CANFOR PULP PRODUCTS INC.

First Quarter Report

For the three months ended March 31, 2011

Canfor Pulp Products Inc. and Canfor Pulp Limited Partnership

First Quarter 2011
Management's Discussion and Analysis

Canfor Pulp Products Inc. (CPPI) earns income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). CPPI accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for CPPI's unitholders to understand the results of operations, the unaudited consolidated financial statements with accompanying notes are presented for both CPPI and the Partnership. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and CPPI's performance for the quarter ended March 31, 2011 relative to the same period in the prior year and relative to the previous quarter. This MD&A should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the quarters ended March 31, 2011 and 2010, as well as the annual MD&A and audited consolidated financial statements and notes which are included in the CPPI's 2010 Annual Report. Additional information relating to CPPI and the Partnership, including the CPPI's Annual Information Form (AIF) dated February 11, 2011, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

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

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

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

The information in this report is as at May 2, 2011.

Forward-Looking Statements

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

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

- *“Critical Accounting Estimates” on page 6;*
- *“Changes in Accounting Policies” on page 6 and 7;*
- *“Outlook – Pulp” on page 11;*
- *“Outlook – Kraft Paper” on page 12;*
- *“Financial Requirements and Liquidity” on pages 14 and 15;*
- *“Critical Accounting Estimates” on page 15;*
- *“Changes in Accounting Policies” on pages 15 and 16;*
- *“Distributable Cash and Cash Distributions” on page 19.*

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

Canfor Pulp Products Inc. and Canfor Pulp Limited Partnership
First quarter 2011
The information in this report is as at May 2, 2011.

CANFOR PULP PRODUCTS INC.

CPPI is the successor to the Fund following the completion of the conversion of the Fund from an income trust structure to a corporate structure by court approved plan of arrangement under the Business Corporations Act (British Columbia) (the "BCBCA") on January 1, 2011 (the "Conversion"). The Conversion involved the exchange, on a one-for-one basis, of all outstanding Fund Units for common shares of CPPI ("CPPI Shares"). Upon implementation of the Conversion, on January 1, 2011, the unitholders of the Fund became the sole shareholders of CPPI which became sole owner of all of the outstanding Fund Units.

CPPI was incorporated on March 12, 2010 under the BCBCA and did not carry on any active business prior to the Conversion, other than executing the arrangement agreement pursuant to which the Conversion was implemented and carrying-out certain steps in connection with the implementation of the Conversion and the subsequent winding-up of the Fund and Canfor Pulp Trust (the Trust). CPPI became the direct holder of the 49.8% interest in the Partnership and the General Partner previously held by the Fund (indirectly through the Trust). 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 May 2, 2011, there were a total of 35,493,307 CPPI shares issued and outstanding, and CPPI held a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership. Canadian Forest Products Ltd. (Canfor) held 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable Limited Partnership Units are exchangeable for an equivalent number of CPPI shares pursuant to the terms of an amended exchange agreement (Exchange Agreement) dated January 1, 2011 among Canfor, CPPI, the Partnership and the General Partner. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for CPPI shares.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(thousands of dollars, except per unit amounts, unaudited)	**CPPI Q1 2011**	The Fund Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009[2]	Q3 2009[2]	Q2 2009[2]
Equity income in Canfor Pulp Limited Partnership	**25,227**	23,639	27,374	21,681	16,473	7,562	9,098	724
Net income (loss)	**40,625**	(11,335)	3,239	(71,803)	(118,842)	6,903	8,497	4,406
Net income (loss) per share	**$1.14**	($0.32)	($0.09)	($2.02)	($3.34)	$0.20	$0.24	$0.12
Distributions earned from the Partnership	**27,685**	37,268	24,491	18,457	11,357	4,969	1,065	1,065
Dividends/distributions declared per share/unit	**-**	$1.05	$0.69	$0.52	$0.32	$0.14	$0.03	$0.03
Partnership distributable cash per unit[1]	**$0.77**	$0.68	$0.78	$0.88	$0.57	$0.31	$0.16	$0.02

Notes: [1] Represents the Partnership's distributable cash on which CPPI is dependent to make its own dividends. For further details on the Partnership's distributable cash see the disclosure on page 19.
[2] Presented under previous Canadian GAAP. See CPPI's disclosure on pages 6 and 7.

