CANFOR PULP PRODUCTS INC.

ANNUAL INFORMATION FORM

February 11, 2011

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EXPLANATORY NOTES

The information in this Annual Information Form ("**AIF**") is stated as at December 31, 2010, unless otherwise indicated.

Unless otherwise indicated or the context otherwise requires, "**CPPI**" refers to Canfor Pulp Products Inc.; "**Fund**" refers to Canfor Pulp Income Fund; "**Trust**" refers to Canfor Pulp Trust; "**General Partner**" refers to Canfor Pulp Holding Inc., and "**Partnership**" refers to Canfor Pulp Limited Partnership, and their respective subsidiaries and predecessors.

For an explanation of the capitalized terms and expressions and certain defined terms, please refer to the "Glossary of Terms" at the end of this AIF. Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to "$" are to Canadian dollars.

FORWARD-LOOKING STATEMENTS

This AIF includes "forward-looking statements" within the meaning of applicable securities laws. These statements relate to analysis and other information that are based on forecasts of future results or events and estimates of amounts not yet determinable. The statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations, or future actions.

These forward-looking statements are identified by the use of terms and phrases such as "expects", "anticipates", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "would", "may", "could", "predicts", "projects", "estimates" and variations of such words and similar expressions, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business and its corporate structure. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, the factors discussed under the section entitled "Risk Factors" beginning at page 31 of this AIF, as well as the other factors identified throughout this AIF or in the documents incorporated by reference herein.

Forward-looking statements in this AIF include (but are not limited to) statements relating to the risks to which CPPI and the Partnership may be subject and the structure, business, financial and tax position, governance, dividend policy, shareholders, and outlook of CPPI, including (but not limited to) statements made under:

- "Pulp Overview" on page 7, in the last paragraph under that heading;
- "Kraft Paper" on page 17, in the second paragraph under that heading;
- "Capital Expenditures" starting on page 19, in the second, fifth, eighth, and last paragraphs under that heading;
- "Fibre Supply" on page 21, in the second paragraph under that heading;
- "Other Fibre Supply Arrangements" on page 22, in the last paragraph under that heading;
- "Environment" on page 25, in the fourth paragraph under that heading;
- "Secure Fibre Supply" on page 26;
- "Strategic Direction and Opportunities " on page 26;
- "Disclosure" on page 31;
- "Risk Factors" on page 31;
- " Capital Requirements" on page 36; and
- "Distributions and Dividends - Dividend Policy" on page 38 with respect to the expected initial dividend rate for CPPI, the expected timing of the declaration of the first quarterly dividend of

CPPI, and the release of the first quarter results and the intention to designate dividends paid on CPPI Shares as "eligible dividends".

Various assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking statements. Those assumptions and factors are based on information currently available to CPPI, including information obtained from the General Partner and third party analysts and other third party sources. Specific material facts and assumptions include, but are not limited to:

- the performance of the business of the Partnership, including current business and economic trends;
- the ability of the Partnership to market its products and services successfully to existing and new customers; and
- currency, exchange, interest, and tax rates.

In some instances, material assumptions and factors are presented elsewhere in this AIF in connection with the forward-looking statements. You are cautioned that the foregoing list of material factors and assumptions is not exhaustive.

Although we believe that the expectations reflected by the forward-looking statements presented in this AIF 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 and uncertainties 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/or 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 are subject to change after the date of this AIF. Neither CPPI nor the Partnership assumes any obligation to update such information to reflect later events or developments, except as required by law.

CORPORATE STRUCTURE

Name, Address and Incorporation

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.

Immediately following the Conversion, CPPI completed the reorganization of its corporate structure with the winding-up the Fund and the Trust on January 1, 2011. As a result of this reorganization, 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).

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 the Trust.

The CPPI Shares are listed and posted for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "CFX".

The Partnership is a limited partnership formed under the laws of Manitoba pursuant to a limited partnership agreement made as of April 19, 2006 (the "**Partnership Agreement**"). The Partnership was formed to hold the NBSK pulp and paper business (the "**Pulp Business**") which it acquired from Canfor in connection with the Spinout described below (see "General Development of the Business – History"). The Pulp Business primarily consists of owning and operating the Mills.

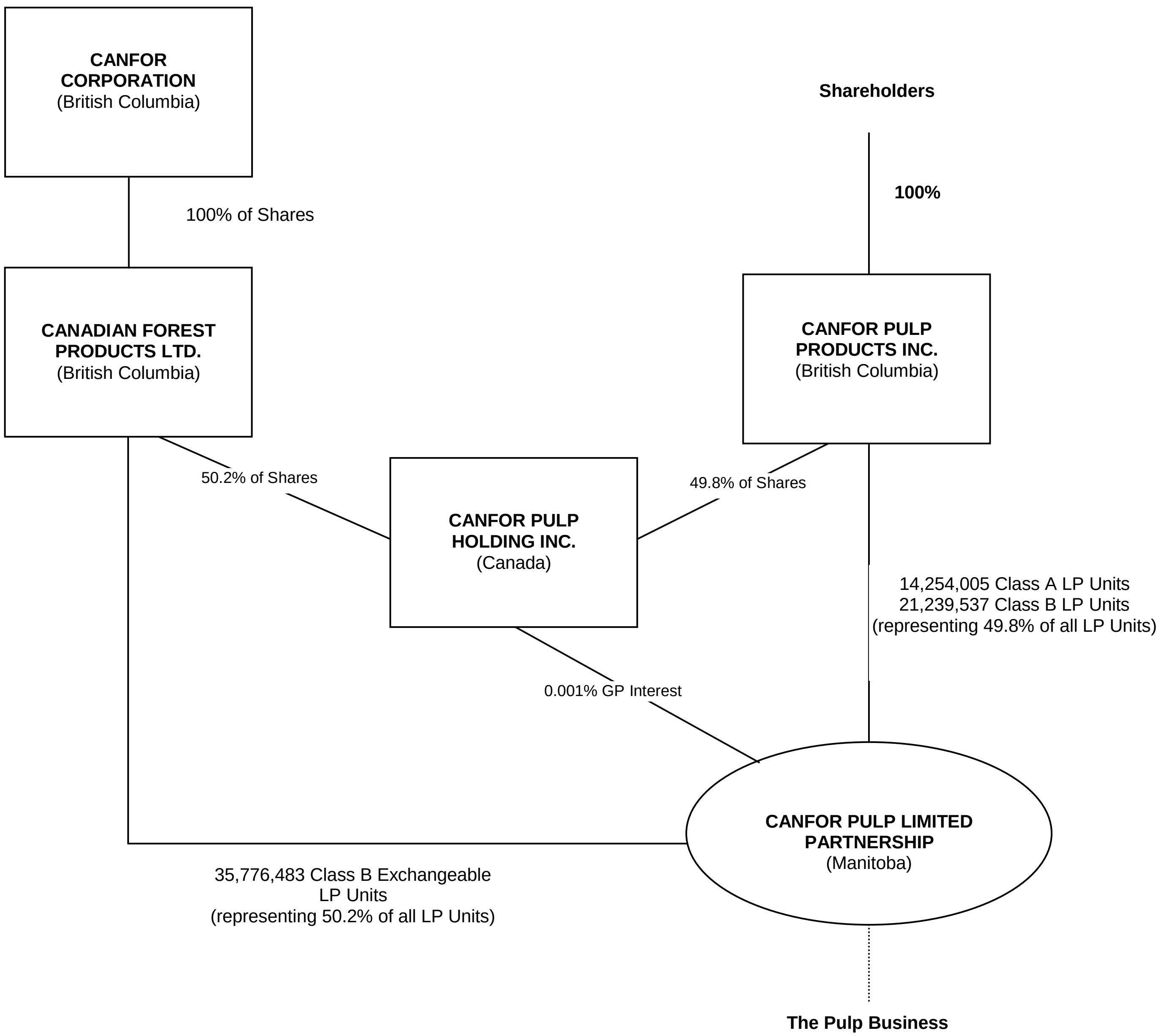
The General Partner is a corporation incorporated under the laws of Canada. The General Partner acts as general partner of the Partnership and operates the Pulp Business on behalf of the Partnership in its capacity as general partner.

The principal and head office of CPPI, the Partnership, and the General Partner is located at 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2.

The registered offices of CPPI and the General Partner are at 1700 - 666 Burrard Street, Vancouver, British Columbia, V6C 2X8. The registered office of the Partnership is: 230 - 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2.

Ownership Relationships

The following chart illustrates, on a simplified basis, the ownership structure of the Partnership as of the date of this AIF (including jurisdiction of establishment/incorporation of the various entities).



GENERAL DEVELOPMENT OF THE BUSINESS

History

CPPI holds a 49.8% interest in the Partnership and the General Partner but does not conduct any active business. The General Partner operates the Pulp Business on behalf of the Partnership. The Partnership is a leading global supplier of pulp and paper products with operations based in the central interior of British Columbia. The Partnership owns and operates the Northwood Pulp Mill, Intercontinental Pulp Mill and Prince George Pulp and Paper Mill (the "**Mills"**) with annual capacity to produce over one million air-dried metric tonnes ("**ADMT**") 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 bleached and unbleached kraft paper each year.

Prior to July 1, 2006, the Pulp Business was owned by Canfor. On July 1, 2006, the Pulp Business was spun-out pursuant to a plan of arrangement under the BCBCA (the "**Spinout**"). Under the Spinout, the Pulp Business was transferred to the Partnership and the shareholders of Canfor Corporation ("**Canfor**") received Fund Units representing a 20% indirect interest in the Pulp Business with Canfor retaining the remaining 80% interest in the Pulp Business through its holding of LP Units, which were indirectly exchangeable for Fund Units. The Fund Units commenced trading on the TSX on July 6, 2006 under the symbol "CFX.UN".

On November 30, 2006, Canfor exchanged (indirectly) a number of its Class B Exchangeable LP Units, representing a 29.8% interest in the Partnership, for Fund Units and distributed those Fund Units to its shareholders of record on November 15, 2006 (the "**November 2006 Dividend**"). As a result of the November 2006 Dividend, with effect from November 15, 2006 the Fund held an aggregate 49.8% interest in the Partnership, representing a 49.8% indirect interest in the Pulp Business. Following the November 2006 Dividend, Canfor continues to own, through its wholly-owned subsidiary Canadian Forest Products Ltd. ("**CFP**"), 35,776,483 Class B Exchangeable LP Units of the Partnership, representing a 50.2% interest in the Pulp Business.

On January 1, 2011, the income trust structure of the Fund was converted to a corporate structure pursuant to the Conversion. As described above under "Corporate Structure – Name, Address, and Incorporation", CPPI is the successor to the Fund as a result of the Conversion which involved the exchange, on a one-for-one basis, of all outstanding Fund Units for 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. Upon completion of the Conversion an aggregate of 35,493,307 CPPI Shares were issued and outstanding (being the same number of CPPI Shares as the number of Fund Units outstanding immediately prior to the Conversion becoming effective). The CPPI Shares commenced trading on the TSX on January 06, 2011 under the symbol "CFX".

Immediately following the Conversion, CPPI completed the reorganization of its corporate structure with the winding-up the Fund and the Trust on January 1, 2011. As a result of this reorganization, on January 1, 2011, CPPI became the direct holder of the 49.8% interest in the Partnership and the General Partner previously held (indirectly) by the Fund.

As of the date of this AIF, there are 35,493,307 CPPI Shares issued and outstanding.

Significant Acquisitions

No significant acquisitions or dispositions were completed by the Fund during the last financial year for which disclosure is required under Part 8 of *National Instrument 51-102 - Continuous Disclosure Obligations*.

DESCRIPTION OF THE PULP INDUSTRY

The market and industry data set forth in this section are based on industry publications, market research and publicly available information. Sources for this data are Pulp & Paper Products Council ("**PPPC**"), Pöyry Forest Industry Consulting Inc. ("**Poyry**"), and Resource Information Systems Inc. ("**RISI**"). While management of the Partnership ("**Management**") believes this information to be reliable, it has not independently verified it.

Pulp Overview

Pulp is used in the production of paper, paperboard, tissues and paper related products. Pulp is generally classified according to the process used in its production, the degree to which it is bleached and the type of raw material, or fibre, used.

Generally, either a mechanical or chemical process is used to produce pulp. Mechanically processed pulps are produced by using mechanical force to separate the individual wood fibres. Chemically processed pulps are produced by dissolving the lignin, the component of wood that binds individual fibres, through a chemical reaction. The primary advantage of chemically processed pulps — which the Partnership produces — are that they have a higher strength potential, as the chemical pulping process retains the intrinsic fibre properties, such as length and flexibility, better than mechanical pulping.

The majority of chemical pulps are produced by cooking wood chips with a mixture of caustic soda and sodium sulphide. These are called "kraft" pulps. In turn, most kraft pulps are then bleached to increase the brightness and whiteness of the pulp. There are two main types of bleached kraft pulp: softwood kraft, which is made from coniferous tree species ("**Bleached Softwood Kraft" or "BSK**") and hardwood kraft, which is made from deciduous tree species ("**Bleached Hardwood Kraft" or "BHK**").

Bleached Softwood Kraft has longer, more flexible fibres than Bleached Hardwood Kraft and is primarily purchased for its ability to add strength to paper. This ability to add strength to paper is referred to as its reinforcement ability, and Canadian softwood pulps enjoy the reputation of being the worlds Premium Reinforcing Pulps. Bleached Hardwood Kraft contains shorter fibres, and is primarily purchased to improve the printed appearance of paper end products. Most paper end-uses of kraft pulp use a mix of softwood and hardwood grades to achieve both desired strength requirements and printed appearance of the end product. In 2010, market kraft pulp consumption was approximately 50% bleached hardwood kraft, 44% bleached softwood kraft, with the remainder split between unbleached and sulphite pulp[1].

Recently, Bleached Hardwood Kraft production capacity has grown faster than Bleached Softwood Kraft capacity for a variety of reasons, one of which is cost. The relative production cost advantage recently enjoyed by Bleached Hardwood Kraft mills when compared to Bleached Softwood Kraft mills is a result of lower fibre costs, higher wood yields and, on average, greater economies of scale. Recently however, the substitution of Bleached Hardwood Kraft for Bleached Softwood Kraft has declined due to factors that are increasing the need for higher strength Bleached Softwood Kraft pulps, including:

- significant increases in the size and speed of paper machines which put more stress on the papers being formed by those machines; and
- consolidation and rationalization in the paper business, which has resulted in paper companies having fewer production facilities that need to be run with greater efficiency.

[1] Source: PPPC World Chemical Market Pulp Global 100 Report, December 2010

These two counteracting forces — the desire to use lower cost pulps versus the need for increased strength — are leading to the development of distinct market segments, which is reducing the direct competition between Bleached Hardwood Kraft and Bleached Softwood Kraft. In commodity papers, such as office or photocopy paper, where low cost is key or in high bulk applications, such as towels, Bleached Hardwood Kraft is dominant. In segments where end products are lightweight or specialized, such as direct mail, magazine papers or premium tissues, or where end products must be strong, such as is the case with abrasive papers, Bleached Softwood Kraft forms a significant proportion of the fibre used in its production.

The Bleached Softwood Kraft market is further segmented into Northern Bleached Softwood Kraft ("**NBSK**") and Southern Bleached Softwood Kraft ("**SBSK**"). NBSK Pulp is only made from trees grown in the Northern Hemisphere - predominantly in Canada, Northern Europe, and Russia. It generally commands the highest price of any pulp grade as it has the highest reinforcing strength — which is the ability to reinforce paper so it does not break when printed or converted.

Within the NBSK Pulp market segment, there is a significant range of pulp qualities in terms of reinforcing strength. All of the NBSK Pulp produced by the Partnership is in the upper end of the quality spectrum in terms of reinforcing strength. As a result, the Partnership's reinforcing NBSK commands a premium in segments of the market that demand high reinforcing strength. This premium is supported by the higher quality NBSK Pulp's superior reinforcing potential and by limited supply. Supply is limited because the highest quality of premium reinforcing NBSK can only be made from northern spruce fibres, pine fibres, or western red cedar fibres, which are only found in Canada and in some areas of Scandinavia and Russia.

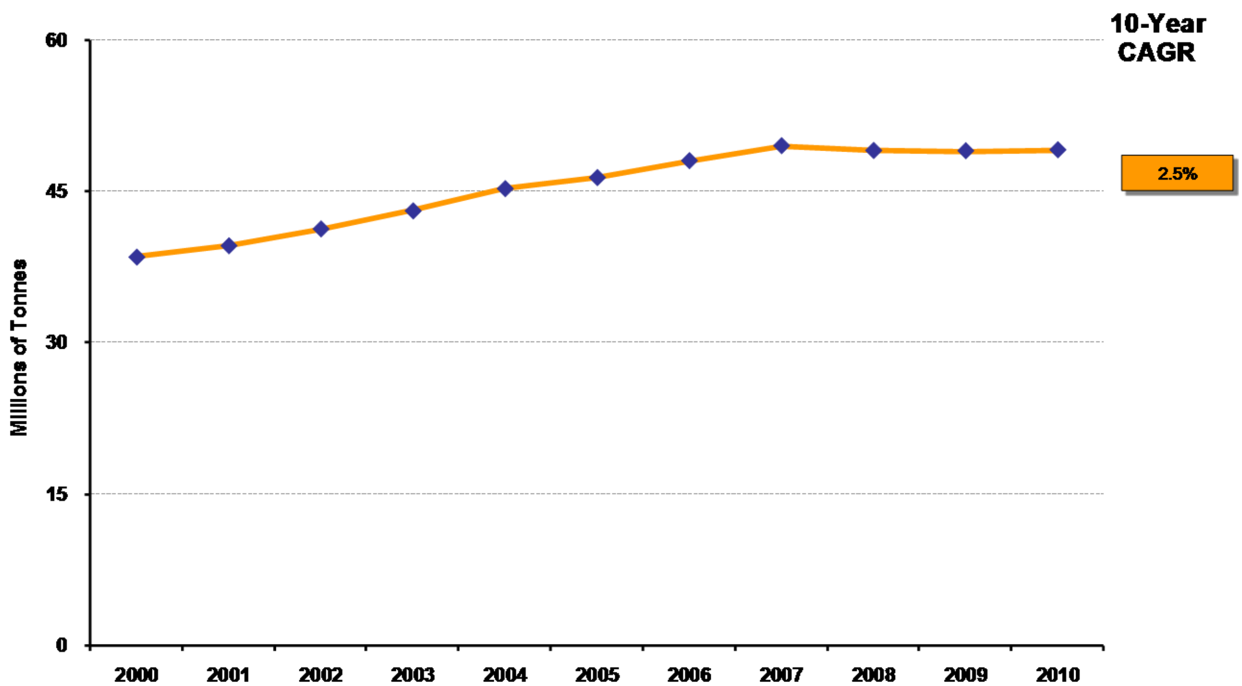
In the last 3 years, BSK facilities with annual production of 1.9 million ADMT (representing approximately 8% of global BSK capacity) have been closed.[1] The supply of Premium Reinforcing NBSK pulp is expected to stay relatively static in the near term.

