributions from the Partnership	**48,271**	65,308	30,419
Distributions declared to unitholders	**48,271**	65,308	30,419
Distributions declared per unit	**$1.36**	$1.84	$1.24

Note: [1] In 2008 the Fund recorded a non-cash future income tax charge of $3.1 million to net income as compared to $36.6 million in 2007, relating to the Fund's 49.8% ownership in the Partnership and based on temporary differences between the accounting and tax basis of the Partnership's assets and liabilities expected to reverse after January 1, 2011.

2008 COMPARED TO 2007

For the year ended December 31, 2008, the Fund had net income of $20.2 million, or $0.57 per unit compared to net income of $28.0 million, or $0.79 per Fund unit for the year ended December 31, 2007. These results represent the Fund's share of the Partnership's earnings for the period, less a future income tax expense of $3.1 million for the year ended December 31, 2008 (year ended December 31, 2007 — $36.6 million). The Funds results are lower than those in the prior year due to the Fund's share of lower operating earnings and non-operating items included in equity income of the Partnership. The Fund's share of non-operating items included in equity income of the Partnership for 2008 totaled $10.9 million, and are primarily the result of a foreign exchange loss on translation of US dollar denominated long-term debt, loss on settlement of US dollar forward sales contracts, partially offset by a foreign exchange gain on working capital and a net property damage insurance gain. Distributions declared by the Partnership and accruing to the Fund were $48.3 million, or $1.36 per Fund unit of which $1.4 million was receivable at December 31, 2008 as compared to $65.3 million, or $1.84 per Fund unit of which $4.3 million was receivable at December 31, 2007.

2008 COMPARED TO 2006

The Fund's net income of $20.2 million, or $0.57 per unit, for the year ended December 31, 2008 compared to net income of $20.6 million, or $1.15 per Fund unit for the six months ended December 31, 2006. These results represent the Fund's share of the Partnership's earnings for the period, less a future income tax expense of $3.1 million for the year ended December 31, 2008 (six months ended December 31, 2006 — nil). From the date of its establishment on April 21, 2006 to June 30, 2006, the Fund was inactive. As a result, the comparative figures only represent the six months ended December 31, 2006.

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 9 through 15 of this management's discussion and analysis.

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Q4 2008**	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Equity income (loss) in Canfor Pulp Limited Partnership	**(12,947)**	5,513	9,046	21,667	5,999	16,541	17,900	24,203
Net income (loss)[1]	**(13,686)**	5,208	7,015	21,667	8,703	16,541	(21,437)	24,203
Net income (loss) per Fund unit[1]	**$(0.39)**	$0.15	$0.20	$0.61	$0.25	$0.46	$(0.60)	$0.68
Distributions earned from the Partnership and declared to unitholders	**9,938**	12,778	12,777	12,778	13,487	19,167	17,747	14,907
Distributions declared per Fund unit	**$0.28**	$0.36	$0.36	$0.36	$0.38	$0.54	$0.50	$0.42

Note: In the second quarter of 2007 the Fund recorded a non-cash future income tax charge of $39.3 million to net income relating to the Fund's 49.8% ownership in the Partnership and based on temporary differences between the accounting and tax basis of the Partnership's assets and liabilities expected to reverse after January 1, 2011.

FOURTH QUARTER 2008 RESULTS

For the quarter ended December 31, 2008, the Fund had a net loss of $13.7 million or $0.39 per Fund unit. The net loss is the Fund's share of the Partnership's loss for the fourth quarter of 2008, less a future income tax expense of $0.7 million. The Funds share of non-operating items included in equity loss of the Partnership for the fourth quarter of 2008 is $12.5 million, and is primarily the result of lower operating earnings, a foreign exchange loss on translation of US dollar denominated long-term debt, loss on the valuation of derivative instruments, partially offset by a foreign exchange gain on working capital. Distributions declared by the Partnership and accruing to the Fund were $9.9 million of which $1.4 million was receivable at December 31, 2008. 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.

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 2008, the Fund declared distributions of $1.36 per Fund unit or $48.3 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, primarily due to capital expenditures, changes in value of derivative instruments, foreign exchange gains or losses on translation of US dollar denominated debt, amortization and other non-cash expenses of the Partnership.

FUND UNITS

At February 17, 2009, the Fund had 35,493,505 units outstanding.

RISKS AND UNCERTAINTIES RELATED TO THE STRUCTURE OF THE FUND

Control of the Partnership

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

The interests of Canfor may conflict with those of Fund unitholders.

Dependence on the Partnership

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

Cash Distributions are not Guaranteed and Will Fluctuate with the Business Performance

Although the Fund intends to distribute the cash distributions received through the Canfor Pulp Trust from the Partnership, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Fund units, there can be no assurance regarding the amount of income to be generated by the Partnership's business or ultimately the cash distributed to the Fund. The ability of the Fund to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the Partnership, and will be subject to various factors including its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital and its capital expenditure requirements. Accordingly, there is no assurance that distributions will be maintained at current levels. The market value of the Fund units may deteriorate if the Fund is unable to meet its distribution levels in the future.

Income Taxes

The Fund is a unit trust for income tax purposes. As such, the Fund only has current taxes on any taxable income not allocated to the Unitholders. For the periods ended December 31, 2008 and December 31, 2007, all taxable income of the Fund will be allocated to the Unitholders. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders.

Future Income Taxes

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

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the year ended December 31, 2008 were $48.3 million of which $46.9 million was received, with the balance of $1.4 million receivable on December 31, 2008. For the year ended December 31, 2007 distributions earned were $65.3 million of which $61.0 million was received, with the balance of $4.3 million receivable on December 31, 2007.

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. Management periodically evaluates whether there has been an other than temporary decline in the value of the investment in the Partnership. The Fund relies on the recoverability analysis of the Partnership for the purposes of this assessment. 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

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants' new Handbook Sections: 1535 "Capital Disclosures", 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". Handbook sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation". These recommendations have been incorporated into the audited consolidated financial statements.

Section 1535 – Capital Disclosures

This section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Fund is required to disclose qualitative and quantitative information that enables users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital.

Section 3862 – Financial Instruments – Disclosures

This section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

Section 3863 – Financial Instruments – Presentation

This section establishes standards for presentation of financial instruments and non-financial derivatives.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Fund will rely on the resources of the Partnership to ensure compliance with IFRS. The Partnership has started a diagnostic impact assessment and is currently progressing through the detailed assessment and design of the overall implementation strategy. The Fund expects the transition to IFRS to impact financial reporting, business processes and information systems of the Partnership, which the Fund relies on. 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.