OPERATING RESULTS AND LIQUIDITY

For the quarter ended March 31, 2011, CPPI had net income of $40.6 million or $1.14 per share. The net income was CPPI's share of the Partnership's net income for the quarter and also includes an income tax recovery of $16.4 million. The income tax recovery is comprised of deferred tax recovery of $21.3 million which results primarily from a change in the statutory income tax rate as a result of the conversion of the Fund to a taxable Canadian corporation effective January 1, 2011, partially offset by the current tax provision of $4.9 million. CPPI's equity income in the Partnership increased $1.6 million when compared to the prior quarter. The increase was primarily attributable to CPPI's share of higher operating earnings, partially offset by lower income from non-operating items of the Partnership. CPPI's share of operating earnings of the Partnership increased $1.9 million as a result of lower unit manufacturing costs partially offset by lower realized prices in Canadian dollar terms and lower sales volumes. CPPI's share of non-operating items of the Partnership was $0.4 million and was primarily the result of the foreign exchange gain on translation of US dollar denominated long-term debt and a net gain on derivative financial instruments, partially offset by a foreign exchange loss on working capital and interest expense. In addition, CPPI incurred expenses in relation to the conversion of the Fund into a corporation.

Distributions declared by the Partnership and accruing to CPPI were $27.7 million of which $9.2 million was receivable at March 31, 2011. Cash distributions received from the Partnership are the only source of liquidity for CPPI. For further information refer to the Partnership's discussion of operating results and liquidity on pages 9 through 14 of this MD&A.

CPPI DIVIDENDS

CPPI is entirely dependent on distributions from the Partnership to make dividend payments to its shareholders. Distributions payable by the Partnership to CPPI and dividends payable by CPPI to its shareholders are recorded when declared. On May 2, 2011, a dividend of $0.40 per share was declared, to be paid on May 19, 2011 to shareholders of record on May 12, 2011.

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

RISKS AND UNCERTAINTIES

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

CPPI SHARES

At May 2, 2011, there were a total of 35,493,307 CPPI shares outstanding.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for CPPI are performed on its behalf by the Partnership pursuant to a support agreement. The value of these services during the first quarter of 2011 was $1.0 million and included a one time charge of $0.8 million for costs related to conversion to a corporation on January 1, 2011. These services were included as an administrative expense of CPPI with the balance outstanding as an accounts payable to the Partnership at March 31, 2011.

Distributions earned from the Partnership for the three months ended March 31, 2011 were $27.7 million of which $18.5 million was received, with the balance of $9.2 million receivable on March 31, 2011.

CRITICAL ACCOUNTING ESTIMATES

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

CHANGE IN ACCOUNTING POLICIES

Transition to and Initial Adoption of International Financial Reporting Standards

IFRS replaced Canadian GAAP for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The financial statements for the three months ended March 31, 2011, have been prepared in accordance with IAS 34 and International Financial Reporting Standard 1 (IFRS 1), using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). CPPI relies on the resources of the Partnership to ensure compliance with IFRS. Previously, CPPI prepared its annual and interim financial statements in accordance with Canadian GAAP. The preparation of the first quarter 2011 financial statements resulted in changes to certain accounting policies compared with the most recent annual financial statements prepared under Canadian GAAP.

The accounting policies listed below have been applied consistently to all periods presented in the financial statements. They also have been applied in preparing an opening IFRS balance sheet as at January 1, 2010, for the purposes of the transition to IFRS, as required by IFRS 1. The policies applied in these financial statements are based on IFRS issued and outstanding as of May 2, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in CPPI's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

Impact of Adopting IFRS on the Company's Accounting Policies

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

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

(a) Fund Units

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

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

Impact on Condensed Balance Sheets of the Fund:

(thousands of dollars, except for per unit amounts, unaudited)	As at December 31, 2010	As at March 31, 2010	As at January 1, 2010
Increase in fund unit liability	509,687	434,795	310,568
Reduction in equity	509,687	434,795	310,568
Unit market price for valuation	14.36	12.25	8.75

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

(thousands of dollars, unaudited)	Twelve months ended December 31, 2010	Three months ended March 31, 2010
Increase in value of Fund units (revaluation loss)	199,119	124,227
Reclassification to financing expense (distributions declared)	91,573	11,357
Reduction in comprehensive income	290,692	135,584

(b) Deferred income tax rate

Under Canadian GAAP the Fund recorded temporary tax differences that are expected to reverse after 2010 based on Specified Investment Flow Through (SIFT) entity tax rates. However, International Accounting Standard 12 (IAS 12) requires that companies should use the undistributed rate for recording taxes. Therefore, under IFRS the rate to apply to temporary differences that are expected to reverse after 2010 would be the highest marginal personal tax rate rather than the SIFT rate. The highest marginal personal tax rate is the rate at which tax would be payable by the Fund should distributions not be declared (43.7%). Subsequent to January 1, 2011 as a result of the conversion of the Fund into a corporation, the temporary tax differences are to be measured at the substantively enacted corporate tax rate in effect at the date of reversal of the temporary differences. This results in a significant tax recovery in the quarter ended March 31, 2011.