[1] Source: PPPC Chemical Market Pulp Supply and Demand Report, November 2010

Pulp Markets

In 2010, total worldwide consumption of chemical market pulp was approximately 49 million ADMTs. Although demand is cyclical, global demand for pulp has grown at an average rate of approximately 2.5% annually from 2000 to 2010. The following chart illustrates the global demand for pulp during the specified period:

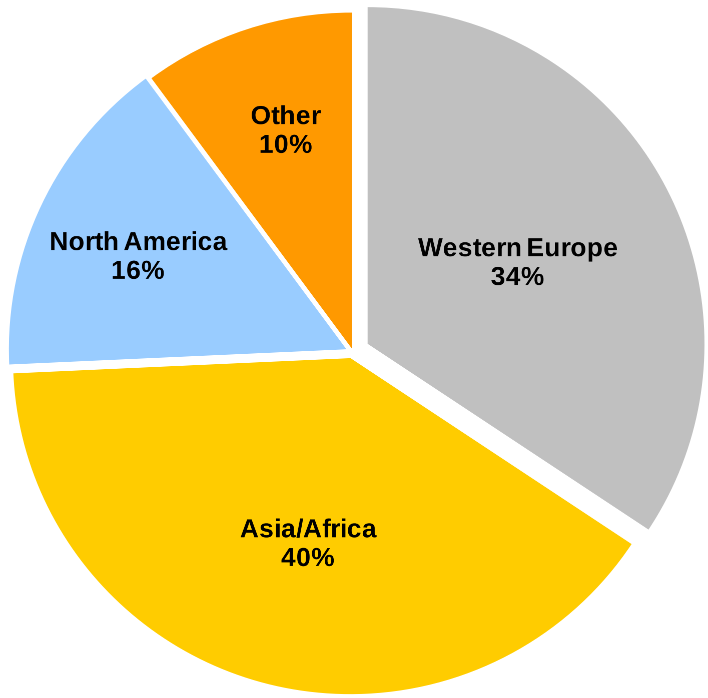
Global Chemical Market Pulp Demand



Source: PPPC - Chemical Market Pulp Supply and Demand Report - November, 2010

In 2010, Western Europe, Asia/Africa, and North America collectively accounted for approximately 90% of global chemical market pulp demand, as illustrated below[1]:

Global Chemical Market Pulp Demand by Region



Source: PPPC - Chemical Market Pulp Supply and Demand Report, November, 2010

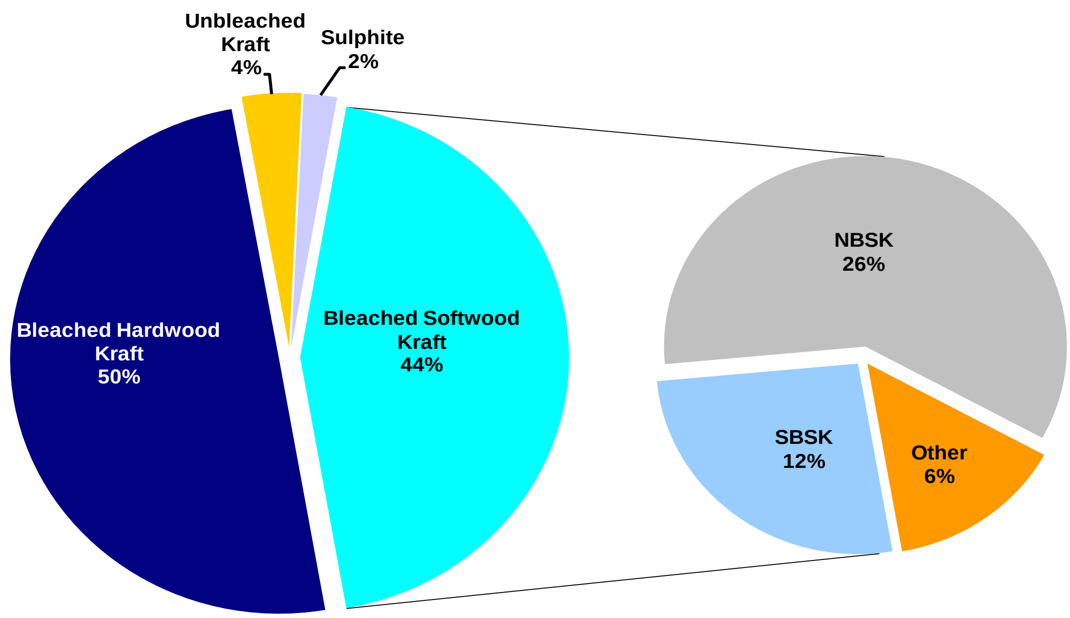
Western Europe is consumed approximately 16.9 million ADMT or about 34% of current global consumption. Asia/Africa consume approximately 19.6 million ADMT accounting for 40% of current global consumption, while North America accounts for approximately 7.7 million ADMT, or 16% of global consumption.

NBSK Pulp Markets

As shown in the following chart, Bleached Softwood Kraft and Bleached Hardwood Kraft are the two predominant types of pulp, together accounting for over 94% of global chemical market pulp consumption. Of the Bleached Softwood Kraft market, NBSK has always been the single largest market segment and is estimated to have accounted for 13.2 million ADMT, or 26% of global chemical market pulp consumption in 2010. As a result, NBSK is referred to as the benchmark grade of pulp when discussing price or relative market conditions.

[1] Source: PPPC Chemical Market Pulp Supply and Demand Report, November 2010

Global Chemical Market Pulp Shipments



Source: PPPC World Chemical Market Pulp Global 100 Report - December 2010

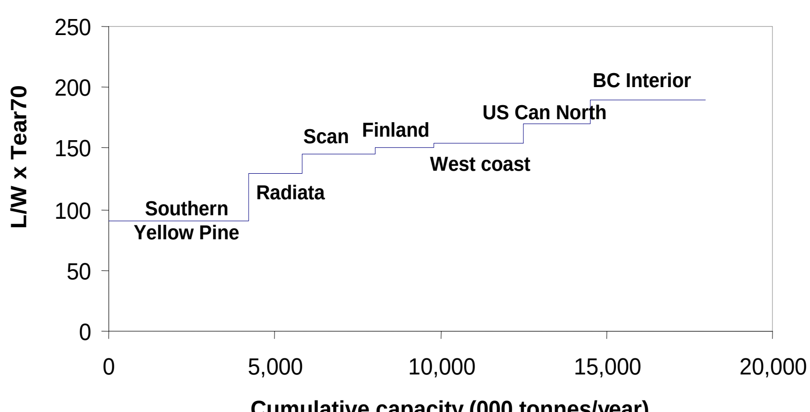
Premium Reinforcing NBSK

NBSK Pulps differ widely in their strength or reinforcing potential due to differences in the physical characteristics of the fibre used in the production process, such as fibre length, diameter, and cell wall thickness. Longer, more slender and thin walled fibres provide the highest reinforcing potential.

The best fibres for producing premium reinforcing pulps are derived from northern spruce and pine or western red cedar, as they have relatively long and slender fibres, and have the thinnest cell walls. Hardwood species have very short and thick-walled fibres, and therefore have very little strength potential.

The correlation between fibre characteristics and strength potential has been verified through extensive study and sample testing. Poyry completed a study in 2001, comparing the reinforcing potential of different Bleached Softwood Kraft Pulps for producing light weight coated paper, principally used for magazines, and verified that NBSK was stronger than SBSK and that the NBSK produced in the interior of British Columbia was the strongest NBSK.

Reinforcement Ranking for Light Weight Coated Paper

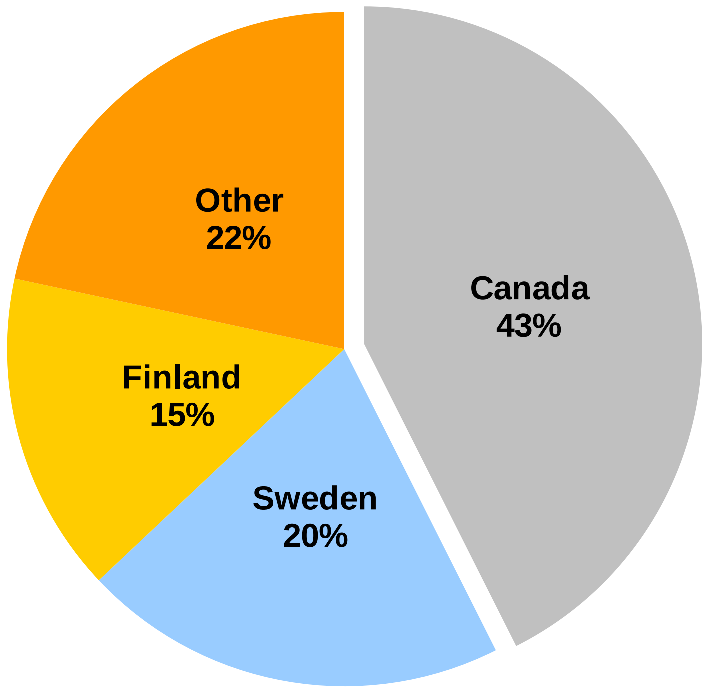


Source: Poyry, 2001

NBSK Pulp Production

Canada ranks as the largest producer of NBSK Pulp in the world, with a production capacity of approximately 6.0 million tonnes in 2010, or approximately 43% of worldwide production capacity. Sweden ranks as the second largest producer of NBSK Pulp with a production capacity of approximately 2.9 million ADMT or 20% of global production capacity.

Global NBSK Pulp Estimated 2010 Production Capacity by Geographic Region

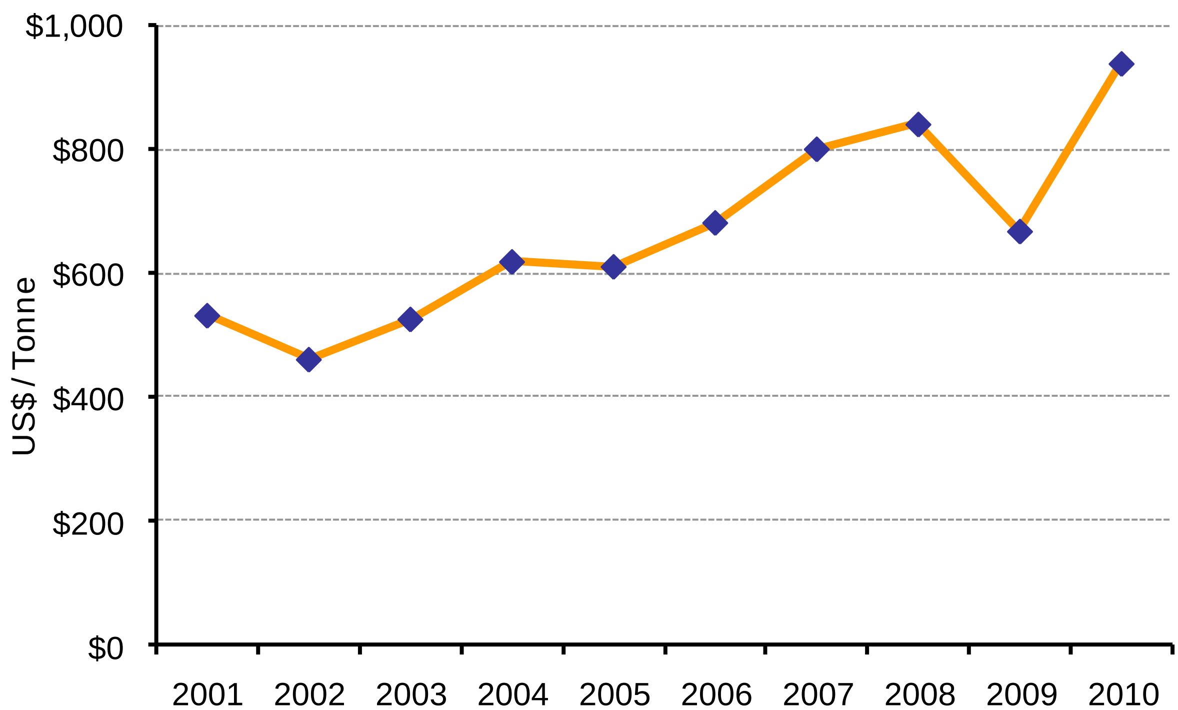


Source: PPPC - Chemical Market Pulp Supply and Demand Report, November, 2010

NBSK Pulp Pricing

Global economic conditions, changes in production capacity, inventory levels, and currency exchange rates are the primary factors affecting NBSK Pulp list prices. As Northern Europe is the world's largest market and NBSK is the premium grade, Northern European NBSK market pricing is the benchmark used in the industry. The following chart illustrates the average annual Northern Europe list prices for NBSK Pulp for the specified periods:

Average Annual Northern Europe NBSK Pulp List Prices in US$



Source: RISI, World Pulp Monthly

The average annual Northern European list price for NBSK Pulp between 2001 and 2010 ranged from a low of US$460 per ADMT in 2002 to a high of US$980 per ADMT in 2010. Following a decline in demand in 2001, list prices for NBSK Pulp fell to approximately US$460 per ADMT in 2002. A weakening US dollar, combined with pulp mill closures had driven the steady growth in market pricing since 2003 until 2008. Prices peaked at another high of US$900 per ADMT in the first half of 2008, before falling to a low of US$575 per ADMT in March 2009. Prices increased to US$980 per ADMT in June, 2010, and then gradually declined to US$950 per ADMT by year-end.

DESCRIPTION OF THE PAPER INDUSTRY

Paper Overview

Kraft Paper is typically used in the production of paper bags. End uses include single ply grocery bags, multi-ply bags for pet food or cement as well as specialty end uses such as tape and laminate base stock. Similar to pulp, both bleached and unbleached products are produced. However, unlike pulp, the majority of Kraft Paper used to produce bags ("**Sack Kraft**") is unbleached.

Within the market for Sack Kraft, there is a high performance segment that is distinct — based upon its strength. These high performance papers can only be produced with strong northern fibres and post refining — a stage in the paper manufacturing process that refines or increases the bonding strength of the fibres.

Kraft Paper Markets

The size of the global paper bag market has been relatively constant for the past 10 years at approximately 5 million tonnes. The kraft paper market was estimated to be 5.6 million tonnes in 2005. 2005 demand was estimated to be split between North America (31%), Europe (27%), Asia (25%), Latin America (5%), and other countries (12%).[1] Demand for the product is driven by packaged food consumption and the overall economy. It is estimated that in 2010 in North America 56% of all multi-wall bags were used in the agricultural and food industry, 18% were used in the building materials sector, and 26% were used for chemicals, minerals and other industries.[2]

Fully Bleached, High Performance Kraft Paper Market

Although overall market demand for Kraft Paper has been flat, there are two significant market trends occurring: an increase in the demand for both fully bleached paper products, and an increase in demand for high performance paper products. The trend to fully bleached Kraft Paper products is driven by the growth of sales through big box stores and the internet, where the package is no longer manufactured simply for protection but also to advertise the contents. The trend to high performance Kraft Paper products is being driven by simple economics. If a customer can achieve the same performance with two plys as was previously achieved with three, it can substantially reduce its costs. At present, the majority of European Sack Kraft consumption is fully bleached, high performance papers, whereas in the United States only a small, but rapidly growing, segment of the market uses these grades.

Kraft Paper Production

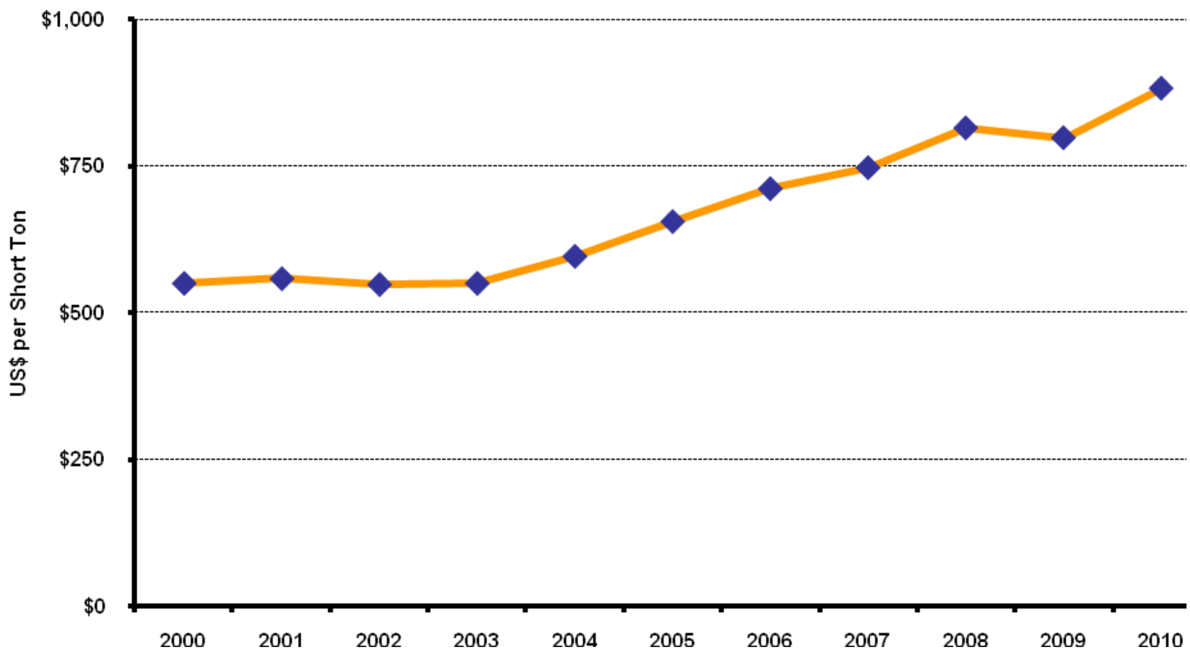
In 2007, approximately 5.1 million tonnes of Kraft Paper were converted into single ply bags and multi-wall paper bags, as well as other specialty paper product end uses around the world.[1] A significant portion of this was produced for internal use by integrated manufacturers. This figure is estimated to be similar for 2010.

Kraft Paper Pricing

Similar to pulp prices, Kraft Paper prices fluctuate with supply and demand. Unlike pulp however, fluctuations in the US exchange rate do not affect Kraft paper prices, because the majority of the production facilities are located in the USA. The following chart illustrates the average annual US Kraft Paper prices (for 50 pound unbleached flat multi-wall) since 2000:

[1] Source: Poyry, 2007.
[2] Source: Paper Shipping Sack Manufactuers Association Inc.

Average Annual US Kraft Paper Market Prices



Source: RISI

THE PULP AND PAPER BUSINESS OF THE PARTNERSHIP

General

The General Partner operates the Pulp Business on behalf of the Partnership. 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 to 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 ADMT 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. The Mills are among the lowest cost producers in Canada. In the last PricewaterhouseCoopers LLP Market Pulp study done in 2007 of the competitive costs of Canadian pulp mills, the Mills achieved a first quartile ranking based on average cost of production of NBSK Pulp.

Market Position

The Partnership is the world's third largest producer of NBSK Pulp for sale on the open market, based on global production capacity of existing facilities. Prince George Pulp and Paper ("**PGP&P**") is the largest producer of its types of bleached high performance Kraft Paper in North America.

The Mills

Northwood is a two line pulp mill with annual production capacity of approximately 600,000 ADMT of NBSK Pulp, making it the largest NBSK Pulp facility in North America. Northwood's pulp is used to make a variety of products including printing and writing paper, tissue and specialty papers and is primarily delivered to customers in North America, Europe, and Asia.

Intercontinental is a single line pulp mill with annual production capacity of approximately 330,000 ADMT of NBSK Pulp. Intercontinental's pulp is used to make substantially the same product as that from Northwood, and is delivered to the same markets.

PGP&P is an integrated two line pulp and paper mill with an annual market pulp production capacity of approximately 150,000 ADMT, and Kraft Paper production capacity of approximately 140,000 tonnes. PGP&P supplies pulp markets in North America, Europe, and Asia, and its internal paper making facilities. The paper mill supplies primarily North American and European markets, with a wide range of both bleached and unbleached Kraft Paper grades.

Manufacturing Process

Pulp

In order to transform wood chips into kraft pulp or kraft paper, wood chips undergo a multi-step process involving the following principal stages: chip screening and digesting, and pulp washing, screening, bleaching and drying.

In the initial processing stage, wood chips are screened to remove oversized chips and sawdust and then conveyed to a pressurized digester where they are heated and cooked with chemicals. This process softens and eventually dissolves the phenolic material called lignin that binds the fibres to each other in the wood.

Cooked pulp flows out of the digester and is washed and screened to remove most of the residual spent chemical called black liquor, and any partially cooked wood chips. The pulp then undergoes a series of bleaching stages where the brightness of the pulp is gradually increased. Finally, the bleached pulp is sent to the pulp machine where it is dried. The pulp is then ready to be baled for shipment to customers. Alternatively to produce Kraft Paper, the bleached pulp is sent to the paper machine where the pulp is converted to Kraft Paper, which is then rolled for shipment to customers.

A significant feature of kraft pulping technology is the recovery system, through which chemicals used in the cooking process are extracted and re-used. This reduces chemical costs and improves environmental performance. During the cooking stage, dissolved organic wood materials and black liquor are extracted from the wood chips in the digester. After undergoing an evaporation process that removes excess water from liquor drawn from the digester, the resulting black liquor, which is now rich with combustible organic materials, is burned in a recovery boiler. The chemical compounds of the black liquor are then collected from the recovery boiler and reconstituted into cooking chemicals which are then eventually re-used in the digesting process.

The heat produced by the recovery boiler is used to generate high-pressure steam. Additional steam is generated by a power boiler through the combustion of biomass consisting of hog fuel, residue generated by the effluent treatment system, and purchased natural gas. The steam produced by the recovery and power boilers is used to power turbogenerators to generate electricity, and to also provide heat for the digesting and pulp drying processes.

Kraft Paper

PGP&P produces Kraft Paper from the bleached and unbleached pulp produced at its mill. This process involves the transfer of "slush pulp" (pulp before it is dried and baled) to the paper making machine located adjacent to the PGP&P pulp mill.

Products

Pulp

Different papermaking applications place different demands on their fibre components. The properties of the component pulps, especially their length, coarseness, and collapsibility, strongly influence their paper making potential and the quality of the final paper. Some papers require very high tensile strength properties while others require a very bulky porous structure. Other paper grades need folding endurance, while still others must be strong while light in weight. No one fibre type is ideal for all of these circumstances.

Due to the climate conditions in the central interior of British Columbia, namely cold winters and relatively dry summers, the spruce, pine and fir tree species that make up the fibre supply develop long, slender, and thin-walled fibres which are generally recognized as being one of the strongest in the world. This characteristic allows the Mills to produce a premium reinforcing NBSK Pulp with excellent tensile properties that commands a premium price. The Mills are able to consistently produce a premium reinforcing NBSK Pulp because all of their fibre is sourced from sawmills in the central interior of British Columbia.

Approximately 90% of the market pulp production of the Mills is focused on fully bleached NBSK Pulp in order to meet the demands of the Partnership's customers. PGP&P also produces speciality varieties of unbleached, semi-bleached, and fully bleached pulp.

The following table shows the pulp production of the Mills for the past three years, classified according to the variety of pulp produced.

Market Pulp Production (ADMT)

Product	Mill	2010	2009	2008*
Bleached	Northwood	585,130	546,110	544,115
	Intercontinental	308,895	309,718	271,592
	PGP&P	6,404	9,678	774
Semi-Bleached	PGP&P	21,173	12,985	14,249
Unbleached	PGP&P	110,439	128,291	102,036
Total		1,032,041	1,006,782	932,766

Note: The reduced production in 2008 is a result of increased scheduled maintenance outages, a market curtailment in December, 2008, and the impact of a fire at the Prince George Pulp and Paper Mill in January, 2008.

