CANFOR PULP INCOME FUND

Third Quarter Report

For the three and nine months ended September 30, 2009

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
Third Quarter 2009
Management's Discussion and Analysis

Canfor Pulp Income Fund (the Fund) earns income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). The Fund accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for the Fund's unitholders to understand the results of operations, the unaudited interim consolidated financial statements with accompanying notes are presented for both the Fund and the Partnership. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and the Fund's performance for the quarter ended September 30, 2009 relative to the same period in the prior year and relative to the previous quarter. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2009 and 2008, as well as the annual MD&A and audited consolidated financial statements and notes which are included in the Fund's 2008 Annual Report. Additional information relating to the Fund and the Partnership, including the Fund's Annual Information Form (AIF) dated February 17, 2009, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

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

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

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

The information in this report is as at October 23, 2009.

Forward-Looking Statements

Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could" and variations of such words and similar expressions are intended to identify such forward-looking statements. The risks and uncertainties are detailed from time to time in reports filed by the Fund with the securities regulatory authorities in all of the provinces and territories of Canada to which recipients of this press release are referred to for additional information concerning the Fund and Partnership, its prospects and uncertainties relating to the Fund and Partnership and its prospects. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. New risk factors may arise from time to time and it is not possible for management to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance and achievements of the Fund and Partnership to be materially different from those contained in forward-looking statements. The forward-looking statements are based on current information and expectations and the Fund and Partnership assume no obligation to update such information to reflect later events or developments, except as required by law.

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

- *“Critical Accounting Estimates” page 5;*
- *“SIFT Conversion rules” page 5;*
- *“Conversion to International Financial Reporting Standards” on page 6;*
- *“Outlook – Pulp” page 10;*
- *“Outlook – Kraft Paper” page 12;*
- *“Liquidity and Financial Requirements” on pages 13 and 14;*
- *“Critical Accounting Estimates” page 15;*
- *“Conversion to International Financial Reporting Standards” on pages 15 and 16;*
- *“Distributable Cash and Cash Distributions” pages 17 and 18.*

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

CANFOR PULP INCOME FUND

The Fund is an unincorporated open-ended trust established under the laws of Ontario on April 21, 2006, pursuant to the Fund Declaration. The principal head office of the Fund is located at 1700 West 75th Avenue, Vancouver, BC, Canada. The Fund has been established to acquire and hold, through a wholly owned trust, the Canfor Pulp Trust (the Trust), investments in Limited Partnership Units of the Partnership, and such other investments as the Trustees of the Fund may determine. The general partner of the Partnership is Canfor Pulp Holding Inc. (the General Partner) and each limited partner holds an ownership interest in the General Partner equal to its proportionate interest in the Partnership.

At October 23, 2009, there were a total of 35,493,505 Fund units issued and outstanding, and the Fund indirectly held a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership and Canfor held 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable Limited Partnership Units are indirectly exchangeable for an equivalent number of Fund Units pursuant to the terms of an exchange agreement (Exchange Agreement) dated July 1, 2006 among Canfor, the Fund, the Trust, the Partnership and Canfor Pulp Holding Inc. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for Fund Units.

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

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Q3 2009**	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Equity income (loss) in Canfor Pulp Limited Partnership	**9,098**	724	(10,740)	(12,947)	5,513	9,046	21,667	5,999
Net income (loss)	**8,497**	4,406	(10,740)	(13,686)	5,208	7,015	21,667	8,703
Net income (loss) per Fund unit	**$0.24**	$0.12	$(0.30)	$(0.39)	$0.15	$0.20	$0.61	$0.25
Distributions earned from the Partnership and declared to unitholders	**1,065**	1,065	2,130	9,938	12,778	12,777	12,778	13,487
Distributions declared per Fund unit	**$0.03**	$0.03	$0.06	$0.28	$0.36	$0.36	$0.36	$0.38

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

OPERATING RESULTS AND LIQUIDITY

For the quarter ended September 30, 2009, the Fund had net income of $8.5 million or $0.24 per Fund unit. The net income is comprised of the Fund’s share of the Partnership’s income for the third quarter of 2009, less a future income tax expense of $0.6 million. The future income tax expense represents an adjustment to the future income tax liability based on the Fund’s share of the differences between book and income tax values of the Partnership’s assets and liabilities. The Fund’s equity income in the Partnership is $8.4 million higher than the prior quarter due to the Fund’s share of the Partnership’s increased operating earnings. The Fund’s share of operating earnings increased by $8.7 million due primarily to higher realized prices in Canadian dollar terms for the Partnership’s pulp and paper products and lower unit manufacturing costs. Distributions declared by the Partnership and accruing to the Fund were $1.1 million of which $0.4 million was receivable at September 30, 2009. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund’s requirements for administrative services are minimal and are funded and expensed by the Partnership. For further information refer to the Partnership’s discussion of operating results and liquidity on pages 7 through 13 of this press release.

FUND DISTRIBUTIONS

The Fund is entirely dependent on distributions from the Partnership to make its own distributions and declares distributions on a monthly basis with the record date on the last business day of each month and payable within the 15 days following. Distributions payable by the Partnership to the Fund and distributions payable by the Fund to its unitholders are recorded when declared. During the third quarter of 2009, the Fund declared distributions of $0.03 per Fund unit or $1.1 million.

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

RISKS AND UNCERTAINTIES

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

FUND UNITS

At October 23, 2009, there were a total of 35,493,505 Fund units outstanding.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended September 30, 2009 were $1.1 million of which $0.7 million was received, with the balance of $0.4 million receivable on September 30, 2009.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. Significant areas requiring the use of management's estimates are the determination of future income taxes, and assessing whether there has been an other than temporary decline in the value of the investment in the Partnership. The determination of the future income tax liability requires management to estimate the future impacts of the Partnership's amortization of capital assets, capital cost allowance claims for tax purposes, and changes to actuarial estimates of employee benefit plans. The Fund accounts for its investment in the Partnership using the equity method. Management periodically evaluates whether there has been an other than temporary decline in the value of the investment in the Partnership. The Fund relies on the recoverability analysis of the Partnership for the purposes of this assessment. Changes in these estimates could have a material impact on the calculation of the future income tax liability or equity investment in the Partnership.

SIFT CONVERSION RULES

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

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board (AcSB) announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Fund will rely on the resources of the Partnership to ensure compliance with IFRS. The Partnership intends to convert to these new standards according to the timetable set for these new rules.

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

For further details on the key elements of the Partnership's transition plan see the Partnership's disclosure on pages 14 and 15.

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

At this time, the impact on the Fund's future financial position and results of operations is not reasonably determinable.