Impact on Condensed Balance Sheets of the Fund:

(thousands of dollars, unaudited)	As at December 31, 2010	As at March 31, 2010	As at January 1, 2010
Increase in deferred tax liability	17,415	18,403	18,350
Reduction in equity	17,415	18,403	18,350

CANFOR PULP LIMITED PARTNERSHIP

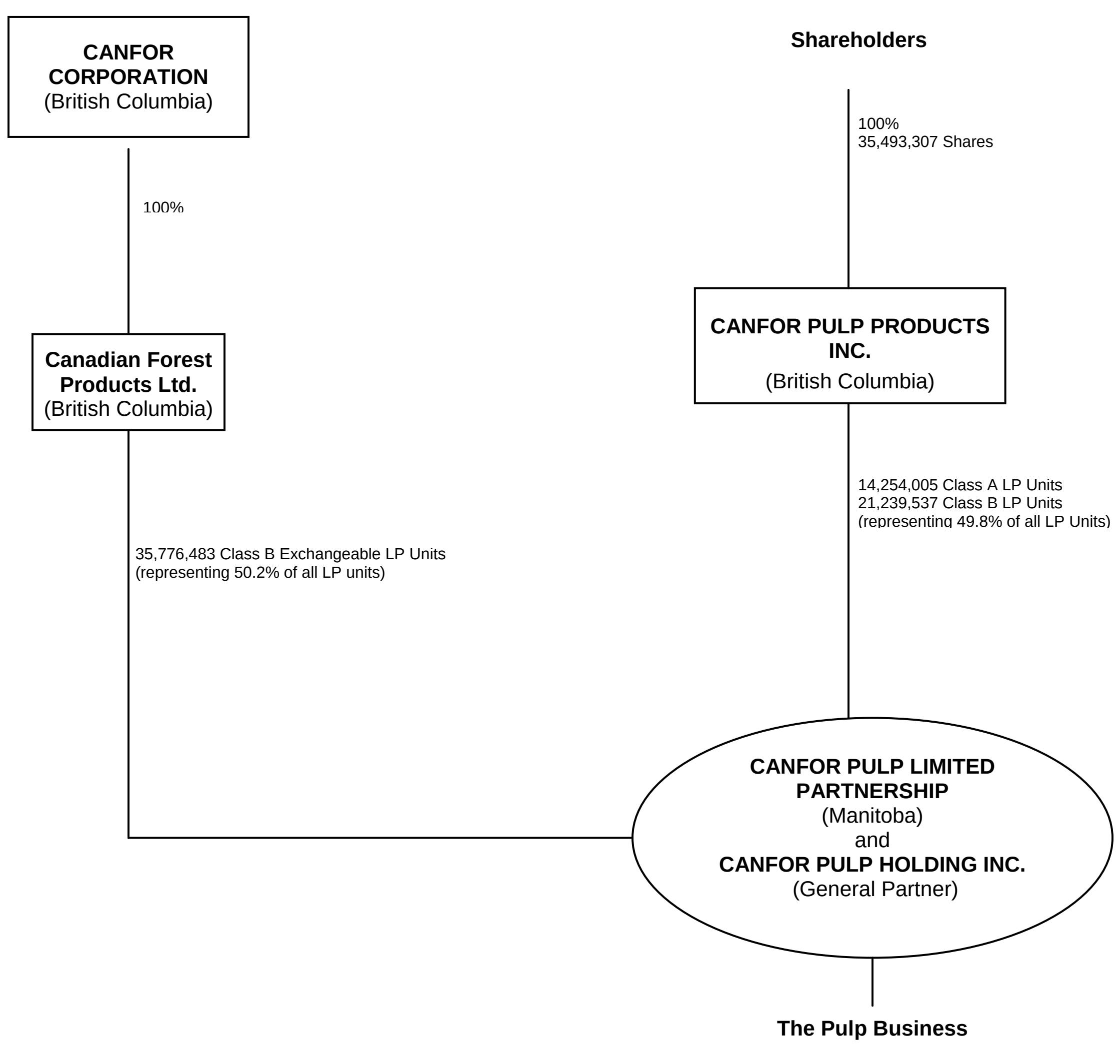
Structure

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

The conversion of the Fund into a dividend paying public corporation named Canfor Pulp Products Inc. (CPPI) was completed on January 1, 2011 under the previously announced plan of arrangement approved by the Fund's unitholders in April 2010. Under the arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of CPPI. Below is a simplified schematic of the ownership structure after the conversion on January 1, 2011.