Kraft Paper

PGP&P produces both bleached and unbleached Kraft Paper, but since 1995 has emphasized premium product development. This has resulted in a significant change in the paper product mix, moving from lower value unbleached Kraft Paper for use in multi-wall applications, to high performance papers, high porous bleached and unbleached Kraft Papers, and specialty papers where profit margins are higher.

PGP&P is the only North American producer that has a large paper machine capable of producing fully bleached, high performance Kraft Paper. Its focus on producing and creating a demand for this product has allowed it to increase its production of fully bleached Kraft Paper from 42% of total production in 2003 to approximately 69% of total production in 2010. Management intends to continue this focus with the goal of moving substantially all of PGP&P's production to the higher-margin fully bleached Kraft Paper.

The following table shows the Kraft Paper production of PGP&P for each of the past three years, classified according to the variety of Kraft Paper produced.

Kraft Paper Production (tonnes)

Product	2010	2009	2008
Bleached	94,740	80,499	102,213
Unbleached	41,950	50,506	30,364
Total	136,690	131,005	132,577

Sales and Marketing

Pulp

The Partnership has a sales and marketing department staffed by full time marketing professionals who are responsible for the global sales of all of the NBSK Pulp produced by the Mills, through three regional offices. Customers in the Americas are serviced through the Vancouver office while European customers are serviced through the Brussels office. The third regional office is a wholly-owned subsidiary called Canfor Pulp Japan Corporation ("CPJC"). CPJC markets and administers the market pulp sold in Japan on behalf of the Mills.

Asian customers (excluding Japanese customers) are generally serviced through third party long-term sales representatives. These sales representatives generally realize a commission of between 1% and 2% of the net sales price of Northern Softwood Kraft (NSK) Pulp, with the fee varying depending on the services provided, and the tonnage sold.

The following table shows pulp sales by the Mills for the last three years, classified by sales region:

Market Pulp Sales by Geographic Region (ADMT)

		Geographic Region		
Year	Total Sales	Americas	Europe	Asia
2010	1,039,004	415,130 (40%)	191,056 (18%)	432,818 (41%)
2009	1,044,564	367,386 (35%)	201,049 (19%)	476,129 (46%)
2008	905,441	409,822 (45%)	149,384 (17%)	346,235 (38%)

For an arm's-length fee negotiated from time to time with Canfor, the Partnership also markets and sells chemi-thermo mechanical pulp produced by Canfor's Taylor Pulp Mill.

Kraft Paper

Premium 1 Papers, a sales and marketing partnership owned equally by the Partnership and Tolko Marketing and Sales Ltd. ("**Tolko**") is responsible for marketing all bleached and unbleached Kraft Paper products produced by PGP&P, and Tolko's unbleached Kraft Paper mill in The Pas, Manitoba. Premium 1 Papers has approximately 15 full time marketing professionals.

The following table shows sales of Kraft Paper produced by PGP&P for the last three years, classified by sales region.

Kraft Paper Sales by Geographic Region (tonnes)

		Geographic Region		
Year	**Total Sales**	**Americas**	**Europe / Middle East**	**Asia**
2010	144,662	95,134 (66%)	30,170 (21%)	19,358 (13%)
2009	134,980	102,813 (76%)	20,363 (15%)	11,804 (9%)
2008	124,757	87,679 (71%)	26,585 (21%)	10,493 (8%)

Customers

Pulp

The Mills have long-standing relationships with the majority of their customers, some for as long as 43 years. The largest customers have evergreen supply agreements with lengthy notice periods and ramp down clauses should either party wish to terminate the agreement.

In 2010, the Partnership's top 5 customers purchased approximately 384,000 ADMT of pulp, or 36% of the Partnership's total pulp sales. Due to the high quality of its pulp, the Partnership generally does not have any difficulty in selling all of its production. As a result, its main marketing focus has been on optimizing the technical fit and geographic/customer mix to maximize prices over the business cycle.

The Partnership adopts a conservative approach to extending credit to customers in order to minimize the risk of bad debts. Approximately 87% of the outstanding trade receivables are covered under credit insurance. In addition, the Partnership requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. The Partnership believes that its approach to managing credit risk associated with the collection of outstanding trade accounts receivable is appropriate in the current credit market. Due to the conservative nature of the credit policy applied by the Pulp Business, the Pulp Business has experienced no bad debt expense in its pulp sales over the last eleven years.

Kraft Paper

Similar to the pulp business, the Kraft Paper customer base is characterized by many long-standing relationships with evergreen contracts.

In 2010, the Partnership's top 10 Kraft Paper customers purchased approximately 59,000 tonnes of Kraft Paper, or 41% of the Partnership's total Kraft Paper sales. The Partnership's largest customer accounted for 15% of its total Kraft Paper sales. Two additional customers accounted for more than 10% of the Partnership's total Kraft Paper sales.

The Partnership adopts a conservative approach to extending credit to Kraft Paper customers in order to minimize the risk of bad debts. Due to this conservative credit policy, the Partnership's kraft paper business has experienced no material bad debt expense in its Kraft Paper sales over the last 7 years.

Human Resources

The Partnership currently employs approximately 1,159 people throughout the organization. Approximately 74% of these employees are hourly employees covered by collective agreements ("the **Labour Agreements")** with the Communications, Energy, and Paperworkers Union ("**CEP**") and the Pulp, Paper and Woodworkers of Canada ("**PPWC**"). Negotiations with the CEP and the PPWC for the renewal of the agreements covering the pulp and paper operations were successfully concluded and ratified in 2008 for terms of four years expiring on April 30, 2012.

The following table summarizes, for each Mill, the number of employees, collective agreements in effect and the percentage of the workforce governed by these agreements.

Mill	Employees	Union	% Unionized	Agreement Expiry
Northwood.............	480	CEP, Local 603	79%	April 30, 2012
Intercontinental	261	PPWC, Local 9	77%	April 30, 2012
PGP&P	363	PPWC, Local 9 CEP, Local 1133	77%	April 30, 2012
Administration, Sales and Marketing	55	N/A	0%	N/A

Capital Expenditures

Sustaining capital expenditures are additions to, or replacements of, assets required to maintain the operational components of the Mills at their current capacity, and includes expenditures on projects undertaken for incremental increases in productivity or operating capacity and cost reduction.

Management estimates that in order to maintain the Mills in good working order and retain a competitive cost structure, future sustaining capital expenditures will average approximately $30 million per year, before adjustments for inflation.

Discretionary capital expenditures are major projects that constitute a significant change in the business or operating mode of the Mills. The following table summarizes capital expenditures by the Mills over the past three years.

	(unaudited, in thousands of dollars)		
	Year Ended December 31,		
	2010	2009	2008
Capital Expenditures			
Sustaining	13,044	13,452	34,670
Discretionary	38,124	-	-
Subtotal	51,168	13,452	34,670
Amount Funded by GTP	(38,124)		
Amount Funded by Insurance	-	28	(9,401)
Net Capital Spending	13,044	13,480	25,269

On October 9, 2009 the Canadian federal government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the "GTP"). The Partnership has been allocated $122.2 million from the GTP announced by the Canadian government on June 17, 2009. The GTP 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 GTP approval to proceed with three projects totalling $115.6 million.

The Partnership submitted two additional projects for GTP approval in December 2010, and expects to receive GTP approval early in 2011. As of December 31, 2010 the Partnership has incurred $38.2 million and received reimbursements totalling $20.2 million with the balance of $17.9 million receivable on December 31, 2010. The Partnership submits claims for expenditures on approved projects under the GTP on a monthly basis. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

In reacting to the weak world economic conditions in 2009, capital expenditures for the year were generally focused on sustaining capital projects required to maintain the Mills.

The most significant project completed in 2008 was the replacement of the PGP&P mill chip screening system at a cost of $12.6 million. A fire destroyed the original system in January 2008 and a new system, partially funded with the insurance proceeds, was operational by November 2008.

In 2007, an environmental remediation provision was recorded in the financial statements, representing the estimated discounted current value of asset retirement obligations for the Mills landfills, and for Intercontinental's ash settlement pond (see Environment section). The current estimated undiscounted remediation costs of $40.6 million are expected to occur in 32 to 40 years. The estimated discounted current value of these obligations is $3.1 million. The actual cash expenditures will be made at the end of the useful lives of the related assets.

The Partnership expects to fund its sustaining capital expenditures out of the operating cash flow of the Partnership and draws under its Credit Facilities, if necessary. The funding of discretionary capital projects will be determined as part of the project evaluation, considering the nature, size and expected return on the project in each case.

Fibre Supply

General

When running at full capacity, the Mills' annual fibre requirements are approximately 2.6 million ODTs of wood chips and 540,000 ODTs of hog fuel. The availability of wood chips for purchase and processing in the central interior of British Columbia is influenced significantly by the timber supply in the Prince George Timber Supply Area ("**PGTSA**") and by the operating rates of sawmills within the geographic area of fibre supply for the Mills.

Historically, the annual allowable cut levels in the PGTSA and the resulting sawmill production have been sufficient to supply all of the fibre requirements of the Mills. In order to control the mountain pine beetle infestation in the area the Ministry of Forests increased the annual allowable cut in the PGTSA by approximately 50%. This increase in the AAC is projected to remain in effect for at least the next five years, resulting in an abundant supply of timber for sawmills and other timber conversion facilities. The timber supply during this forecast period is expected to exceed the requirements of the timber conversion industries (sawmills, board plants, pellet plants, etc.). Excluding the impact of sawmill production curtailments, the Partnership would anticipate this surplus of timber to result in competitive fibre pricing over the short and medium-term. However, in 2008 and 2009 weak North American lumber markets caused by a slowdown in the US housing sector have resulted in closures or reductions in sawmill lumber and residual wood chip production. For 2010, the production of lumber and supply of residual chips improved as lumber prices improved and many sawmills found new sales in China. Residual chip prices remained relatively high as formula priced contracts are linked to the higher pulp prices. While previously more expensive than residual chips, the lower cost and increased availability of pulp wood quality logs also contributed to reducing the cost differential between whole-log and residual chips. The Partnership expects this fibre availability situation to continue in 2011 due to the closure of a competing pulp mill in the region, and a more normal level of sawmill production in the Mills' fibre supply area due to an improving lumber market.

The wood chip supply for the Mills consists primarily of lodgepole pine and white spruce. The wood chip species percentages are variable by Mill, depending on the supply sources directed to each Mill. Wood chips are stored in co-mingled piles at each of the Mills, with the exception of any wood chips derived from balsam fir, which are stored separately at PGP&P and used principally in the production of unbleached pulp and paper. Wood chips from each species are combined and processed to produce premium reinforcing market NBSK Pulp and for use by PGP&P in producing Kraft Paper.

Fibre Supply Agreement

On July 1, 2006 the Partnership entered into the Fibre Supply Agreement with Canfor under which Canfor supplies the Partnership with agreed annual quantities of the residual wood chips and hog fuel produced at specified sawmills in the Prince George Forest Region. This agreement was amended on April 8, 2010 with a pricing mechanism reflective of current market conditions. If Canfor discontinues operation of, or reduces production on a long term basis at, any of the specified sawmills, the Partnership has the right to replace the lost volume from other Canfor sawmills which are closest in terms of transportation efficiency to the Mills. Canfor will have the first right of opportunity to sell to the Partnership any wood chips required by the Partnership in excess of the agreed maximum annual quantity on the same commercial terms including price, as set out in the Fibre Supply Agreement. If the Partnership requires additional annual quantities of wood chips due to an increase in the capacity of the Mills, the Partnership is required to first offer to purchase the additional wood chips from Canfor on the same commercial terms as those set out in the Fibre Supply Agreement. The Partnership will also have the first right to acquire additional wood chips from any sawmill facility subsequently acquired or constructed by Canfor in the Prince George Forest Region, subject to any commitments affecting an acquired facility, which are in effect or required by the vendor as a condition of the acquisition. Canfor has the right, on prior written notice, to require the Partnership to purchase wood chips from Canfor in excess of the agreed maximum annual quantity. If, as a result, the Partnership is required to terminate or cancel other supply agreements in order to take the additional Canfor wood chips, then the price that Canfor is entitled to receive will not be greater than the price paid pursuant to the other supply agreements which were terminated or cancelled.

The price paid by the Partnership for all residual wood chips supplied by Canfor under the Fibre Supply Agreement is a market price determined in relation to the Partnership's Canadian dollar pulp prices.

The price paid by the Partnership is also adjusted for wood chip quality and to reflect any changes in the actual freight cost for delivering the wood chips to the Mills if Canfor elects to supply wood chips from Canfor sawmills other than the Canfor sawmills specified in the Fibre Supply Agreement.

The Partnership is also entitled, upon giving three months prior written notice, to request Canfor to supply the Partnership with pulplogs or other pulpwood harvested by or on behalf of Canfor from its woodlands operations in the Prince George forest region at market prices.

Canfor also supplies the Partnership with agreed annual quantities of hog fuel produced from specified Canfor sawmills located within the Prince George forest region. If Canfor discontinues operations at any of the specified Canfor sawmills, Canfor must use reasonable efforts to supply the Partnership with hog fuel from other Canfor facilities so as to maintain the quantity of hog fuel supplied to the Partnership. Canfor will also have the right, on not less than six months' prior written notice to the Partnership, to reduce the quantity of hog fuel delivered from the specified sawmills. If Canfor exercises this option, the Partnership will be entitled to acquire hog fuel from other Canfor sawmills which are closest in terms of truck hauling to the Mills in order to replace the displaced quantity of hog fuel, to the extent hog fuel is available from the other Canfor sawmills. The price paid by the Partnership to Canfor for hog fuel supplied under the Fibre Supply Agreement is at the prevailing market price.

Other Fibre Supply Arrangements

The Mills currently have short and long term chip supply agreements with 15 different suppliers, other than Canfor, supplying approximately 1.1 million ODTs on an annual basis. These agreements are for periods ranging between one and eighteen years and each agreement permits the Mills to purchase wood chips available at a specified sawmill, subject to certain maximums. These agreements do not provide for minimum volumes, which protects the Mills from being required to purchase wood chips in excess of their requirements.

Pricing for wood chips purchased under these agreements is based on the same formula as used in the Fibre Supply Agreement, subject to adjustment for chip quality. Similar to other pulp producers, the Mills have chip quality incentive programs for suppliers designed to reduce off-grade pulp. The program is designed to ensure the highest quality of wood chips is supplied by reducing bark and chip fines as well as defining the preferred classification mix of wood chips. In recognition of the reduced cost and supply of competing whole log chips, some of these agreements also contain a market adjustment clause, and during 2010, the price paid for wood chips under these other fibre supply agreements decreased below the formula price.

In addition to the supply of hog fuel under the Fibre Supply Agreement, the Partnership is able to source hog fuel from third party suppliers. Hog fuel has increased in value at the source due to the development of other end-users, coupled with the reduced levels of production from the sawmill industry.

The Partnership expects that the Fibre Supply Agreement, together with supplemental agreements with other parties for the supply of wood chips including the production of whole log chips, will satisfy all of its anticipated fibre requirements to operate the Mills at current or reasonably projected levels of operation.

Energy

Northwood

In 2010, Northwood self-generated approximately 80% of its electrical power requirements and purchased the remaining 20% from BC Hydro. Northwood steam production was produced primarily with black liquor from the Kraft pulping process, and hog fuel. The completion of several capital projects and changes to operating procedures resulted in a reduction in the total steam produced from natural gas to approximately 5% in 2010 relative to 10% in 2009.

Intercontinental

In 2010, Intercontinental generated approximately 50% of its electrical power requirements, and purchased the remaining 50% from BC Hydro. Intercontinental steam production in 2010 was primarily with black liquor from the Kraft pulping process and hog fuel. Approximately 3% of the total steam produced was from natural gas.

PGP&P

In 2010, PGP&P self-generated approximately 94% of its internal electricity requirements. This is approximately 5% less than 2009 due to the planned extended maintenance outage on the steam turbogenerator completed in April 2010. In 2010, the PGP&P mill continued to export power to BC Hydro through the Cogeneration Project. The new exports to BC Hydro negatively impacted the capacity of the Cogeneration Project to displace electricity purchases from BC Hydro. The Cogeneration Project delivered 74% of the contracted electricity to BC Hydro in the first full year under the terms of the EPA. The 2010 PGP&P steam production was primarily with black liquor from the Kraft pulping process and hog fuel. Approximately 2% of the total steam produced was from natural gas.

Cogeneration Agreements with BC Hydro

In October 2003 BC Hydro entered into an agreement (the "**Cogeneration Agreement**") under which it agreed to contribute $45.8 million, through its PowerSmart Program, to construct an electrical cogeneration facility at PGP&P designed to produce 48 MW of electricity (the "**Cogeneration Project**"). In addition to the construction of the electrical cogeneration facility, the Cogeneration Project included the modification of two of the three boilers at PGP&P and the addition of wood waste and ash handling systems to enable a more efficient use of energy generated from black liquor and significantly higher steam production from hog fuel.

The original Cogeneration Agreement required the Cogeneration Project to be operated for a period of 15 years from its completion at an average annual electricity output of 390 GWh, to supply the electricity requirements of PGP&P and Intercontinental up to a maximum of 1,070 MWh per day.

On September 15, 2009, a new Electricity Purchase Agreement ("EPA") with BC Hydro began commercial operation. Several conditions of the original Cogeneration agreement required amendment to integrate with the new EPA. The new EPA has a term of 10 years effective September 15, 2009. Effective October 01, 2010, the EPA export commitment for the Partnership was increased by 0.8 MWh/h to 8.8 MWh/h of 'hourly-firm' electricity from the PG Cogeneration project above the annual amended Load Displacement generating baseline of 338 GWh. Under the amended Cogeneration agreement, the Partnership agreed to repay BC Hydro $4.3 million of incentive funding and the load displacement commitment was reduced to 338 gigawatt hours of electricity per year, reflecting the original project output capacity. The amended Cogeneration Agreement also provides that if the Cogeneration Project generates less than 338 GWh in any year, the shortfall can be made up by excess 'non-firm' generation exports assigned to the Load

Displacement Reserve account. BC Hydro is entitled to be reimbursed an amount equal to the average annual price paid for all energy exported through the EPA for the shortfall to the annual requirement of 338 GWh, for any balance that cannot be reconciled to the 338 GWh per year Load Displacement commitments with the balance in the Load Displacement Reserve account.

Chemicals

The Partnership has entered into a long-term supply agreement (the "**Chemical Supply Agreement**") under which it has agreed to obtain all of the Mills' requirements for the principal chemical used in the production of pulp, sodium chlorate, exclusively from Chemtrade, a subsidiary of Chemtrade Logistics Income Fund, whose facilities are located adjacent to the Intercontinental Mill. The long-term supply agreement has a minimum annual purchase requirement of 48,000 tonnes. Sodium chlorate is used for the production of chlorine dioxide, which in turn is used in the bleaching phase of the kraft pulping process. The supply agreement has three years remaining on its initial 10-year term, and is automatically renewed for successive five-year terms unless either party gives notice of termination not less than two years prior to expiry of the then current term. The price payable by the Partnership for sodium chlorate supplied by Chemtrade is subject to a periodic adjustment to reflect the actual costs incurred by Chemtrade for salt, caustic soda, electricity, and steam used in the production of sodium chlorate.

Transportation

The Partnership uses various modes of surface transportation to distribute its pulp and Kraft Paper products. In the case of pulp, nearly all is shipped from the Mills by rail and each of the Mills is serviced by at least one dedicated rail spur. In the case of Kraft Paper, due to the smaller average order size, a much higher percentage is shipped by truck, with the balance being shipped by rail. Products destined for overseas customers are loaded at terminals in Vancouver and in Montreal, and are then transported by break-bulk cargo vessel for European customers, and either break-bulk or container cargo vessels for Asian customers depending on which mode is most cost effective.

The Partnership's costs of transportation over the past four years have risen due to increasing fuel costs, and as a result of reduced break-bulk capacity in the marketplace. The Partnership is working to minimize the effect of these cost increases by optimizing the Partnership's geographic pulp distribution. Re-directing pulp sales from certain offshore markets to North American markets reduces total transportation costs due to shorter shipping distances.

Environment

The Mills are subject to a wide range of general and industry-specific environmental statutes, laws, regulations, bylaws, guidelines, policies, directives and other requirements (the "**Environmental Requirements**") governing or relating to among other things: air emissions, wastewater discharge, waste management, landfill sites, pollution prevention, site contamination and hazardous and residual materials. In addition, the Mills have obtained numerous environmental permits, authorizations, and approvals relating to the protection of the environment and operation of equipment. Compliance with the Environmental Requirements requires the Mills to incur expenses and to monitor their operations on an ongoing basis.

The Mills have an Environmental Management System ("**EMS**") that is certified under ISO 14001. Risks to the environment are formally assessed providing the foundation for continuous improvement on a priority basis. This systematic approach ensures optimum utilization of resources. Third party EMS audits and internal audits of the EMS, compliance with legal requirements, company policies, and good industry practice are conducted on a regular basis.

The Mills are actively engaged in the local airshed management program including areas of ambient monitoring and research. Staff serving on air quality committees work to ensure that future airshed plans are guided by sound science.