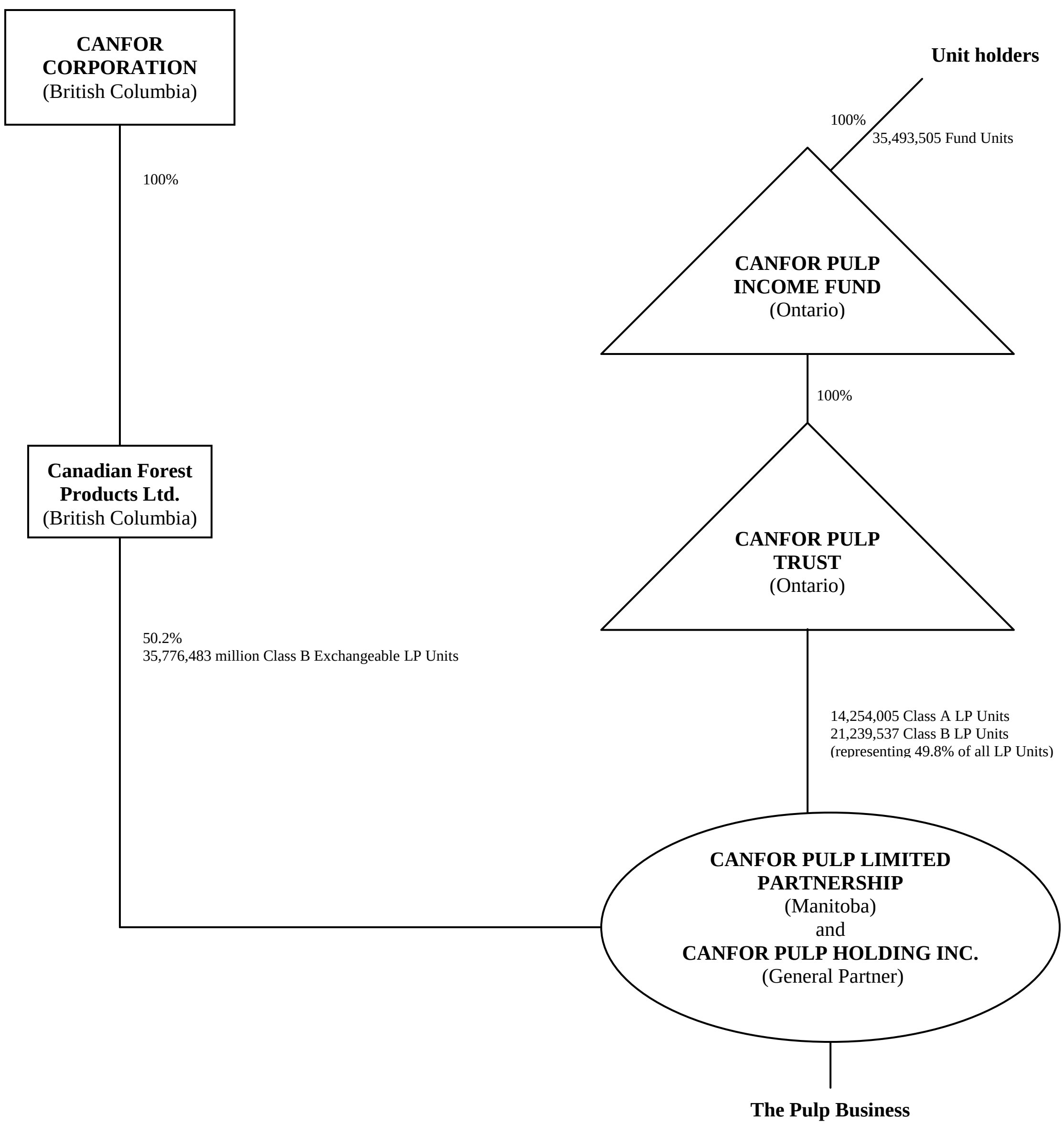
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

At October 23, 2009, the Fund indirectly held a total of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units, representing 49.8% of the Partnership and Canfor owns the remaining 50.2%. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the General Partner. Below is a simplified schematic of the ownership structure.

Partnership Structure



Business

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

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

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	**Q3 2009**	Q2 2009	**YTD 2009**	Q3 2008	YTD 2008
Sales	**202.0**	205.0	**593.3**	215.4	639.4
EBITDA [1]	**25.1**	7.2	**34.5**	40.6	107.1
Operating income (loss)	**12.4**	(5.0)	**(2.4)**	27.5	69.7
Net income (loss)	**18.3**	1.5	**(1.8)**	11.1	72.8
Per Partnership unit, basic and diluted					
Net income (loss)	**0.26**	0.02	**(0.02)**	0.15	1.02
EBITDA	**0.35**	0.10	**0.48**	0.57	1.50
Average exchange rate (US$/Cdn$) [2]	**0.912**	0.858	**0.858**	0.960	0.982

Notes: [1] For calculation of EBITDA, see supplementary financial information **Error! Bookmark not defined.**.
[2] Source – Bank of Canada (average noon rate for the period).

EBITDA for the third quarter of 2009 increased by $17.9 million from the second quarter of 2009 and was $15.5 million lower when compared to the third quarter of 2008. The improved results when compared to the second quarter of 2009 are attributable to a 14% increase in the NBSK pulp US dollar list price and lower unit manufacturing costs, partially offset by the stronger Canadian dollar, higher freight costs and lower realized paper prices. Realized pulp prices in Canadian dollar terms increased 8% as a 14% increase in NBSK list price was partially offset by a 6% strengthening of the Canadian dollar, while paper prices decreased 6% when compared to the second quarter of 2009. Unit manufacturing costs decreased 7% when compared to the prior quarter due to lower spending on maintenance costs, higher production volumes and lower chemical prices. Fibre costs remained relatively unchanged when compared to the prior quarter. Freight costs in US dollar terms were 9% higher when compared to the prior quarter primarily due to higher container rates into Asia and increased fuel surcharges.

When compared to the third quarter of 2008, the $15.5 million decrease in EBITDA was primarily attributable to lower NBSK pulp US dollar list prices and lower realized paper prices, partially offset by lower unit manufacturing costs, higher shipment volumes, and a weaker Canadian dollar. The NBSK pulp US dollar list price decreased 17% when compared to the same period a year ago which was partially offset by a 5% weaker Canadian dollar. Unit manufacturing costs decreased 12% due to lower fibre, chemical and energy prices, lower overall spending on fixed costs, and the impact of higher production volumes. Fibre costs decreased approximately 17% due to lower prices for sawmill residual and whole log chips. Realized paper prices in Canadian dollar terms decreased by 20% when compared to the third quarter of 2008. Shipment volumes of market pulp increased 11% when compared to the third quarter of 2008 due primarily to increased volume into Europe and Asia.

For the nine months ended September 30, 2009, EBITDA of $34.5 million decreased by $72.6 million when compared to the same period in 2008. The decrease in EBITDA was attributable to lower realized prices for the Partnership's pulp and paper products, partially offset by lower unit manufacturing costs and higher shipment volumes. Pulp and paper realized prices in Canadian dollar terms decreased 17% and 10% respectively when compared to the same period in 2008. The lower realized pulp prices were the result of a 22% decrease in NBSK pulp US dollar list price, and a higher percentage of sales into lower margin business, including non-contract business and the tissue segment, which were partially offset by a 13% weakening of the Canadian dollar. Lower unit manufacturing costs were attributable to the impact of a reduction in scheduled maintenance outages, lower spending on fixed costs, lower fibre costs, and lower chemical and energy prices. Shipment volumes of market pulp increased 13% when compared to the same period in 2008 due primarily to increased volume into China.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**Q3 2009**	Q2 2009	**YTD 2009**	Q3 2008	YTD 2008
Sales[1]	**170.1**	173.8	**503.1**	181.7	536.1
EBITDA [1]	**23.4**	5.1	**28.0**	38.8	107.2
EBITDA margin[1]	**14%**	3%	**6%**	21%	20%
Operating income (loss)[1]	**11.6**	(6.2)	**(6.2)**	26.8	72.9
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**733**	645	**684**	880	880
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**804**	752	**797**	917	896
Production – pulp (000 mt)	**264.4**	260.1	**754.9**	255.6	713.2
Shipments – Partnership-produced pulp (000 mt)	**259.5**	286.2	**786.0**	234.5	697.2
Marketed on behalf of HSLP & Canfor (000 mt)	**148.4**	140.0	**395.6**	135.5	415.8

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

The third quarter 2009 operating income for the pulp segment of $11.6 million was a $17.8 million improvement when compared to the second quarter of 2009. The improved results are attributable to higher realized prices in Canadian dollar terms and lower unit manufacturing costs, partially offset by higher freight costs. Realized pulp prices in Canadian dollar terms increased 8% when compared to the prior quarter due to a 14% increase in NBSK pulp US dollar list price partially offset by a 6% stronger Canadian dollar. The reduction in unit manufacturing costs resulted from higher production volumes and reduced maintenance spending as a result of no scheduled maintenance downtime in the third quarter of 2009, combined with reduced chemical prices and other cost reduction initiatives. Fibre costs remained relatively unchanged when compared to the prior quarter. Manufacturing costs in the third quarter are typically at the lowest levels of the year due to favourable operating environment and lower energy costs.