At May 2, 2011, CPPI held a total of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units, representing 49.8% of the Partnership and Canfor owns the remaining 50.2%. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the General Partner.

<u>Ownership Structure</u>



The Business

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

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

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	**Q1 2011**	Q4 2010	Q1 2010
Sales	**252.3**	266.1	239.5
EBITDA [1]	**66.7**	62.3	49.3
Operating income	**49.9**	46.1	33.0
Net income	**50.7**	47.4	33.0
Per Partnership unit, basic and diluted			
Net income	**$0.71**	$0.67	$0.46
EBITDA[1]	**$0.94**	$0.88	$0.69
Average exchange rate (US$/Cdn$) [2]	**1.014**	0.987	0.961

Notes: [1] For calculation of EBITDA, see supplementary financial information on page 19.
[2] Source – Bank of Canada (average noon rate for the period).

First quarter 2011 EBITDA of $66.7 million was $4.4 million higher when compared to the fourth quarter of 2010 and was $17.4 million higher when compared to the first quarter of 2010. The increase when compared to the fourth quarter of 2010 was attributable to lower unit manufacturing costs partially offset by lower shipment volumes and lower realized pulp prices. Unit manufacturing costs decreased 6% when compared to the prior quarter as a result of lower fibre costs and the impact of higher production volumes. The decrease in fibre costs when compared to the prior quarter was due to a decrease in the price of residual and whole log chips. Shipment volumes of the Partnership's pulp and paper products decreased 4% when compared to the prior quarter. Realized pulp prices in Canadian dollar terms decreased slightly as the impact of the stronger Canadian dollar was partially offset by an increase of sales into higher margin regions.

When compared to the first quarter of 2010, the $17.4 million increase in EBITDA was primarily attributable to higher realized prices for the Partnership's pulp and paper products and higher shipment volumes, partially offset by higher unit manufacturing costs. Realized pulp prices in Canadian dollar terms increased by 7% as a 10% increase in NBSK pulp US dollar list prices and a higher proportion of sales into higher margin business, primarily in China, were partially offset by a 6% strengthening of the Canadian dollar. Realized paper prices in Canadian dollar terms increased by 14% when compared to the first quarter of 2010 as a result of general global price increases and an increase in sales into higher margin regions. Higher unit manufacturing costs were the result of higher fibre costs, higher chemical prices and higher spending on fixed costs, partially offset by the impact of higher production volumes.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**Q1 2011**	Q4 2010	Q1 2010
Sales	**217.3**	224.7	204.8
EBITDA[1]	**66.6**	62.3	52.9
EBITDA margin[1]	**31%**	28%	26%
Operating income	**50.8**	47.0	37.5
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**970**	967	880
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**957**	980	916
Production – pulp (000 mt)	**264.5**	261.4	253.8
Shipments – Partnership-produced pulp (000 mt)	**265.3**	272.3	268.4
Marketed on behalf of HSLP & Canfor (000 mt)	**53.1**	58.8	138.7

Note: [1] For calculation of EBITDA, see supplementary financial information on page 19.

The first quarter 2011 operating income for the pulp segment of $50.8 million was a $3.8 million increase when compared to the fourth quarter of 2010. The improvement in operating income was attributable to lower unit manufacturing costs, partially offset by lower shipment volumes and lower realized prices in Canadian dollar terms. Unit manufacturing costs decreased 5% when compared to the prior quarter as the impact of lower fibre costs, reduced spending on maintenance supplies and services and the impact of higher production volumes, were partially offset by higher chemical prices and higher energy costs. The decrease in fibre costs when compared to the prior quarter was primarily due to a decrease in the price of residual and whole log chips. Realized pulp prices in Canadian dollar terms decreased slightly as the impact of the stronger Canadian dollar was offset by an increase of sales into higher margin regions. Shipment volumes of the Partnership's pulp products decreased by 3% when compared to the prior quarter due to managing inventory levels in preparation for the Partnership's scheduled maintenance downtime in the second quarter of 2011.

Operating income of the pulp segment in the first quarter of 2011 increased by $13.3 million when compared to the same period a year ago, due to higher NBSK pulp US dollar list prices, partially offset by a stronger Canadian dollar and higher unit manufacturing costs. Realized pulp prices in Canadian dollar terms increased by 7% as a 10% increase in NBSK pulp US dollar list prices and a higher proportion of sales into higher margin business, primarily in China, were partially offset by a 6% strengthening of the Canadian dollar. Higher unit manufacturing costs were the result of higher fibre costs and higher chemical prices, all of which were partially offset by the impact of higher production volumes. Fibre costs increased 4% due to higher prices for sawmill residual chips, which are tied to the price of pulp, partially offset by reductions in the cost and volume of whole log chips.