Future regulations or permits may place lower limits on allowable emissions of all kinds, including air, water, waste, and hazardous materials, and may increase the financial consequences of remaining in compliance with Environmental Requirements or conducting future remediation, if required, of spills. The Mills' EMS and policies have enabled the Partnership to develop and implement effective measures to maintain emissions in material compliance with Environmental Requirements to date. Although Management believes that adherence to and strengthening of the EMS and the policies will enable the Mills to comply with future Environmental Requirements in a cost-effective manner, there can be no assurance that this will be the case.

In October 2006, the Partnership observed dark ponded water in an area on the banks of the Fraser River and reported the dark ponded water to the appropriate regulatory agencies. The consultants engaged by the Partnership concluded that the source was likely a leak from the Intercontinental pulp mill ash pond. In 2007, the Partnership submitted a remedial plan to the regulatory agencies and began the process of implementing that plan. The Intercontinental pulp mill ash pond was decommissioned in the 4th quarter of 2007, with remediation work completed in 2008. The cost to remediate the Intercontinental pulp mill ash pond was $1.5 million. This obligation has been recorded in the 2007 financial statements. Two new ash settling ponds were constructed in 2007 to serve the ongoing ash handling requirements. Groundwater quality will be monitored regularly to ensure that the remediation work has been successful.

During 2010 the Partnership obtained over 70% of its fibre supply from forest districts that had been certified to either the Canadian Standards Association Sustainable Forest Management Standard (CAN/CSA-Z809) or the Sustainable Forestry Initiative (SFI®). All of the pulp the Partnership produced in 2010 was eligible for sale as Controlled Wood under the Forest Stewardship Council (FSC) certification standard.

The Mills continue to reduce their reliance on fossil fuels as an energy source. During 2010 the Mills were able to continue their trend of lowering emissions of greenhouse gases. Relative to the Kyoto reference year of 1990, the Mills emissions of greenhouse gases for 2010 were 37% lower when calculated on an absolute basis and 50% lower when calculated on an intensity basis. The Partnership is committed to continue to reduce its dependence on fossil fuels. Capital spending under the Pulp and Paper Green Transformation Program (GTP) has commenced, and will reduce this dependence even further. The GTP will enable the advancement of projects at all of the Partnership's facilities that will yield a variety of environmental benefits. The planned improvements include reductions in odour and particulate emissions; reduced fossil fuel and water consumption; and incremental renewable electricity generation. For more information on the GTP, please see the capital expenditures section starting on page 19.

Competition

The pulp industry is highly competitive, with a substantial number of competitors having extensive manufacturing expertise and sales and distribution organizations, some of which are larger than the Partnership's, but none of which is considered to be dominant. The principal competitive factors in the pulp market are price, quality, volume, availability, and reliability of supply, financial viability, and customer service. Most markets in which the Mills' products are sold are highly competitive and customers have several choices of suppliers. The Partnership's principal competitors in North America are Abitibi-Bowater Incorporated, Fibrek (formerly SFK), Celgar (Mercer International), Northern Pulp, Domtar Inc., West Fraser Timber Co. Ltd., and Tembec Inc. For sales to Europe, the Partnership's principal competitors include Södra Group, Metsa Botnia, Mercer International, Stora Enso Oyj, and British Columbia coastal pulp mills. For sales to Asia, the Partnership's principal competitors are mills located in Chile, Russia, Scandinavia, and British Columbia. Mills located in the southern United States and in South America rarely compete directly with the Partnerships, as Southern mills typically rely upon different species that supply end uses that the Partnership's Mills do not target.

The Partnership's main product line for its Kraft paper business is high performance, bleached paper. The Partnership's main competitors in its sale of Kraft Paper products are two European producers — Bilerud and Frantschach/Mondi — as they are the only companies that can produce high performance bleached papers. Tolko is the only other North American producer with high performance capability, but it produces only unbleached papers.

Competitive Advantages

Management believes the Partnership has the following competitive strengths and advantages:

- **Market Leadership:** The Partnership is the largest North American and third largest global producer of market NSK Pulp, with an annual production capacity of approximately 1,080,000 ADMT. The Partnership is the leading global North American producer of fully bleached, high performance Kraft Paper with an annual capacity of 140,000 MT.

- **Low Cost Producer:** According to the most recent PricewaterhouseCoopers LLP Market Pulp study (2007), Intercontinental and Northwood are in the first quartile in terms of manufacturing cash costs among Canadian pulp producers. This cost position has been confirmed by leading consultancy reports.

- **Secure Fibre Supply:** The Partnership has a long-term, secure supply of wood chips through the Fibre Supply Agreement with Canfor. This Fibre Supply Agreement, together with supplemental agreements with other parties, will satisfy the Partnership's anticipated fibre requirements to operate the Mills at current and projected levels. The Mills are located in the central interior of British Columbia, which has an abundant supply of fibre due to the large number of lumber production facilities and whole log chipping opportunities, in the region. In order to control a mountain pine beetle infestation in the region, the Ministry of Forests has increased the AAC by approximately 50% for at least the next five years. This abundant fibre supply provides the Partnership with a lower fibre cost than any other region in Canada and a significant competitive advantage relative to eastern Canadian pulp producers.

- **Strong, Diverse Customer Base:** The Partnership's customers generally have technical requirements for premium reinforcing NBSK Pulp, are dominant in their field, and are interested in maintaining long-term relationships. Many of the Partnership's customers have long-standing relationships with one or more of the Mills and multiple year supply contracts including notice and/or ramp-down periods prior to termination.

- **Experienced Management:** The Partnership has a strong management team with substantial experience and proven expertise in the forest products sector.

Strategic Direction and Opportunities

Management intends to maximize and grow cash dividends to shareholders by focusing on the Mills' specific strengths and core business — the production of low-cost and high-quality pulp delivered to market segments providing the best margins.

The Partnership's business focus and strategy are aimed at:

- preserving the Mills' low-cost position through (i) cost reduction initiatives in the areas of chemical usage, energy, fibre and maintenance; (ii) efficiency improvements to increase production through process optimization and control; iii) targeted investment in new technologies to improve energy efficiency and environmental performance; and (iv) increased green energy production;

- implementing quality improvement initiatives to better meet customer needs in the areas of pulp strength and product consistency; and
- leveraging its access to public markets and other financial resources and its reputation as a strong business partner to pursue selective and accretive acquisitions of existing high quality assets.

DESCRIPTION OF LEGAL STRUCTURE

Canfor Pulp Products Inc.

CPPI is a corporation incorporated under the BCBCA.

The Partnership

The Partnership is a limited partnership formed under the laws of Manitoba pursuant to the Partnership Agreement. The following is a summary of the material attributes and characteristics of the LP Units and certain provisions of the Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the Partnership Agreement, which contains a complete statement of those attributes and characteristics and provisions.

Capitalization

The Partnership is entitled to issue various classes of interests, for consideration and on such terms and conditions as are established by the General Partner. As at the date of this AIF, there are 14,254,005 Class A LP Units (all of which are held by CPPI) and 57,016,020 Class B Exchangeable LP Units issued and outstanding (of which 35,776,483 are held by Canfor and 21,239,537 are held by CPPI). The General Partner holds the GP Interest, representing a 0.001% undivided interest in the Partnership. All classes of LP Units, except as otherwise noted, have materially equivalent economic and voting rights.

The Class B Exchangeable LP Units are exchangeable at the option of the holder on a one-for-one basis (subject to adjustment) for CPPI Shares in accordance with the provisions of the Exchange Agreement. See "Liquidity, Support and Security Holder Agreements —Exchange Agreement".

Allocation of Net Income and Losses

The income or loss for income tax purposes of the Partnership for a particular taxation year will be allocated to each partner in an amount calculated by multiplying the total income or loss for income tax purposes allocated to the partners by a fraction, the numerator of which shall be the sum of the cash distributions received by that partner with respect to that taxation year and the denominator of which shall be the total amount of the cash distributions made by the Partnership to all partners with respect to that taxation year. The amount of income for income tax purposes allocated to a partner may exceed or be less than the amount of cash distributed by the Partnership to that partner. If no cash distribution is made by the Partnership to its partners in a taxation year, the income or loss of the Partnership for that taxation year will be allocated to the partners based on the number of LP Units held by the partners at the end of that taxation year.

Limited Liability

The Partnership is required to operate in a manner so as to ensure to the greatest extent possible the limited liability of the limited partners. If limited liability is lost by reason of the gross negligence of the General Partner in performing its duties and obligations under the Partnership Agreement, then the

General Partner has agreed to indemnify the limited partners in respect of any loss, damage cost, or expense arising from the absence of the limited liability intended by the Partnership Agreement.

Transfer of LP Units

The LP Units are not transferable except in accordance with the Shareholders' Agreement, the Exchange Agreement, and the Partnership Agreement and subject to compliance with applicable securities restrictions. LP Units may not be transferred to any person that is a Non-Resident for purposes of the Tax Act or to a partnership other than a Canadian partnership. A LP Unit is not transferable in part. No transfer of a LP Unit will be accepted by the Partnership unless a transfer form, duly completed and signed by the registered holder of the LP Unit and the transferee, has been remitted to the registrar and transfer agent of the Partnership. A transferee of a LP Unit will become a partner, and will be subject to the obligations and entitled to the rights of a partner under the Partnership Agreement, on the date on which the transfer is recorded.

Take-Over Bids

The Partnership Agreement provides that no holder of GP Shares or LP Units shall transfer any GP Shares or LP Units, other than to one or more of its affiliates or to CPPI in accordance with the terms of the Exchange Agreement, unless (a) the transferee would not be required under applicable securities legislation as a result of such transfer to make an offer to all holders of CPPI Shares to acquire such shares on the same terms and conditions if, immediately prior to such transfer, all outstanding Class B Exchangeable LP Units and the same number of GP Shares had been exchanged for CPPI Shares in accordance with the terms of the Exchange Agreement, or (b) the offeror acquiring such Class B Exchangeable LP Units and GP Shares makes a contemporaneous offer for CPPI Shares on the same terms (in terms of price, timing and proportion of securities sought to be acquired) and conditions and does not acquire such Class B Exchangeable LP Units or GP Shares unless the offeror also acquires a proportionate number of CPPI Shares tendered to such offer, if any.

Offer for CPPI Shares

If (i) a take-over bid is made for the CPPI Shares and accepted by holders of more than 90% of the then outstanding CPPI Shares (including CPPI Shares that may be acquired on the exchange of any LP Units pursuant to the Exchange Agreement) excluding CPPI Shares already held by the offeror; (ii) the offeror is bound to take up and pay for, or has taken up and paid for, the CPPI Shares of those CPPI Shareholders who accepted the take-over bid; (iii) the offeror is entitled to send notice to any offerees that did not accept the take-over bid, that the acquiring person wants to acquire its CPPI Shares in accordance with the compulsory acquisition procedures set out in section 300 of the BCBCA; (iv) the offeror makes an offer (the "**Exchange Offer**") to each holder of Class B Exchangeable LP Units (other than the acquiring person and its affiliates (or their respective nominees)) to acquire all of the holders' LP Units and GP Shares on the same terms as it acquired the CPPI Shares; and (v) the offeror has paid or transferred to (or at the direction of) the General Partner, the cash or other consideration that is payable to the Limited Partners under the Exchange Offer, then each holder of Class B Exchangeable LP Units (other than the offeror and its affiliates) will accept, and will be deemed to have accepted, such Exchange Offer.

Amendment

In general, the Partnership Agreement may be amended with approval by special resolution of the holders of LP Units, except for amendments that require unanimous approval of holders of LP Units. Unanimous approval of holders of LP Units is required for: (a) altering the ability of the limited partners to involuntarily remove the General Partner as general partner; (b) changing the liability of any limited partner; (c) changing the right of a limited partner to vote at any meeting; (d) changing the allocation or priority of distributions, or the allocation or priority of the distribution of proceeds of liquidation, dissolution or winding up of the Partnership; or (e) changing the Partnership from a limited partnership to a general partnership. Notwithstanding the foregoing, no amendment that would adversely affect the rights and obligations of the General Partner, as general partner, may be made without its prior written consent. The General Partner may make amendments to the Partnership Agreement to reflect: (a) a change in the name of the Partnership or the location of the principal place of business of the Partnership or the registered office of the Partnership; (b) a change in the governing law of the Partnership to any other province of Canada; (c) admission, substitution, withdrawal or removal of limited partners in accordance with the Partnership Agreement; (d) a change that, as determined by the General Partner, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership in which the limited partners have limited liability under the applicable laws; (e) a change that, as determined by the General Partner, is reasonable, necessary or appropriate to enable the Partnership to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; (f) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Partnership Agreement which may be defective or inconsistent with any other provision contained in the Partnership Agreement or which should be made to make the Partnership Agreement consistent with the disclosure set out in the Partnership Agreement; or (g) a change that, as determined by the General Partner, does not materially adversely affect the limited partners.

Meetings

The General Partner may call meetings of partners and will be required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 10% in number of the outstanding LP Units. Each partner is entitled to one vote for each LP Unit held. A quorum at a meeting of partners consists of two or more partners present in person or by proxy.

The General Partner

The General Partner is a corporation incorporated under Canada Business Corporations Act (“**CBCA”)**. Certain provisions of the Shareholders' Agreement relating to the General Partner are summarized in this AIF under the heading "Liquidity, Support and Security Holder Agreements — Shareholders' Agreement".

The business of the Partnership is managed by the General Partner and the following is a summary of the certain material provisions of the Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the Partnership Agreement, which contains a complete statement of those provisions. See also " Liquidity, Support and Security Holder Agreements — Partnership Agreement".

Functions and Powers of the General Partner

Under the terms of the Partnership Agreement, Canfor Pulp Holding Inc., as the general partner of the Partnership, has exclusive authority to manage the business and affairs of the Partnership, to make all decisions regarding the Pulp Business and to bind the Partnership. Under the terms of the Partnership Agreement, the General Partner has agreed to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Partnership and exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in the General Partner to manage the business and affairs of the Partnership includes all authority necessary or incidental to carry out the objects, purposes and business of the Partnership including, without limitation, the ability to engage agents to assist the General Partner to carry out its management obligations or administrative functions. The General Partner cannot dissolve the Partnership or wind-up the Partnership’s affairs, except in accordance with the provisions of the Partnership Agreement.

Withdrawal or Removal of the General Partner

Under the terms of the Partnership Agreement, the General Partner may resign on not less than 180 days' written notice to the limited partners of the Partnership. The General Partner may not be removed as general partner of the Partnership unless:

- the General Partner has committed a material breach of the Partnership Agreement, which breach has continued unremedied for 30 days after notice, and that removal is also approved by a Special Resolution of the partners of the Partnership;
- the shareholders or directors of the General Partner pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of the General Partner; or
- the General Partner commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the Partnership Agreement.

THE BUSINESSES OF CANFOR PULP PRODUCTS INC., THE PARTNERSHIP AND THE GENERAL PARTNER

The Business of Canfor Pulp Products Inc.

CPPI holds a 49.8% interest in the Partnership and the General Partner but does not conduct any active business. CPPI is the successor to the Fund following the Conversion.

Under the terms of the Exchange Agreement with CFP, General Partner and the Partnership, CPPI is restricted from, among other things, making any investment (whether or not for consideration) in any entity other than the General Partner or the Partnership, without the written approval of the board of directors of the General Partner.

As at the date of this AIF, other than the Conversion and the subsequent winding-up of the Fund and the Trust on January 1, 2011 (see "General Development of the Business — History"), there has been no material reorganization of CPPI, the Fund, the Partnership or any of their respective subsidiaries within the three most recently completed financial years or during the current financial year. As at the date of this AIF, no such material reorganization is proposed for the current financial year. As at the date of this AIF, no bankruptcy, receivership, or similar proceedings were made against CPPI, the Partnership or any of their subsidiaries within the three most recently completed financial years or completed during or proposed for the current financial year.

The Business of the Partnership

The business of the Partnership is to operate the Pulp Business.

The Business of the General Partner

The business of the General Partner is to act as general partner of the Partnership and to operate the Pulp Business on behalf of the Partnership in its capacity as general partner. The General Partner has exclusive authority to manage the business and affairs of the Partnership, to make all decisions regarding the business of the Partnership and to bind the Partnership. The General Partner is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Partnership and to exercise the care, diligence, and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in the General Partner to manage the business and affairs of the Partnership includes all authority necessary or incidental to carry out the objects, purposes, and business of the Partnership, including without limitation, the ability to engage agents to assist the General Partner to carry out its management obligations or substantially administrative functions. The General Partner cannot dissolve the Partnership or wind up the Partnership's affairs except in accordance with the provisions of the Partnership Agreement.

As of the date of this AIF, other than as described in this document:

(a) no material new products have been publicly announced;

(b) no material intangible properties, such as brand names, circulation lists, copyrights, franchises, licences, patents, software, subscription lists and trademarks affect any segment described in the section describing the Business of the Partnership; and

(c) other than the environmental policies discussed in this AIF, no social or environmental policies that are fundamental to the Business of the Partnership have been implemented.

DISCLOSURE

CPPI holds a 49.8% interest in the Partnership and the General Partner but does not conduct any active business. Given the passive nature of CPPI, CPPI intends to provide CPPI Shareholders with disclosure with respect to not only CPPI but also to the underlying operations and business of the Partnership in complying with applicable continuous disclosure requirements.

Pursuant to the Shareholders' Agreement, the General Partner has agreed to make, on behalf of the Partnership, such filings under applicable securities laws, including the filing of financial statements, and to take such other reasonable steps as may be required to be taken by the General Partner, on behalf of the Partnership, in order that CPPI may comply with its obligations under applicable securities laws and commitments and undertakings given by the Fund to any securities regulatory authorities prior to July 01, 2006. Accordingly, it is expected that the Partnership will provide CPPI with information regarding any material change that occurs in its affairs and with quarterly and annual financial statements accompanied by MD&A for the period covered by such financial statements in form and content that it would file with the applicable regulatory authorities as if it were a reporting issuer. Information, financial statements, and MD&A will be provided to CPPI in a timely manner so as to permit CPPI to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the filing and delivery to security holders of financial statements as required under applicable securities laws.

RISK FACTORS

Risks Related to the Structure of Canfor Pulp Products Inc.

Control of the Partnership

Pursuant to the 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 LP Units of the Partnership (the "**LP Units**"). See "Liquidity, Support and Security Holder Agreements—Shareholders' Agreement" for a description of Canfor's board representation rights.

For so long as Canfor holds not less than 20% of the outstanding LP Units, Canfor's consent will be required in order to approve certain significant transactions of the Partnership. In addition, under the Exchange Agreement, CPPI has agreed not to take certain actions without the prior approval of the board of directors of the General Partner. 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 CPPI. Canfor may have sufficient voting power to prevent a change of control of the Partnership. CPPI has a minority interest in the Partnership and minority representation on the board of the General Partner and, therefore, has influence but not control over transactions of the Partnership.

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

Dependence on the Partnership

CPPI is entirely dependent on the operations and assets of the Partnership. The ability of CPPI to pay dividends on CPPI Shares will be dependent on, among other things, the Partnership making cash distributions. The ability of CPPI and the Partnership 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, including restrictive covenants in the Credit Facilities.

Uncertainty of Dividends

The ability of CPPI to pay dividends and, if any, the level thereof, in the future is uncertain as it depends upon the operating cash flows generated by the Partnership and its subsidiaries, the financial requirements of CPPI, the General Partner and the Partnership and their respective subsidiaries, the satisfaction of solvency tests on the payment of dividends or other distributions pursuant to the BCBCA and other applicable laws and regulations, and contractual restrictions contained in the instruments governing any indebtedness of those entities, including restrictive covenants in the Credit Facilities.

In addition, CPPI's dividend policy and the distribution policy of the Partnership are subject to change at the discretion of the board of directors of CPPI or the board of directors of the General Partner, as applicable.

Market Price of CPPI Shares

Publicly traded shares such as CPPI Shares do not necessarily trade at prices determined solely by reference to the underlying value of their investments. Increases in market rates of interest may lead purchasers to demand a higher yield on the CPPI Shares, which may adversely affect their price. In addition, the market price for the CPPI Shares may be affected by changes in general market conditions, fluctuations in the markets for equity securities, taxation of CPPI or its dividends, and other factors beyond CPPI’s control.

Dilution of Existing Shareholders

CPPI is authorized to issue an unlimited number of CPPI Shares for such consideration and on such terms and conditions as shall be established by the board of directors of CPPI without the approval of CPPI Shareholders. CPPI Shareholders have no pre-emptive rights in connection with further issues of CPPI Shares. Additional CPPI Shares will be issued by CPPI in connection with the conversion of the Class B Exchangeable LP Units by Canfor into CPPI Shares, pursuant to the conversion rights attached thereto. See "Liquidity, Support and Security Holder Agreements — Exchange Agreement". Furthermore, CPPI may make future acquisitions or enter into financings or other transactions involving the issuance of securities of CPPI which may be dilutive.

Leverage and Restrictive Covenants in Agreements Relating to Indebtedness

The ability of CPPI and the Partnership and its subsidiaries to make distributions, pay dividends or make other payments or advances are subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the Credit Facilities). The degree to which the Partnership is leveraged can have important consequences to the CPPI Shareholders including: the Partnership’s ability to obtain additional financing for working capital could be affected, capital expenditures or acquisitions in the future may be limited; a significant portion of the Partnership’s cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes the Partnership to the risk of increased interest rates; and the Partnership may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors may increase the sensitivity of Adjusted Distributable Cash to interest rate variations.

