CANFOR PULP PRODUCTS INC.

CANFOR PULP LIMITED PARTNERSHIP

Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2011

Canfor Pulp Products Inc.
Condensed Balance Sheets
(unaudited)

(thousands of dollars)	**As at March 31, 2011**	As at December 31, 2010	As at January 1, 2010
ASSETS			
Current assets			
Cash and cash equivalents	**$ 18,463**	$ -	$ -
Distributions receivable from Canfor Pulp Limited Partnership (note 7)	**9,228**	19,521	2,839
Total current assets	**27,691**	19,521	2,839
Equity investment in Canfor Pulp Limited Partnership (note 6)	**237,866**	240,425	249,593
	$ 265,557	$ 259,946	$ 252,432
LIABILITIES			
Current liabilities			
Due to Canfor Pulp Limited Partnership (note 7)	**$ 977**	$ -	$ -
Distributions payable	**-**	19,521	2,839
Income taxes payable	**4,964**	-	-
Total current liabilities	**5,941**	19,521	2,839
Fund units (note 5)	-	509,687	310,568
Deferred income tax liability (note 8)	**31,521**	52,854	55,637
	$ 37,462	$ 582,062	$ 369,044
SHAREHOLDERS' EQUITY (DEFICIT)			
Unitholders' deficit (Note 5)	**$ -**	$ (322,116)	$ (116,612)
Shareholders' capital (Note 5)	**509,687**	-	-
Retained earnings (deficit)	**(281,592)**	-	-
Total Shareholders' equity (deficit)	**228,095**	(322,116)	(116,612)
	$ 265,557	$ 259,946	$ 252,432

Subsequent event (note 11)

Canfor Pulp Products Inc.
Condensed Statements of Comprehensive Income (loss)
(unaudited)

(thousands of dollars, except unit and per unit amounts)	Three months ended March 31, 2011	Three months ended March 31, 2010
Income		
Equity income in Canfor Pulp Limited Partnership	**$ 25,227**	$ 16,473
Cost and expenses		
Administrative expenses (note 7)	**969**	-
Increase in amortized cost of Fund units	**-**	124,227
Financing expense (distributions declared)	**-**	11,357
	969	135,584
Net income (loss) before income taxes	**24,258**	(119,111)
Income tax recovery (note 8)	**16,367**	269
Net income (loss)	**$ 40,625**	$ (118,842)
Equity interest in other comprehensive loss related to actuarial losses of Canfor Pulp Limited Partnership	**(101)**	(4,722)
Comprehensive income (loss)	**$ 40,524**	$ (123,564)
Net income (loss) per share, basic and diluted	**$ 1.14**	$ (3.34)
Weighted average number of shares/ units (note 4)	**35,493,307**	35,493,307

Canfor Pulp Products Inc.
Condensed Statements of Changes in Equity
(unaudited)

(thousands of dollars)	Three months ended March 31, 2011	March 31, 2010
Share capital (unitholders capital)		
Balance beginning of period	**$ -**	$ -
Corporate conversion (notes 1,5)	**509,687**	-
Balance beginning and end of period	**509,687**	-
Retained earnings (deficit)		
Balance beginning of period	**(322,116)**	(116,612)
Net income (loss) for the period	**40,625**	(118,842)
Defined benefit plan actuarial losses of the Partnership included in other comprehensive income	**(101)**	(4,722)
Balance at end of period	**$ (281,592)**	$ (240,176)
Total equity	**$ 228,095**	$ (240,176)

Canfor Pulp Products Inc.
Condensed Statements of Cash Flows
(unaudited)

(thousands of dollars)	Three months ended March 31, 2011		Three months ended March 31, 2010	
Cash generated from (used in)				
Operating activities				
Net income (loss) before tax	**$**	**24,258**	$	(119,111)
Items not affecting cash:				
Equity income in Canfor Pulp Limited Partnership		**(25,227)**		(16,473)
Increase in amortized cost of Fund units		**-**		124,227
Financing expense (distributions declared)		**-**		11,357
Distributions received from Canfor Pulp Limited Partnership		**37,976**		9,938
Cash flow from operations before working capital changes		**37,007**		9,938
Due to Canfor Pulp Limited Partnership		**977**		-
Net cash from operations		**37,984**		9,938
Financing activities				
Distributions paid to unitholders	**$**	**(19,521)**	$	(9,938)
Change in cash and cash equivalents	**$**	**18,463**	$	-
Beginning balance in cash and cash equivalents		**-**		-
Ending balance in cash and cash equivalents	**$**	**18,463**	$	-

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

1. General information and reporting entity

Canfor Pulp Products Inc. (CPPI) is domiciled in Canada and listed on the Toronto Stock Exchange. The address of CPPI's registered office is 1700 – 666 Burrard Street, Vancouver, British Columbia, Canada V6C 2X8. The unaudited financial statements (the financial statements) include the accounts of CPPI.

CPPI has been established to acquire and hold an interest in Canfor Pulp Limited Partnership (the Partnership). The Partnership produces and sells Northern Bleached Softwood Kraft (NBSK) Pulp and fully bleached, high performance Kraft Paper. The Partnership operations consist 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.

At March 31, 2011, Canadian Forest Products Ltd. (Canfor) owns 50.2% and CPPI owns 49.8% of the issued and outstanding units of the Partnership.