FINANCIAL INSTRUMENTS

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

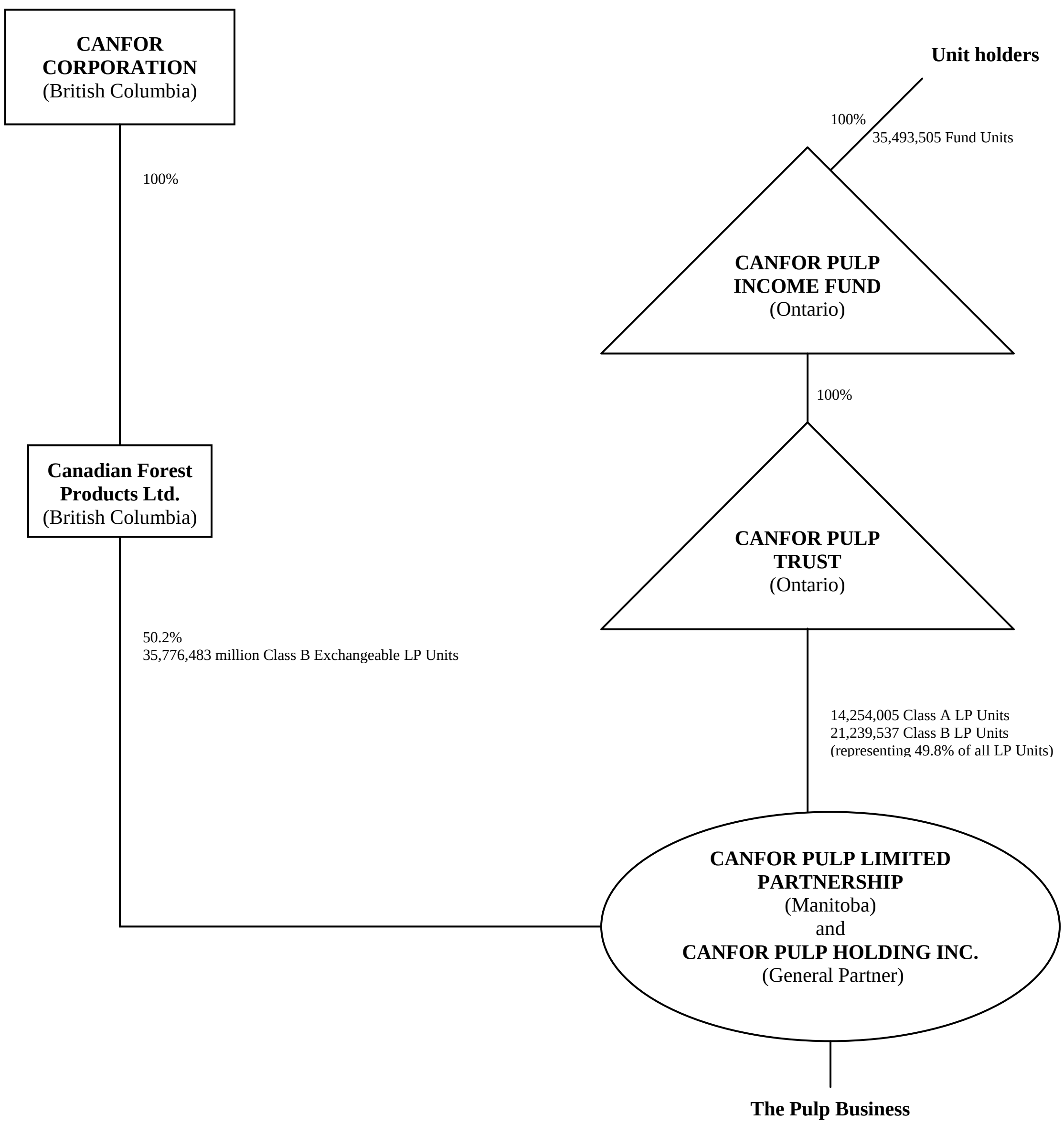
CANFOR PULP LIMITED PARTNERSHIP

Structure

The Partnership is a limited partnership formed on April 21, 2006, under the laws of Manitoba to acquire and carry on the 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 17, 2009, the Fund indirectly holds 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.

2008 HIGHLIGHTS

- Distributions to partners totaled $96.9 million or $1.36 per Partnership unit.
- EBITDA of $116.9 million.
- Annual paper machine production record averaging 379 tonnes per day.

Selected Annual Information

(millions of dollars except volumes and per unit amounts, unaudited)	**2008**	2007	2006
Sales volume - major products			
Pulp - thousands of metric tonnes	**905.4**	1,023.6	1,001.5
Paper - thousands of metric tonnes	**124.8**	129.5	124.6
Sales by segment			
Pulp	**696.6**	798.0	717.1
Paper	**128.9**	123.6	113.3
Total sales	**825.5**	921.6	830.4
Operating income (loss)			
Pulp	**72.5**	152.6	143.8
Paper	**9.4**	(2.1)	1.7
Unallocated costs	**(13.2)**	(16.2)	(14.3)
Total operating income	**68.7**	134.3	131.2
Non-operating income (expense)			
Net property damage insurance gain	**8.2**	-	-
Interest expense, net	**(8.1)**	(6.7)	(3.8)
Foreign exchange gain (loss) on long-term debt	**(26.0)**	19.5	(2.5)
Reduction in value of derivative instruments	**(1.1)**	(3.3)	-
Loss on settlement of US dollar forward sales contracts	**(7.8)**	-	-
Foreign exchange gain (loss) on working capital	**13.1**	(13.8)	3.9
Business acquisition costs	**-**	-	(5.9)
Other income (expense)	**(0.2)**	(0.2)	0.1
Total non-operating expense	**(21.9)**	(4.5)	(8.2)
Net income	**46.8**	129.8	123.0
Total assets	**868.9**	909.0	893.7
Total long-term debt	**134.7**	108.7	128.2
Net income per Partnership unit			
Basic and diluted	**0.66**	1.82	1.73
Distributions declared	**96.9**	131.1	88.5
Average exchange rate (US$/Cdn$)	**0.938**	0.930	0.882

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

2008 Compared To 2007

Net income for 2008 decreased by $83.0 million and EBITDA by $71.6 million over 2007. Net income was significantly impacted by the global financial crisis resulting in reduced demand for the Partnership's pulp and paper products, increased inventory levels and pressure on NBSK pulp list prices, causing the Partnership to take a market curtailment at the end of the year to control rising inventory levels. The nine day curtailment at all of the manufacturing operations reduced market pulp production by approximately 26,000 tonnes and reduced paper production by approximately 3,400 tonnes. This reduction in production was in addition to approximately 49,000 tonnes of pulp and approximately 1,200 tonnes of paper production impact of the scheduled maintenance outages in 2008. These factors resulted in higher unit manufacturing costs and lower pulp sales volumes, and were partially offset by an 8% increase in realized paper prices in Canadian dollar terms. Sales volumes for NBSK market pulp and kraft papers decreased by 118,200 and 4,700 tonnes respectively when compared to the prior year due to the impact of reduced global demand. Unit manufacturing costs increased by 12% due to the impact of lower production volumes and higher energy, chemical and fibre costs. Unit freight costs increased 10% when compared to 2007. Non-operating expense included in net income of the Partnership in 2008 totalled $21.9 million, $17.4 million higher than 2007. The increase in non-operating expense is primarily the result of a foreign exchange loss on translation of US dollar denominated long-term debt, reduction in the value of derivative instruments, partially offset by a foreign exchange gain on working capital and the net property damage insurance gain.