The Credit Facilities contain restrictive covenants that limit the discretion of the Partnership's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Partnership to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans, and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facilities contain financial covenants that require the Partnership to meet certain financial ratios and financial condition tests. A failure by the Partnership to comply with the obligations in the Credit Facilities could result in a default which, if not cured or waived, could result in a termination of distributions by the Partnership and require accelerated repayment of the relevant indebtedness. If the repayment of indebtedness under the Credit Facilities were to be accelerated, there can be no assurance that the assets of the Partnership would be sufficient to repay in full that indebtedness. In addition, the Bank Facility will mature in 2011, the Hydro LOC Facility in 2011, and the Term Facility will mature in 2013. The Partnership will then be required to refinance this indebtedness or seek alternative financing arrangements. There can be no assurance that the Credit Facilities will be able to be refinanced or refinanced on acceptable terms or that future borrowings or equity financings will be available to the Partnership, or available on acceptable terms, in an amount sufficient to fund the Partnership's needs. This could, in turn, have a material adverse effect on the business, financial condition, and results of operations of the Partnership and the ability of CPPI to make dividend payments on its shares.

None of CPPI, it's predecessor organization the Fund, the Partnership or any of their respective subsidiaries, have received any type of stability rating, including any provisional rating, from any approved rating organizations for its outstanding securities.

Structural Subordination of the CPPI Shares

In the event of a bankruptcy, liquidation, or reorganization of the Partnership, holders of its indebtedness and its trade creditors will generally be entitled to payment of their claims from the assets of the Partnership before any assets are made available for distribution to CPPI. The units in the Partnership are junior in priority to the debt outstanding under the Credit Facilities and other liabilities (including trade payables) of the Partnership. The Partnership will generate all of CPPI's cash available for dividends and CPPI's only assets will comprise surplus cash and its ownership interest in the Partnership and the General Partner.

Future Sales of LP Units by Canfor

Canfor holds Class B Exchangeable LP Units which are exchangeable for approximately 50.2% of the outstanding CPPI Share on a fully-diluted basis. Canfor has also been granted certain registration rights by CPPI under the Exchange Agreement. See "Liquidity, Support and Security Holder Agreements — Exchange Agreement". If Canfor sells substantial numbers of CPPI Shares in the public market, the market price of the CPPI Shares could fall. The perception among the public that these net sales will occur could also contribute to a decline in the market price of the CPPI Shares.

Income Tax Matters

The Acquisition Agreement under which Canfor transferred the Mills and ancillary assets to the Partnership provides that Canfor and the Partnership will make elections under the Tax Act and corresponding provincial legislation, if applicable, to transfer such assets on a partially tax-deferred basis for income tax purposes. The cost to the Partnership of such assets for income tax purposes may, therefore, be less than their fair market value, such that the Partnership may realize greater taxable income on a future disposition of these assets than it would have, had it acquired the assets without such elections having been made. In addition, the Partnership's deductions for capital cost allowance and other tax deductions will be less than they would have been in the absence of a tax-deferred transfer.

Alternatively the CRA may seek to challenge the rollover, in whole or in part, in which case, if the CRA were successful, Canfor would be required to pay tax in respect of the transfer of the assets to the Partnership, the amount of which may be material.

Limitation on Potential Growth

The payout by the Partnership of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Partnership and its cash flow.

Risks Related to the Pulp 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. For example, during the last 10 years, the average annual Northern Europe list price for NBSK Pulp has ranged from a low of US$460 per ADMT in 2002 to a high of US$980[1] per ADMT in 2010.

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

In 2010, approximately 56% of the total fibre used by the Partnership was 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) or as a result of financial difficulties experienced by Canfor. For more information on the Fibre Supply Agreement see "The Pulp and Paper Business of the Partnership – Fibre Supply – Fibre Supply Agreement".

In addition, Canfor provides certain services to the Partnership under the Partnership Services Agreement. In the event that the Partnership is unable to derive those services from Canfor (for whatever reason), certain of those services would be difficult and/or more costly to obtain from third parties. Any reductions or loss of such services could have a materially adverse effect on the Partnership's business, assets, financial condition, results of operations, cash flows, liquidity, and/or Adjusted Distributable Cash. See the section entitled "Liquidity, Support and Security Holder Agreements - Partnership Services Agreement") for details of the Partnership Services Agreement.

[1] Source: RISI

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. Typically, wood chips are purchased in highly competitive, price-sensitive markets and these markets have historically exhibited price and demand cyclicality. 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. In addition, because the price paid for wood chips includes the cost of transporting the chips from the mills to the Partnership's production facilities, the cost of the wood chips is affected by the price of fuel, vehicle availability, and road and weather conditions. The Partnership is not always able to increase the selling prices of its products in response to increases in raw material costs. An inability to pass increased costs through to customers could have a material adverse effect on the Partnership's financial condition, results of operation and cash flow.

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. In the pulp industry, a large number of companies produce products that are reasonably standardized; therefore, a significant traditional basis for competition has been price. Other competitive factors are quality of product, reliability of supply and customer service. The Partnership's competitive position is influenced by the availability, quality, and cost of raw materials, energy and labour costs, free access to markets, currency exchange rates, plant deficiencies, and productivity in relation to its competitors.

Dependence on Key Customers

In 2010, the Partnership's top five customers accounted for approximately 36% of its pulp sales. The Partnership is therefore dependant on these customers. In the event that the Partnership cannot maintain these customers, or the demand from these customers is diminished for any reason in the future, there is a risk that the Partnership would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins and Adjusted 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. In addition, pulp capacity is constantly increasing as a result of improvements to existing mills. 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. In periods of excess capacity or reduced demand, which are characterized by lower pulp prices, 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 amended Cogeneration Agreement and the Energy Purchase Agreement (EPA) with BC Hydro, if the Cogeneration Project generates less than 338 GWh in any year, BC Hydro is entitled to be reimbursed for the shortfall by an amount equal to the average annual price paid for all energy exported through the EPA.

Under the agreement, the Partnership is required to post a standby letter of credit as security in annually decreasing amounts as the minimum required amount of electricity is generated.

As of December 31, 2010, the Partnership had no repayment obligation under the terms of the agreement and a standby letter of credit in the amount of $13.2 million has been issued to BC Hydro as security for future power generation commitments. This standby letter of credit is covered by a separate credit facility ("**Hydro LOC Facility**").

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's facilities contain complex and sophisticated machines that are used in its manufacturing processes. 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.

In addition, one or more of the Partnership's facilities could fully or partially cease operation unexpectedly due to a number of other events including, but not limited to: prolonged power failures; a chemical spill or release; explosion of a boiler; disruptions in transportation infrastructure (including roads, bridges, railroad tracks and tunnels); fires, floods, earthquakes or other catastrophes; terrorism or threats of terrorism.

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, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water and the health and safety of employees. If the Partnership is unable to extend or renew a material approval, licence or permit required by such laws, or if there is a delay in renewing any material approval, licence, or permit, the Partnership's business, financial condition, results of operations and cash flows could be materially adversely affected. The process of obtaining certain required approvals, including the completion of any necessary environmental impact assessments, can be lengthy, subject to public input, controversial and expensive. The Partnership's failure to comply with applicable environmental, health and safety regulations, including permits relating thereto, could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of equipment or remedial actions, any of which could result in significant expenditures or reduce results of operations. The Partnership believes that it is in substantial compliance with all applicable environmental, health and safety laws and regulations and the Partnership regularly incurs capital and operating expenditures to maintain such compliance. However, 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 additional expenditures or liabilities.

Capital Requirements

The pulp and paper industry is 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 anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures. However, if it requires additional funds, it may not be able to obtain them on favourable terms, or at all. In addition, the Partnership's debt service obligations reduce its available cash. If the Partnership cannot maintain or upgrade its equipment as is required or ensure environmental compliance, the Partnership could be required to cease or curtail some of its manufacturing operations, or the Partnership may become unable to manufacture products that can compete effectively in one or more of the Partnership's markets.

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

Canadian courts have recognized that aboriginal people may have unextinguished claims of aboriginal rights and title to lands used or occupied by their ancestors in those areas of British Columbia, constituting about 80% of the Province, where treaties have not yet been concluded. In those areas where treaties have been concluded, resource development may be affected by the exercise of treaty rights. Aboriginal rights may vary from limited rights of use for traditional purposes to a right of aboriginal title, depending upon, among other things, the nature and extent of the prior aboriginal use and condition. Much of the fibre used by the Partnership is sourced from areas that 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. In particular, a significant portion of the goods and raw materials the Partnership uses are transported by railroad, trucks, and ships. If any of the Partnership's third party transportation providers were to fail to deliver the goods or distribute them in a timely manner, the Partnership may be unable to sell those products at full value, or at all. Similarly, if any of those providers were to fail to deliver raw materials in a timely manner, the Partnership may be unable to manufacture its products. Any failure of a third-party transportation provider to deliver raw materials or finished products in a timely manner could harm the Partnership's reputation, negatively impact the Partnership's customer relationships, and have a material adverse effect on its financial condition and operating results.

Risks Associated with Future Acquisitions

The ability of the Partnership to pursue selective and accretive acquisitions will be dependent on management's ability to identify, acquire, and develop suitable acquisition targets in both new and existing markets but, in certain circumstances, acceptable acquisition targets might not be available. Acquisitions involve a number of risks, including the possibility that the Partnership, as successor owner, may be legally and financially responsible for liabilities of prior owners if indemnities are inapplicable or the former owner has limited assets; the possibility that the Partnership pays more than the acquired company or assets are worth; the additional expense associated with completing an acquisition and amortizing any acquired intangible assets; and the inability to successfully integrate acquired businesses into the Partnership. These risks and difficulties, if they materialize, could disrupt the Partnership's ongoing business, distract management, and otherwise have a material adverse effect on the

Partnership's business, assets, financial condition, results of operations, cash flows, and/or Adjusted Distributable Cash.

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. 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.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of CPPI consists of an unlimited number of common shares. As of the date of this AIF, there are 35,493,307 CPPI Shares issued and outstanding. In addition, as at the date of this AIF, there are 35,776,483 Class B Exchangeable LP Units outstanding, each of which is exchangeable at the option of the holder on a one-for-one basis (subject to adjustment) for CPPI Shares in accordance with the provisions of the Exchange Agreement. See "Liquidity, Support and Security Holder Agreements —Exchange Agreement".

The following is a summary of the rights, privileges, restrictions, and conditions attaching to the CPPI Shares.

Holders of CPPI Shares are entitled to one vote per share at meetings of shareholders of CPPI, to receive dividends if, as and when declared by the board of directors of CPPI and to receive *pro rata* the remaining property and assets of CPPI upon its dissolution or winding-up, subject to the rights of shares having priority over the CPPI Shares.

The 1940 Act imposes restrictions on the ownership of CPPI Shares. In order to ensure compliance with the 1940 Act, the articles of CPPI prohibit CPPI Shares from being held by or for the benefit of a person who resides, or appears to CPPI to reside, in the US (a "**US Person**") and who is not a Qualified Purchaser (the "**US Qualified Purchaser Restriction**"). The articles of CPPI also permit CPPI to refuse to register a transfer of a CPPI Share if the directors of CPPI believe that the transfer would result in a contravention of the US Qualified Purchaser Restriction. In addition, if CPPI becomes aware that the US Qualified Purchaser Restriction is, or may be, contravened, then CPPI may give notice (or cause notice to be given) to any US Person who holds CPPI Shares or any person who holds (or appears, at any time, to the Company to hold) CPPI Shares on behalf of a US Person requiring it to (a) provide a declaration in form and content satisfactory to CPPI that (i) the person is not a US Person and does not hold CPPI Shares for the benefit of any person who resides in the US and is not a Qualified Purchaser, or (ii) if the person is a US Person, that the person is a Qualified Purchaser and does not hold CPPI Shares for the benefit of any person who is not a US Qualified Purchaser or (b) sell its CPPI Shares. If such declaration is not provided or if CPPI is not satisfied that such person has sold all of the CPPI Shares held by such person within the period specified in the notice, then CPPI may, to the extent permitted by applicable law, arrange for the sale of such CPPI Shares on behalf of such holder.

DISTRIBUTIONS AND DIVIDENDS

Dividend Policy

The board of directors of CPPI has established as a dividend policy for CPPI that it will distribute, as quarterly dividends on the CPPI Shares, substantially all of the annual cash distributions received from the Partnership, less estimated cash amounts required for the payment of expenses and other obligations and any tax liability of CPPI. The board of directors of CPPI does not intend to accumulate material cash balances in CPPI. On December 10, 2010, the Fund announced that based on the Partnership's then current outlook for 2011, it is expected that the initial dividend rate for CPPI will be established at approximately $0.35 per share per quarter. The first quarterly dividend is expected to be declared on or about April 30, 2011, concurrent with the release of the first quarter results.

The board of directors of CPPI intend to designate dividends paid on CPPI Shares as "eligible dividends" for Canadian income tax purposes to the extent permitted by the Tax Act such that certain shareholders would benefit from the enhanced gross-up and dividend tax credit mechanism under the Tax Act.

Notwithstanding the foregoing, the amount of any dividends payable by CPPI will be at the discretion of the board of directors of CPPI from time to time and dependent upon distributions by the Partnership, financial requirements of CPPI, the satisfaction of solvency tests imposed by the BCBCA for the declaration of dividends and other conditions existing from time to time.

Distributions of the Partnership

The Partnership makes monthly cash distributions to holders of record of LP Units on the last Business Day of each month on their pro-rata portions of its Adjusted Distributable Cash. The board of directors of the General Partner have adopted a policy to initially distribute 90% of the annual Adjusted Distributable Cash of the Partnership, subject to applicable law and the covenants in the Credit Facilities, to the holders of the LP Units by way of monthly distributions, after:

- satisfying its debt service obligations, including principal and interest, such as interest accrued or payable in respect of drawings under the Credit Facilities, and paying its expenses and other obligations and liabilities (including taxes, if any);
- making provisions for capital expenditures in respect of the Partnership's assets; and
- retaining such reasonable working capital and other reserves as may be considered appropriate by the board of directors.

The Partnership may, in addition, make distributions at any other time.

Historical Distributions

CPPI has not declared or paid any dividends since its incorporation. CPPI is the successor to the Fund following the Conversion. As the Fund was an income trust, it did not pay dividends, however it did make distributions on the outstanding Fund Units. The table below sets out the cash distributions declared by the Fund for the last three completed years from January 1, 2008 until December 31, 2010, on a per Fund Unit basis.

Record Date	Monthly Distribution	Supplemental Distribution	Total Distribution	Date Paid
	$	$	$	
December 31, 2007	0.12	-	0.12	January 15, 2008
January 31, 2008	0.12	-	0.12	February 15, 2008
February 29, 2008	0.12	-	0.12	March 14, 2008
March 31, 2008	0.12	-	0.12	April 15, 2008

Record Date	Monthly Distribution	Supplemental Distribution	Total Distribution	Date Paid
April 30, 2008	0.12	-	0.12	May 15, 2008
May 30, 2008	0.12	-	0.12	June 13, 2008
June 30, 2008	0.12	-	0.12	July 15, 2008
July 31, 2008	0.12	-	0.12	August 15, 2008
August 29, 2008	0.12	-	0.12	September 15, 2008
September 30, 2008	0.12	-	0.12	October 15, 2008
October 31, 2008	0.12	-	0.12	November 14, 2008
November 28, 2008	0.12	-	0.12	December 15, 2008
December 31, 2008	0.04	-	0.04	January 15, 2009
January 30, 2009	0.04	-	0.04	February 13, 2009
February 27, 2009	0.01	-	0.01	March 13, 2009
March 31, 2009	0.01	-	0.01	April 15, 2009
April 30, 2009	0.01	-	0.01	May 15, 2009
May 31, 2009	0.01	-	0.01	June 15, 2009
June 30, 2009	0.01	-	0.01	July 15, 2009
July 31, 2009	0.01	-	0.01	August 14, 2009
August 31, 2009	0.01	-	0.01	September 15, 2009
September 30, 2009	0.01	-	0.01	October 15, 2009
October 31, 2009	0.01	-	0.01	November 13, 2009
November 30, 2009	0.05	-	0.05	December 15, 2009
December 31, 2009	0.08	-	0.08	January 15, 2010
January 29, 2010	0.08	-	0.08	February 15, 2010
February 26, 2010	0.12	-	0.12	March 15, 2010
March 31, 2010	0.12	-	0.12	April 15, 2010
April 30, 2010	0.12	-	0.12	May 14, 2010
May 31, 2010	0.20	-	0.20	June 15, 2010
June 30, 2010	0.20	-	0.20	July 15, 2010
July 30, 2010	0.22	-	0.22	August 13, 2010
August 31, 2010	0.22	-	0.22	September 15, 2010
September 30, 2010	0.25	-	0.25	October 15, 2010
October 29, 2010	0.25	-	0.25	November 15, 2010
November 30, 2010	0.25	-	0.25	December 15, 2010
December 31, 2010	0.25	0.30	0.55	January 14, 2011

MARKET FOR SECURITIES

The CPPI Shares are listed and posted for trading on the TSX under the symbol "CFX". The Fund Units (trading symbol "CFX.UN") were delisted from the TSX on January 6, 2011 upon the listing of the CPPI Shares in substitution therefore, following the completion of the Conversion.

Trading Price and Volume

Prior to the Conversion, the Fund Units were traded on the TSX under the symbol "CFX.UN". The following table shows the price ranges per Fund Unit, and the volume of Fund Units traded on the TSX for the most recently completed financial year of the Fund: January 1, 2010 to December 31, 2010.

2010 Month	High	Low	Volume
	$	$	(Fund Units)
January	8.85	7.86	1,800,177
February	10.62	7.47	3,348,835
March	12.75	10.30	4,786,205
April	15.59	11.79	3,403,666
May	16.69	12.31	6,528,600
June	15.68	13.92	2,344,480
July	14.86	13.06	2,552,759
August	13.96	12.18	2,797,943
September	15.34	13.39	3,388,892
October	16.68	13.88	4,585,696
November	16.70	15.56	2,659,820
December	16.27	13.40	5,356,354

DIRECTORS AND OFFICERS

Directors and Executive Officers of CPPI

The following table sets forth the name, place of residence and position for each of the directors and executive officers of CPPI, together with their principal occupations during the last five years and the number of CPPI Shares they held as at the date of this AIF.

Name and Province or State and Country of Residence	Position with CPPI [(4)]	Principal Occupation	Director of CPPI or Fund Trustee Since	Number of CPPI Shares Beneficially Owned or over which Control or Direction is Exercised
Stan E. Bracken-Horrocks, FCA[(1)(3)(4)] British Columbia, Canada	Director	Retired Partner of PricewaterhouseCoopers LLP	April 28, 2006	7,000
Donald W. Campbell[(1)(2)(4)] Québec, Canada	Director	Senior Strategy Advisor, Davis LLP	April 28, 2006	11,000
Charles J. Jago, Ph.D., C.M., [(1)(2)(3)(4)] British Columbia, Canada	Director	Chairman of the Board of Canfor Pulp Holding Inc., Chairman of the Board of Canfor Pulp Products Inc.	April 28, 2006	2,000
Joe Nemeth British Columbia, Canada	Director, President and Chief Executive Officer	President and Chief Executive Officer of Canfor Pulp Holding Inc.	N/A	56,584
Terry D. Hodgins, CA British Columbia, Canada	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary of Canfor Pulp Holding Inc.	N/A	21,473

(1) Member of Audit Committee of CPPI and the General Partner.
(2) Member of Governance Committee of the General Partner.
(3) Member of Compensation Committee of the General Partner.
(4) Prior to January 1, 2011 each of the directors of CPPI was a Trustee of the Fund.

Each of the directors of CPPI was appointed to serve until the close of the next annual meeting of shareholders or until he ceases to hold office, if sooner.

As at the date of this AIF, the directors and executive officers of CPPI as a group beneficially owned, or had control or direction over, directly or indirectly, 98,057 CPPI Shares, representing approximately 0.28% of the outstanding CPPI Shares.

Directors and Executive Officers of the General Partner

The following table sets forth the name, place of residence and position for each of the directors of the General Partner, together with their principal occupations during the last five years and the number of CPPI Shares they hold as at the date of this AIF:

Name and Province or State and Country of Residence	Position with the General Partner	Principal Occupation	Director of General Partner Since	Number of CPPI Shares Beneficially Owned or over which Control or Direction is Exercised
Charles J. Jago Ph.D., C.M.(1)(2)(3) British Columbia, Canada	Director and Chairman	Chairman of the Board of Canfor Pulp Holding Inc.	April 28, 2006	2,000
Peter J. G. Bentley, LL.D., O.C.(3) British Columbia, Canada	Director	Chairman Emeritus of the Board of Canfor Corporation	April 28, 2006	867,946
Stan E. Bracken-Horrocks, FCA, (1)(3) British Columbia, Canada	Director	Retired Partner of PricewaterhouseCoopers LLP	April 28, 2006	7,000
Donald W. Campbell(1)(2) Québec, Canada	Director	Senior Strategy Advisor, Davis LLP	April 28, 2006	11,000
Ronald L. Cliff, C.M., FCA, (1)(2) British Columbia, Canada	Director	Chairman, Canfor Corporation	April 28, 2010	46,826
Joe Nemeth (4) British Columbia, Canada	Director, President and Chief Executive Officer	President and Chief Executive Officer of Canfor Pulp Holding Inc., and Canfor Pulp Products Inc.	April 28, 2010	56,584
James F. Shepard, P.Eng. British Columbia, Canada	Director	President and Chief Executive Officer of Canfor Corporation	May 4, 2007	5,000
William W. Stinson(1)(3) British Columbia, Canada	Director	Chairman and Chief Executive Officer of Westshore Terminals Investment Corporation	February 17, 2009	95,000

(1) Member of Audit Committee.
(2) Member of Governance Committee.
(3) Member of Compensation Committee.
(4) Joe Nemeth was appointed as President and CEO of the General Partner on April 28, 2010. Prior to April 28, 2010, Mr. Nemeth was Vice President Sales and Marketing of the General Partner.