Corporate Conversion Arrangement

CPPI is a company formed on March 16, 2010. On January 1, 2011 Canfor Pulp Income Fund (the Fund) completed a plan of arrangement whereby the Fund unitholders exchanged their Fund units for common shares in CPPI on a one-for-one basis. The unitholders of the Fund became the sole shareholders of CPPI which became the sole owner of all of the outstanding Fund units. Immediately following the conversion, the Fund was wound up, CPPI received all of the assets and assumed all of the liabilities of the Fund and CPPI became the direct holder of the 49.8% interest in the Partnership previously held by the Fund.

The financial statements have been prepared on a continuity of interest basis, which recognizes CPPI as the successor entity to the Fund. As a result, in current and future financial statements and Management's Discussion and Analysis, CPPI will refer to common shares, shareholders and dividends which were formerly referred to as units, unitholders and distributions under the trust structure; comparative amounts will reflect the history of the Fund.

2. Basis of preparation and adoption of IFRS

Statement of Compliance and Conversion to International Financial Reporting Standards

CPPI prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, CPPI has commenced reporting on this basis in these financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and IFRS 1, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Subject to certain transition elections disclosed in note 5, CPPI has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on CPPI's balance sheet, statements of comprehensive income (loss) and statements of cash flows, including the nature and effect of significant changes in accounting policies from those used in CPPI's financial statements for the year ended December 31, 2010 under Canadian GAAP.

The policies applied in these financial statements are based on IFRS issued and outstanding as of May 2, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in CPPI's annual financial statements for the year ending December 31, 2011 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS. The financial statements should be read in conjunction with CPPI's Canadian GAAP annual financial statements for the year ended December 31, 2010.

Basis of measurement

These financial statements have been prepared on the historical cost basis.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is CPPI's functional currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise that cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect CPPI's financial position.

Significant areas requiring the use of management estimates are the valuation of CPPI's investment in the Partnership relative to its market value and the determination of deferred income tax.

3. Significant accounting policies

Income Taxes

Income tax expense consists of current and deferred tax expense. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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

Cash and cash equivalents

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

4. Net Income per Share

Basic net income per Share is based on the weighted average number of Shares outstanding during the year. At March 31, 2011 and December 31, 2010 the Partnership had 35,776,483 Class B Exchangeable Limited Partnership Units outstanding which can be exchanged for Shares of CPPI at the option of the holder Canfor. Any issuance of new Shares as a result of such an exchange would be accompanied by a corresponding increase in CPPI's investment in the Partnership through the acquisition of Class B Exchangeable Limited Partnership Units. As a result, this potential conversion would not result in any dilution of CPPI's net income per share.

5. Transition to International Financial Reporting Standards

Application of IFRS 1

These financial statements are the first financial statements prepared by CPPI under IFRS. CPPI has applied IAS 34 and IFRS 1 First-time adoption of IFRS in preparing these financial statements.

CPPI's transition date to IFRS is January 1, 2010. CPPI prepared its opening IFRS balance sheet at that date. In preparing its opening IFRS balance sheet and comparative information for the quarter ended March 31, 2010 CPPI has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected CPPI's financial position, financial performance and cash flows is set out in the tables in this note and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, CPPI has applied the mandatory exception from retrospective application for Estimates.

Estimates under IFRS 1 as at January 1, 2010 should be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error. All other mandatory exceptions and optional exemptions from full retrospective application are not applicable for CPPI.

Reconciliations between IFRS and Canadian GAAP

The following reconciliations provide a quantification of the material impacts of the transition to IFRS on the Fund before the conversion of the Fund into a corporation (Note 1).

Reconciliation of Equity at January 1, 2010

(thousands of dollars, unaudited)		As at January 1, 2010
Previous Canadian GAAP – Total equity	**$**	226,357
Fund units [1]		(310,568)
CPPI share of Partnership IFRS transition adjustments [2]		(14,051)
Deferred income taxes [3]		(18,350)
IFRS – Total equity (deficit)	**$**	(116,612)

Reconciliation of equity at March 31, 2010

(thousands of dollars, unaudited)		As at March 31, 2010
Previous Canadian GAAP – Total equity	**$**	231,517
Fund units [1]		(434,795)
CPPI share of Partnership IFRS transition adjustments [2]		(14,051)
Deferred income taxes [3]		(18,403)
Effect of the increase in equity income from the Partnership under IFRS		251
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS		(4,695)
IFRS – Total equity (deficit)	**$**	(240,176)

Reconciliation of equity at December 31, 2010

(thousands of dollars, unaudited)		As at December 31, 2010
Previous Canadian GAAP – Total equity	$	225,301
Fund units [1]		(509,687)
CPPI share of Partnership IFRS transition adjustments [2]		(14,051)
Deferred income taxes [3]		(17,415)
Effect of the increase in equity income from the Partnership under IFRS		523
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS		(6,787)
IFRS – Total equity (deficit)	**$**	(322,116)

Reconciliation of comprehensive income (loss) for the three months ended March 31, 2010

(thousands of dollars, unaudited)		Three months ended March 31, 2010
Comprehensive income previous Canadian GAAP	**$**	16,517
Effect of the increase in equity income from the Partnership under IFRS		251
Fund units [1]		(124,227)
Distributions classified as a financing expense [1]		(11,357)
Deferred income taxes [3]		(53)
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS		(4,695)
Comprehensive loss - IFRS	**$**	(123,564)

Reconciliation of comprehensive income (loss) for the year ended December 31, 2010