The third quarter 2009 operating results were $15.2 million lower than the same period a year ago. The decrease was the result of lower NBSK pulp US dollar list prices, partially offset by lower unit manufacturing costs, a weaker Canadian dollar and higher shipment volumes. A 16% decrease of realized prices in Canadian dollar terms was attributable to a 17% decrease of NBSK pulp US dollar list price and increases in the Partnership's sales into lower margin businesses, partially offset by a 5% weakening of the Canadian dollar. Lower unit manufacturing costs were due to lower fibre, chemical and energy prices, lower overall spending on fixed costs and the impact of higher production volumes. In the third quarter of 2008, production was reduced by a scheduled maintenance outage at the Northwood Pulp Mill and the impact of the Prince George Pulp and Paper Mill fire. Fibre costs decreased approximately 17% due to lower prices for sawmill residual and whole log chips. Shipment volumes increased 25,000 tonnes when compared to the same period in 2008 primarily due to increased volume into China.

For the nine month period ended September 30, 2009, the operating loss of $6.2 million represents a deterioration of $79.1 million when compared to the same period in 2008. The decrease in operating results was attributable to lower realized prices in Canadian dollar terms, partially offset by lower unit manufacturing costs and higher shipment volumes. Realized pulp prices in Canadian dollar terms decreased 17%, as a 22% decrease in NBSK pulp US dollar list price and a higher percentage of sales into lower margin business, including non-contract business and the tissue segment, were partially offset by a 13% weakening of the Canadian dollar when compared to the same period in 2008. Lower unit manufacturing costs were attributable to the impact of a reduction in scheduled maintenance outages, lower spending on fixed costs, lower fibre costs, and lower energy and chemical prices. Fibre costs decreased approximately 11% due to lower prices for sawmill residual and whole log chips. Lower spending on fixed costs was attributable to lower maintenance costs and cost reduction initiatives including reductions in discretionary spending. Shipment volumes increased 88,800 tonnes when compared to the same period in 2008 primarily due to increased volumes into China.

Operations

NBSK market pulp production during the third quarter of 2009 was 4,300 tonnes higher than the second quarter of 2009. The increased production was attributable to decreased scheduled maintenance outages in the third quarter. When compared to the same period in 2008, third quarter 2009 production of 264,400 tonnes was 8,800 tonnes higher. The increased production in the third quarter of 2009 was primarily due to the impact of the Prince George Pulp and Paper Mill fire which reduced production by approximately 7,400 tonnes in the third quarter of 2008.

For the nine months ended September 30, 2009 production of 754,900 tonnes was 41,700 tonnes higher than the same period in 2008. The major components of the increased production were decreased scheduled maintenance outages (2009 – 14,100 tonnes, 2008 – 32,900 tonnes) and the Prince George Pulp and Paper Mill fire in 2008 totalling 35,000 tonnes of reduced production, partially offset by the market curtailment totalling approximately 14,000 tonnes reduced production in the first quarter of 2009 (2008 – nil).

Markets – Pulp

A significant number of pulp mills remained idled during the third quarter of 2009, either indefinitely or permanently, which kept supply constrained, resulting in further reductions in producer inventory stocks. The consumption levels have been steadily improving since earlier in the year. Although preliminary Pulp and Paper Products Council statistics indicate that global demand for printing and writing papers was down 14% on a 2009 year-to-date basis, there has been steady improvement in monthly demand since the end of the first quarter of 2009.

The steady improvement in consumption and continued reduction of supply has resulted in lower pulp inventories. At the end of September 2009, World 20[1] producers of bleached softwood pulp inventories stood at 22 days of supply. By comparison, September 2008 inventories stood at 36 days of supply. Market conditions are considered balanced when inventories fall in the 27-30 days of supply range.

As a result of these tight market conditions, producers have been successful at implementing price increases in every month of the third quarter of 2009. These price increases totalled US$110 per tonne, bringing the US market to US$770 per tonne in September, Europe to US$740 per tonne, and China to US$650 per tonne.

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

Outlook – Pulp

The outlook for the balance of 2009 and the first quarter of 2010 is for a continued positive pricing environment. Inventory levels held by producers and customers are low. With the supply/demand balance in the favour of producers, there is potential for further price increases. There is some downside risk as higher global prices may allow idled mills to restart, to the extent that pricing increases are not diminished by a strengthening Canadian dollar. Subsequently, projected demand and low inventory levels suggest a balanced to tight market into the first quarter of 2010.

For the fourth quarter of 2009, a planned maintenance outage at our Northwood facility was extended for additional work on the recovery boiler, and resulted in total reduced production levels of approximately 31,000 tonnes.

On October 9, 2009 the Canadian federal government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the Program). The Partnership has been allocated $122.2 million from the Program announced by the Canadian government on June 17, 2009. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the program end date of March 31, 2012. The Partnership has identified and will be submitting a number of projects for Program approval. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

The Partnership finalized an amending Energy agreement with BC Hydro effective September 15, 2009 which provides for the sale of power production that exceeds an amended commitment of the original cogeneration project at the Prince George Pulp and Paper Mill. A payment to BC Hydro of $4.3 million was made to reduce the Partnership's obligation for power production reflecting the cogeneration project's actual output. The obligation to produce power for the remainder of the term of the agreement, extending to August 2020, is reduced to 338 GWh per year from 390 GWh effective September 15, 2009. As a result of further investments by the Partnership, power production in excess of 338 GWh per year is now available for sale under the terms of our new Energy Purchase Agreement with BC Hydro.

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q3 2009**	Q2 2009	**YTD 2009**	Q3 2008	YTD 2008
Sales[1]	**31.9**	31.2	**90.2**	33.7	103.3
EBITDA[1]	**4.0**	4.4	**13.0**	4.7	9.8
EBITDA margin[1]	**13%**	14%	**14%**	14%	9%
Operating income[1]	**3.2**	3.5	**10.5**	3.7	6.9
Production – paper (000 mt)	**33.6**	30.6	**92.6**	35.9	102.5
Shipments – paper (000 mt)	**37.4**	34.3	**96.9**	31.6	100.4

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

The operating income of the paper segment for the third quarter of 2009 was $0.3 million lower than the second quarter of 2009 and $0.5 million lower than the same period last year. The decrease when compared to the second quarter of 2009 was primarily attributable to lower realized prices in Canadian dollar terms, partially offset by lower unit manufacturing costs and higher sales volumes. Realized prices in Canadian dollar terms decreased by approximately 6%. Lower unit manufacturing costs were the result of lower costs for slush pulp and the impact of higher production volumes. Sales volumes increased by 9% when compared to the second quarter of 2009.

When compared to the third quarter of 2008, the decrease in operating earnings was due to lower realized prices in Canadian dollar terms and the impact of lower production volumes, partially offset by lower costs for slush pulp and higher sales volumes. Realized prices in Canadian dollar terms decreased by approximately 20% due to a reduction in global demand. The cost of slush pulp transferred from the Partnership's pulp operating segment decreased 27% when compared to the second quarter of 2009 as a result of the reduction in the NBSK US dollar list price, partially offset by the weaker Canadian dollar. Sales volumes increased by 18% when compared to the same period in 2008.

For the nine month period ended September 30, 2009, operating income of $10.5 million improved by $3.6 million when compared to the same period in 2008. The increase is attributable to lower unit manufacturing costs partially offset by lower realized paper prices in Canadian dollar terms and lower sales volumes. The lower unit manufacturing costs are the result of lower raw material costs for slush pulp partially offset by the impact of lower production volumes. Realized prices in Canadian dollar terms decreased by approximately 10% and sales volumes decreased by 3% when compared to the same period in 2008.

Operations

When compared to the second quarter of 2009, paper production increased by 3,000 tonnes due to completion of the scheduled maintenance outage in the prior quarter. When compared to the third quarter of 2008, production was 2,300 tonnes lower due to lower overall operating rates.

For the nine month period ended September 30, 2009, paper production of 92,600 tonnes was 9,900 tonnes lower than the same period in 2008. In addition to the scheduled maintenance outage completed in the second quarter of 2009 the market curtailment completed in January 2009 resulted in approximately 4,700 tonnes of lost production.

Markets

North America kraft paper demand showed signs of improvement in the third quarter of 2009 compared to the previous two quarters as customer inventory destocking appears to have been largely completed. American Forest and Paper Association reported that US total kraft paper shipments increased 3.5% in September following an 8% increase in August. Overall 2009 year-to-date shipments are 22% lower when compared to the same period in 2008. The year-to-date Pulp Shipping Sack Manufacturers' Association shipping sack statistics for September reveal that industry paper consumption was down 2% from the previous month.