The term of office for each of the directors of the General Partner will expire at the time of the next annual meeting of the shareholders of the General Partner, unless earlier terminated.

The following table sets forth the name, place of residence and position for each of the executive officers of the General Partner, together with their principal occupations during the last five years and the number of CPPI Shares they hold as at the date of this AIF:

Name and Province or State and Country of Residence	Position with the General Partner	Principal Occupation	Position Held Since	Number of CPPI Shares Beneficially Owned or over which Control or Direction is Exercised
Joe Nemeth (1) British Columbia, Canada	Director, President and Chief Executive Officer	President and Chief Executive Officer of Canfor Pulp Holding Inc.	April 28, 2010	56,584
Terry D. Hodgins, CA British Columbia, Canada	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary of Canfor Pulp Holding Inc.	October 24, 2007	21,473
Sean Curran British Columbia, Canada	Vice President, Sales and Marketing	Vice President Sales and Marketing of Canfor Pulp Holding Inc.	May 01, 2010	5,200
Brett R. Robinson British Columbia, Canada	Vice President, Operations	Vice President, Operations of Canfor Pulp Holding Inc.	October 27, 2008	18,371

(1) Joe Nemeth was appointed as President and Chief Executive officer of the General Partner on April 28, 2010. Prior to April 28, 2010, Mr. Nemeth was Vice President Sales and Marketing of the General Partner.

As at the date of this AIF, the directors and executive officers of the General Partner as a group beneficially owned, or had control or direction over, directly or indirectly, 1,136,400 CPPI Shares, representing approximately 3.20% of the outstanding CPPI Shares.

Biographies

Set forth below are brief profiles of each of the directors and executive officers of CPPI, and directors and executive officers of the General Partner. Each of the directors and executive officers has been engaged for more than five years in his present principal occupation or in other capacities with the organization in which the person currently holds his principal occupation, except as set forth below.

Directors

Charles J. Jago, Ph.D., C.M.., of Prince George, British Columbia, Canada, was appointed to the Board of the General Partner on April 28, 2006. Dr. Jago has been a director of CPPI since December 10, 2010 and served as a trustee of the Fund from April 26, 2006 until January 1, 2011. Dr. Jago is Chairman of the General Partner and CPPI. Dr. Jago was President of the University of Northern British Columbia 1995-2006 and on an interim basis from 2008-09. Dr. Jago's professional service has included membership on the Boards of the Association of Universities and Colleges of Canada, the Association of Commonwealth Universities, the Office of Partnerships for Advanced Skills (OPAS) and Partnerships B.C. Dr. Jago has also served as Chair of the Council of Western University Presidents, The University President's Council of British Columbia, and the Northern BC United Way. He currently chairs the Boards of Northern Health Authority of British Columbia, Fraser Basin Council, Sinclair Group Lumber Products, and Canada West Foundation and he also serves as a member of the Board of Initiatives Prince George. Dr. Jago received his BA in Honours English and History from the University of Western Ontario in London, Ontario, graduated as the Honours gold medalist from Huron University College (an affiliated college of The University of Western Ontario), and received a PhD in History from Cambridge University. Dr. Jago was awarded the Queen's Jubilee Medal for community service in 2003 and the Order of Canada in 2006.

Dr. Jago is a member of the General Partner's Audit, Compensation, and Governance Committees.

Peter J.G. Bentley, LL.D., O.C., of Vancouver, British Columbia, Canada, was appointed to the Board of the General Partner on April 28, 2006. Mr. Bentley has served on the Board of Canfor Corporation since 1966. Mr. Bentley is Chairman Emeritus of the Board of Directors of Canfor Corporation. After working in various positions with Canfor Corporation, Mr. Bentley became Executive Vice-President in 1970, President in 1975, and Chairman and Chief Executive Officer ("CEO") in 1985, a position he held until April 24, 1995. Mr. Bentley was reappointed to the position of President and CEO of Canfor Corporation on July 25, 1997 and relinquished the position of President and CEO of Canfor Corporation on January 1, 1998. Mr. Bentley is President and a director of Sierra Mountain Minerals Inc. and a member of the Board of the Canadian Institute for Advanced Research, a member of the Advisory Board of BuildDirect.com and a Trustee and Chair Emeritus of the Vancouver General Hospital and University of British Columbia Hospital Foundation. He also served for many years as a director of Bank of Montreal and Shell Canada Ltd. Mr. Bentley retired as Chancellor of the University of Northern British Columbia in May 2007. Mr. Bentley holds an Honorary Doctorate of Laws degree from the University of British Columbia, and also from the University of Northern British Columbia.

Mr. Bentley chairs the General Partner's Compensation Committee and is a member of the Governance Committee.

Stan E. Bracken-Horrocks, FCA, of Kelowna, British Columbia, Canada was appointed to the Board of the General Partner on April 28, 2006. Mr. Bracken-Horrocks has been a director of CPPI since December 10, 2010 and served as a trustee of the Fund from April 26, 2006 until January 1, 2011. Mr. Bracken-Horrocks is a retired partner of PricewaterhouseCoopers LLP and held various leadership positions during his career with PricewaterhouseCoopers LLP, including Global Leader of its Forest and Paper Industry practice. As a member of the Canadian Institute of Chartered Accountants, Mr. Bracken-Horrocks served as a member of the Board of Governors and a member of the Accounting Standards Committee and, as a member of the Institute of Chartered Accountants of British Columbia, he served as a member of council, Vice-President and President. Mr. Bracken-Horrocks is a director and Chairman of the Audit Committee of the Business Development Bank of Canada.

Mr. Bracken-Horrocks chairs the General Partner's Audit Committee and is a member of the Compensation Committee.

Donald W. Campbell, of Montreal, Quebec, Canada was appointed to the Board of the General Partner on April 28, 2006 Mr. Campbell has been a director of CPPI since December 10, 2010, and served as a trustee of the Fund from April 26, 2006 until January 1, 2011. Mr. Campbell is Senior Strategy Advisor of Davis LLP, a position he has held since May, 2007. Previously he was Executive Vice President of CAE Inc. 2006 - 2007 and Group President, Military Simulation and Training Division, CAE 2000 - 2006. Prior to this position, Mr. Campbell served as Deputy Foreign Minister and as the Prime Minister's Personal Representative for G-8 Summits (1997-2000), Canada's Ambassador to Japan (1993-1997), Deputy Minister for International Trade (1989-1993) and Canada's Ambassador to Korea (1984-1985). Mr. Campbell is currently a director of Toyota Canada Inc., the Perimeter Institute, and Davie Yards Inc. Mr Campbell is a Distinguished Fellow of the Asia Pacific Foundation and the Canadian Chair of the Pacific Economic Cooperation Council. In April 1999, Mr. Campbell received the Outstanding Achievement Award of the Public Service of Canada from the Governor General and the Prime Minister. In 2003, Mr. Campbell was appointed by the Prime Minister as the Canadian co-chairman of the Canada-Japan Forum, an external advisory group established by the governments of Japan and Canada to provide advice and to promote the bilateral relationship between the two countries. Mr. Campbell is a graduate of Laurier University (Hon. B.A. Economics and Political Science) and holds Honorary Doctorate degrees from the University of Ottawa, Carleton University, and Laurier University. He is a graduate of the Institute of Corporate Directors programme of the University of Toronto and holds an ICD.D.

Mr. Campbell chairs the General Partner's Governance Committee, and is a member of the Audit Committee.

Ronald L. Cliff, C.M., FCA, of West Vancouver, British Columbia, Canada was appointed to the Board of the General Partner on April 28, 2010. Mr. Cliff is Chairman of the Board of Directors of Canfor Corporation and its subsidiary, Canadian Forest Products Ltd. Mr. Cliff is Chairman of Heathcliff Properties Ltd. He is also President of the Heathcliff Foundation. Mr. Cliff was Chairman and a director of BC Gas Inc. (now Terasen Inc.) from 1972 to 2002. He also served as a director of the Royal Bank of Canada and was a director and Chairman of Southam Inc. Mr. Cliff is a Trustee and Chairman Emeritus of the Vancouver Police Foundation; a Trustee of the VGH and UBC Hospital Foundation and the Chairman of the Vancouver Symphony Foundation. Mr. Cliff received his Commerce Degree from the University of British Columbia, and qualified as a Chartered Accountant in 1954.

Mr. Cliff is a member of the General Partner's Audit and Governance Committees.

Joe Nemeth of Langley, British Columbia, Canada was appointed to the Board of the General Partner on April 28, 2010. Mr. Nemeth has been a director of CPPI since December 10, 2010. Mr. Nemeth is the President and Chief Executive Officer of the General Partner and CPPI. From July 2006 until his appointment, Mr. Nemeth held the position of Vice President, Sales and Marketing of the General Partner, and from January 2003 until he joined the General Partner he held the position of Vice President, Pulp & Paper Marketing of Canadian Forest Products Ltd. Prior to joining Canadian Forest Products Ltd., Mr. Nemeth spent 14 years with Fletcher Challenge Canada (now Catalyst Paper Corporation) with his last two positions being Paper Mill Manager at Elk Falls and Vice-President, North American Newsprint Sales. Mr. Nemeth has a Master of Business Administration degree from the University of Western Ontario and a Bachelor of Forestry degree from the University of British Columbia.

James F. Shepard, P.Eng., of Vancouver, British Columbia, Canada was appointed to the Board of the General Partner on May 4, 2007. Mr. Shepard is President and Chief Executive Officer of Canfor Corporation. Mr. Shepard retired from Finning International Inc. in April 2000 after a 32-year career, including nine years as Chief Executive Officer (1991 to 2000). Mr. Shepard also served as Chairman of the Board of Finning International Inc., Chairman of the Board of MacDonald Dettwiler and Associates Inc., Vice-Chairman of the Conference Board of Canada, Vice-Chairman of the Business Council on National Issues, Honorary Chairman of Leadership Vancouver and is the past Chairman of the Executive Committee for the Business Council of B.C. He was founding Co-Chairman of the Business Summit of B.C. and is a member of The Conference Board, Inc., New York. Mr. Shepard is a former director of Imperial Oil Inc., and was the initial Chairman of the Cabinet of the Business Laureates of the B.C. Hall of Fame.

Mr. Shepard received a B.Sc. Degree in Civil Engineering from the University of British Columbia and is a member of the Association of Professional Engineers of B.C.

William W. Stinson, of Vancouver, British Columbia was appointed to the Board of the General Partner on February 17, 2009. Mr. Stinson spent the majority of his business career with Canadian Pacific Ltd. retiring as Chairman and CEO in 1996 after 11 years in that position. He has served on a wide variety of boards and has held the positions of Chairman of Sun Life Financial, Chairman of the Executive Committee of United Dominion Industries and Lead Director of CHC Helicopters Ltd. He is currently the Chairman and CEO of Westshore Terminals Investment Corporation.

Mr. Stinson is a member of the General Partner's Audit and Compensation Committees.

Executive Officers

Terry D. Hodgins, CA, is the Chief Financial Officer and Secretary of the General Partner and CPPI. From October 24, 2007 until February 18, 2008, he was the Interim Chief Financial Officer and Secretary of the General Partner. Mr. Hodgins was actively involved in the creation of the Partnership and the Fund in 2006. From April, 2004 to December, 2005, he was Vice President & Treasurer of Canfor Corporation, and from December, 2004 to August, 2005 he also served as Acting Chief Financial Officer of Canfor. Prior to joining Canfor, Mr. Hodgins was Vice President and Financial Officer of Slocan Forest Products. Mr. Hodgins has a Bachelor of Mechanical Engineering degree from the University of Saskatchewan and is a member of the Institute of Chartered Accountants of British Columbia.

Sean Curran was appointed Vice President, Sales and Marketing of the General Partner on May 1, 2010. Prior to this appointment, Mr. Curran was the Director, Global Pulp and Paper Sales for Canfor Pulp and Paper Sales Ltd. Mr. Curran previously held the position of Director, Americas Pulp Sales with Canadian Forest Products Ltd. from April, 2003, and then with Canfor Pulp and Paper Sales Ltd. from July, 2006. Before joining Canadian Forest Products Ltd., Mr. Curran held a number of senior management positions with Norske Skog Canada Ltd., Atlantic Newsprint Company, and C.P. Forest Products.

Brett R. Robinson was appointed Vice President, Operations of the General Partner on October 27, 2008. Mr. Robinson previously held the position of General Manager, Intercontinental and Prince George Pulp and Paper Mills of the General Partner. Over the past 19 years, he has held a variety of pulp and solid wood positions within the Northwood and Canfor organizations. Mr. Robinson has a Bachelor of Mechanical Engineering degree from the University of Manitoba and is a Registered Professional Engineer.

Committees of the Board of Directors of the General Partner

The Board of Directors of the General Partner has an Audit Committee, a Governance Committee (formerly the Nominating Committee), and a Compensation Committee.

Audit Committee

The purpose of the Audit Committee is to assist the board of directors in fulfilling its responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures; the adequacy of internal accounting and financial reporting controls and procedures; and the quality and integrity of financial statements of the Partnership. In addition, the Audit Committee will be responsible for directing the auditors' examination into specific areas of the Partnership.

Audit Committee Terms of Reference

The Board of Directors of the General Partner has approved the terms of reference for the Audit Committee on November 16, 2006 as is set out in Appendix A to this Annual Information Form.

Composition of the Audit Committee

The Audit Committee is composed of five members: Stan Bracken-Horrocks, Donald Campbell, Ronald Cliff, Charles Jago, and William Stinson. Each member of the Audit Committee is independent of each of CPPI and the Partnership and financially literate, as required under Multilateral Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience of the Audit Committee Members

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

(i) *Stan E. Bracken-Horrocks, FCA* chairs the Audit Committee. He has had many years of experience in public practice, as an accountant, an auditor, and as a partner of PricewaterhouseCoopers LLP. He held the position of global leader of the firm's Forest and Paper Industry practice prior to his retirement in 2005. Mr. Bracken-Horrocks has extensive experience in financial reporting, in assessing the quality and integrity of financial statements and the accounting principles used therein, in assessing financial reporting policies, procedures and internal controls, and in assessing the effectiveness – external and internal – of audits. He has served both as a member, as well as on the Board of Governors of the Accounting Standards Committee of the Canadian Institute of Chartered Accountants. He is a director and Chairman of the Audit Committee of the Business Development Bank of Canada.

(ii) *Donald W. Campbell* is a graduate of Laurier University (Hon. B.A. Economics and Political Science) and of the Institute of Corporate Directors programme of the University of Toronto. He is a director of Toyota Canada Inc., the Perimeter Institute, and Davie Yards Inc.

(iii) *Ronald Cliff, FCA* currently is Chairman of Canfor Corporation. He served as Chairman and a director of BC Gas Inc. (now Terasen Inc.), director of the Royal Bank of Canada, and director and Chairman of Southam Inc. Mr. Cliff has a Commerce Degree from the University of British Columbia, and qualified as a Chartered Accountant in 1954.

(iv) *Charles J. Jago* has received his Bachelor of Arts in Honours English and History from the University of Western Ontario and Ph.D. in history from Cambridge University. He was President of the University of Northern British Columbia 1995-2006, and on an interim basis from 2008-09. His professional service has included membership on the Boards of the Association of Universities and Colleges of Canada, the Association of Commonwealth Universities, and the Office of Partnerships for Advanced Skills. He has served as Chair of the Council of Western University Presidents and The University Presidents' Council of British Columbia and he is Chair of the Board of Fraser Basin Council.

(v) *William W. Stinson* spent the majority of his business career with Canadian Pacific Ltd. retiring as Chairman and CEO in 1996 after 11 years in that position. He has served on a wide variety of boards and has held the positions of Chairman of Sun Life Financial, Chairman of the Executive Committee of United Dominion Industries and Lead Director of CHC Helicopters Ltd. He is currently the Chairman and CEO of Westshore Terminals Investment Corporation.

Pre-approval Policies and Procedures

The Audit Committee has adopted a policy for the engagement of the external auditor for non-audit services, whereby the prior approval by the Chairman of the Audit Committee is required for all such services not exceeding $30,000 in value, and services exceeding such value required Audit Committee approval. All non-audit engagements of the auditor are reported to the Audit Committee.

The Audit Committee will also require and review a report from the external auditor, if deemed appropriate by the Audit Committee, of all relationships between the external auditor and its related entities and CPPI and the Partnership and their related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor’s professional judgment it is independent of CPPI and the Partnership and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee will also review steps taken by the external auditor to address any findings in any of the foregoing reviews.

Audit Fees

PricewaterhouseCoopers LLP has served as the Fund's and Partnership’s auditing firm since July 25, 2006. PricewaterhouseCoopers LLP has served as the auditor of CPPI since its incorporation on March 12, 2010. Fees payable by CPPI, the Fund, and the Partnership for the year ended December 31, 2010 to PricewaterhouseCoopers LLP and its affiliates are $731,170.

	Period ended December 31, 2010	**Period ended December 31, 2009**	**Period ended December 31, 2008**
Audit Fees	$ 481,755	$ 429,000	$ 429,000
Audit-Related Fees	126,000	126,000	146,000
Tax Fees	53,415	25,720	13,168
All Other Fees	70,000	21,416	12,416
	$ 731,170	$ 602,136	$ 600,584

The nature of each category of fees is described below:

Audit Fees – for the audit of CPPI's, the Fund’s and the Partnership’s financial statements and services normally provided by the principal auditor in connection with the Fund’s statutory filings.

Audit Related Fees – for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements that are not reported in Audit Fees, including accounting consultations, interim review work, and various agreed upon procedures, but excluding travel costs and other disbursements.

Tax Fees – for tax compliance, tax advice and tax planning services.

All Other Fees – for other services, including IFRS advisory services.

Governance Committee

Peter Bentley, Donald Campbell, Ronald Cliff, and Charles Jago are members of the Governance Committee. The Governance Committee is responsible for making recommendations to the board of directors in respect of corporate governance principles and the roles of the board of directors and its committees, and for ensuring that the Partnership’s governance practices comply with regulatory requirements and that disclosures are made as required. In addition, the committee is responsible for proposing candidates for election to the board of directors of the General Partner and CPPI.

Compensation Committee

Peter Bentley, Stan Bracken-Horrocks, Charles Jago, and William Stinson are members of the Compensation Committee. The purpose of the Compensation Committee is to make recommendations to the board of directors on, among other things, executive compensation, including the compensation of the Partnership’s President and Chief Executive Officer, and to review other aspects of executive compensation. The committee also assists the board of directors in complying with securities laws relating to the disclosure of executive compensation.

Planning Committee

Peter Bentley, Donald Campbell, Charles Jago, and William Stinson were members of the Planning Committee. The focus of the Planning Committee was to consider various mid to long-term strategic issues confronting the Partnership including succession, growth, and energy. During 2010 the roles and responsibilities of the Planning Committee were transferred to the Governance Committee, and the Planning Committee was wound up.

Independent Review Process

Any material commercial transaction that the General Partner or any subsidiary of the Partnership proposes to enter into with Canfor or any of its affiliates, and any material amendment of the terms of any material contract between the General Partner or any subsidiary on the one hand, and Canfor or any of its affiliates on the other hand, entered into prior to January 1, 2011 must be considered and approved by a majority of the Independent Directors of the General Partner who are not also directors, officers, or employees of Canfor or any of its affiliates (other than the General Partner or any of its subsidiaries).

Corporate Cease Trade Orders or Bankruptcies

No director, executive officer of CPPI or the General Partner or shareholder holding a sufficient number of securities of the CPPI to affect materially the control of CPPI, is, or within the 10 years before the date of this AIF has been, a director or officer of any other issuer that, while such person was acting in that capacity:

(i) was the subject of a cease trade or similar order or an order that denied such other issuer access to any exemptions under Canadian securities legislation that was in effect for a period of more than 30 consecutive days; or

(ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the issuer being the subject of a cease trade order or similar order or an order that denied the relevant issuer access to any exemption order under Canadian securities legislation, that was in effect for a period of more than 30 consecutive days; or

(iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

other than:

- Mr. Don Campbell was a director of Rutter Inc. ("Rutter"), which voluntarily requested a management cease trade order ("MCTO") as a result of Rutter's delay in filing its audited annual financial statements, CEO and CFO certifications, MD&A and annual information form for the year ended August 31, 2008 (the "Required Filings"). Rutter attributed this delay to the lack of final agreement on a potential restructuring of the debt with Rutter's principal lender. The Ontario Securities Commission ("OSC") issued a temporary MCTO on December 2, 2008 which prohibited the then current Chief Executive Officer of Rutter (the "Rutter CEO") and Chief Financial Officer of Rutter (the "Rutter CFO") from trading in or acquiring securities of Rutter for a period of 15 days. The OSC issued a permanent MCTO on December 16, 2008, prohibiting the Rutter CEO and Rutter CFO from trading in or acquiring securities of Rutter until the earlier of two (2) full business days after the Required Filings were received by the OSC, or a further order of the OSC (in the case of the permanent MCTO). The Required Filings were made on or about January 12, 2009 and the permanent

MCTO was subsequently lifted. Neither the temporary nor the permanent MCTO were imposed on Mr. Campbell. Mr. Campbell ceased to be a director of Rutter on January 15, 2010.