(thousands of dollars, unaudited)		Year ended December 31, 2010
Comprehensive income previous Canadian GAAP	**$**	90,517
Effect of the increase in equity income from the Partnership under IFRS		523
Fund units [1]		(199,119)
Distributions classified as a financing expense [1]		(91,573)
Deferred income taxes [3]		935
Effect of the increase in CPPI's share in the Partnership's other comprehensive loss under IFRS		(6,787)
Comprehensive loss - IFRS	**$**	(205,504)

Notes to the Reconciliations

1) **IAS 32 Classification** - Under Canadian GAAP the Fund units were classified as equity. IAS 32 requires that the Fund units be classified as a financial liability under IFRS prior to conversion to a corporation. Under the terms of the Fund's trust indenture, unitholders had a puttable option, whereby the Fund would have been required to redeem Fund units at the request of the unitholder and required the Fund to distribute all of the taxable income received from the Partnership. In addition, the Fund's distributions were classified as a financing expense recorded in the statement of comprehensive income. The liability was recorded at amortized cost with changes recorded in the statement of comprehensive income. Upon conversion to a corporation effective January 1, 2011, the Fund units were converted on a one-for-one basis into shares of CPPI and the shares are classified as equity with dividends treated as an equity distribution.

2) **Canfor Pulp Limited Partnership conversion** – As a result of a change in accounting policies for the Partnership due to the conversion to IFRS, CPPI's equity income, investment and other comprehensive income has been restated. For further details on the impact of the transition on the Partnership see the Partnership's disclosure on pages 22 through 27.

3) **IAS 12 tax rate** - Under Canadian GAAP the Fund recorded temporary tax differences that are expected to reverse after 2010 based on specified investment flow through entity (SIFT) tax rates. However, IAS 12 requires that companies should use the undistributed rate for recording taxes. Therefore, under IFRS the rate to apply to temporary differences that are expected to reverse after 2010 would be the highest marginal personal tax rate (43.7%) rather than the SIFT rate. The highest marginal personal tax rate is the rate at which tax would be payable by the Fund should distributions not be declared. Subsequent to January 1, 2011 as a result of the conversion of the Fund into a corporation, the temporary tax differences are to be measured at the corporate tax rate (25.0%).

6. Equity Investment in Canfor Pulp Limited Partnership

CPPI's equity investment in the Partnership is as follows:

(thousands of dollars, unaudited)	**Three months ended March 31, 2011**	Year ended December 31, 2010
Balance, beginning of period	**240,425**	249,593
Equity interest in income of the Partnership	**25,227**	89,166
Equity interest in other comprehensive loss of the Partnership	**(101)**	(6,761)
Distributions from the Partnership	**(27,685)**	(91,573)
Balance, end of period	**237,866**	240,425

7. Related Party Transactions

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

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

8. Income Taxes

Immediately prior to converting to a corporation on January 1, 2011, the Fund, as a publicly traded income trust, was to be taxed on income starting in 2011, similarly to rules applying to corporations. Accordingly, deferred income tax assets and liabilities of the Fund were recognized with respect to estimated temporary differences between the carrying value of existing assets and liabilities and their respective tax bases that were expected to reverse starting in 2011 at the substantively enacted tax rate. The Fund was not subject to, and did not recognize, any deferred income tax assets or liabilities on temporary differences expected to reverse prior to 2011.

	Three months ended	
(thousands of dollars, unaudited)	**March 31, 2011**	March 31, 2010
Current income tax	**$ 4,964**	$ -
Deferred income tax	**(21,331)**	(269)
Income tax recovery	**$ (16,367)**	$ (269)

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

(thousands of dollars, unaudited)	Three months ended **March 31, 2011**
Income tax expense at statutory rate, 2011 – 26.5% (2010 – nil)	**$ 6,428**
Add (deduct):	
Permanent difference from capital gains on translation of US denominated debt	**(169)**
Change in statutory income tax rate (note 5)	**(22,626)**
Income tax recovery	**$ (16,367)**

9. Financial Instruments

CPPI's financial instruments consist of cash and cash equivalents, distributions receivable from the Partnership, amounts due to the Partnership and Fund units. Cash and cash equivalents are classified as held for trading, distributions receivable are classified as loans and receivables and are measured at amortized cost, and Fund units and due to the Partnership were classified as financial liabilities and measured at amortized cost. The carrying values of cash and cash equivalents, distributions receivable and due to the Partnership approximates the fair value due to the relatively short period to maturity. The Fund units were recorded at amortized costs which approximates fair value.

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

10. Segmented Information

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

11. Subsequent Event

Subsequent to the period end, dividends were declared in the amount of $0.40 per share to be paid on May 19, 2011 to shareholders of record at the close of business on May 12, 2011.