Operations

There were no scheduled maintenance outages in the first quarter of 2011. NBSK market pulp production during the first quarter of 2011 was 3,100 tonnes higher than the fourth quarter of 2010, and 10,700 tonnes higher than the first quarter of 2010. The increased production when compared to the prior quarter was a result of the extended maintenance outage at the Northwood Pulp Mill in the fourth quarter of 2010. The increased production when compared to the same period in 2010 was the result of an extended maintenance outage in the first quarter of 2010 at the Prince George Pulp Mill.

Markets – Pulp

Global softwood demand remained very strong in the first quarter of 2011 with record shipments in March 2011 led by demand in China. According to the World 20[1] report, world global bleached softwood shipments for March were 20% higher when compared to the same period in 2010 and for the first quarter in 2011 were 10% higher than the same period in 2010. Pulp and Paper Products Council (PPPC) statistics reported an increase in global demand for printing and writing papers of 1% for February 2011 year-to-date as compared to the same period in 2010.

Global softwood inventories remained tight as the strong global shipments in the first quarter of 2011 were partially offset by seasonally strong supply. At the end of March 2011, World 20[1] producers of bleached softwood pulp inventories were at 24 days of supply, a drop of 1 day from December 2010. Market conditions are generally considered balanced when inventories fall in the 27-30 days of supply range.

As a result of continued tight market conditions, producers were successful at implementing NBSK pulp list price increases of US$30 per tonne for North America and Europe during the first quarter of 2011 to US$990 and US$980 respectively. The Partnership's NBSK pulp list price for China increased from US$840 in December 2010 to US$900 in March 2011, driven by strong demand from that region.

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

Outlook – Pulp

The global softwood pulp market is expected to remain tight through the second quarter of 2011. A price increase of US$30 per tonne was announced for all markets effective April 1, 2011. Demand remains solid with continued strong shipments into China. In the second quarter of 2011, annual maintenance downtime coupled with extended outages due to several large capital projects in Canada funded under the Canadian Federal Government Green Transformation Program, are expected to curtail supply. Any relative weakness of the US dollar versus the Canadian dollar and the Euro is expected to exert upward pressure on US dollar list prices.

Scheduled maintenance outages at the Prince George and Intercontinental Pulp Mills were successfully completed early in the second quarter of 2011 with approximately 12,000 tonnes of reduced production. A maintenance outage is planned at the Northwood Pulp Mill in the third quarter of 2011 which will be extended to complete work and commissioning of the recovery boiler upgrade project funded under the Canadian Federal Government's Green Transformation Program, with an estimated 40,000 tonnes of reduced production.

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q1 2011**	Q4 2010	Q1 2010
Sales	**34.0**	40.9	34.5
EBITDA[1]	**2.9**	2.1	0.3
EBITDA margin[1]	**9%**	5%	1%
Operating income (loss)	**2.0**	1.3	(0.5)
Production – paper (000 mt)	**34.5**	34.7	31.0
Shipments – paper (000 mt)	**32.6**	39.0	37.7

Note: [1] For calculation of EBITDA, see supplementary financial information on page 19.

The first quarter 2011 operating income of the paper segment improved $0.7 million when compared to the fourth quarter of 2010, and was $2.5 million higher when compared to the same period last year. The increase when compared to the fourth quarter of 2010 was primarily attributable to lower unit manufacturing costs partially offset by lower sales volumes. The lower unit manufacturing costs were the result of lower prices for slush pulp and reduced spending on fixed costs. The slush pulp is transferred to the paper segment at a market price with the decrease directly attributable to the decrease in the realized pulp price in Canadian dollar terms. Sales volumes decreased by 6,400 tonnes when compared to the prior quarter as the high level of shipments in the fourth quarter of 2010 reduced inventories to a level considered to be at the low end of the target range.

When compared to the first quarter of 2010 the increase in operating earnings was due to a 14% increase in realized paper prices in Canadian dollar terms, partially offset by higher unit manufacturing costs and lower sales volumes. The increase in paper prices were due to steady demand and general paper price increases throughout 2010. The paper price increases mitigated part of the impact of the increases in global pulp prices, the major raw material cost. Increased unit manufacturing costs were primarily attributable to higher costs for slush pulp, partially offset by lower spending on fixed costs. Sales volumes decreased by 5,100 tonnes in the first quarter of 2011.

Operations

Paper production for the first quarter of 2011 was 34,500 tonnes, relatively unchanged when compared to the fourth quarter of 2010. When compared to the same period in the prior year, production was 3,500 tonnes higher as a result of a scheduled maintenance outage in the first quarter of 2010.