- Mr. Campbell was a director of Mecachrome International Inc. ("Mecachrome") from July, 2007 to December, 2009. Between December 2008 to 2009, Mecachrome obtained creditor protection from the Quebec Superior Court under the Companies Creditors Arrangement Act (Canada). In December, 2009, Mecachrome completed its financial restructuring and reorganization process. Mr. Campbell ceased to be a director in December 2009.

- Mr. Campbell was a director of ExelTech Aerospace Inc. ("ExelTech"). On February 4, 2010, ExelTech filed a notice of intention (NOI) to file a proposal under the Bankruptcy and Insolvency Act (Canada), seeking protection from its creditors. On February 9, 2010, the Superior Court of Quebec appointed RSM Richter Inc. as interim receiver of the assets of ExelTech Canada Inc., a wholly-owned subsidiary of ExelTech. ExelTech was declared bankrupt in May 2010, and Mr. Campbell ceased to be a director.

- Mr. Campbell is a director of Davie Yards Inc. ("Davie"). On February 25, 2010, Davie filed for creditor protection under the Companies' Creditors Arrangement Act (Canada) with the Quebec Superior Court.

- Mr. Stinson was a director of Grant Forest Products Inc. ("Grant"). On June 25, 2009, Grant obtained creditor protection from the Ontario Superior Court under the Company Creditors Agreement Act (Canada). Mr Stinson ceased to be a director on June 30, 2010.

- Messrs. Bentley and Shepard, each of whom were directors or officers of HSPP General Partner Ltd., general partner of Howe Sound Pulp and Paper Limited partnership ("HSLP"), during the period of January 29 to February 1, 2008 when HSLP completed a restructuring under the Companies Creditors Arrangement Act (Canada), and on January 27, 2011, when 6382 Pulp and Paper Limited Partnership (formerly HSLP) (“6382 LP”) voluntarily filed for bankruptcy under the Bankruptcy and Insolvency Act (Canada) (the “BIA”) after the sale of substantially all of its assets to a third party effective October 1, 2010. 6382 LP intends to file a proposal under the BIA in February 2011.

Personal Bankruptcies

No director, officer of CPPI or the General Partner or shareholder of CPPI holding a sufficient number of the CPPI’s securities to affect materially the control of CPPI has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Penalties or Sanctions

No director, officer of CPPI or the General Partner or shareholder of CPPI holding a sufficient number of CPPI’s securities to affect materially the control of CPPI has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or has entered into a settlement agreement with a Canadian securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Except as otherwise disclosed in the section "Interests of Management and Others in Material Transactions" and elsewhere in this AIF, no director or officer of CPPI, the General Partner, the

Partnership or any of their subsidiaries, nor any associate or affiliate of the foregoing persons, has any existing or potential material conflicts of interest with CPPI, the General Partner, the Partnership or any of their subsidiaries.

LIQUIDITY, SUPPORT AND SECURITY HOLDER AGREEMENTS

Exchange Agreement

On completion of the Conversion on January 1, 2011, CPPI entered into the Exchange Agreement with CFP, the General Partner, and the Partnership. The Exchange Agreement is on substantially the same terms as, and replaces the previous exchange agreement between the Fund, the Trust, CFP, the General Partner, and the Partnership dated as of July 01, 2006, which was terminated on January 1, 2011. The following is a summary of certain provisions of the Exchange Agreement, which summary is not intended to be complete. Reference is made to the Exchange Agreement at www.sedar.com for the full text of its provisions.

Under the Exchange Agreement, CFP (or any transferee of GP Shares and Class B Exchangeable LP Units other than CPPI who becomes a party to the Exchange Agreement) (each such holder of GP Shares and Class B Exchangeable LP Units an "**Exchangeable Securityholder**") is entitled to exchange its holdings of Class B Exchangeable LP Units and GP Shares for CPPI shares on the basis of one CPPI Share in exchange for one Class B Exchangeable LP Unit and one GP Share, subject to adjustment. Alternatively, at the Exchangeable Securityholder's election, Class B Exchangeable LP Units and GP Shares may be exchanged for a cash payment equal to the net proceeds of an underwritten offering of the applicable number of CPPI Shares, subject to CPPI's ability to complete an underwritten offering of the applicable number of shares on terms acceptable to CPPI's Board of Directors and the relevant Exchangeable Securityholder(s). The Exchange Agreement contains customary anti-dilution provisions to preserve the economic equivalence of one Class B Exchangeable LP Unit and one GP Share with one CPPI Share.

Under the Exchange Agreement, CPPI agrees not to take, directly or indirectly, any of the following actions without the prior written approval of the board of directors of the General Partner: (a) make any investment (whether or not for consideration) in any person other than the General Partner or the Partnership; (b) issue any CPPI Shares or other securities or repurchase outstanding CPPI Shares or other securities other than pursuant to the exercise of the liquidity and exchange rights granted to an Exchangeable Securityholder under the Exchange Agreement; or (c) issue any debt securities or guarantee the indebtedness of any third party.

The Exchange Agreement provides that CPPI will, at the request of CFP (or any assignee of its rights) on up to 10 occasions qualify for distribution under Canadian provincial and territorial securities laws all or any portion of CPPI Shares owned, directly or indirectly, by CFP (or its assignee), subject to certain restrictions, including only one prospectus offering per 6 month period and a $25 million minimum offering size. The agreement also provides CFP (or any assignee of its rights) with "piggy-back" registration rights, subject to certain restrictions, requiring CPPI to qualify for distribution under applicable securities laws all or any portion of CPPI Shares owned, directly or indirectly, by CFP (or its assignee) in the event that CPPI proposes to qualify CPPI Shares for distribution. The costs of any public offerings of CPPI Shares owned, directly or indirectly, by CFP (or its assignee), will be borne by CFP (or its assignee). CPPI will indemnify, or contribute to any amount paid or payable by, CFP (or its assignee) for certain losses, claims, damages or liabilities incurred in connection with any qualification for distribution of CPPI Shares.

The Exchange Agreement may be assigned, in whole or in part, by CFP (upon notice to CPPI) to any transferee of Class B Exchangeable LP Units and GP Shares, other than CPPI. The Exchange Agreement will terminate on the date that CPPI has acquired, directly or indirectly, all of the outstanding Class B Exchangeable LP Units or upon the agreement of all of the holders of Class B Exchangeable LP

Units.

Shareholders’ Agreement

On completion of the Conversion on January 1, 2011, CPPI entered into the Shareholders' Agreement with respect to the General Partner with CFP, the General Partner, and the Partnership. The Shareholders' Agreement supersedes and replaces the amended and restated shareholders' agreement dated as if October 26, 2009 between CFP, the General Partner, the Partnership, the Fund, and the Trust. The following is a summary of certain provisions of the Shareholders’ Agreement, which summary is not intended to be complete. Reference is made to the Shareholders’ Agreement on file at www.sedar.com for the full text of its provisions.

Board. The Shareholders’ Agreement provides that if Canfor holds, directly or indirectly, a Partnership Interest of 30% or more, then, subject to the minimum and maximum number of directors set out in the articles of the General Partner, the board of directors of the General Partner shall be comprised of such number of directors as Canfor may determine from time to time. If CPPI holds, directly or indirectly, a Partnership Interest of more than 70%, then the board of directors of the General Partner shall be comprised of such number of directors as CPPI may determine from time to time (subject to the minimum and maximum number of directors set out in the articles of the General Partner). If Canfor holds, directly or indirectly, not less than a 30% Partnership Interest, Canfor is entitled to appoint such number of directors as Canfor may determine (subject to a maximum equal to the maximum number of directors less the number of directors of CPPI from time to time), a majority of whom must be "resident Canadians" (as defined in the CBCA). This effectively allows Canfor to appoint the majority of directors of the General Partner for so long as it holds, directly or indirectly, a Partnership Interest of not less than 30%. If Canfor’s Partnership Interest falls below 30%, but is not less than 20%, Canfor is entitled to appoint 49% of the number of directors of the General Partner (rounded down to the nearest whole number but subject to a minimum of two (two of whom must be "resident Canadians"); if Canfor’s Partnership Interest falls below 20%, but is not less than 10%, Canfor is entitled to appoint such number of directors as provide Canfor with representation on the board of directors of the General Partner as is commensurate with its interest but subject to a minimum of two directors (one of whom must be a "resident Canadian"); if Canfor’s Partnership Interest falls below 10%, but is not less than 5%, Canfor is entitled to appoint one director (who does not need to be a "resident Canadian"); and if Canfor’s Partnership Interest falls below 5%, Canfor will cease to have any right to appoint directors of the General Partner. The Shareholders’ Agreement permits CPPI to appoint the balance of the directors of the General Partner, provided that CPPI is entitled to appoint not less than three directors and its nominees shall include all of the directors of CPPI.

Committees of the Board. The Shareholders’ Agreement provides that the board of directors of the General Partner will have an audit committee, a nominating committee (the Governance Committee), a compensation committee, and such other committees as may be determined from time to time by the board of directors of the General Partner. Each of the committees will consist of at least three members. Canfor is entitled to appoint one of the members of each of the committees for so long as it holds at least a 10% Partnership Interest and the chair of the Audit Committee shall be a person acceptable to Canfor for so long as Canfor holds at least a 20% Partnership Interest. The balance of the members of each committee will be appointed by the board of directors of the General Partner.

Nomination of Board of Directors members of CPPI. The number of CPPI directors is equal to the number of directors CPPI is entitled to appoint as directors of the General Partner. The number of CPPI directors is three, consisting of Stan Bracken-Horrocks, Donald Campbell and Charles Jago. A majority of CPPI directors must be Canadian citizens resident in Canada. The board of directors of the General Partner, after considering the recommendation of the nominating committee, is entitled to propose the nominees for election as directors of CPPI. All nominees for election as a director of CPPI proposed by the board of directors of the General Partner shall be Independent Directors. CPPI Shareholders are not required to vote in favour of these nominees, and may elect CPPI directors as they see fit. The chair of the board of the board of directors of CPPI shall be appointed by the CPPI directors from among the directors of CPPI who are Independent Directors.

Transfers. The Shareholders' Agreement provides that no transfer of GP Shares to any person (whether such person already holds, directly or indirectly, GP Shares or otherwise) will be permitted (other than pursuant to the exercise of the liquidity rights or exchange rights under the Exchange Agreement) unless the transferor transfers (or causes to be transferred, where such interest is held indirectly) an identical number of LP Units concurrently to the same person and such person agrees to be bound by the provisions of the Shareholders' Agreement. Any purported transfer by a shareholder of any GP Shares without a transfer of an identical number of LP Units held by that shareholder will be void to the maximum extent permitted by law. The Shareholders' Agreement permits the pledge of GP Shares and LP Units to a bank or other financial institution for the purpose of securing borrowings, subject to certain restrictions.

Assignment. The Shareholders' Agreement may not be assigned by any party without the written consent of all of the other parties to the agreement, except by Canfor to an affiliate of Canfor which agrees to be bound by the Shareholders' Agreement. However, such affiliate is only entitled to exercise Canfor's rights to appoint members of the board of directors of the General Partner and members of committees of the board of the General Partner and to approve certain matters (as described under "Shareholders' Approval for Certain Matters" below) for so long as it remains an affiliate of Canfor.

Share Issuance and Pre-emptive Rights. The Shareholders' Agreement provides that, subject to certain limited exceptions, if the Partnership authorizes the issuance of additional LP Units, or securities convertible into LP Units, it shall offer to sell to Canfor and to CPPI such LP Units or securities convertible into LP Units in proportion to their respective then current direct or indirect Partnership Interests. The Shareholders' Agreement also provides that, subject to certain limited exceptions, if CPPI authorizes the issuance of additional CPPI Shares or securities convertible into CPPI Shares, then it shall offer to sell to Canfor such CPPI Shares or other securities, as the case may be, in proportion to Canfor's then current direct or indirect Partnership Interest. Canfor may exercise its pre-emptive right to acquire CPPI Shares, in whole or in part, by either purchasing additional CPPI Shares or purchasing an equivalent number of additional LP Units or GP Shares.

These pre-emptive rights also apply in respect of the issuance of certain non-bank indebtedness by CPPI or the Partnership.

Take-Over Bids. The Shareholders' Agreement provides that Canfor shall not transfer any GP Shares or LP Units, other than to one or more of its affiliates in accordance with the terms of the Shareholders' Agreement or to CPPI in accordance with the Exchange Agreement, unless (a) the transferee would not be required under applicable securities legislation as a result of such transfer to make an offer to all holders of CPPI Shares to acquire such shares on the same terms and conditions if, immediately prior to such transfer, all outstanding Class B Exchangeable LP Units and the same number of GP Shares had been exchanged for CPPI Shares in accordance with the terms of the Exchange Agreement, or (b) the transferee makes a contemporaneous offer to CPPI Shareholders for CPPI Shares on the same terms (in terms of price, timing and proportion of securities sought to be acquired) and conditions and does not acquire such GP Shares or Class B Exchangeable LP Units unless the transferee also acquires a proportionate number of CPPI Shares tendered to such offer, if any.

Shareholders' Approval for Certain Matters. The Shareholders' Agreement provides that, so long as Canfor's Partnership Interest is not less than 20%, the General Partner shall not, either on its own behalf or on behalf of the Partnership, without the affirmative vote of the majority of the board of directors of the General Partner and the written consent of Canfor as a shareholder of the General Partner:

(a) enter into any merger, amalgamation, consolidation, business combination, joint venture or other material corporate transaction, including the acquisition of property or assets with a fair market value in excess of $25 million;

(b) adopt any plan or proposal for a complete or partial liquidation or dissolution or any reorganization or commence any case, proceeding, or action seeking relief under any laws relating to bankruptcy or insolvency;

(c) take, or permit to be taken, any action that would prevent the Pulp Business, as it exists on January 1, 2011, from continuing on an ongoing basis;

(d) change the size of the board of directors of the General Partner;

(e) enter into any agreement or make any offer or grant any right capable of becoming an agreement to allot or issue a number of GP Shares and LP Units or any combination of the foregoing, in each case where the aggregate number of GP Shares and LP Units to be issued or allotted exceeds 5% of the total number of such securities then outstanding;

(f) enter into any agreement or make any offer or grant any right capable of becoming an agreement to allot or issue any shares or units of a subsidiary of the General Partner to any person other than the General Partner or one of its wholly-owned subsidiaries;

(g) take any action which could reasonably be expected to lead to or result in a material change in the nature of the business of the Partnership;

(h) sell, lease, exchange, or dispose of property or assets with a fair market value in excess of $25 million, other than the sale or disposition of inventory in the ordinary course of business;

(i) take, hold, subscribe for or agree to purchase or acquire shares in the capital of any body corporate with a fair market value in excess of $25 million;

(j) enter into a partnership or any arrangement for a sharing of profits, union of interests, joint venture or reciprocal concession with any person if the aggregate fair market value of the assets contributed and liabilities assumed by the Partnership in connection therewith either exceeds on formation, or at any time in the future could reasonably be expected to exceed, $25 million;

(k) directly or indirectly participate in any business other than the pulp and paper business; or

(l) make any commitment or agreement to do any of the foregoing.

Canfor is entitled to provide or withhold its written consent to any such action in its sole discretion, and shall have no obligation to consider the interests of CPPI in doing so.

Term. The Shareholders' Agreement will continue in force until the earlier of (a) the date on which it is terminated by the written agreement of all the shareholders of the General Partner; or (b) the date on which CPPI holds, directly or indirectly, greater than 95% of the outstanding GP Shares. The restrictions on transfer of the GP Shares and the LP Units will survive the termination of the Shareholders' Agreement, so long as there is more than one shareholder of the General Partner.

Partnership Services Agreement

On July 01, 2006, Canfor and the Partnership entered into the Partnership Services Agreement, pursuant to which Canfor provides the Partnership with certain specified services. The services provided by Canfor include corporate secretarial, financial, internal audit, maintenance, inventory, and purchasing systems, hourly payroll and time entry systems, production tracking systems and software and technology support. Canfor does not receive a fee for the provision of these services but receives a reimbursement for its direct and indirect costs and expenses. The Partnership Services Agreement is terminable, in whole or in part, at the election of the General Partner or Canfor, upon 12 months' written notice.

Support Agreement

On completion of the Conversion on January 1, 2011, CPPI, the Partnership and the General Partner entered into the Support Agreement under which the Partnership agreed, subject to the supervision of the board of directors of CPPI, where applicable, to provide or arrange for the provision of certain administrative and support services to CPPI, including those necessary to (a) effect CPPI's compliance with continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements; (b) provide investor relations services; (c) provide or cause to be provided to shareholders all information to which shareholders are entitled; (d) assist in the calling and holding of meetings of shareholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (e) provide for the preparation of calculations to assist the CPPI directors in determining the distributions to shareholders; and (f) provide general accounting, bookkeeping and administrative services.

Unless terminated earlier in accordance with its terms, the Support Agreement will terminate upon CPP ceasing to own, directly or indirectly, any interest in the Partnership. In addition, the Support Agreement may be terminated by the Partnership if CPPI is in material breach of its obligations under the Support is Agreement (such breach not having been cured within 30 days of receipt of notice thereof) or by CPPI upon at least 30 days' notice. Either the Partnership of CPPI may terminate the Support Agreement if the other institutes or consents to the institution against it of any bankruptcy, insolvency or similar proceedings, or makes a general assignment for the benefit of its creditors, or a liquidator, trustee in bankruptcy, receiver or receiver manager is appointed over a substantial or material part of its assets. On or before termination of the Support Agreement, CPPI shall pay to the Partnership all costs and expenses incurred by the Partnership in terminating contracts entered into by it with third parties (provided such contracts were approved by CPPI, as the case may be) for the performance by the Partnership of its duties under the Support Agreement or, at the election of CPPI, assume the obligations of the Partnership under such contracts.

The Partnership will pay all expenses incurred by it and attributable to the exercise of its duties in the administration of CPPI. CPPI will reimburse all the expenses incurred by the Partnership on CPPI's behalf and pay the Partnership an annual fee not to exceed $100,000.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal or regulatory proceedings to which CPPI, the General Partner, the Partnership, the Fund or the Trust is or was a party, or to which any of the property of any them is or was the subject of, during the Fund's financial year ended December 31, 2010, where such claims exceed 10% of the current assets of CPPI. In addition, there are no penalties or sanctions imposed against CPPI, the General Partner, the Partnership, the Fund or the Trust by a court relating to Canadian securities legislation or by a securities regulatory authority during the Fund's financial year ended December 31, 2010 or any other penalties or sanctions imposed by a court or regulatory body against any of them which would likely be considered important to a reasonable investor in making an investment decision, and none of them have entered into any settlement agreements with a court relating to Canadian securities legislation or by a securities regulatory authority during the Fund's financial year ended December 31, 2010.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out under "Material Contracts" or described elsewhere in this AIF, none of the directors or executive officers of (a) CPPI, the Partnership, the General Partner, or Canfor, or (b) any person or company that beneficially owns, or controls or directs, directly or indirectly more than 10% of the CPPI Shares, or (c) any associate or affiliate of the persons or companies referred to in (a) or (b), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or is reasonably expected to materially affect CPPI, the General Partner, the Partnership or any of their subsidiaries.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the CPPI Shares is CIBC Mellon Trust Company at its principal transfer offices located in Vancouver, Toronto, Montreal, Calgary, and Halifax.

MATERIAL CONTRACTS

The only material contracts entered into by CPPI, or the Partnership, other than in the ordinary course of business, are as follows:

1. the Partnership Agreement referred to under "Description of Legal Structure —The Partnership" and "Description of Legal Structure —The General Partner";

2. the Shareholders' Agreement referred to under "Liquidity, Support and Security Holder Agreements —Shareholders' Agreement";

3. the Exchange Agreement referred to under "Liquidity, Support and Security Holder Agreements —Exchange Agreement";

4. the Fibre Supply Agreement referred to under "The Pulp and Paper Business of the Partnership —Fibre Supply —Fibre Supply Agreement";

5. the Cogeneration Agreement, and amended Cogeneration Agreement referred to under "The Pulp and Paper Business of the Partnership —Energy —Cogeneration Agreement", and under "Risk Factors —Risks Related to the Pulp Business and Industry —Obligations to BC Hydro";

6. the Chemical Supply Agreement referred to under "The Pulp and Paper Business of the Partnership —Chemicals";

7. the Support Agreement referred to under "Liquidity, Support and Security Holder Agreements —Support Agreement";

8. the Partnership Services Agreement referred to under "Liquidity, Support and Security Holder Agreements —Partnership Services Agreement";

9. a note purchase agreement dated November 30, 2006 (the "Term Facility") between the Partnership and certain institutional investors in the United States under which the Partnership sold US$110 million of unsecured notes (the "**Notes**"). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

   The Term Facility requires compliance with covenants that could, in certain circumstances, restrict the Partnership's ability to incur additional indebtedness, make distributions to partners, dispose of assets, or require the pledging of assets to the lenders as security. The principal financial covenants require that, on a quarterly basis, the Partnership's Net Debt/EBITDA ratio remains at less than 3.25:1 and Interest/EBITDA ratio remains at greater than 2.5:1.