Canfor Pulp Limited Partnership
Condensed Consolidated Balance Sheets
(unaudited)

(millions of dollars)		**As at March 31, 2011**		As at December 31, 2010		As at January 1, 2010
ASSETS						
Current assets						
Cash and cash equivalents	**$**	**50.7**	$	64.2	$	13.5
Accounts receivable (note 10)						
Trade		**107.8**		108.0		110.5
Other		**11.7**		14.8		8.6
Green Transformation Program (note 13)		**26.0**		17.9		-
Inventories (note 7)		**116.3**		123.4		135.4
Prepaid expenses and other assets		**9.2**		11.0		3.1
Total current assets		**321.7**		339.3		271.1
Non-current assets						
Property, plant and equipment (note 5)		**502.3**		513.5		554.8
Other long-term assets		**0.4**		0.5		0.5
	$	**824.4**	$	853.3	$	826.4
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	**$**	**139.2**	$	139.3	$	134.5
Distributions payable		**18.5**		39.2		5.7
Total current liabilities		**157.7**		178.5		140.2
Non-current liabilities						
Long-term debt (note 9)		**106.9**		109.4		115.1
Post employment benefits (note 8)		**79.2**		79.8		66.0
Other long-term liabilities		**-**		-		1.2
Long-term provisions		**3.2**		3.1		3.0
Total liabilities	**$**	**347.0**	$	370.8	$	325.5
PARTNERS' EQUITY						
Partnership units (Note 6)		**587.5**		587.5		587.5
Cumulative distributions in excess of income		**(110.1)**		(105.0)		(86.6)
Total Partners' equity		**477.4**		482.5		500.9
	$	**824.4**	$	853.3	$	826.4

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

Canfor Pulp Limited Partnership
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(millions of dollars, except units and per unit amounts)	Three months ended March 31, 2011	March 31, 2010
Revenue		
Sales	**$ 252.3**	$ 239.5
	252.3	239.5
Costs and expenses		
Manufacturing and product costs	**149.0**	152.7
Freight and other distribution costs	**30.7**	31.1
Amortization	**16.5**	16.3
Selling and administration costs	**6.2**	6.4
	202.4	206.5
Operating income	**49.9**	33.0
Interest expense	**(2.1)**	(2.0)
Foreign exchange gain on long-term debt	**2.5**	3.4
Gain on derivative financial instruments	**1.6**	0.4
Foreign exchange loss on working capital	**(1.1)**	(1.8)
Other expense	**(0.1)**	-
	0.8	-
Net income	**$ 50.7**	$ 33.0
Other comprehensive income (loss)		
Actuarial losses recognized in accumulated distributions in excess of income	**(0.2)**	(9.4)
Total comprehensive income	**$ 50.5**	$ 23.6
Net income per Partnership unit, basic and diluted	**$ 0.71**	$ 0.46
Weighted average Partnership units outstanding	**71,270,025**	71,270,025

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

Canfor Pulp Limited Partnership
Condensed Consolidated Statements of Changes in Equity
(Unaudited)

(millions of dollars)	Three months ended March 31, 2011	March 31, 2010
Partnership units		
Balance at beginning and end of period	**$** 587.5	$ 587.5
Cumulative distributions in excess of income		
Balance beginning of period	**$** **(105.0)**	$ (86.6)
Net income for the period	**50.7**	33.0
Defined benefit plan actuarial losses	**(0.2)**	(9.4)
Distributions declared during the period (note 12)	**(55.6)**	(22.8)
Balance at end of period	**$** **(110.1)**	$ (85.8)
Total equity	**$** 477.4	$ 501.7

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

Canfor Pulp Limited Partnership
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(millions of dollars)	Three months ended March 31, 2011	March 31, 2010
Cash and cash equivalents generated from (used in)		
Operating activities		
Net income	**$ 50.7**	$ 33.0
Adjustments for:		
Amortization	**16.5**	16.3
Unrealized foreign exchange gain on long-term debt	**(2.5)**	(3.4)
Interest expense	**2.1**	2.0
Reduction (increase) in value of outstanding derivative instruments	**(0.4)**	1.2
Employee future benefits	**1.3**	1.5
Loss on disposal of fixed assets	**0.3**	-
Salary pension plan contribution	**(2.0)**	(0.6)
Cash flow from operations before working capital changes	**66.0**	50.0
Decrease (increase) in non-cash working capital		
Accounts receivable – trade and other	**2.5**	(13.2)
Inventories	**7.2**	6.7
Prepaid expenses and other assets	**1.8**	(1.1)
Accounts payable and accrued liabilities	**(2.3)**	5.4
Net cash from operations	**75.2**	47.8
Financing activities		
Distributions paid to partners	**(76.3)**	(19.9)
Interest paid	**(0.3)**	(0.2)
Net cash used in financing	**(76.6)**	(20.1)
Investing activities		
Property, plant and equipment	**(6.8)**	(6.5)
Green Transformation Program expenditures	**(16.7)**	-
Green Transformation Program reimbursements	**9.6**	-
Government grants received	**1.8**	-
Net cash used in investing	**(12.1)**	(6.5)
Increase (decrease) in cash and cash equivalents	**(13.5)**	21.2
Cash and cash equivalents, beginning of period	**64.2**	13.5
Cash and cash equivalents, end of period	**$ 50.7**	$ 34.7

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

Notes to the Condensed Consolidated Financial Statements as at March 31, 2011

(Unaudited, in millions of dollars unless otherwise noted)

1. General information and reporting entity

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 Partnership is domiciled in Canada. The address of the Partnership's registered office is 230-1700 West 75th Avenue, Vancouver, British Columbia, Canada V6P 6G2. The consolidated interim financial statements (the financial statements) include the accounts of the Partnership and its subsidiaries.

The Partnership is a producer of market NBSK Pulp and fully bleached, high performance Kraft Paper. The Partnership 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 March 31, 2011, Canfor owns 50.2% and Canfor Pulp Products Inc. (CPPI) owns 49.8% of the issued and outstanding units of the Partnership.

Economic Dependence

The Partnership depends on Canfor to provide approximately 54% (2010 – 56%) of its fibre supply as well as to provide certain key business and administrative services as described in note 10. As a result of these relationships the Partnership considers its operations to be dependent on its ongoing relationship with Canfor.