2008 Compared To 2006

Net income for 2008 was $76.2 million lower than 2006. In addition to the impact of the global financial crisis and resultant market curtailment at the end of 2008, lower sales volumes, the strengthening Canadian dollar and higher unit manufacturing costs were partially offset by increased NBSK list prices. Sales volumes for NBSK market pulp decreased by 96,100 tonnes due to the impact of reduced global demand. Unit manufacturing costs increased by 27% due to the impact of lower production volumes and higher fibre, energy, and chemical costs. Fibre costs increased approximately 60% when compared to 2006 due to higher price for residual chips and implementation of higher cost whole log chipping initiatives to mitigate the impacts of sawmill downtime. Realized pulp price in Canadian dollar terms increased 7% as the increase in NBSK list price was partially offset by the stronger Canadian dollar and a higher percentage of spot sales into Asia, at lower than published list prices. Non-operating expense included in net income of the Partnership in 2008 totalled $21.9 million, $13.7 million higher than 2006. The increase in non-operating expense is primarily the result of a foreign exchange loss on translation of US dollar denominated long-term debt, reduction in the value of derivative instruments, partially offset by a foreign exchange gain on working capital and the net property damage insurance gain.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)		**2008**		2007
Sales	$	**696.6**	$	798.0
EBITDA	$	**116.7**	$	202.5
EBITDA margin		**17%**		25%
Operating income	$	**72.5**	$	152.6
Average pulp list price – (US$ per tonne, delivered to USA)	$	**857**	$	823
Average pulp list price (Cdn$ per tonne, delivered to USA)	$	**914**	$	885
Production – pulp (000 mt)		**932.8**		1,044.3
Shipments – Partnership-produced pulp (000 mt)		**905.4**		1,023.6
Marketed on behalf of HSLP & Canfor (000 mt)		**495.7**		571.9

For the year ended December 31, 2008, operating income of $72.5 million was $80.1 million lower than in 2007. The decrease is attributable to higher unit manufacturing and freight costs, lower sales volumes and slightly lower realized pulp price in Canadian dollar terms. Unit manufacturing costs increased by 12% due to the impact of lower production volumes and higher maintenance, energy, chemical and fibre costs. Market pulp production volume was down 111,500 tonnes or 11% when compared to the prior year due to the impact of the Prince George Pulp and Paper Mill fire, an increase in scheduled maintenance downtime and a market curtailment that commenced in the third week of December 2008. Fibre costs increased 12% when compared to 2007. Whole log chips accounted for 30% of the delivered volume in 2008 compared to 12% in 2007, with the increase attributable to a continued reduction in sawmill residual chips due to sawmill curtailments precipitated by continued poor lumber markets. The price for sawmill residual chips increased by 5% in 2008 due in part to higher freight costs. Whole log chip costs decreased 3% in 2008 as continued optimization of whole log chipping initiatives were partially offset by higher freight costs. Higher chemical and energy costs were directly attributable to commodity price inflation. Increased energy costs were primarily the result of higher prices for natural gas and sawmill waste wood, used as fuel to generate steam and subsequently power in the turbines. Increased prices of major input chemicals accounted for approximately a 1% increase in unit manufacturing costs. Global economic conditions deteriorated during the latter part of 2008 reducing global paper demand and precipitating weak demand for pulp. As a result, sales volumes decreased by 118,200 tonnes when compared to the prior year. The reduction in sales volumes was also exacerbated by the impact of the Prince George Pulp and Paper Mill fire and increased scheduled maintenance downtime in 2008. Offsetting the impact of the fire was an accrual for business interruption insurance recoveries of $19.1 million. Realized pulp prices in Canadian dollar terms decreased by 1%. US dollar denominated realized prices were also relatively flat, with strong results in the first three quarters of 2008 offset by deteriorating results in the fourth quarter. These factors have led to volume reductions by some of the Partnership's key contract customers in the fourth quarter of the year which precipitated an increase in a higher percentage of spot sales into Asia, at lower than published NBSK list prices.

Operations

NBSK market pulp production during 2008 was 111,500 tonnes lower than 2007. The reduced production is a result of scheduled maintenance outages, a market curtailment and lower operating rates. Reduced production attributed to the Prince George Pulp and Paper Mill fire in 2008 totalled approximately 37,000 tonnes of market pulp, as the pulp machine was down for approximately 41 days until a temporary screening system was operational and as a result the mill operated at a slightly reduced rate until the end of October when construction of the permanent chip screening system was completed. In addition, scheduled maintenance outages completed in 2008 resulted in 49,000 tonnes (2007 – 22,000 tonnes) of reduced market pulp production for the year.

A curtailment of operations due to poor market conditions at all Partnership facilities commenced in the third week of December, 2008. The curtailment was taken to mitigate the impact of a reduction in global demand and subsequent increase in inventory levels of pulp and paper. The curtailment reduced production by approximately 26,000 tonnes of market pulp.

Markets

World pulp markets weakened throughout 2008. PPPC reported total Global 100 chemical market pulp shipments in December were at a rate of 88% of capacity, compared to 94% for December 2007. For the 2008 year, the shipment rate was 87% compared to 92% for 2007. For northern softwood kraft market pulp, the shipment rate in December was 83% of capacity compared to 95% for the month of December 2007 and for the 2008 year, the shipment rate was 89% of capacity compared to 94% of capacity in 2007. Global 200 industry shipments of northern softwood pulp in December 2008 were 14% less than December of 2007 and for the 2008 year, decreased by 5.9% from 2007.

As a result of the lower shipments, producers' market pulp inventories increased from 29 days to 46 days of supply for total chemical market pulp and from 27 days to 40 days of supply for softwood market pulp, from the end of 2007 to the end of 2008. The market is considered balanced when inventories are at approximately 30 days of supply.

The decline in market pulp shipments was mainly caused by decreased demand for printing and writing papers, the largest consuming segment of market pulp. In particular, 2008 demand for printing and writing papers in North America declined by 9.2% or 2.75 million tonnes compared to 2007.