10. a $40 million unsecured bank credit facility (the "**Bank Facility**"), referred to under "Risk Factors – Risks related to the Structure of Canfor Pulp Products Inc.– Leverage and Restrictive Covenants in Agreements Related to Indebtedness". The Bank Facility was entered into on September 30, 2009 and matures on November 30, 2011.

    The Bank Facility bears interest and fees at rates that vary depending on prevailing market rates. The leverage ratio and the interest coverage ratio covenants under the Bank Facility remain consistent with the financial covenants under the Term Facility.

11. a Standby Letter of Credit secured by a credit facility to BC Hydro under the amended Cogeneration Agreement (the "**Hydro LOC Facility**"), referred to under "Risk Factors – Risks related to the Structure of Canfor Pulp Products Inc. – Leverage and Restrictive Covenants in Agreements related to Indebtedness", and under "Risk Factors – Risks Related to the Pulp Business and Industry – Obligations to BC Hydro". This Standby Letter of Credit is currently issued for $13.2 million and the facility expires on November 30, 2011.

12. the Labour Agreements referred to under "The Pulp and Paper Business of the Partnership – Human Resources". The Labour Agreements are for terms of four years expiring on April 30, 2012.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP are auditors of CPPI and the Fund and have advised that they are independent with respect to CPPI and the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of January 31, 2011.

ADDITIONAL INFORMATION

Additional information relating to CPPI and the Fund may be found on the System for Electronic Documents Analysis and Retrieval (SEDAR) at www.sedar.com and on the Partnership's web site at www.canforpulp.com.

Additional information, including trustees', directors' and officers' remuneration and indebtedness, principal holders of CPPI's securities and securities authorized for issuance under equity compensation plans, if applicable, are contained in CPPI's information circular for its most recent annual meeting of shareholders that involves the election of directors. Additional financial information is provided in the Fund's financial statements and management's discussion and analysis for the periods ended December 31, 2010.

CPPI will, upon request to the Secretary of Canfor Pulp Products Inc., 230 - 1700 West 75th Avenue, Vancouver, British Columbia V6P 6G2, provide to any person or company, the documents specified below:

(a) when CPPI is in the course of a distribution of its securities under a short form prospectus, or has filed a preliminary short form prospectus in respect of a proposed distribution of its securities:

    (i) one copy of CPPI's latest annual information form, together with one copy of any document or the pertinent pages of any document, incorporated therein by reference;

(ii) one copy of the comparative consolidated financial statements of the Fund or CPPI, as applicable, for the most recently completed financial year for which financial statements have been filed, together with the auditors' report thereon, and one copy of any interim financial statements of CPPI for any period after its most recently completed financial year;

(iii) one copy of the information circular of the Fund or CPPI, as applicable, in respect of its most recent annual meeting of securityholders that involved the election of trustees or directors, as applicable, or one copy of any annual filing prepared instead of that information circular, as appropriate; and

(iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under subparagraphs (i) to (iii); or

(b) at any other time, CPPI shall provide to any person or company one copy of any of the documents referred to in subparagraphs (a)(i), (ii) and (iii) above, provided that CPPI may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of CPPI’s securities.

GLOSSARY OF TERMS

In this Annual Information Form, the following terms shall have the meanings set forth below, unless otherwise indicated:

"**Acquisition**" means the transfer of the Pulp Business from CFP to the Partnership;

"**AAC**" means allowable annual cut;

"**Adjusted Distributable Cash**" means, for any given period, 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.

"**amended Cogeneration Agreement**" means, the Cogeneration Agreement plus the amendments made to this agreement as of September 15, 2009;

"**ADMT**" means an air-dried metric tonne;

"**AIF**" means this Annual Information Form;

"**Bank Facility**" means a $40 million bank credit facility entered into by the Partnership on September 30, 2009, and maturing on November 30, 2011;

"**BCBCA**" means the *Business Corporations Act* (British Columbia) as amended from time to time, including all regulations thereunder;

"**Business Day**" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in Vancouver, British Columbia for the transaction of banking business;

"**Canfor**" means Canfor Corporation, a company incorporated under the laws of British Columbia and, unless otherwise indicated or the context otherwise requires, includes its subsidiaries and interests in joint ventures and other entities or any two of them or more, collectively;

"**CBCA**" means the *Canada Business Corporations Act*, as amended, and the regulations thereunder;

"**CDS**" means The Canadian Depository for Securities Limited;

"**CFP**" means Canadian Forest Products Ltd., a wholly-owned subsidiary of Canfor, incorporated under the laws of British Columbia;

"**Chemical Supply Agreement**" means the long-term, sodium chlorate supply agreement between Chemtrade and Canfor, which was assigned by Canfor to the Partnership after the Spinout became effective on July 01, 2006;

"**Chemtrade**" means Chemtrade Pulp Chemicals Limited Partnership;

"**Class A LP Units**" means the class A units of the Partnership;

"**Class B Exchangeable LP Units**" means the class B exchangeable units of the Partnership;

"**Cogeneration Agreement**" means the agreement between BC Hydro and Canfor relating to the Cogeneration Project, which was assigned to the Partnership after the Spinout became effective on July 01, 2006;

"**Cogeneration Project**" means the cogeneration project described in more detail in "The Pulp and Paper Business of the Partnership— Energy —Cogeneration Agreement";

"**Commissions**" means the securities commission or other securities regulatory authority in each of the provinces and territories of Canada;

"**Conversion**" means the conversion of the Fund from an income trust structure to a corporate structure by court approved plan of arrangement under the BCBCA on January 1, 2011;

"CPPI" means Canfor Pulp Products Inc, a company incorporated under the laws of British Columbia;

"**CPPI Shares**" means the common shares issued by Canfor Pulp Products Inc.

"**CPPI Shareholder**" and "**CPPI Shareholders**" means the holders from time to time of CPPI Shares;

"**CRA**" means the Canada Revenue Agency;

"**Credit Facilities**" means the Term Facility, the Bank Facility, and the Hydro LOC Facility;

"**EBITDA**" means net earnings adjusted to exclude amortization of property, plant and equipment, other amortization, interest expense, transaction costs, income taxes, and other non-operating income and expenses;

"**EPA**" means the Electricity Purchase Agreement entered into with BC Hydro as of September 15, 2009 with a term of 10 years;

"**ERISA**" means the *United States Employee Retirement Security Act of 1974*, as amended;

"**Exchange Agreement**" means the exchange agreement among CFP, CPPI, the General Partner and the Partnership dated as of January 1, 2011 containing, among other things, the procedure through which the Class B Exchangeable LP Units may be exchanged for CPPI Shares;

"**Fibre Supply Agreement**" means the fibre supply agreement between Canfor and the Partnership dated as of July 01, 2006, as amended;

"**Fund**" means Canfor Pulp Income Fund, an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to the declaration of trust made as of April 19, 2006, which was wound-up on January 1, 2011;

"**Fund Units**" means units of the Fund;

"**GAAP**" means generally accepted accounting principles;

"**General Partner**" means Canfor Pulp Holding Inc., a corporation incorporated under the laws of Canada;

"**GTP**" means the Pulp and Paper Green Transformation Program announced by the Canadian government on June 17, 2009.

"**GP Interest**" means the undivided nominal interest of the General Partner in the Partnership;

"**GP Shares**" means common shares of the General Partner;

"**Hydro LOC Facility**" means the separate credit facility which secures the standby letter of credit issued to BC Hydro, under the amended Cogeneration Agreement;

“**Independent Director**” means a director who is independent of CFP as determined pursuant to National Instrument 52-110 of the Canadian securities administrators, as amended from time to time, and any successor instrument or policy;

"**Kraft Paper**" means bleached and unbleached kraft paper;

"**LP Units**" means the limited partnership units of the Partnership, consisting of Class A LP Units and Class B Exchangeable LP Units;

"**Mills**" means, collectively, the Intercontinental Pulp Mill, Northwood Pulp Mill and Prince George Pulp and Paper Mill, and ancillary assets;

"**NBSK Pulp**" or "**NBSK**" means northern bleached softwood kraft pulp;

"**Non-Residents**" means non-residents of Canada within the meaning of the Tax Act;

"**ODT**" means oven-dried metric tonnes;

"**Partnership**" means Canfor Pulp Limited Partnership, a limited partnership formed under the laws of the Province of Manitoba;

"**Partnership Agreement**" means the amended and restated limited partnership agreement made as of January 1, 2011 between the General Partner, CFP and CPPI governed by the laws of the Province of Manitoba, as amended, supplemented, restated or replaced from time to time;

"**Partnership Interest**" of any person means the percentage of the outstanding LP Units held by that person;

"**Partnership Services Agreement**" means the partnership services agreement between the Partnership and Canfor dated as of July 01, 2006, and amended thereafter, under which Canfor provides certain operational and transitional services to the Partnership;

"**person**" means any individual, partnership, firm, trust, body corporate, government, governmental body, agency, or instrumentality, unincorporated body of persons or association;

"**PGP&P**" means the Prince George Pulp and Paper Mill;

"**Plans**" means registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, collectively;

"**Pulp Business**" means Canfor's NBSK pulp and paper business, primarily consisting of owning and operating the Mills, which business was acquired by the Partnership under the Acquisition Agreement;

"PPPC" means the Pulp and Paper Products Council, an alliance of product associations serving an international membership in the pulp and paper industry, based in Montreal, Canada;

"**Qualified Purchaser**" has the meaning set forth in Section 2(a)(51)(A) of the 1940 Act;

"**RISI**" means RISI, a leading information provider for the forest products industry owned by United Business Media and Pegasus Capital Advisors L.P., originally founded as Resource Information Systems Inc. in 1985;

"**SEDAR**" means the System for Electronic Documents Analysis and Retrieval;

"**Shareholders' Agreement**" means the second amended and restated shareholders' agreement dated as of January 1, 2011, between CFP, CPPI, the General Partner, and the Partnership;

"**Spinout**" means the transaction completed on July 1, 2006 pursuant to which Canfor initially distributed Fund Units to shareholders of Canfor;

"**Standardized Distributable Cash"** is defined under the Canadian Institute of Chartered Accountants interpretive release in July 2007, which for the purposes of the Partnership is defined as the periodic cash flows from operating activities, including the effects of changes in non cash working capital less cash capital expenditures, as reported in the GAAP financial statements for the Partnership.

"**Support Agreement**" means the support agreement between CPPI, the Partnership, and the General Partner dated as of January 1, 2011;

"**Tax Act**" means the *Income Tax Act* (Canada), as amended, and the regulations thereunder;

"**Term Facility**" means the private placement of US$110 million senior notes, due in full in 2013, entered into by the Partnership on November 30, 2006, the proceeds of which were used to repay the promissory note in the principal amount of $125 million issued by the Partnership to Canfor as partial consideration for the Partnership's acquisition of the Pulp Business;

"**Trust**" means Canfor Pulp Trust, an unincorporated trust established under the laws of the Province of Ontario pursuant to the declaration of trust made as of April 19, 2006, which was wound-up on January 1, 2011;

"**TSX**" means the Toronto Stock Exchange;

"**United States**" or "**US**" means the United States of America and any territory or possession thereof; and

"**1940 Act**" means the United States *Investment Company Act of 1940*, as amended.

Appendix "A"

AUDIT COMMITTEE: TERMS OF REFERENCE

1. Purpose

The Audit Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities. The Audit Committee will:

(a) Review the financial reports and other financial information provided by the General Partner to its shareholders;

(b) Monitor the integrity of the financial reporting process and the system of internal controls that management and the Board have established;

(c) Monitor the management of the principal risks that could impact the financial performance of the General Partner, including the distribution policy;

(d) Review and receive the Audit Plan, process, results and performance of the General Partner's independent external auditors and the internal audit department while providing an open avenue of communication between the external auditors, the internal auditors, risk manager, management and the Board;

(e) Monitor the management of risk by the General Partner generally; and

(f) Review and assess capital expenditures exceeding $2.5 million including AFE’s, economic assumptions, economic benefits, and strategic value to the General Partner.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and it has direct access to the external auditors as well as anyone in the organization. The Audit Committee has the authority to retain, at the General Partner’s expense, special legal, accounting and other consultants or experts it deems necessary in the performance of its duties.

2. Audit Committee Composition and Meetings

All Audit Committee members must be financially literate with the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the General Partner’s financial statements. At least one Audit Committee member should have accounting or related financial expertise, including:

(a) an understanding of financial statements and accounting principles used by the General Partner to prepare its financial statements;

(b) the ability to assess the general application of such accounting principles in connection with accounting for estimates, accruals and reserves;

(c) experience preparing, auditing, analyzing or evaluating financial statements, or experience supervising the preparation, audit, analysis or evaluation of financial statements, that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the General Partner’s financial statements;

(d) an understanding of internal controls and procedures for financial reporting; and

(e) an understanding of audit committee functions.

A Chair shall be appointed by the Board annually from among the members of the Audit Committee.

The Audit Committee shall schedule regular meetings and shall meet at least four times annually, or more frequently as deemed necessary by the Chair. The Chair shall prepare and/or approve an agenda in advance of each meeting.

The Chief Executive Officer, the Chief Financial Officer and the external auditors shall be given notice of, and have the right to appear before and to be heard at, every meeting of the Audit Committee, and shall appear before the Audit Committee when requested to do so by the Committee.

3. Primary Duties and Responsibilities

To fulfill its primary duties and responsibilities, the Audit Committee shall adhere to the following terms:

(a) **Review and Reporting Procedures**

(i) The Audit Committee is authorized to review and/or investigate any financial, internal control, or risk management related issue or activity of the General Partner. The Audit Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.

(ii) The Audit Committee is authorized to request the presence, at any meeting, of a representative from the external auditors, senior management, internal audit, legal counsel, or anyone else who could contribute to the subject of a meeting.

(iii) The Audit Committee will review and reassess these Terms of Reference at least annually to determine whether revisions are necessary. The Audit Committee shall periodically self-assess its performance and effectiveness in fulfilling its role.

(iv) Supporting schedules and information reviewed by the Committee will be available for examination by any director of the Audit Committee upon request to the Secretary of the Audit Committee.

(b) **Internal Controls and Risk Management Processes**

To assure itself that the General Partner has appropriate controls in place to achieve the following objectives:

(i) Effectiveness and efficiency of operations (including safeguarding of assets);

(ii) Reliability of internal and external reporting;

(iii) Compliance with applicable laws and regulations and internal policies.

To ensure the General Partner has appropriate processes in place to manage the principal risks of its businesses, the Audit Committee shall:

(iv) Consider and review internal processes for managing the principal risks of the General Partner's businesses, including a review of insurance coverage and hedging activities.

(v) Obtain assurance from management regarding the adequacy of risk management processes.

(vi) Review with management and the external auditor:

- The adequacy of the General Partner's internal controls including computerized information systems, controls, and security.
- Any related significant internal control findings and recommendations of the external auditor, together with management's responses thereto.
- The General Partner’s compliance or adherence to debt covenants, terms, or conditions.
- Significant related party transactions and potential conflicts of interest

(c) **Financial Reporting**

In order to satisfy itself that the General Partner's annual financial statements are fairly presented in accordance with generally accepted accounting principles ("GAAP") and in a form sufficient for the Audit Committee's recommendation for approval by the Board, and that the financial information contained in the General Partner's financial statements, Annual Report to Unitholders, Annual Information Form and other financial disclosure documents such as Management's Discussion and Analysis, is complete and accurate in all material respects, the Audit Committee shall:

General

(i) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

Interim Financial Statements

(ii) Review the General Partner's interim financial statements with management prior to their release or distribution. This review will include a detailed reporting of quarterly and year-to-date results, variance against budget and prior year, and a discussion with the external auditor. Upon satisfactory completion of the review, the Audit Committee shall recommend to the Board approval of the financial statement release.

(iii) Review any significant proposed changes to the General Partner's accounting principles or policies, or financial reporting practices.

(iv) Review the financial statement impact of any significant, unusual event or transaction.

(v) Review news releases containing financial information disclosure and Management’s Discussion and Analysis.

Annual Financial Statements and Other Financial Information

(vi) Obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by management.

(vii) Review any material changes in accounting policies, GAAP, or financial reporting requirements that may affect the current year's financial statements.

(viii) Obtain and review summaries of significant or unusual transactions, and other potentially complex matters whose treatment in the annual financial statements merits advance consideration.

(ix) Review a summary provided by the General Partner's legal counsel of the status of any material pending or threatened litigation, claims and assessments.

(x) Review and discuss the annual financial statements and the external auditor's report thereon in detail with management and the external auditors.

(xi) Through discussion with management and the external auditors, obtain assurance that the risk of material misstatement of the financial statements is acceptably low.

(xii) Review the financial information included in the Management's Discussion and Analysis, and consider whether the information is adequate and consistent with the Audit Committee member’s knowledge of the General Partner.

(xiii) Review the tax status of the General Partner and understand the status of any related tax reserves, potential reassessments or other matters which could affect the annual financial statements.

(xiv) Review and assess the quality and appropriateness of the General Partner's accounting and reporting principles and policies.

(xv) Provide to the Board a recommendation as to whether the annual financial statements should be approved.

(xvi) Review the news release announcing the annual financial results of the General Partner.

(xvii) Review the annual financial disclosure contained in the Annual Information Form.

Prospectus and Information Circulars

(xviii) Review the financial information included in any prospectus or information circular prior to their release and, as appropriate, recommend to the Board whether such prospectus or information circular should be approved by the Board.

(d) **External Audit**

The external auditors are accountable to the Audit Committee and the Board as representatives of the unitholders.

In order to assure itself that the external audit function has been effectively carried out and that any matters that the external auditors consider appropriate to bring to the attention of the Board have been addressed, the Audit Committee shall:

(iv) Recommend to the Board the selection (retention or replacement) of the external auditors, considering independence and effectiveness, and approve the fees and other compensation to be paid to the external auditors. On an annual basis, the Audit Committee should review and discuss with the external auditors all significant relationships its accountants have with the General Partner to confirm their independence. If there is a recommendation to change auditors, review all the issues to change and the steps planned for an orderly transition.

(v) Review the external auditor's Audit Plan and engagement letter with management and the external auditors, including audit scope and approach.

(vi) Meet with the external auditor and management in separate private sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.

(vii) Pre-approve any non-audit services to be provided by the external auditor. The Audit Committee may delegate this responsibility to the Chair and provided that any pre-approval granted pursuant to such delegation must be detailed as to the service to be provided and must be reported to the full Audit Committee at its next scheduled meeting

(viii) Review and assess the performance of the external auditor, including consideration of demonstrated external audit judgment and application and adherence to accounting policy and standards.

(ix) Review the external auditor’s policy on partner rotation.

(e) **Finance**

The Audit Committee is authorized to review and approve for recommendation to the Board:

(i) the General Partner’s annual financing plan and any amendments thereto from time to time;

(ii) any proposed financings;

(iii) the method by which the General Partner measures financial results or performance; and

(iv) post audit or follow up reviews of capital projects.

4. Other Duties

(a) **Legal and Regulatory Compliance**

To provide assurance of General Partner compliance with all legal and regulatory requirements, the Audit Committee shall:

(i) In areas in which it has oversight responsibility, monitor the General Partner's compliance and obtain management's assurance of compliance with applicable laws, regulations, and internal policies in all jurisdictions where the General Partner does business. The Audit Committee will consider the financial statement implications of applicable laws and regulations, including the laws and regulations overseen by other Committees of the Board.

(ii) Receive and review copies of legal letters provided to the external auditors by in-house and outside counsel regarding claims and possible claims against the General Partner.

(iii) Make inquiries of management and the external auditors to ensure that all material legal matters have been brought to the attention of the Audit Committee.

(iv) On at least an annual basis, review with the General Partner's counsel any legal matters that could have a significant impact on the organization's financial statements or risk profile, the General Partner's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

(v) Ensure that all annual and interim financial statement filings are personally certified by the Chief Executive Officer and the Chief Financial Officer if and as required by applicable law.

(vi) Review the General Partner's procedures and establish procedures for the Audit Committee for the:

- receipt, retention and resolution of complaints regarding accounting, internal accounting controls, financial disclosure or auditing matters; and
- confidential, anonymous submission by employees regarding questionable accounting, auditing, or financial reporting and disclosure matters.

(b) **Pension Funds**

Be responsible for oversight of the supervision of the pension plans in which the General Partner employees participate by:

(i) receiving, at least annually, a report from the Committee of the Canfor Board which has oversight responsibility over the relevant pension plans (the "Canfor Committee"), detailing the performance of the plans' money managers and the investment policies and practices in respect of the funds contributed to the General Partner's pension plans;

(ii) reviewing actuarial reports in respect of the General Partner's pension obligations so as to determine the level of unfunded liabilities, if any; and

(iii) receive a report from the Canfor Committee immediately upon the identification or disclosure of any issue or circumstance that may materially impact the General Partner's obligations, liabilities, or responsibilities with respect to such pension plans.

(c) **Officer Expenses**

Review policies and procedures with respect to the Chairman of the Board and President and Chief Executive Officer's expense accounts and perquisites, including the use of corporate assets.

Periodically review major expenses incurred by the office of the Chairman of the Board and President and Chief Executive Officer.

(d) **Other Duties**

The Audit Committee will perform such other functions as assigned by law or regulation or as required by the Board.