Markets – Kraft Paper

Kraft paper demand was strong in March 2011 after a slow start to the year as a result of severe winter weather conditions across the eastern US. American Forest and Paper Association reported that US total Kraft paper shipments for March 2011 increased 13% from February and 2% when compared to March 2010. The Paper Shipping Sack Manufacturers' Association shipping sack statistics for March reveal that industry paper consumption was up 17% from the previous month. However, total consumption during the first quarter of 2011 was down 3% when compared to the same period in 2010. Price increases were announced in February 2011 to take effect on the first of April for North America and Europe.

The Partnership's prime paper shipments in the first quarter of 2011 decreased 17% from the fourth quarter of 2010 due to increased shipments in the fourth quarter of 2010 to reduce inventory levels. Prime bleached shipments decreased by 12% when compared to the fourth quarter of 2010.

Outlook – Kraft Paper

Kraft paper demand is strong and with healthy order files markets are expected to remain positive through the first half of 2011. Announced price increases are in place in all market sectors as of April 1, 2011. A scheduled maintenance outage is planned at the Partnership's paper machine in the second quarter of 2011 with an estimated 3,600 tonnes of reduced production. The Partnership's prices in US dollar terms are vulnerable to the relative strength of the Canadian dollar in relation to other currencies, primarily the US dollar.

Non-Segmented Costs

(millions of dollars, unaudited)	**Q1 2011**	Q4 2010	Q1 2010
Unallocated costs	**2.9**	2.2	4.0
Interest expense, net	**2.1**	1.9	2.0
Foreign exchange gain on long-term debt	**(2.5)**	(3.9)	(3.4)
Foreign exchange loss on working capital	**1.1**	2.8	1.8
Gain on derivative financial instruments	**(1.6)**	(2.3)	(0.4)
Other expense	**0.1**	0.2	-
	2.1	0.9	4.0

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totaled $2.9 million in the first quarter of 2011 compared to $2.2 million in the fourth quarter of 2010 and $4.0 million in the first quarter of 2010. The lower unallocated costs in the fourth quarter of 2010 were primarily attributable to several non-recurring items.

Interest Expense

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

Other Non-segmented Items

The foreign exchange gain on long-term debt of $2.5 million resulted from translating the US$110 million debt at period-end exchange rates, reflecting the stronger Canadian dollar as of March 31, 2011.

The foreign exchange loss on working capital of $1.1 million resulted from translating US dollar balances at period-end exchange rates.

The net gain of $1.6 million on derivative financial instruments recorded in the first quarter of 2011 relates to the revaluation to market of outstanding contracts at the end of the quarter for natural gas swaps and US dollar forward contracts, partially offset by the settlement of maturing contracts during the quarter. The revaluation to market of outstanding derivative instruments recorded in the quarter resulted in a gain of $0.4 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. A loss of $1.1 million on settlement of natural gas swaps was recorded in the first quarter of 2011. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements. In the first quarter of 2011 the Partnership recorded a net gain of $2.3 million on settlement of US dollar forward contracts to hedge the impact of currency fluctuations on US dollar working capital.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	**March 31, 2011**	December 31, 2010
Ratio of current assets to current liabilities	**2.04**	1.90
Ratio of net debt to partners' equity [1]	**0.12**	0.09
	Q1 2011	Q1 2010
Increase (decrease) in cash and cash equivalents	**(13.5)**	21.2
Comprised of cash flow from (used in):		
Operating activities	**75.2**	47.8
Financing activities	**(76.6)**	(20.1)
Investing activities	**(12.1)**	(6.5)

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

Changes in Financial Position

Cash generated from operating activities was $75.2 million in the first quarter of 2011 compared to $47.8 million in the first quarter of 2010. The increase in cash generated from operating activities is the result of improved operating earnings and an increase in cash generated from working capital. The increase of cash generated from working capital during the first quarter of 2011 was primarily the result of reductions in the volume of chip inventories and pulp finished goods, and a decrease in prepaid balances. The increase in cash generated from operations was primarily attributable to lower unit manufacturing costs partially offset by lower shipment volumes and lower realized prices for the Partnership's pulp and paper products.

The cash used in financing activities of $76.6 million in the quarter represents $0.3 million in interest payments and $76.3 million in distributions paid to the limited partners, namely Canfor, and CPPI. The Fund was wound up on January 1, 2011 and the final distribution to unitholders was declared on December 31, 2010 and paid on January 14, 2011.

The cash used in investing activities in the quarter is comprised of $16.7 million relating to expenditures under the Canadian Federal Government's Green Transformation Program (the Program) and $6.8 million in capital expenditures, partially offset by $9.6 million of funds received for claims under the Program and $1.8 million in funds received under other grant programs.