The rapid decline in pulp demand has resulted in oversupply and thus rapidly falling prices. List prices declined from US$880 at the beginning of 2008 in both the North American and European markets, to US$730 and US$635 respectively at the end of 2008.

Outlook – Pulp

Weak pulp demand is expected to continue and remain challenging through the first half of 2009. The Partnership's market production curtailment in December 2008 continued into 2009, resulting in approximately 14,000 tonnes of reduced market pulp production in January 2009. No additional market related curtailments for the Partnership are planned at this time, but the Partnership will continue to manage inventory levels and react as necessary to market conditions.

In anticipation of continued weakness in the demand for pulp in the printing and writing paper segment, the Partnership has increased its contract business to the tissue segment.

Operating costs are expected to decrease in the first half of 2009 through declining fibre costs, as chip prices are tied to pulp selling prices. Lower energy prices are beginning to be reflected in reduced freight and manufacturing costs, both directly for energy consumed and indirectly in the reduced cost of chemicals used in pulp production. In addition, the cessation of certain higher cost whole log chipping initiatives will further lower the cost of fibre consumed.

Paper

(millions of dollars unless otherwise noted, unaudited)		**2008**		2007
Sales	$	**128.9**	$	123.6
EBITDA	$	**13.1**	$	2.0
EBITDA margin		**10%**		2%
Operating income (loss)	$	**9.4**	$	(2.1)
Production – paper (000 mt)		**132.6**		131.6
Shipments – paper (000 mt)		**124.8**		129.5

The 2008 operating results were $11.5 million favourable when compared to 2007. The increase was attributable to an 8% increase in realized prices in Canadian dollar terms, and lower unit manufacturing costs, partially offset by lower sales volumes. Unit manufacturing costs improved by 1% due to lower raw material costs for slush pulp, which is transferred to the paper mill at market price, and slightly higher production volume. Coinciding with the market curtailment of pulp production, 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.

Operations

The paper machine set an annual production record averaging 379 tonnes per day, eclipsing the previous record set in 2007 of 375 tonnes per day. In addition, an annual record for tonnes made to customer orders of 363 tonnes per day surpassed the previous record also set in 2007 of 361 tonnes per day. 2008 Paper production increased 1,000 tonnes when compared to 2007. The impact of record operating rates in 2008 was partially offset by 9 days of market curtailment taken at the end of December 2008. In the first quarter of 2008, the fire at the Prince George Pulp and Paper Mill resulted in reduced production of approximately 2,500 tonnes. Three days of scheduled maintenance downtime were taken in conjunction with the commissioning of the new chip screening system in October 2008 with 5,500 tonnes of reduced production in 2007 due to scheduled maintenance outages.

Markets

The 2008 global kraft paper market saw strong demand in the first half followed by slowing demand in the third quarter and ending with very weak demand in the fourth quarter. Primary drivers for this rapid decline in demand were the global financial crisis and collapse in the housing market. Decreasing oil prices in the fourth quarter together with a weaker Canadian dollar helped offset further softening of price.

The Partnership's fourth quarter 2008 total prime paper shipments were down 26.4% from the same period in 2007 (fourth quarter 2008 of 23,269 tonnes versus fourth quarter 2007 of 31,260 tonnes). The Partnership's 2008 bleached shipments were up 4.2% from 2007 (2008 bleached sales were 94,473 tonnes versus 2007 bleached sales of 90,489 tonnes).

American Forest and Paper Association (AF&PA) and the Pulp and Paper Products Council (PPPC) reported in January that US total kraft paper shipments in December 2008 were down 2.7% compared to November 2008 and down 25.1% from December 2007. For the year ended 2008, US kraft paper shipments were up 2.2% over 2007. US Bleached shipments were down 1.6% in December 2008 compared to November 2008, and down 33.7% when compared to December 2007. US bleached shipments for 2008 increased 0.6% compared to 2007. US bleached kraft paper inventory rose 0.6% in December 2008 compared to November 2008, and fell approximately 6.7% compared to December 2007. Unbleached inventory was up 1.1% in December compared to November 2008, and fell 7.4% compared to December 2007.

Outlook – Kraft Paper

Looking forward, weak demand is expected to continue through the first half of 2009. Downward pressure on pricing is likely to continue in both domestic and offshore markets through the first quarter of 2009 due to continued weak demand. This view is confirmed by RISI's December Paper Packaging Monitor report, which states that their projection of the economy bottoming out in the first quarter of 2009 is now too optimistic. Currency movements (Cdn and Euro versus US) may mitigate any US dollar pricing reductions.

Non-Segmented Costs

(millions of dollars, unaudited)		**2008**		2007
Unallocated costs	$	**13.2**	$	16.2
Interest expense, net		**8.1**		6.7
Reduction in value of derivative instruments		**1.1**		3.3
Loss on settlement of US dollar forward sales contracts		**7.8**		-
Foreign exchange loss (gain) on long-term debt		**26.0**		(19.5)
Foreign exchange (gain) loss on working capital		**(13.1)**		13.8
Net property damage insurance gain		**(8.2)**		-
Other expense		**0.2**		0.2
	$	**35.1**	$	20.7

Unallocated Costs

Total unallocated costs for 2008 of $13.2 million were $3.0 million lower than the same period a year ago due to lower accruals for performance based incentive plans and a reduction in charges for corporate services provided by Canfor.

Interest Expense

Net interest expense during 2008 was primarily the result of interest on long-term debt, the revolving facility and discounting of letters of credit, offset by interest income on cash and cash equivalent balances. Increased net interest expense in 2008 compared to 2007 is due to the cost of funding short-term working capital requirements.

Other Non-segmented Items

The reduction in the value of derivative instruments recorded in 2008 of $1.1 million relates to a revaluation to market of outstanding natural gas swaps and outstanding US dollar forward sales contracts, at the end of the year. This is the result of decreases in the market price of natural gas and the weakening of the Canadian dollar.

The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements.

The foreign exchange loss on long-term debt results from translating the US $110.0 million debt at period end exchange rates.