The Partnership's total prime paper shipments in the third quarter of 2009 increased by 9% from the second quarter of 2009, and bleached shipments increased by 9.8% from the prior quarter.

Outlook – Kraft Paper

Demand is currently very strong and expected to continue through the fourth quarter of 2009. Price announcements in the range of 7% to 12% are expected to take effect in the fourth quarter of 2009 for both North America and Europe.

Non-Segmented Costs

(millions of dollars, unaudited)	**Q3 2009**	Q2 2009	**YTD 2009**	Q3 2008	YTD 2008
Unallocated costs	**2.4**	2.3	**6.7**	3.0	10.1
Interest expense, net	**2.8**	2.5	**7.9**	2.1	5.5
Foreign exchange (gain) loss on long-term debt	**(9.9)**	(10.7)	**(16.7)**	5.2	7.9
Loss (gain) on derivative financial instruments	**(3.4)**	(0.3)	**2.0**	12.7	(2.2)
Foreign exchange loss (gain) on working capital	**4.6**	2.2	**6.2**	(3.8)	(6.1)
Net property damage insurance gain	**-**	(0.2)	**(0.2)**	-	(8.5)
Other expense	**-**	-	**0.2**	0.2	0.3
	(3.5)	(4.2)	**6.1**	19.4	7.0

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled $2.4 million in the third quarter of 2009 compared to $2.3 million in the second quarter of 2009 and $3.0 million in the third quarter of 2008. The decrease in unallocated costs when compared to the third quarter of 2008 was mainly attributable to lower incentive plan accruals and reduced industry association dues, partially offset by higher legal costs.

For the nine month period ended September 30, 2009, unallocated costs were reduced by $3.4 million when compared to the same period in the prior year. The reduction was primarily attributable to lower annual incentive plan accruals and reduced industry association dues, partially offset by higher legal costs. The Partnership requires a minimum threshold of profitability prior to any payout under the annual incentive plan. Management reviews the Partnership's financial performance on an ongoing basis and adjusts the accruals accordingly.

Interest Expense

The increased net interest expense in the quarter and nine month period ended September 30, 2009 compared to the same periods in the prior year, was due to the cost of funding short-term working capital requirements and fees relating to the new financing facility.

Other Non-segmented Items

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

The gain of $3.4 million on derivative financial instruments recorded in the third quarter of 2009 relates to the settlement of maturing contracts during the quarter and the revaluation to market of outstanding contracts at the end of the quarter for natural gas swaps and foreign exchange hedging contracts. The declining price of natural gas in the third quarter of 2009 resulted in a loss for the quarter of $2.5 million on settlement of contracts. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements. The increasing value of the Canadian dollar in the third quarter of 2009 resulted in a gain for the quarter of $1.9 million on settlement of US dollar foreign exchange contracts to hedge the impact of currency fluctuations on US dollar working capital. This gain was offset by the foreign exchange loss on working capital of $4.6 million. The revaluation to market of outstanding derivative instruments recorded in the quarter of $4.0 million relates to a revaluation to market of outstanding natural gas swaps and outstanding US dollar foreign exchange hedging contracts at the end of the quarter.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)		**September 30, 2009**		December 31, 2008
Ratio of current assets to current liabilities		**1.81**		1.91
Ratio of net debt to partners' equity [1]		**0.14**		0.30
	Q3 2009	**YTD 2009**	Q3 2008	YTD 2008
Increase (decrease) in cash and cash equivalents	**25.6**	**43.5**	(8.4)	(8.6)
Comprised of cash flow from (used in):				
Operating activities	**49.1**	**93.7**	26.7	83.2
Financing activities	**(17.3)**	**(35.9)**	(26.5)	(72.8)
Investing activities	**(6.2)**	**(14.3)**	(8.6)	(19.0)

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

Changes in Financial Position

Cash generated from operating activities was $49.1 million in the third quarter of 2009 compared to $26.7 million in the third quarter of 2008. The increase was primarily due to a decrease in cash used in working capital partially offset by lower cash generated from operations. The decrease of cash used in working capital during the third quarter of 2009 was primarily the result of timing of payments in respect of chips and corporate services, partially offset by higher chip and pulp finished goods inventories. The lower cash generated from operations was primarily attributable to reductions in the price for the Partnership's pulp and paper products, partially offset by lower unit manufacturing costs.

The cash used in financing activities of $17.3 million in the quarter represents $2.2 million of distributions paid to the limited partners, namely Canfor and the Fund, and a reduction of $15.1 million in utilization of the Partnership's Revolving Facility.

The cash used in investing activities in the quarter is comprised of $6.2 million relating to capital expenditures. A payment to BC Hydro totalling $4.3 million is included in capital expenditures, in the third quarter of 2009. This represents a payment to reduce the Partnership's obligation for power production from the cogeneration project at the Prince George Pulp and Paper Mill. The obligation to produce power for the remainder of the term of the agreement, extending to August 2020, is reduced to 338 GWh per year from 390 GWh effective September 15, 2009.

LIQUIDITY AND FINANCIAL REQUIREMENTS

At the end of the current quarter, the Partnership had cash and cash equivalents of $43.9 million. On September 30, 2009 the Partnership completed a new $40 million bank credit facility with a maturity date of November 30, 2011. In addition, the Partnership has arranged a $25 million letter of credit facility, subject to completion of legal documentation. This replaced the Partnership's previous operating credit facility of $75 million which was scheduled to mature on November 30, 2009. On September 30, 2009, utilization of the new facility consisted of $16.5 million of standby letters of credit issued to B.C. Hydro. The general terms and conditions of the new financing are similar to the previous bank credit facility, with interest and other costs at prevailing market rates. The leverage ratio and interest coverage ratio remain consistent with the financial covenants under the long-term Note agreement, which agreement was unchanged and not affected by the new bank financing.

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

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

The agreements covering the new financing facility and the long-term Notes contain financial covenants including four quarter trailing maximum allowable debt to EBITDA leverage ratio of 3.25 and minimum required EBITDA to interest coverage ratio of 2.5. The Partnership remained in compliance with all covenants at September 30, 2009, and believes it will remain in compliance with all covenants for the balance of 2009 based on current forecasts. A comprehensive discussion of risks and uncertainties that may impact the Partnership's forecasts is included in the Fund's Annual Information Form dated February 17, 2009, which is available on www.sedar.com and www.canforpulp.com.

OUTSTANDING UNITS

At October 23, 2009, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) are owned by the Fund through Canfor Pulp Trust and 35,776,483 Class B Exchangeable Limited Partnership Units are owned indirectly by Canfor.

RELATED PARTY TRANSACTIONS

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2008 audited consolidated financial statements and are based on agreed upon amounts, and are summarized in note 10 of the unaudited interim consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending September 30, 2009, there were no changes in the Partnership's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	**Q3 2009**	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Sales and Income								
Sales	**202.0**	205.0	186.3	186.1	215.4	212.6	211.4	215.1
Operating income (loss)	**12.4**	(5.0)	(9.8)	(1.0)	27.5	11.6	30.6	11.7
EBITDA	**25.1**	7.2	2.2	9.8	40.6	24.0	42.5	27.9
Net income (loss)	**18.3**	1.5	(21.6)	(26.0)	11.1	18.2	43.5	12.1
Per Partnership unit (dollars) [1]								
Net income (loss) basic and diluted	**0.26**	0.02	(0.30)	(0.36)	0.15	0.26	0.61	0.17
Statistics								
Pulp shipments (000 mt)	**259.5**	286.2	240.3	208.2	234.5	233.8	228.9	253.6
Paper shipments (000 mt)	**37.4**	34.3	25.2	24.4	31.6	33.7	35.1	32.4

(millions of dollars unless otherwise noted, unaudited)	**Q3 2009**	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Average exchange rate (US$/Cdn$) [2]	**0.912**	0.858	0.803	0.825	0.960	0.990	0.996	1.019
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**733**	645	673	787	880	880	880	857

Notes: [1] Based on Partnership units outstanding at September 30, 2009 (71,270,025) for all periods.
[2] Source – Bank of Canada (average noon rate for the period).