FINANCIAL REQUIREMENTS AND LIQUIDITY

At March 31, 2011 the Partnership had outstanding long-term debt of $106.9 million (2010 – $109.4 million, US$110.0 million for both 2011 and 2010) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

At March 31, 2011, the Partnership had cash and cash equivalents of $50.7 million, of which $18.5 million was committed to pay declared distributions on April 15, 2011. The Partnership has a $40.0 million bank credit facility with a maturity date of November 30, 2013, of which $0.5 million was utilized at March 31, 2011 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2013, to cover the $13.0 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. During the first quarter of 2011 the Partnership established a $30.0 million bridge loan credit facility with a maturity date of December 31, 2012 to fund timing differences between expenditures and reimbursements for projects funded under the Canadian Federal Government Green Transformation Program. Interest and other costs of the credit facilities are at prevailing market rates.

The Partnership manages cash resources to fund current and future operations through management of its capital structure in conjunction with cash flow forecasting, including anticipated investing and financing activities. The Partnership uses the bank credit facility to meet short-term working capital requirements. The Partnership also reviews on an ongoing basis, the level of distributions, capital expenditures and timing of scheduled major maintenance outages and may adjust these periodically to manage cash resources.

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

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 March 31, 2011.

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. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the Program end date of March 31, 2012. The Partnership has received Program approval to proceed with four projects totaling $157.4 million of which $122.2 million will be funded under the Program. As of March 31, 2011 the Partnership has incurred $55.8 million and received reimbursements totaling $29.8 million with the balance of $26.0 million receivable on March 31, 2011**.** The Partnership submits claims for expenditures on approved projects under the Program on a monthly basis. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

OUTSTANDING UNITS

At May 2, 2011, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) were owned by CPPI and 35,776,483 Class B Exchangeable Limited Partnership Units were owned by Canfor.

RELATED PARTY TRANSACTIONS

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending March 31, 2011, there were no changes in the Partnership's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	**Q1 2011**	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4[2] 2009	Q3[2] 2009	Q2[2] 2009
Sales and Income								
Sales	**252.3**	266.1	247.9	247.6	239.5	220.2	202.0	205.0
Operating income (loss)	**49.9**	46.1	52.5	52.1	33.0	14.4	12.4	(5.0)
EBITDA	**66.7**	62.3	68.7	69.4	49.3	27.3	25.1	7.2
Net income	**50.7**	47.4	55.0	43.6	33.0	15.2	18.3	1.5
Per Partnership unit (dollars)								
Net income basic and diluted	**$0.71**	$0.67	$0.77	$0.61	$0.46	$0.21	$0.26	$0.02
Statistics								
Pulp shipments (000 mt)	**265.3**	272.3	246.0	252.3	268.4	258.6	259.5	286.2
Paper shipments (000 mt)	**32.6**	39.0	33.6	34.4	37.7	38.1	37.4	34.3
Average exchange rate (US$/Cdn$)[1]	**1.014**	0.987	0.962	0.973	0.961	0.947	0.912	0.858
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**970**	967	1,000	993	880	820	733	645
Per Partnership unit (dollars)								
Distributable cash per unit[3]	**$0.77**	$0.68	$0.78	$0.88	$0.57	$0.31	$0.16	$0.02
Distributions declared per unit	**$0.78**	$1.05	$0.69	$0.52	$0.32	$0.14	$0.03	$0.03

Notes: [1] Source – Bank of Canada (average noon rate for the period).
[2] Presented under previous Canadian GAAP. See the Partnership's disclosure on pages 15 and 18.
[3] For further details on the Partnership's distributable cash see the Partnership's disclosure on page 19.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income and EBITDA are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical, and energy prices; level of spending and the timing of scheduled maintenance downtime; and production curtailments. Net income is also impacted by fluctuations in Canadian dollar exchange rates, the 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 IFRS requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to asset useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement obligations, based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Partnership's financial condition.

CHANGE IN ACCOUNTING POLICIES

Transition to and Initial Adoption of IFRS

IFRS replaced Canadian GAAP for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The financial statements for the three months ended March 31, 2011, have been prepared in accordance with IAS 34, and IFRS 1, using accounting policies consistent with IFRS as issued by the IASB and IFRIC. Previously, the Partnership prepared its annual and interim financial statements in accordance with Canadian GAAP. The preparation of these financial statements resulted in changes to certain accounting policies compared with the most recent annual financial statements prepared under Canadian GAAP.