The declining value of the Canadian dollar in 2008 resulted in a loss of $7.8 million on settlement of US dollar foreign exchange hedging contracts to hedge the impact of currency fluctuations on US dollar working capital. This loss was offset by the foreign exchange gain on working capital of $13.1 million for the year, resulting from translation of US dollar working capital, primarily accounts receivable.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(unaudited)	**Q4 2008**	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Sales and Income (millions of dollars)								
Sales	**186.1**	215.4	212.6	211.4	215.1	228.9	239.4	238.2
Operating income (loss)	**(1.0)**	27.5	11.6	30.6	11.7	35.4	39.2	48.0
EBITDA	**9.8**	40.6	24.0	42.5	27.9	48.8	51.7	60.1
Net income (loss)	**(26.0)**	11.1	18.2	43.5	12.1	33.2	35.9	48.6
Per Partnership unit (dollars) [1]								
Net income (loss) basic and diluted	**(0.36)**	0.15	0.26	0.61	0.17	0.46	0.51	0.68
Statistics								
Pulp shipments (000 mt)	**208.2**	234.5	233.8	228.9	253.6	257.1	259.8	253.1
Paper shipments (000 mt)	**24.4**	31.6	33.7	35.1	32.4	30.8	35.9	30.4
Average exchange rate (US$/Cdn$) [2]	**0.825**	0.960	0.990	0.996	1.019	0.957	0.911	0.854
Average pulp list price – (US$ per tonne, delivered to USA)	**787**	880	880	880	857	837	810	790

Notes: [1] Based on Partnership units outstanding at December 31, 2008 (71,270,025) for all periods.
[2] Source – Bank of Canada (average noon rate for the period).

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 the 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 commodity swaps and US dollar forward sales contracts. Included in 2008 net income is an $8.2 million net gain for property damage insurance, relating to the fire at the Prince George Pulp and Paper Mill.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)		**Year 2008**		Year 2007
Ratio of current assets to current liabilities		**1.91**		1.88
Ratio of net debt to partners' equity [1]		**0.30**		0.18
Decrease in cash and cash equivalents	**$**	**(2.2)**	**$**	(25.8)
Comprised of cash flow from (used in):				
Operating activities [2]	**$**	**105.2**	**$**	146.2
Financing activities	**$**	**(77.5)**	**$**	(148.3)
Investing activities [2]	**$**	**(29.9)**	**$**	(23.7)

Note: [1] Net debt consists of long-term debt and operating loan net of cash and cash equivalents.
[2] Comparative figures have been reclassified to conform to current year presentation.

Changes in Financial Position

For the year, operating activities generated $105.2 million compared to $146.2 million in 2007. The decrease was primarily the result of lower cash generated from operations due to lower earnings, partially offset by a decrease of cash used in working capital. The decrease of cash used in working capital in 2008 is primarily due to lower trade receivables as a result of lower shipment volumes of the Partnership's products and lower shipment volumes of product sold under agency agreements with Canfor and Howe Sound Limited Partnership, and accelerated collection of accounts receivable through discounting letters of credit, partially offset by increased cost and volume of finished goods and an increase in insurance receivables for the Prince George Pulp and Paper Mill fire insurance claim.

The cash used in financing activities of $77.5 million represents $102.7 million of distributions paid to the limited partners, and a net draw of $25.2 million on the Partnership's operating line.

The cash used in investing activities is comprised of $39.4 million relating to capital expenditures net of accruals offset by $9.5 million in insurance proceeds for property damage.

LIQUIDITY AND FINANCIAL REQUIREMENTS

At the end of the current year, the Partnership had cash and cash equivalents totalling $0.4 million. The Partnership does not have holdings in asset backed commercial paper. The Partnership has a $75 million syndicated unsecured revolving bank credit facility (the Revolving Facility), maturing in November 2009, of which $25.7 million is available, with $24.1 million of the Revolving Facility reserved for a standby letter of credit issued to BC Hydro and $25.2 million drawn to fund working capital requirements as of December 31, 2008. The Partnership expects to renew the Revolving Facility for a similar amount, with terms and interest rates based on prevailing market conditions at the time of renewal.

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, and use of the Revolving 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.

The Partnership also utilizes discounting of 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 regular Salary Pension Plan (SPP) is a registered pension plan and as such, requires funding of future obligations. There is no contractual or regulatory obligation to fund the other pension or benefit plans, and expenditures are made for these plans as costs are incurred.

The measurement date for the determination of accrued benefit obligations and the fair value of plan assets for the employee future benefit plans, including the SPP, is September 30, 2008. At that date, the market value of plan assets of the SPP of $50.7 million exceeded the accrued benefit obligations of $49.8 million. Since the measurement date to December 31, 2008, the market value of plan assets has declined by approximately 10%. An increase in the discount rate at December 31, 2008 results in a similar and offsetting decrease in the accrued benefit obligations. These reductions do not have an immediate impact on the financial statements as presented and do not impact the pension expense or funding requirements for 2009.

The next actuarial valuation for funding purposes for the registered salaried employee defined benefit pension plan is currently scheduled to be completed with an effective date of December 31, 2009. Changes in the fair value of plan assets and actuarial assumptions, as appropriate to reflect prevailing financial market conditions at that time, including assumed rate of return on plan assets, discount rates and other variables, will be reflected in the December 31, 2009 valuation and will determine funding requirements for 2010 and subsequent years.

RELATED PARTY TRANSACTIONS

The Partnership purchased wood chips and hog fuel from Canfor sawmills in the amount of $144.5 million in 2008 (2007 — $136.5 million). The Partnership also purchased wood chips from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which Canfor owns a one-third interest. Purchases from these entities in 2008 were $6.0 million

(2007 — $11.5 million). The Partnership sold wood chips to Howe Sound Pulp and Paper Limited Partnership (HSLP), a partnership 50% owned by Canfor, in the amount of $0.7 million (2007 - nil). The Partnership did not purchase any wood chips from HSLP in 2008 ($0.7 million in 2007). Purchased wood chips and hog fuel are included in manufacturing and product costs.

Effective July 1, 2006, the Partnership entered into a services agreement under which Canfor provides certain business and administrative services to the Partnership. Total value of the services provided in 2008 was $3.3 million (2007— $4.9 million), included in manufacturing and product costs and selling and administration costs.

Effective July 1, 2006, the Partnership entered into an incidental services agreement with Canfor, under which the Partnership provides certain business and administrative services to Canfor. Total value of the services provided in 2008 was $1.8 million (2007— $1.6 million), included in manufacturing and product costs and selling and administration costs.

The Partnership markets bleached chemi-thermo mechanical pulp production from Canfor's Taylor Pulp Mill for which it earned commissions totalling $2.0 million in 2008 (2007 — $2.1 million), included in sales. The Partnership also purchased chemi-thermo mechanical pulp from the Canfor Taylor Pulp Mill for resale totalling $3.5 million in 2008 (2007 — $7.1 million). The Partnership sold NBSK pulp to Taylor for packaging use totalling $2.2 million in 2008 (2007 — nil). In respect of the products marketed and services provided for the Canfor Taylor Pulp Mill, the Partnership held balances of $9.9 million in accounts receivable - trade (2007 — $14.2 million) and $12.2 million in accounts payable (2007 — $15.7 million) to Canfor at December 31.