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and EBITDA are primarily impacted by the level of sales, freight costs and fluctuations of fibre, chemicals and energy prices, level of spending and the timing of scheduled maintenance downtime, and production curtailments. Net income (loss) is also impacted by fluctuations in the Canadian dollar exchange rate, market price of natural gas, the revaluation to the period end rate of US dollar denominated working capital balances and long-term debt, and revaluation of outstanding natural gas commodity swaps and US dollar forward sales contracts.

CRITICAL ACCOUNTING ESTIMATES

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

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Partnership has completed the planning and high level diagnosis activities of its transition plan. The Partnership is currently in the analysis and accounting policy design phase and is assessing the impact of these policies on its consolidated financial statements, information systems, processes and controls. As the implementation process evolves, the Partnership expects to adapt its transition plan based on the new information available.

The key elements of the transition plan are as follows:

Project Structure

The Partnership has appointed a dedicated project manager to lead the conversion to IFRS. The project manager is working with other members of the finance team to execute the implementation plan. An implementation team is working closely with senior management in a number of different business areas to ensure that the impacts of the conversion throughout the business are managed in a timely and efficient manner. A steering committee has been established to oversee the project.

Process and Timing

The process of converting to IFRS has been divided into a number of different stages, many of which will run concurrently. A detailed analysis is substantively complete and a number of areas identified for further consideration before the date of transition. Various accounting policy choices have been identified to date and are being considered by the steering committee. The Partnership continues to monitor standards development as issued by the International Accounting Standards Board (IASB) and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Partnership's adoption of IFRS.

Any changes required to systems and controls (including information technology systems) will be identified as the project progresses; these are currently projected to be designed and tested by the end of the fourth quarter of 2009.

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

Progress to Date

At September 30, 2009, the Partnership is close to completing a detailed diagnostic of the impact of IFRS on the Partnership's financial statements. A number of issues had been identified for discussion by senior management before final decisions are made with respect to accounting policy choices and elections. The Partnership has identified a number of key areas where it is likely to be impacted by changes in accounting policy. These include:

- Employee future benefits
- Property, plant, equipment
- Impairment of assets
- Provisions, including asset retirement obligations
- Presentation of financial statements

As the Partnership has not yet selected its accounting policy choices and IFRS 1 exemptions, the Partnership is unable to quantify the impact of IFRS on its financial statements. The areas of significance identified above are based on available information and the Partnership's expectations as of the date of this disclosure and thus, are subject to change for new facts and circumstances.

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
RECONCILIATION OF NET INCOME TO EBITDA				
Net Income (loss)	**$ 18.3**	$ 11.1	**$ (1.8)**	$ 72.8
Add (deduct):				
Amortization	**12.6**	13.2	**36.8**	36.8
Net interest expense	**2.8**	2.1	**7.9**	5.5
Foreign exchange (gain) loss on long-term debt	**(9.9)**	5.2	**(16.7)**	7.9
Loss (gain) on derivative financial instruments	**(3.4)**	12.7	**2.0**	(2.2)
Foreign exchange loss (gain) on working capital	**4.6**	(3.8)	**6.2**	(6.1)
Loss on disposal of fixed assets	**-**	0.7	**-**	1.2
Net property damage insurance gain	**-**	-	**(0.2)**	(8.5)
Gain on settlement of asset retirement obligation	**-**	(0.9)	**-**	(0.9)
Other expense	**0.1**	0.3	**0.3**	0.6
EBITDA	**$ 25.1**	$ 40.6	**$ 34.5**	$ 107.1
EBITDA per Partnership unit	**$ 0.35**	$ 0.57	**$ 0.48**	$ 1.50

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH				
Cash flow from operating activities [1]	**$ 49.1**	$ 26.7	**$ 93.7**	$ 83.2
Deduct: Capital expenditures – cash	**(6.2)**	(2.9)	**(14.4)**	(21.3)
Standardized distributable cash [1]	**$ 42.9**	$ 23.8	**$ 79.3**	$ 61.9
Adjustments to standardized distributable cash:				
Add (deduct):				
Increase (decrease) in non-cash working capital [1]	**(30.6)**	19.8	**(75.6)**	28.9
Net long-term deferred maintenance	**-**	(3.2)	**1.1**	(1.1)
Capital expenditures - accruals	**(0.9)**	(2.8)	**3.4**	2.8
Asset retirement obligation – current expenditures and accruals [1]	**-**	1.2	**-**	2.1
Adjusted distributable cash	**$ 11.4**	$ 38.8	**$ 8.2**	$ 94.6
Standardized distributable cash – per Partnership unit (in dollars) [1]	**$ 0.60**	$ 0.33	**$ 1.11**	$ 0.87
Adjusted distributable cash – per Partnership unit (in dollars)	**$ 0.16**	$ 0.54	**$ 0.12**	$ 1.33
Cash distributions declared (paid and payable)	**$ 2.2**	$ 25.7	**$ 8.6**	$ 77.0
Cash distributions declared – per Partnership unit (in dollars)	**$ 0.03**	$ 0.36	**$ 0.12**	$ 1.08

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

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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

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

Management determines the level of cash distributions based on the level of cash flow from operations before changes in non-cash working capital and long-term deferred maintenance, asset retirement obligation expenditures and accruals, less actual capital expenditures. During the year distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is expected that normal seasonal fluctuations in working capital will be funded from cash resources or the revolving short-term credit facility.

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

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

(thousands of dollars, except unit and per unit amounts, unaudited)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Income				
Equity income (loss) in Canfor Pulp Limited Partnership	**$ 9,098**	$ 5,513	**$ (918)**	$ 36,226
Net income (loss) before future income taxes	**9,098**	5,513	**$ (918)**	$ 36,226
Future income taxes (recovery) (note 6)	**601**	305	**(3,081)**	2,336
Net income	**8,497**	5,208	**2,163**	33,890
Distributions declared (note 4)	**(1,065)**	(12,778)	**(4,260)**	(38,333)
Earnings in excess of distributions – surplus (deficit)	**$ 7,432**	$ (7,570)	**$ (2,097)**	$ (4,443)
Net income per unit, basic and diluted	**$ 0.24**	$ 0.15	**$ 0.06**	$ 0.95
Weighted average number of units	**35,493,505**	35,493,505	**35,493,505**	35,493,517

Net income for the period	**$ 8,497**	5,208	**2,163**	33,890
Equity interest in other comprehensive income (loss) of Canfor Pulp Limited Partnership	**14**	(104)	**(15)**	(284)
Comprehensive income	**$ 8,511**	$ 5,104	**$ 2,148**	$ 33,606

Accumulated Earnings and Distributions				
Balance, beginning of period – distributions in excess of earnings	**$ (82,392)**	$ (41,669)	**$ (72,863)**	$ (44,796)
Earnings in excess of distributions – surplus (deficit), current period	**$ 7,432**	$ (7,570)	**$ (2,097)**	$ (4,443)
Balance, end of period – Accumulated distributions in excess of earnings	**$ (74,960)**	$ (49,239)	**$ (74,960)**	$ (49,239)

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

Canfor Pulp Income Fund
Consolidated Statements of Cash Flows

(thousands of dollars, unaudited)	Three months ended **September 30, 2009**	Three months ended September 30, 2008	Nine months ended **September 30, 2009**	Nine months ended September 30, 2008
Cash generated from (used in)				
Operating activities				
Net income	**$ 8,497**	$ 5,208	**$ 2,163**	$ 33,890
Items not affecting cash:				
Equity (income) loss in Canfor Pulp Limited Partnership	**(9,098)**	(5,513)	**918**	(36,226)
Future income taxes (recovery)	**601**	305	**(3,081)**	2,336
Distributions received from Canfor Pulp Limited Partnership	**1,065**	12,778	**5,324**	38,333
	1,065	12,778	**5,324**	38,333
Financing activities				
Distributions paid to Unitholders	**$ (1,065)**	$ (12,778)	**$ (5,324)**	$ (38,333)
Beginning, change and ending balance in cash and cash equivalents	**$ -**	$ -	**$ -**	$ -