2. Basis of preparation and adoption of IFRS

Statement of Compliance and Conversion to International Financial Reporting Standards

The Partnership prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Partnership has commenced reporting on this basis in these financial statements. In these financial statements, the term Canadian GAAP refers to Canadian GAAP before the adoption of International Financial Reporting Standards (IFRS).

These financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and IFRS 1, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Subject to certain transition elections disclosed in note 4, the Partnership has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Partnership's balance sheet, statements of comprehensive income (loss) and statements of cash flows, including the nature and effect of significant changes in accounting policies from those used in the Partnership's consolidated financial statements for the year ended December 31, 2010 under Canadian GAAP.

The policies applied in these financial statements are based on IFRS issued and outstanding as of May 2, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Partnership's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS. The financial statements should be read in conjunction with the Partnership's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 5 discloses IFRS information for the year ended December 31, 2010 that is material to an understanding of these financial statements.

Basis of measurement

These financial statements have been prepared on the historical cost basis, except for derivative financial instruments measured at fair value through profit and loss.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Partnership's functional currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise that cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect the Partnership's financial position.

Significant areas requiring the use of management estimates are inventory valuations, amortization rates, employee benefit plan assumptions, asset retirement obligations, impairment of long-lived assets and environmental remediation.

3. Significant Accounting Policies

Principles of Consolidation

These financial statements include the accounts of the Partnership, its wholly owned subsidiaries and its 50% interest in Premium One Papers (a general partnership). The 50% interest in the general partnership is accounted for using proportionate consolidation.

(i) Subsidiaries

Subsidiaries are entities controlled by the Partnership. Control exists when the Partnership has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions have been eliminated.

(ii) Investments in jointly controlled entities (Joint Ventures)

Joint ventures are those entities over whose activities the Partnership has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. All joint ventures are accounted for using proportionate consolidation. Profits and losses resulting from 'upstream' and 'downstream' transactions are recognized in the Partnership's financial statements only to the extent of the unrelated interests in the joint venture.

Cash and Cash Equivalents

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

Valuation of Inventories

Inventories of pulp and paper products, wood chips and processing materials and supplies are valued at the lower of average cost and net realizable value. The cost of inventories includes production and conversion costs and other costs incurred in bringing them to their existing location and condition. The average cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Where market conditions result in the manufacturing costs of a product exceeding its net realizable value, a valuation allowance is made. Valuation provisions are also made for old, slow moving and obsolete finished goods and spare parts. Such valuation allowances are deducted from the carrying value of the inventories.

Property, Plant and Equipment

Items of property, plant and equipment, including expenditure on major inspections and overhauls, are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs, any other costs directly attributable to bringing assets to a working condition for their intended uses, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset form part of the cost of that asset.

Expenditure on major maintenance, refits or repairs is capitalized where it enhances the life or performance of an asset above its originally assessed standard of performance. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

The cost of routine maintenance and repairs and the replacement of minor parts, are charged to expense as incurred. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Partnership and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Depreciation is recognized in net income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

Assets are amortized over the following estimated productive lives:

Buildings	10 to 50 years
Pulp and paper machinery and equipment...............	20 years
Mobile equipment...	4 years
Office furniture and equipment.................................	10 years
Major maintenance...	1 to 2 years

Government Assistance

Government grants relating to the purchase of property, plant and equipment are deducted from the carrying value of the asset, the net cost being capitalized. Government grants related to income are recognized as income on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

Impairment of non-financial assets

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Partnership evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Provisions

A provision is recognized if, as a result of a past event, the Partnership has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The rate used to discount provisions reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Financial instruments

Financial assets and liabilities are recognized when the Partnership becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Partnership has transferred substantially all risks and rewards of ownership.

At initial recognition, the Partnership classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through net income: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category. The only instruments held by the Partnership classified in this category are natural gas swaps and US dollar forward contracts.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive income (loss). Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through net income are classified as current except for the portion to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Currently, the Partnership does not have any assets included in this category.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Partnership's loans and receivables are comprised of trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, bank debt and long-term debt. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(v) Derivative financial instruments: The Partnership utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange and commodity price risk. For example, from time to time, it purchases foreign exchange forward sales contracts to hedge related foreign currency denominated accounts receivable balances and also enters into swap transactions to reduce its exposure to fluctuating natural gas price. The Partnership records all derivatives at fair value through profit and loss and its policy is not to utilize derivative financial instruments for trading or speculative purposes.

Impairment of financial assets

At each reporting date, the Partnership assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Partnership recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Employee Future Benefits

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The cost of defined contribution pension plans is charged to expense as the contributions become payable. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

For hourly employees covered by industry union defined benefit pension plans, earnings are charged with the Partnership's contributions required under the collective agreements.

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Partnership, in participation with Canfor, has defined benefit plans that provide both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. The Partnership also provides certain health care benefits and pension bridging benefits to eligible retired employees.

The Partnership's net obligation in respect of a defined benefit pension plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the partnership's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Actuarial gains or losses arise from the difference between the actual and expected long-term rates of return on plan assets for a period or from changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the expected return on plan assets and the interest arising on the pension liability are included in the same line items in the statement of comprehensive income as the related compensation cost.

Past service costs are deferred and amortized on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in net income.