The Partnership markets the NBSK pulp produced by Howe Sound Pulp and Paper Limited Partnership (HSLP), a partnership 50% owned by Canfor, for which it earned commissions totalling $2.6 million in 2008 (2007 — $2.9 million), included in sales. In respect of the products marketed and service provided for HSLP, the Partnership held balances of $16.9 million in accounts receivable - trade (2007 — $31.8) and $20.4 million in accounts payable (2007 — $35.0) to HSLP at December 31, 2008.

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

At December 31, 2008, a total of $15.2 million (2007 - $15.4 million) was outstanding as accounts payable to Canfor in respect of purchases of wood chips, hog fuel, services and amounts paid on behalf of the Partnership. At December 31, 2008 a total of $0.2 million (2007 - $0.3 million) was payable to Lakeland Mills Ltd. and Winton Global Lumber Ltd. for wood chips.

During 2008, the Partnership declared distributions totalling $96.9 million to its limited partners. Distributions to Canfor were $48.6 million, of which $47.2 million was paid, with the balance of $1.4 million payable on December 31, 2008. Distributions to the Fund were $48.3 million, of which $46.9 million was paid, with the balance of $1.4 million payable on December 31, 2008. For the year ended December 31, 2007, the Partnership declared distributions totalling $131.1 million to its limited partners. Distributions to Canfor were $65.8 million, of which $61.5 million was paid, with the balance of $4.3 million payable on December 31, 2007. Distributions to the Fund were $65.3 million, of which $61.0 million was paid, with the balance of $4.3 million payable on December 31, 2007.

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

FOURTH QUARTER 2008 RESULTS

EBITDA for the fourth quarter of 2008 decreased by $30.8 million from the third quarter of 2008 and was $18.1 million lower when compared to the fourth quarter of 2007. The decrease from the third quarter was precipitated by the global financial crisis resulting in reduced demand for the Partnership's pulp and paper products, increased inventory levels and pressure on NBSK pulp list prices, causing the Partnership to take a market curtailment at the end of the fourth quarter to control rising inventory levels. The nine day curtailment at all of the manufacturing operations reduced market pulp production by approximately 26,000 tonnes and reduced paper production by approximately 3,400 tonnes. This reduced production was in addition to approximately 16,000 tonnes of market pulp and approximately 1,200 tonnes of paper production impact of the scheduled maintenance outages earlier in the quarter. These factors resulted in higher unit manufacturing costs, lower sales volumes and lower US dollar denominated NBSK pulp list prices, partially offset by a weaker Canadian dollar. Higher unit manufacturing costs are the result of significantly lower production volumes and higher spending on fixed costs, partially offset by lower fibre costs. Production volumes were lower as a result of increased scheduled maintenance outages and the commencement of a market curtailment in the third week of December. Reduced demand, particularly in the US printing and writing paper grades, also resulted in reduced pulp and paper selling prices, and although the 11% US dollar list price reduction was offset by the relative increase of 14% in the value of the US dollar, an increased proportion of the Partnership's sales in the quarter were into lower priced Asian and spot markets.

When compared to the fourth quarter of 2007, the $18.1 million decrease in EBITDA was primarily attributable to lower production volumes resulting in higher unit manufacturing costs, lower sales volumes and lower US dollar denominated NBSK pulp list prices, partially offset by a weaker Canadian dollar and higher realized paper prices in Canadian dollar terms. Higher unit manufacturing costs are the result of significantly lower production volumes and higher fibre costs. Production volumes were lower as a result of scheduled maintenance outages and the commencement of a market curtailment in the third week of December 2008. Realized paper prices in Canadian dollar terms increased 22% when compared to the fourth quarter of 2007.

NBSK production during the fourth quarter was 36,000 tonnes lower than the third quarter of 2008, and 41,800 tonnes less than the fourth quarter of 2007. The reduced production is a result of increased scheduled maintenance outages during the year, a market curtailment in December and lower operating rates. The Prince George Pulp and Paper Mill continued to operate at a slightly reduced rate on the temporary chip screening system until the end of October when construction of the permanent chip screening system was completed. Market pulp production volume reduction of 1,500 tonnes for reduced operating rate on the temporary system was lower than the third quarter reduced production of 7,400 tonnes. In addition, scheduled maintenance outages resulted in 16,000 tonnes of reduced market pulp production in the fourth quarter. No scheduled maintenance downtime was taken in the third quarter of 2008. Reduced market pulp production in respect of scheduled maintenance outages in 2007 were approximately 5,800 tonnes in the fourth quarter.

- Fourth quarter 2008 operating income of the pulp segment decreased by $16.4 million when compared to the same period a year ago, due to higher unit manufacturing costs, lower sales volumes and lower US dollar denominated NBSK pulp list prices, partially offset by a weaker Canadian dollar. Unit manufacturing costs increased 13% over the prior year primarily due to lower production volumes and higher fibre costs. Production volumes were lower as a result of increased scheduled maintenance outages and the commencement of a market curtailment in the third week of December 2008. Fibre costs increased 7% over the same period in 2007 due to higher prices for sawmill residual chips and a higher percentage of whole log chip consumption. Freight costs of delivering pulp to our customers increased by 24% in Canadian dollar terms when compared to the same period in 2007. The increase in freight was primarily attributable to the weaker Canadian dollar in the fourth quarter of 2008.

- Operating income of the paper segment for the fourth quarter of 2008 was $3.4 million higher than the same period last year. The improved operating earnings were due to a 22% increase in realized prices in Canadian dollar terms, partially offset by lower sales volumes and higher unit manufacturing costs.

- Unallocated costs, comprised principally of general and administrative expenses, totalled $3.1 million in the fourth quarter of 2008 compared to $3.4 million in the fourth quarter of 2007. Unallocated costs decreased slightly due to lower accruals for performance based incentive plans.

More detailed analysis of the fourth quarter 2008 results is found in the Fourth Quarter 2008 press release dated February 17, 2009.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

In addition to the obligations noted in "Financial requirements and Liquidity", the Partnership has committed to the following operating leases for property, plant and equipment. As at December 31, 2008, the future minimum lease payments under these operating leases were as follows:

(millions of dollars)	
2009	2.5
2010	1.0
2011	0.5
Thereafter	0.9
Total minimum lease payments	4.9

In 2003, Canfor entered into an agreement with BC Hydro to build an electrical cogeneration facility at the Prince George Pulp and Paper Mill. Under the agreement, BC Hydro contributed $45.8 million of the project costs, with Canfor contributing the balance. The agreement was assigned to the Partnership effective July 1, 2006. The total incentive payments of $45.8 million were accounted for as a credit to property, plant and equipment of the Partnership. The agreement entails a 15 year commitment with BC Hydro for power displacement at the cogeneration facility, whereby a proportionate repayment is required should the facility not generate the minimum of 390 gigawatt hours of electricity per year. Under the agreement, the Partnership is required to post a letter of credit as security in annually decreasing amounts as minimum required amount of electricity is generated.