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

Canfor Pulp Income Fund
Consolidated Balance Sheets

(thousands of dollars, unaudited)		**As at September 30, 2009**		As at December 31, 2008
ASSETS				
Current assets				
Distributions receivable from Canfor Pulp Limited Partnership (notes 4,5)	$	**355**	$	1,420
Total current assets		**355**		1,420
Equity investment in Canfor Pulp Limited Partnership (note 3)		**261,081**		266,274
	$	**261,436**	$	267,694
LIABILITIES				
Current liabilities				
Distributions payable (note 4)	$	**355**	$	1,420
Total current liabilities		**355**		1,420
Future income taxes (note 6)		**36,628**		39,709
	$	**36,983**	$	41,129
UNITHOLDERS' EQUITY				
Unitholders' equity – 35,493,505 Fund units outstanding	$	**299,351**	$	299,351
Accumulated earnings and distributions		**(74,960)**		(72,863)
Accumulated other comprehensive income (note 7)		**62**		77
Total Unitholders' Equity		**224,453**		226,565
	$	**261,436**	$	267,694

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

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

Approved by the Trustees

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

Stan Bracken-Horrocks Charles Jago

Canfor Pulp Income Fund

Notes to the Unaudited Interim Consolidated Financial Statements as at September 30, 2009

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

Canfor Pulp Income Fund (the Fund) is an unincorporated open-ended trust established under the laws of Ontario on April 21, 2006, pursuant to the Fund Declaration. The principal head office of the Fund is located at 1700 West 75th Avenue, Vancouver, BC, Canada. The Fund has been established to acquire and hold, through a wholly owned trust, the Canfor Pulp Trust (the Trust), investments in the Limited Partnership Units of the Canfor Pulp Limited Partnership (the Partnership), and such other investments as the Trustees of the Fund may determine. The general partner of the Partnership is Canfor Pulp Holding Inc. (the General Partner) and each partner holds an ownership interest in the General Partner equal to its Partnership interest.

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

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

2. Significant Accounting Policies

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

3. Equity Investment in Canfor Pulp Limited Partnership

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

(thousands of dollars, unaudited)	**Nine months ended September 30, 2009**	Year ended December 31, 2008
Balance, beginning of period	**266,274**	291,458
Equity interest in income (loss) of the Partnership	**(918)**	23,280
Equity interest in other comprehensive loss of the Partnership	**(15)**	(193)
Distributions from the Partnership	**(4,260)**	(48,271)
Balance, end of period	**261,081**	266,274

4. Distributions

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

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

Record Date	**Payable Date**	**Amount per Fund Unit $**	**Amount $**
January 30, 2009	February 13, 2009	0.04	1,420
February 27, 2009	March 13, 2009	0.01	355
March 31, 2009	April 15, 2009	0.01	355
April 30, 2009	May 15, 2009	0.01	355
May 29, 2009	June 15, 2009	0.01	355
June 30, 2009	July 15, 2009	0.01	355
July 31, 2009	August 14, 2009	0.01	355
August 31, 2009	September 15, 2009	0.01	355
September 30, 2009	October 15, 2009	0.01	355
		0.12	4,260

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

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

5. Related Party Transactions

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended September 30, 2009 were $1.1 million of which $0.7 million was received, with the balance of $0.4 million receivable on September 30, 2009.

6. Future Income Taxes

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

(thousands of dollars, unaudited)	**Nine months ended September 30, 2009**	Year ended December 31, 2008
Expected income tax expense at statutory tax rate of nil (2008 – nil)	**-**	-
Future income taxes (recovery) on temporary differences	**(3,081)**	3,076
	(3,081)	3,076

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

(thousands of dollars, unaudited)	**September 30, 2009**	December 31, 2008
Future income tax liability:		
Equity investment in the Partnership	**43,476**	44,453
Expected reversal of temporary differences prior to 2011	**(6,848)**	(4,744)
	36,628	39,709

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

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

7. Accumulated Other Comprehensive Income

(thousands of dollars, unaudited)	**Nine months ended September 30, 2009**	Year ended December 31, 2008
Balance, beginning of period	**77**	270
Other comprehensive loss	**(15)**	(193)
Balance, end of period	**62**	77

8. Financial Instruments

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

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

9. Segmented Information

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

Canfor Pulp Limited Partnership

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

(millions of dollars, except units and per unit amounts, unaudited)	Three months ended **September 30, 2009**	Three months ended September 30, 2008	Nine months ended **September 30, 2009**	Nine months ended September 30, 2008
Revenue				
Sales	**$ 202.0**	$ 215.4	**$ 593.3**	$ 639.4
Business interruption insurance	**-**	3.5	**3.2**	18.2
	202.0	218.9	**596.5**	657.6
Costs and expenses				
Manufacturing and product costs	**140.3**	143.6	**452.4**	451.5
Freight and other distribution costs	**30.6**	29.8	**91.5**	82.3
Amortization	**12.6**	13.2	**36.8**	36.8
Selling and administration costs	**6.1**	5.7	**18.2**	18.2
Settlement of asset retirement obligation	**-**	(0.9)	**-**	(0.9)
	189.6	191.4	**598.9**	587.9
Operating income (loss)	**12.4**	27.5	**(2.4)**	69.7
Interest expense, net	**(2.8)**	(2.1)	**(7.9)**	(5.5)
Foreign exchange gain (loss) on long-term debt	**9.9**	(5.2)	**16.7**	(7.9)
Gain (loss) on derivative financial instruments (note 12)	**3.4**	(12.7)	**(2.0)**	2.2
Foreign exchange (loss) gain on working capital	**(4.6)**	3.8	**(6.2)**	6.1
Net property damage insurance gain	**-**	-	**0.2**	8.5
Other expense	**-**	(0.2)	**(0.2)**	(0.3)
	5.9	(16.4)	**0.6**	3.1
Net income (loss)	**18.3**	11.1	**(1.8)**	72.8
Other comprehensive loss				
Adjustment for derivatives (note 15)	**-**	(0.2)	**(0.1)**	(0.5)
Comprehensive income (loss)	**$ 18.3**	$ 10.9	**$ (1.9)**	$ 72.3
Net income (loss) per Partnership unit (in dollars) (note 11)				
Basic and diluted	**$ 0.26**	$ 0.15	**$ (0.02)**	$ 1.02
Weighted average Partnership units outstanding	**71,270,025**	71,270,025	**71,270,025**	71,270,025
Partners' Equity				
Balance, beginning of period	**$ 507.8**	$ 595.0	**$ 534.4**	$ 584.9
Net income (loss)	**18.3**	11.1	**(1.8)**	72.8
Distributions declared to partners (note 14)	**(2.2)**	(25.7)	**(8.6)**	(77.0)
Other comprehensive loss (note 15)	**-**	(0.2)	**(0.1)**	(0.5)
Balance, end of period	**$ 523.9**	$ 580.2	**$ 523.9**	$ 580.2

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

Canfor Pulp Limited Partnership
Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income (loss)	**$ 18.3**	$ 11.1	**$ (1.8)**	$ 72.8
Items not affecting cash:				
Amortization	**12.6**	13.2	**36.8**	36.8
Foreign exchange (gain) loss on long-term debt	**(9.9)**	5.2	**(16.7)**	7.9
Reduction (increase) in value of outstanding derivative financial instruments (note 12)	**(4.0)**	12.7	**(1.2)**	(2.2)
Employee future benefits	**1.5**	2.0	**3.7**	6.1
Loss on disposal of fixed assets	**-**	0.7	**-**	1.2
Settlement of asset retirement obligation	**-**	(0.9)	**-**	(0.9)
Change in long-term maintenance provision	**0.8**	3.4	**2.3**	8.3
Net property damage insurance gain	**-**	-	**(0.2)**	(8.5)
Other	**0.5**	0.1	**0.5**	0.4
Asset retirement obligation expenditures	**-**	(0.3)	**-**	(1.2)
Salary pension plan contribution	**(0.5)**	(0.5)	**(1.9)**	(1.4)
Long-term maintenance expenditure	**(0.8)**	(0.2)	**(3.4)**	(7.2)
Cash flow from operations before working capital changes	**18.5**	46.5	**18.1**	112.1
Changes in non-cash working capital (note 13)	**30.6**	(19.8)	**75.6**	(28.9)
	49.1	26.7	**93.7**	83.2
Financing activities				
Distributions paid to partners	**(2.2)**	(25.7)	**(10.7)**	(77.0)
Operating loan (repayment) draw (note 8)	**(15.1)**	(0.8)	**(25.2)**	4.2
	(17.3)	(26.5)	**(35.9)**	(72.8)
Investing activities				
Property, plant and equipment, net (note 13)	**(6.2)**	(8.6)	**(14.4)**	(27.0)
Net insurance proceeds	**-**	-	**0.1**	8.0
	(6.2)	(8.6)	**(14.3)**	(19.0)
Increase (decrease) in cash and cash equivalents	**25.6**	(8.4)	**43.5**	(8.6)
Cash and cash equivalents, beginning of period	**18.3**	2.4	**0.4**	2.6
Cash and cash equivalents, end of period	**$ 43.9**	$ (6.0)	**$ 43.9**	$ (6.0)

Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity date of 90 days or less net of outstanding cheques.