The Partnership is not recognizing potential liabilities resulting from minimum funding requirements under solvency assumptions, if the Partnership can demonstrate its ability to provide a letter of credit in the amount of the shortfall.

Partners' Capital

Partnership units are classified as equity. Incremental costs directly attributable to the issuance of units are recognized as a deduction from equity.

Interest Paid

Cash flows relating to interest paid have been classified as financing activities in the statement of cash flows.

Distributions

Distributions on Partnership units are recognized in the financial statements in the period in which the distributions are approved by the Board of Directors of the Partnership and treated as an equity distribution.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Partnership's activities. Sales are shown net of discounts, allowances and vendor rebates and after eliminating sales within the Partnership.

Revenues are derived from the following major product lines: pulp, paper, energy and sales commissions. Sales are recognized after the Partnership has transferred the risks and rewards of ownership to the buyer, it is probable that the economic benefits associated with the transaction will flow to the entity, collection is reasonably assured and the Partnership retains neither a continuing right to dispose of the goods, nor effective control of those goods; usually, this means that sales are recorded upon delivery of goods to customers in accordance with agreed terms of delivery. Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by the Partnership are reported as cost of sales.

Income Taxes

The Partnership is not directly subject to federal or provincial income taxes. The taxable income or loss of the Partnership is required to be allocated to the Partnership's partners.

Foreign Currency Translation

Foreign currency transactions

Items included in the financial statements of each of the Partnership's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Partnership's functional currency.

Transactions in foreign currencies are translated to the functional currencies of the respective entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on re-translation are recognized in net income.

Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized and presented in other comprehensive income and in the foreign currency translation reserve in equity.

New standards not yet adopted

Standards and interpretations issued but not yet effective:

IFRS 9 - Financial Instruments

International Financial Reporting Standard 9, *Financial Instruments* (IFRS 9), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through net income. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through net income or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

The Partnership anticipates that the adoption of this standard in future periods will have no material impact on the consolidated financial statements.

4. Transition to International Financial Reporting Standards

Application of IFRS 1

These financial statements are the first consolidated interim financial statements prepared by the Partnership under IFRS. The Partnership has applied IAS 34 and IFRS 1 First-time adoption of IFRS in preparing these consolidated financial statements.

The Partnership's transition date to IFRS is January 1, 2010. The Partnership prepared its opening IFRS balance sheet at that date. In preparing its opening IFRS balance sheet and comparative information for the quarter ended March 31, 2010 the Partnership has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Partnership's financial position, financial performance and cash flows is set out in the tables in this note and the notes that accompany the tables.

In preparing these condensed consolidated interim financial statements in accordance with IFRS 1, the Partnership has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS, as described below.

Mandatory exceptions from full retrospective application followed by the Partnership

The Partnership has applied the mandatory exception from retrospective application for Estimates.

Estimates under IFRS 1 as at January 1, 2010 should be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error. All other mandatory exceptions from full retrospective application are not applicable for the Partnership.

Exemptions from full retrospective application elected by the Partnership

The Partnership has elected to apply the following optional exemptions from full retrospective application.

(a) Business combinations exemption

The Partnership has applied the business combinations exemption in IFRS 1. It has not restated business combinations which took place prior to the January 1, 2010 transition date.

(b) Employee benefits exemption

IFRS 1 includes an optional exemption for entities that elect to recognize actuarial gains and losses using the corridor method, or a method that results in faster recognition in net income than the corridor method, after the date of transition. An entity may choose to recognize all cumulative (and previously unrecognized) actuarial gains and losses in retained earnings at the date of transition, as long as the exemption is applied to all defined benefit plans, i.e. the exemption cannot be applied on a plan-by-plan basis. The Partnership has elected to recognize all cumulative actuarial gains and losses in “Cumulative distributions in excess of income” as at January 1, 2010.

(c) Borrowing costs exemption

The Partnership has applied the transitional requirements of IAS 23. This allows the Partnership to capitalize borrowing costs in respect of qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

(d) Cumulative translation exemption

Generally IAS 21 requires an entity to classify certain translation differences as a separate component of equity. However, an entity may deem the cumulative translation account for all foreign operations to be nil at the date of transition, and reclassify any such amounts determined in accordance with previous GAAP at that date to retained earnings. When this is the case, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition. The Partnership has elected to take this exemption and has recognized all cumulative translation differences in “Cumulative distributions in excess of income” as at January 1, 2010.

(e) Asset retirement obligations exemption

IFRS requires that asset retirement obligations be re-valued every reporting period using the then current discount rate. The Partnership has chosen to apply the relevant IFRS standard (IFRIC 1) prospectively effective the date of transition to IFRS. Had the Partnership not taken the exemption, it would have been required to retrospectively calculate changes over the life of the obligation.

Reconciliations between IFRS and Canadian GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS.