As of December 31, 2008, the Partnership has no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of $24.1 million has been issued to BC Hydro.

Subsequent to December 31, 2008, the power displacement agreement with BC Hydro was amended. The amendment is to be effective August 11, 2009 and is subject to approval by the British Columbia Utilities Commission. Under the amended agreement, the Partnership has agreed to repay BC Hydro $4.4 million of incentive funding and the load displacement commitment will be reduced to 338 gigawatt hours of electricity per year, reflecting the original project output capacity.

Other contractual obligations not included in the table above are obligations to pay pension and other post-employment benefits, for which a liability of $46.7 million has been recorded at December 31, 2008 (2007 - $39.9 million). The Partnership has funded and unfunded defined benefit plans, as well as a defined contribution plan, that provide pension, other retirement and post-employment benefits to all salaried employees and for its hourly employees covered under collective agreements. The regular Salary Pension Plan (SPP) is a registered pension plan and as such, requires funding of future obligations. The most recent valuation for funding purposes for the SPP was on December 31, 2006. The valuation identified a solvency deficiency at that time which was funded in 2007 with special contributions totalling $4.5 million. There is no contractual or regulatory obligation to fund the other pension or benefit plans, and expenditures are made for these plans as costs are incurred.

The next actuarial valuation for funding purposes for the registered salaried employee defined benefit pension plan is currently scheduled to be completed with an effective date of December 31, 2009. Changes in the fair value of plan assets and actuarial assumptions, as appropriate to reflect prevailing financial market conditions at that time, including assumed rate of return on plan assets, discount rates and other variables, will be reflected in the December 31, 2009 valuation and will determine funding requirements for 2010 and subsequent years.

SUBSEQUENT EVENT

Subsequent to December 31, 2008, a further $2.7 million has been received as partial payment against the accrued insurance receivable.

RISKS AND UNCERTAINTIES RELATED TO THE BUSINESS AND INDUSTRY

Cyclicality of Product Prices

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

Currency Exchange Risk

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

Dependence on Canfor

Approximately 64% of the fibre currently used by the Partnership is derived from the Fibre Supply Agreement with Canfor. The Partnership's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Raw Material Costs

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

Competitive Markets

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

Dependence on Key Customers

In 2008, the Partnership's largest customer accounted for approximately 12% of its pulp sales. The Partnership is therefore dependent on this key customer. In the event that the Partnership cannot maintain this customer or the demand from this customer diminishes for any reason in the future, there is a risk that the Partnership would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins and distributable cash.

Increased Production Capacity

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

Obligations to BC Hydro

Under the Cogeneration Agreement with BC Hydro, if the cogeneration project generates less than 390 gigawatt in any year and the shortfall cannot be made up by excess generation of up to 390 gigawatt in prior years or excess generation in the subsequent year, the Partnership is required to pay BC Hydro an amount equal to $3.06 million multiplied by the ratio of the uncorrected shortfall to the annual requirement of 390 gigawatt.

Subsequent to December 31, 2008, the power displacement agreement with BC Hydro was amended. The amendment is to be effective August 11, 2009 and is subject to approval by the British Columbia Utilities Commission. Under the amended agreement, the Partnership has agreed to repay BC Hydro $4.4 million of incentive funding and the load displacement commitment will be reduced to 338 gigawatt hours of electricity per year, reflecting the original project output capacity.

Maintenance Obligations and Facility Disruptions

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

Governmental Regulation

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

Capital Requirements

The pulp and paper industries are capital intensive, and the Partnership regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Partnership's total capital expenditures, net of non-cash increases in asset retirement obligations, was approximately $25.3 million during 2008, and it expects to spend about $25 million on capital expenditures during 2009. The Partnership anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Work Stoppages

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

Native Land Claims

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

Transportation Services

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

Senior Management

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

Environmental Laws, Regulations and Compliance

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

The Partnership has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. The provision for these future environmental remediation expenditures was $2.8 million as of December 31, 2008 (see note 8 of the accompanying consolidated financial statements). It is possible that the Partnership could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, our liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at our or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact our financial condition or preclude us from making capital expenditures that would otherwise benefit our business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Partnership.

Sensitivities

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Due to the current global financial crisis and subsequent decrease in the price and demand for the Partnership's products, management completed an impairment test to determine the recoverability of the carrying value of the Partnership's long-lived assets. Applying the cash flow methodology, and based on the Partnership's low cost structure, history of profitable operations and current price forecasts, management is forecasting continued profitable results of operations and positive cash flows. In determining future operations and cash flows, the Partnership's key underlying assumptions included third party price forecasts, historic and planned production levels and operating costs, and minimum levels of capital spending required to maintain the mills at forecasted operating levels. As a result, management has determined that no write-down of the Partnership's long-lived assets is warranted, based on the undiscounted cash flows of the carrying value of those long-lived assets.

In addition, the Partnership reviewed the carrying values of the pulp and paper finished goods inventories as at December 31, 2008. The Partnership estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders and as a result recorded a write-down to net realizable value of $1.9 million at December 31, 2008.

The measurement date for the determination of accrued benefit obligations and the fair value of plan assets for the employee future benefit plans is September 30, 2008. Since the measurement date to December 31, 2008, the market value of plan assets has declined by approximately 10%. An increase in the discount rate at December 31, 2008 results in a similar and offsetting decrease in accrued benefit obligations. These reductions do not have an immediate impact on the financial statements as presented and do not impact the pension expense or funding requirements for 2009. The next actuarial valuation for funding purposes for the registered salaried employee defined benefit pension plan is currently scheduled to be completed with an effective date of December 31, 2009. Changes in the fair value of plan assets and actuarial assumptions, as appropriate to reflect prevailing financial market conditions at that time, including assumed rate of return on plan assets, discount rates and other variables, will be reflected in the December 31, 2009 valuation and will determine funding requirements for 2010 and subsequent years. Based on management's current estimates, the future impact to funding and expense of the Partnership's employee future benefit plans is not expected to be material.

On an ongoing basis, management reviews the asset retirement obligations in respect of useful lives and landfill closure costs. As a result of revised estimates, based on updated third party landfill site surveys, the Partnership has reduced the obligation and related asset by $6.8 million. The obligations represent estimated undiscounted future payments of $40.6 million. Payments relating to landfill closure costs are expected to occur at periods ranging from 32 to 40 years which have been discounted at 5.8% and 6.3% respectively.