Supplementary cash flow information (note 13).

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

Canfor Pulp Limited Partnership
Consolidated Balance Sheets

(millions of dollars, unaudited)	As at September 30, 2009	As at December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	**$ 43.9**	$ 0.4
Accounts receivable (note 10)		
Trade	**102.2**	77.0
Insurance	**-**	7.4
Other	**4.5**	7.5
Inventories (note 3)	**140.0**	176.7
Prepaid expenses and other assets	**13.5**	16.5
Total current assets	**304.1**	285.5
Property, plant and equipment (note 4)	**544.3**	570.2
Other long-term assets (note 5)	**13.5**	13.2
	$ 861.9	$ 868.9
LIABILITIES		
Current liabilities		
Operating loan (note 8)	**$ -**	$ 25.2
Accounts payable and accrued liabilities (note 10)	**166.9**	121.6
Distributions payable (note 14)	**0.7**	2.8
Total current liabilities	**167.6**	149.6
Long-term debt (note 8)	**117.9**	134.7
Long-term liabilities (note 9)	**52.5**	50.2
	$ 338.0	$ 334.5
PARTNERS' EQUITY – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units (note 1)	**523.9**	534.4
	$ 861.9	$ 868.9

Description of the Partnership and basis of presentation of financial statements (note 1).
Contingency (note 13)
Subsequent event (note 17)
The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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

"Stan Bracken-Horrocks" *"Paul Richards"*

Stan Bracken-Horrocks
Director

Paul Richards
Director

Canfor Pulp Limited Partnership

Notes to the Unaudited Interim Consolidated Financial Statements as at September 30, 2009

1. Business Description and Basis of Presentation

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

At September 30, 2009, Canfor owned 50.2% and Canfor Pulp Income Fund (the Fund) indirectly owned 49.8% of the issued and outstanding units of the Partnership.

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

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

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

Economic Dependence

The Partnership depends on Canfor to provide approximately 62% (2008 Year – 64%) of its fibre supply as well as to provide certain key business and administrative services as described in the Fund's 2008 Annual Report available at www.canforpulp.com or www.sedar.com. As a result of these relationships the Partnership considers its operations to be dependent on its ongoing relationship with Canfor.

2. Significant Accounting Policies

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

3. Inventories

(millions of dollars, unaudited)	**September 30, 2009**	December 31, 2008
Pulp	**59.2**	86.7
Paper	**15.5**	20.6
Wood chips	**21.9**	23.3
Processing materials and supplies	**43.4**	46.1
	140.0	176.7

4. Property, Plant and Equipment

(millions of dollars, unaudited)	**September 30, 2009** Cost	Accumulated amortization	Net
Land and improvements	**5.4**	**-**	**5.4**
Asset retirement - Landfill	**2.3**	**0.8**	**1.5**
Buildings, machinery and equipment	**1,321.8**	**793.5**	**528.3**
Construction in progress	**9.1**	**-**	**9.1**
	1,338.6	**794.3**	**544.3**

(millions of dollars, unaudited)	December 31, 2008 Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.8	1.5
Buildings, machinery and equipment	1,318.6	757.7	560.9
Construction in progress	2.4	-	2.4
	1,328.7	758.5	570.2

5. Other Long-term Assets

(millions of dollars, unaudited)	**September 30, 2009**	December 31, 2008
Pension benefit plan	**11.4**	11.7
Maintenance shutdown costs	**1.9**	0.9
Other	**0.2**	0.6
	13.5	13.2

6. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

	Three months ended		**Nine months ended**	
(millions of dollars, unaudited)	**September 30, 2009**	September 30, 2008	**September 30, 2009**	September 30, 2008
Pension plans	**1.2**	0.9	**3.7**	2.8
Other employee future benefit plans	**0.9**	1.5	**2.6**	4.5
Contributions to forest industry union plans	**1.7**	1.7	**5.0**	5.1
	3.8	4.1	**11.3**	12.4

7. Asset Retirement Obligations

(millions of dollars, unaudited)	**September 30, 2009**	December 31, 2008
Balance beginning of period	**2.8**	11.3
Accretion expense	**0.1**	0.4
Current expenditures	**-**	(1.2)
Gain on settlement	**-**	(0.9)
Change in estimate	**-**	(6.8)
Balance end of period	**2.9**	2.8

8. Credit Facilities and Long-term Debt

At the end of the current quarter, the Partnership had cash and cash equivalents of $43.9 million. On September 30, 2009 the Partnership completed a new $40 million bank credit facility with a maturity date of November 30, 2011. In addition, the Partnership has arranged a $25 million letter of credit facility, subject to completion of legal documentation. This replaced the Partnership's previous operating credit facility of $75 million which was scheduled to mature on November 30, 2009. On September 30, 2009, utilization of the new facility consisted of $16.5 million of standby letters of credit issued to B.C. Hydro. The general terms and conditions of the new financing are similar to the previous bank credit facility, with interest and other costs at prevailing market rates. The leverage ratio and interest coverage ratio remain consistent with the financial covenants under the long-term Note agreement, which agreement was unchanged and not affected by the new bank financing.

At September 30, 2009 the Partnership has outstanding long-term debt of $117.9 million (US$110.0 million) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

The agreements covering the new financing facility and the long-term Notes contain financial covenants including four quarter trailing maximum allowable debt to EBITDA leverage ratio of 3.25 and minimum required EBITDA to interest coverage ratio of 2.5. The Partnership remained in compliance with all covenants at September 30, 2009.

The fair value of long-term debt at September 30, 2009 was $123.7 million (US$115.4 million).

9. Long-term Liabilities

(millions of dollars, unaudited)	**September 30, 2009**	December 31, 2008
Accrued pension obligations	**5.7**	5.9
Post-employment benefits	**42.6**	40.8
Derivative financial instruments (note 12)	**1.3**	0.7
Asset retirement obligations (note 7)	**2.9**	2.8
	52.5	50.2

10. Related Party Transactions

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

(millions of dollars, unaudited)	Three months ended **September 30, 2009**	 September 30, 2008	Nine months ended **September 30, 2009**	 September 30, 2008
Transactions				
Canfor	**33.8**	34.0	**89.1**	111.0
Howe Sound LP – commission	**0.7**	0.7	**1.9**	2.1
Howe Sound LP – sale of wood chips	**-**	0.1	**0.1**	0.5
Lakeland Mills Ltd. and Winton Global Lumber Ltd. – purchase of wood chips	**0.9**	1.1	**2.7**	5.1

	September 30, 2009	December 31, 2008
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**63.2**	27.4
Howe Sound LP	**37.0**	20.4
Lakeland Mills Ltd. and Winton Global Lumber Ltd.	**0.3**	0.2
Included in trade accounts receivable:		
Product marketed for Canfor	**19.7**	9.9
Product marketed for Howe Sound LP	**21.1**	16.9

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

11. Net Income (loss) per Partnership Unit

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

12. Financial Instruments

Classification of Financial Instruments

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

Financial Risk Management

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

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

I. *Credit risk:*

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

In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions. The cash and cash equivalents balance at September 30, 2009 was $43.9 million. The Partnership does not believe there is any significant credit risk associated with cash on deposit held in major Canadian and international financial institutions.