Reconciliation of Assets, Liabilities & Equity at January 1, 2010

	As at January 1, 2010		
(millions of dollars, unaudited)	Canadian GAAP	Effect of transition to IFRS	**IFRS**
ASSETS			
Current assets			
Cash and cash equivalents	$ 13.5	$ -	**$ 13.5**
Accounts receivable			
Trade	110.5	-	**110.5**
Other	8.6	-	**8.6**
Inventories	135.4	-	**135.4**
Prepaid expenses and other assets[2]	18.4	(15.3)	**3.1**
Total current assets	286.4	(15.3)	**271.1**
Property, plant and equipment[2]	534.1	20.7	**554.8**
Other long-term assets[1,2]	17.1	(16.6)	**0.5**
	$ 837.6	$ (11.2)	**$ 826.4**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 134.5	$ -	**$ 134.5**
Distributions payable	5.7	-	**5.7**
Total current liabilities	140.2	-	**140.2**
Long-term debt	115.1	-	**115.1**
Post employment benefits[1]	49.0	17.0	**66.0**
Long-term liabilities	1.2	-	**1.2**
Long-term provisions	3.0	-	**3.0**
	$ 308.5	$ 17.0	**$ 325.5**
PARTNERS' EQUITY			
Partnership units	587.5	-	**587.5**
Accumulated earnings and distributions[1]	(58.4)	(28.2)	**(86.6)**
	$ 529.1	$ (28.2)	**$ 500.9**
	$ 837.6	$ (11.2)	**$ 826.4**

Reconciliation of Assets, Liabilities & Equity at December 31, 2010

	As at December 31, 2010		
(millions of dollars, unaudited)	Canadian GAAP	Effect of transition to IFRS	**IFRS**
ASSETS			
Current assets			
Cash and cash equivalents	$ 64.2	$ -	**$ 64.2**
Accounts receivable			
Trade	108.0	-	**108.0**
Other	14.8	-	**14.8**
Green Transformation Program	17.9	-	**17.9**
Inventories	123.4	-	**123.4**
Prepaid expenses and other assets[1,2]	21.8	(10.8)	**11.0**
Total current assets	$ 350.1	$ (10.8)	**$ 339.3**
Property, plant and equipment[2]	499.6	13.9	**513.5**
Other long-term assets[1,2]	17.6	(17.1)	**0.5**
	$ 867.3	$ (14.0)	**$ 853.3**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 139.3	$ -	**$ 139.3**
Distributions payable	39.2	-	**39.2**
Total current liabilities	178.5	-	**178.5**
Long-term debt	109.4	-	**109.4**
Post employment benefits[1,4]	53.0	26.8	**79.8**
Long-term liabilities[4]	-	-	**-**
Long-term provisions[4]	3.1	-	**3.1**
	$ 344.0	$ 26.8	**$ 370.8**
PARTNERS' EQUITY			
Partnership units	587.5	-	**587.5**
Accumulated earnings and distributions[1]	(64.2)	(40.8)	**(105.0)**
	523.3	(40.8)	**482.5**
	$ 867.3	$ (14.0)	**$ 853.3**

Reconciliation of equity at March 31, 2010

(millions of dollars, unaudited)	As at March 31, 2010
Previous Canadian GAAP – Total equity	$ 538.8
Recognition of unamortized actuarial losses at date of transition[1]	(28.2)
Lower pension expense for quarter ended March 31, 2010[1]	0.5
Actuarial losses on defined benefit plans for quarter ended March 31, 2010[1]	(9.4)
IFRS – Total equity	**$ 501.7**

Reconciliation of comprehensive income for three months ended March 31, 2010

(millions of dollars, unaudited)		Three months ended March 31, 2010
Comprehensive income - Previous Canadian GAAP	$	**32.5**
Lower pension expense for period[1]		0.5
	$	**33.0**
Actuarial losses on defined benefit plans during the period[1]	$	(9.4)
Comprehensive income IFRS	**$**	**(23.6)**

Reconciliation of comprehensive income for year ended December 31, 2010

(millions of dollars, unaudited)		Year ended December 31, 2010
Comprehensive income - Previous Canadian GAAP	$	178.0
Lower pension expense for period[1]		1.0
	$	179.0
Other comprehensive income (loss) - Previous Canadian GAAP	$	0.1
Actuarial losses on defined benefit plans during the period[1]		(13.6)
Comprehensive income IFRS	**$**	165.5

Notes to the Reconciliations

1) **Employee Benefits** - Under IFRS the Partnership's accounting policy is to recognize all actuarial gains and losses immediately in other comprehensive income. At the date of transition, all previously unrecognized cumulative actuarial gains and losses and unrecognized past service costs were recognized in equity. The impact of this policy decision was a $28.2 million decrease in equity, an $11.2 million decrease in other long-term assets and a $17.0 million increase to long-term liabilities.

   All actuarial gains and losses arising in 2010 were recognized in other comprehensive income. A charge to accumulated earnings and distributions of $13.6 million for actuarial gains and losses related to the year ended December 31, 2010 was recorded (first quarter of 2010 a charge of $9.4 million was recorded to accumulated earnings and distributions). As a result of immediate recognition of previously unrecognized cumulative actuarial gains and losses the total pension expense for the year ended was reduced by $1.0 million under IFRS (first quarter of 2010 employee benefits expense was $0.5 million lower than previously reported). This reduced manufacturing costs by $1.0 million for the year ended December 31, 2010 (reduced manufacturing costs for the first quarter of 2010 by $0.5 million).

2) **Property, plant and equipment (PP&E)** – For major maintenance, International Accounting Standard (IAS) 16 requires for major inspections and overhauls to be accounted as a separate component of PP&E. The Partnership has determined that a significant part of its major maintenance program qualifies as a separate component of PP&E under IFRS. As at January 1, 2010 the resulting impact is a $20.7 million increase to PP&E, a $15.3 million decrease to prepaid expenses and a $5.4 million decrease to other long-term assets.

   The impact on net income for the year ended December 31, 2010 was an increase in amortization of $18.7 million with an offsetting decrease to manufacturing costs. The impact on the first quarter of 2010 was an increase in amortization of $4.7 million with an offsetting decrease to manufacturing costs.