The accounting policies listed below have been applied consistently to all periods presented in the financial statements. They also have been applied in preparing an opening IFRS balance sheet as at January 1, 2010, for the purposes of the transition to IFRS, as required by IFRS 1. The policies applied in these financial statements are based on IFRS issued and outstanding as of May 2, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Partnership's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

IMPACT OF ADOPTING IFRS ON THE PARTNERSHIP'S BUSINESS

The adoption of IFRS has resulted in some changes to the Partnership's accounting systems and business processes. However, the impact has been minimal. The Partnership has not identified any contractual arrangements that are significantly impacted by the adoption of IFRS. The Partnership's staff involved in the preparation of financial statements has been appropriately trained on the relevant aspects of IFRS and the changes to accounting policies. The Partnership's Audit Committee has been regularly updated throughout the IFRS transition process, and is aware of the key aspects of IFRS as they impact the Partnership or CPPI.

First-time Adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Partnership has elected to apply the following optional exemptions in its preparation of an opening IFRS balance sheet as at January 1, 2010, the Partnership's transition date:

- Borrowing costs:

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

- Employee Benefits:

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

- Business combinations:

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

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Partnership's opening IFRS statement of financial position at the transition date are consistent with those made under previous Canadian GAAP.

Impact of Adopting IFRS on the Partnership's Accounting Policies

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

(a) Major Maintenance

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

Impact on Condensed Consolidated Balance Sheets

(millions of dollars, unaudited)	As at December 31, 2010	As at March 31, 2010	As at January 1, 2010
Increase in property plant and equipment	13.9	21.6	20.7
Reduction in prepaid expenses and other assets	10.8	18.2	15.3
Reduction in other long-term assets	3.1	3.4	5.4

Impact on Condensed Consolidated Statements of Comprehensive Income

(millions of dollars, unaudited)	Twelve months ended December 31, 2010	Three months ended March 31, 2010
Increase in amortization expense	18.7	4.7
Reduction in manufacturing and product costs	18.7	4.7

Impact on Condensed Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	Twelve months ended December 31, 2010	Three months ended March 31, 2010
Increase in net cash from operations	14.6	4.1
Reduction in cash from investing activities	14.6	4.1

(b) Employee Future Benefits

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

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

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

Impact on Condensed Consolidated Balance Sheets

(millions of dollars, unaudited)	As at December 31, 2010	As at March 31, 2010	As at January 1, 2010
Increase in post employment benefits obligation	26.8	26.2	17.0
Reduction in other long-term assets	14.0	10.9	11.2
Reduction in Partner's equity	40.8	37.1	28.2

Impact on Condensed Consolidated Statements of Comprehensive Income

(millions of dollars, unaudited)	Twelve months ended December 31, 2010	Three months ended March 31, 2010
Decrease in employee benefits expense	1.0	0.5
Reduction in other comprehensive income	13.6	9.4

(c) Impairment of assets

Canadian GAAP used a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36, Impairment of Assets, uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (discounted cash flows). This may potentially result in more write downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

In addition, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairments where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibited reversal of impairment losses.

The Partnership's accounting policies related to impairment of assets have been changed to reflect these differences. There is no impact on the unaudited condensed interim financial statements.

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Three months ended March 31, 2011	March 31, 2010
RECONCILIATION OF NET INCOME TO EBITDA		
Net income	**$ 50.7**	$ 33.0
Add (deduct):		
Amortization	**16.5**	16.3
Interest expense	**2.1**	2.0
Foreign exchange gain on long-term debt	**(2.5)**	(3.4)
Gain on derivative financial instruments	**(1.6)**	(0.4)
Foreign exchange loss on working capital	**1.1**	1.8
Other expense	**0.4**	-
EBITDA	**$ 66.7**	$ 49.3
EBITDA per Partnership unit	**$ 0.94**	$ 0.69

(millions of dollars, unaudited)	Three months ended March 31, 2011	March 31, 2010
CALCULATION OF DISTRIBUTABLE CASH		
Cash flow from operations before working capital changes	**$ 66.0**	$ 50.0
Add (deduct):		
Capital expenditures – net[1]	**(5.7)**	(7.9)
Major maintenance capital – net	**(3.6)**	0.9
Interest	**(2.1)**	(2.0)
Distributable cash	**$ 54.6**	$ 41.0
Distributable cash – per Partnership unit (in dollars)	**$ 0.77**	$ 0.57
Cash distributions declared (paid and payable)	**$ 55.6**	$ 22.8
Cash distributions declared – per Partnership unit (in dollars)	**$ 0.78**	$ 0.32

Note: [1] Presented net of government funded projects.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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 major maintenance capital due to its operating nature, asset retirement obligation expenditures and accruals, less capital expenditures and interest expense. During the year distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is expected that normal seasonal fluctuations in working capital will be funded from cash resources or the revolving short-term credit facility.