The Partnership utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 74% of the outstanding trade receivables are covered under credit insurance. In addition, the Partnership requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. The Partnership recognizes the sale of the letters of credit at the settlement date, and accordingly reduces the related trade account receivable balance. At September 30, 2009, the Partnership had reduced the trade accounts receivable balance by $33.2 million due to discounting of letters of credit. The Partnership's trade receivable balance at September 30, 2009 was $102.2 million. The Partnership believes that its approach to managing credit risk associated with the collection of outstanding trade accounts receivable is appropriate in the current credit market.

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

II. *Liquidity risk:*

Liquidity risk is the risk that the Partnership will be unable to meet its financial obligations as they fall due. The Partnership manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities, and use of the new revolving credit facility to meet short-term working capital requirements. On September 30, 2009 the Partnership completed a new $40 million bank credit facility with a maturity date of November 30, 2011. In addition, the Partnership has arranged a $25 million letter of credit facility, subject to completion of legal documentation.

The Partnership also actively reviews on an ongoing basis, the level of distributions, capital expenditures and timing of scheduled major maintenance outages and may adjust these amounts periodically to ensure adequate cash is available. In addition, the Partnership discounts letters of credit on outstanding trade receivables to manage liquidity risk. At September 30, 2009, the impact of discounting of letters of credit accelerated cash collection and reduced the trade accounts receivable balance by $33.2 million. The Partnership believes it will be able to meet all financial obligations as they come due.

At September 30, 2009, the Partnership accounts payable and accrued liabilities totalled $166.9 million, all of which fall due for payment within one year of the balance sheet date. The Partnership's distributions payable at September 30, 2009 totalled $0.7 million, which fall due for payment on October 15, 2009.

III. *Market risk:*

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

a. Interest rate risk:

The Partnership is exposed to interest rate risk though its financial assets and financial obligations bearing variable interest rates and through its operating lease obligations. The Partnership's cash and cash equivalents include term deposits with an original maturity date of 90 days or less.

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

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

b. Currency risk:

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

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

c. Commodity price risk:

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

The Partnership may periodically use derivative instruments to mitigate commodity price risk. For the quarter ended September 30, 2009 the Partnership used derivative instruments to reduce exposure to natural gas prices.

Derivative Instruments

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

For the third quarter of 2009 the Partnership recorded a gain on derivative financial instruments of $3.4 million (third quarter 2008 – loss of $12.7 million) relating to the settlement of maturing contracts during the quarter, and the revaluation to market of outstanding contracts at the end of the quarter, for natural gas swaps and foreign exchange hedging contracts.

The Partnership recorded losses of $2.5 million during the third quarter of 2009 (third quarter 2008 – gain of $0.8 million) relating to settlement of maturing natural gas contracts as a charge to non-operating income. At September 30, 2009 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 2.1 million gigajoules extending to October, 2011. At September 30, 2009 the loss of $4.3 million (December 31, 2008 – $3.2 million) on these outstanding commodity swaps was recorded as a liability in accounts payable and accrued liabilities and in long-term liabilities.

The Partnership recorded a gain of $1.9 million during the third quarter of 2009 (third quarter 2008 – nil) on settlement of maturing US dollar forward sales contracts as a charge to non-operating income. At September 30, 2009 the Partnership had outstanding US dollar forward sales contracts of $57.0 million extending to December, 2009. At September 30, 2009 the gain of $1.0 million (December 31, 2008 – $1.3 million) on these outstanding US dollar forward sales contracts was recorded as an asset in other accounts receivable.

13. Supplementary Cash Flow Information

(millions of dollars, unaudited)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Changes in non-cash working capital				
Accounts receivable – trade and other	**11.2**	16.8	**(21.1)**	21.6
Insurance receivable	**-**	(3.7)	**7.3**	(8.8)
Inventories	**(6.0)**	(17.4)	**36.8**	(33.7)
Prepaid expenses and other assets	**(0.3)**	(1.6)	**3.0**	(7.7)
Accounts payable and accrued liabilities	**25.7**	(13.9)	**49.6**	(0.3)
	30.6	(19.8)	**75.6**	(28.9)
Capital expenditures				
Capital expenditures – cash	**6.2**	8.6	**14.4**	27.0
Less property damage insurance proceeds	**-**	(5.7)	**-**	(5.7)
Net capital expenditures – cash	**6.2**	2.9	**14.4**	21.3
Capital expenditures – net accruals	**0.9**	2.8	**(3.4)**	(2.8)
	7.1	5.7	**11.0**	18.5
Net interest paid	**0.5**	0.2	**5.3**	3.7

A payment to BC Hydro totaling $4.3 million is included in capital expenditures – cash, in the third quarter of 2009. This represents a payment to reduce the Partnership's obligation for power production from the cogeneration project at the Prince George Pulp and Paper Mill. The obligation to produce power for the remainder of the term of the agreement, extending to August 2020, is reduced to 338 GWh per year from 390 GWh effective September 15, 2009.

14. Distributions

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

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

Record Date	Payable Date	Amount per Partnership Unit $	Amount $
January 30, 2009	February 13, 2009	0.04	**2.9**
February 27, 2009	March 13, 2009	0.01	**0.7**
March 31, 2009	April 15, 2009	0.01	**0.7**
April 30, 2009	May 15, 2009	0.01	**0.7**
May 29, 2009	June 15, 2009	0.01	**0.7**
June 30, 2009	July 15, 2009	0.01	**0.7**
July 31, 2009	August 14, 2009	0.01	**0.8**
August 31, 2009	September 15, 2009	0.01	**0.7**
September 30, 2009	October 15, 2009	0.01	**0.7**
		0.12	**8.6**

15. Accumulated Other Comprehensive Income

(millions of dollars, unaudited)	Nine months ended September 30, 2009	Year ended December 31, 2008
Balance, beginning of period	**0.1**	0.5
Adjustment for exchange translation	**(0.1)**	0.2
Adjustment for derivatives recorded in other comprehensive income	**-**	(0.6)
Balance, end of period	**-**	0.1

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

(millions of dollars, unaudited)	**September 30, 2009**
Cumulative comprehensive income	**261.5**
Cumulative distributions	**(325.1)**
	(63.6)
Partners' capital – at July 1, 2006	**587.5**
Partners' equity, end of period	**523.9**

16. Segmented Information [a]

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs	Total
Three months ended September 30, 2009				
Sales to external customers [b]	**170.1**	**31.9**	**-**	**202.0**
Sales of pulp to paper segment [c]	**16.2**	**(16.2)**	**-**	**-**
Operating income (loss)	**11.6**	**3.2**	**(2.4)**	**12.4**
Amortization	**11.7**	**0.8**	**0.1**	**12.6**
Capital expenditures, net	**7.1**	**-**	**-**	**7.1**
Three months ended September 30, 2008				
Sales to external customers [b]	181.7	33.7	-	215.4
Sales of pulp to paper segment [c]	21.1	(21.1)	-	-
Operating income (loss)	26.8	3.7	(3.0)	27.5
Amortization	12.2	1.0	-	13.2
Capital expenditures, net	11.2	-	0.2	11.4
Nine months ended September 30, 2009				
Sales to external customers [b]	**503.1**	**90.2**	**-**	**593.3**
Sales of pulp to paper segment [c]	**42.8**	**(42.8)**	**-**	**-**
Operating income (loss)	**(6.2)**	**10.5**	**(6.7)**	**(2.4)**
Amortization	**34.1**	**2.5**	**0.2**	**36.8**
Capital expenditures, net	**10.9**	**-**	**0.1**	**11.0**
Identifiable assets	**735.0**	**65.0**	**61.9**	**861.9**
Nine months ended September 30, 2008				
Sales to external customers [b]	536.1	103.3	-	639.4
Sales of pulp to paper segment [c]	61.4	(61.4)	-	-
Operating income (loss)	72.9	6.9	(10.1)	69.7
Amortization	33.8	2.9	0.1	36.8
Capital expenditures, net	23.5	0.4	0.3	24.2
Identifiable assets	831.8	71.9	17.1	920.8

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

(b) Sales to the largest customer represented approximately 8% of pulp segment sales (Year 2008 – 22%).

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

17. Subsequent event

On October 9, 2009 the Canadian federal government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the Program). The Partnership has been allocated $122.2 million from the Program announced by the Canadian government on June 17, 2009. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the program end date of March 31, 2012.