On January 15, 2008 a fire at the Prince George Pulp & Paper Mill destroyed the chip screening and in-feed system. The Partnership has accrued a property damage insurance receivable of $12.2 million in 2008, which is net of aggregate policy deductibles of $3.25 million. The Partnership also accrued business interruption insurance proceeds totalling $19.1 million to recover the estimated $20.1 million impact of lost production during the year, less a three day equivalent deductible of $1.0 million. The new chip screening system was commissioned in October 2008 and the amounts accrued for property damage reflect management's current best estimates based on final costs to complete construction. The amounts accrued for business interruption insurance reflect management's best estimates in regards to the financial impact of lost production and other incremental costs covered under the policy. The Partnership and insurer have worked closely together in determining the insurable amounts and methodology to ensure the claim is settled in a timely and efficient manner. The Partnership has received cash advances totalling $27.1 million, of which $15.9 million related to the business interruption claim and $11.2 million for property damage. Subsequent to December 31, 2008, a further $2.7 million has been received as partial payment against the accrued insurance receivable.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Partnership adopted the Canadian Institute of Chartered Accountants' new Handbook Sections: 1535 "Capital Disclosures", 3031 "Inventories", 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". Handbook sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation". These recommendations have been incorporated into the audited consolidated financial statements.

Section 1535 – Capital Disclosures

This section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Partnership is required to disclose qualitative and quantitative information that enables users of the financial statements to evaluate the Partnership's objectives, policies and processes for managing capital.

Section 3031 – Inventories

This section replaces section 3030 and prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on assigning costs to inventories and in conjunction with section 3061 "Property Plant and Equipment", provides guidance on classification of major spare parts.

As a result of its adoption of the new guidance, the Partnership reclassified $6.8 million in major spare parts from inventory to property, plant and equipment in the first quarter of 2008. This reclassification was made retrospectively, without prior period restatement or adjustments to opening equity as it was deemed impracticable to determine the impact on prior periods. In addition, the Partnership's inventories of pulp and paper products, wood chips and processing materials and supplies are valued at the lower of average cost and net realizable value.

Section 3862 – Financial Instruments – Disclosures

This section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

Section 3863 – Financial Instruments – Presentation

This section establishes standards for presentation of financial instruments and non-financial derivatives.

FINANCIAL INSTRUMENTS

The Partnership uses a variety of derivative instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices and natural gas.

For the year ended December 31, 2008 the Partnership recorded gains of $0.5 million on settlement of maturing commodity swaps hedging natural gas purchases as a credit to manufacturing and product costs (December 31, 2007 – loss of $2.2 million). At December 31, 2008 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 3.5 million gigajoules extending to October, 2011. At December 31, 2008 the loss of $3.2 million (December 31, 2007 – $2.7 million) on these outstanding commodity swaps is recorded as a liability in accounts payable and accrued liabilities and in long-term liabilities.

For the year ended December 31, 2008 the Partnership recorded losses of $7.8 million (December 31, 2007 – nil) on settlement of maturing US dollar forward sales contracts as a credit to non-operating income. At December 31, 2008 the Partnership had outstanding US dollar forward sales contracts of $14.5 million extending to March, 2009. At December 31, 2008 the loss of $1.3 million (December 31, 2007 – nil) on these outstanding US dollar forward sales contracts is recorded as a liability in accounts payable and accrued liabilities.

OUTSTANDING UNITS

At February 17, 2009, 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.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Partnership has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board and the Audit Committee. The Partnership's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the period ending December 31, 2008, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the most recent year ended December 31, 2008 which materially affected, or are reasonably likely to materially affect, the Partnership's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2008, the CEO and CFO have concluded that these controls are operating effectively.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Partnership has started a diagnostic impact assessment and is currently progressing through the detailed assessment and design of the overall implementation strategy. The Partnership expects the transition to IFRS to impact financial reporting, business processes and information systems. The Partnership will continue to review all proposed and continuing projects of the International Accounting Standards Board to determine their impact on the Partnership, and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

ADDITIONAL INFORMATION

Additional information about Canfor Pulp Income Fund and Canfor Pulp Limited Partnership, including the Annual Information Form, is available at www.sedar.com or www.canforpulp.com.

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)		**Year ended December 31, 2008**		December 31, 2007
RECONCILIATION OF NET INCOME TO EBITDA				
Net income	$	**46.8**	$	129.8
Add (deduct):				
Amortization		**47.6**		52.8
Net interest expense		**8.1**		6.7
Foreign exchange loss (gain) on long-term debt		**26.0**		(19.5)
Reduction in value of outstanding derivative instruments		**1.1**		3.3
Loss on settlement of US dollar forward sales contracts		**7.8**		-
Foreign exchange (gain) loss on working capital		**(13.1)**		13.8
Loss on disposal of fixed assets		**1.2**		1.1
Net property damage insurance gain		**(8.2)**		-
Gain on settlement of asset retirement obligation		**(0.9)**		-
Other expense		**0.5**		0.5
EBITDA	**$**	**116.9**	$	188.5
EBITDA per Partnership unit	**$**	**1.64**	$	2.65

(millions of dollars, unaudited)		**Year ended December 31, 2008**		December 31, 2007
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH				
Cash flow from operating activities[1]	$	**105.2**	$	146.2
Deduct: Capital expenditures – cash, net of related property damage insurance proceeds[1]		**(30.0)**		(23.7)
Standardized distributable cash[1]	$	**75.2**	$	122.5
Adjustments to standardized distributable cash:				
Add (deduct):				
Increase in non-cash working capital[1]		**14.4**		25.0
Net long-term deferred maintenance[1]		**(0.5)**		(1.7)
Capital expenditures – accruals[1]		**4.7**		(5.8)
Asset retirement obligation – current expenditures and accruals[1]		**2.3**		(2.3)
Adjusted distributable cash[1]	$	**96.1**	$	137.7
Standardized distributable cash – per Partnership unit (in dollars)[1]	$	**1.06**	$	1.72
Adjusted distributable cash – per Partnership unit (in dollars)[1]	$	**1.35**	$	1.93
Cash distributions declared (paid and payable)		**96.9**		131.1
Cash distributions declared – per Partnership unit (in dollars)	$	**1.36**	$	1.84

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

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

In accordance with the Canadian Institute of Chartered Accountants July 2007 interpretive release "Standardized Distributable Cash in Income Trusts and other Flow-Through Entities", the Partnership has adopted the distributable cash calculation which conforms to the current guidance. In summary, for the purposes of the Partnership, standardized distributable cash is defined as the periodic cash flows from operating activities as reported in the GAAP financial statements, 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, and after provision for accrued capital expenditures and provision for current asset retirement obligation expenditures and accruals.

Management 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, provision for accrued capital expenditures, and provision for current asset retirement obligation expenditures and accruals. 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.