The change in policy also increased expenditures on items of PP&E reported in the statements of cash flows by $11.9 million for the year ended December 31, 2010 and $5.6 million for the quarter ended March 31, 2010 restated to conform to IFRS. The long-term maintenance provision and long-term maintenance expenditure line items on the consolidated statements of cash flows are no longer applicable and those amounts are now included in PP&E.

3) **Statement of cash flows (interest received / paid) –** Under IFRS an accounting policy choice is available as to where interest and distributions paid and interest and distributions received are presented in the statements of cash flows. The Partnership has elected to present distributions paid to partners and interest paid in financing activities and interest received in investing activities. Under Canadian GAAP interest received and paid were presented within operating activities.

4) **Reclassification of Employee Future Benefits and Asset Retirement Obligations** – Under Canadian GAAP employee pension obligations, other retirees benefits and asset retirement obligations were included in long-term liabilities. Under IFRS, pension and other retirees benefits have been classified on the consolidated balance sheets as post employment benefits and asset retirement obligations have been classified as Long-term provisions.

5. Property, Plant and Equipment

(millions of dollars, unaudited)	Land and improvements	Buildings, machinery and equipment	Asset retirement - landfill	Construction in Progress	Major Maintenance	Total
Cost						
Balance at January 1, 2010	5.4	1,344.1	2.3	3.2	30.3	1,385.3
Additions	-	0.1	-	24.9	-	25.0
Disposals	-	(0.6)	-	-	(5.2)	(5.8)
Transfers	-	12.5	-	(24.4)	11.9	-
Balance at December 31, 2010	5.4	1,356.1	2.3	3.7	37.0	1,404.5
Additions	-	-	-	5.7	-	5.7
Disposals	-	(0.9)	-	-	-	(0.9)
Transfers	-	2.3	-	(2.3)	-	-
Balance at March 31, 2011	**5.4**	**1,357.5**	**2.3**	**7.1**	**37.0**	**1,409.3**
Accumulated depreciation						
Balance at January 1, 2010	-	820.1	0.8	-	9.6	830.5
Additions	-	47.3	0.1	-	18.7	66.1
Disposals	-	(0.4)	-	-	(5.2)	(5.6)
Balance at December 31, 2010	-	867.0	0.9	-	23.1	891.0
Additions	-	12.1	-	-	4.4	16.5
Disposals	-	(0.5)	-	-	-	(0.5)
Balance at March 31, 2011	**-**	**878.6**	**0.9**	**-**	**27.5**	**907.0**
Carrying amounts						
At January 1, 2010	5.4	524.0	1.5	3.2	20.7	554.8
At December 31, 2010	5.4	489.1	1.4	3.7	13.9	513.5
At March 31, 2011	**5.4**	**478.9**	**1.4**	**7.1**	**9.5**	**502.3**

6. Net Income per Partnership Unit

Basic net income 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.

7. Inventories

(millions of dollars, unaudited)	**March 31, 2011**	December 31, 2010	January 1, 2010
Pulp	**50.7**	52.7	55.2
Paper	**11.6**	10.1	15.9
Wood chips	**10.2**	16.4	21.5
Processing materials and supplies	**43.8**	44.2	42.8
	116.3	123.4	135.4

8. 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.

Defined Benefit Plans

The Partnership measures its accrued benefit obligations and the fair value of plan assets for accounting purposes under IFRS as at December 31 of each year. In 2010, the Partnership had two registered defined benefit plans, for which actuarial valuations are performed every three years. The most recent actuarial valuation for funding purposes of the Partnership's single largest pension plan was as of December 31, 2009, and the next required plan valuation is currently scheduled for December 31, 2012.

Information about the Partnership's defined benefit plans, in aggregate, is as follows:

	2010	
(millions of dollars, unaudited)	Pension Benefit Plans	Other Benefit Plans
Defined Benefit Plan Assets		
Fair market value of plan assets		
Beginning of year	**$** 53.8	$ -
Actual return on plan assets	5.5	-
Partnership contributions	8.2	1.3
Employee contributions	0.2	-
Benefit payments	(3.0)	(1.3)
End of year	**$** 64.7	$ -

	2010	
(millions of dollars, unaudited)	Pension Benefit Plans	Other Benefit Plans
Defined Benefit Plan Obligations		
Accrued benefit obligation		
Beginning of year	**$** 74.6	$ 45.9
Current service cost	3.3	0.8
Interest cost	4.6	3.0
Employee Contributions	0.2	-
Benefit payments	(3.0)	(1.3)
Actuarial loss (gain)	6.1	8.8
Other	-	1.3
End of year	**$** 85.8	$ 58.5

Of the defined benefit plan obligation of $85.8 million (January 1, 2010 - $74.6 million), $12.1 million relates to plans that are wholly unfunded and $75.7 million relates to plans that are wholly or partly funded (January 1, 2010 - $11.7 million and $62.9 million, respectively).

The total obligation for the other benefit plans of $58.5 million (January 1, 2010 - $45.9 million) is unfunded, except when expenditures are incurred.

Reconciliation of Funded Status of Benefit Plans to Amounts Recorded in the Financial Statements

	December 31, 2010		January 1, 2010	
(millions of dollars, unaudited)	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Fair market value of plans assets	$ 64.7	$ -	$ 53.8	$ -
Accrued benefit obligation	(85.8)	(58.5)	(74.6)	(45.9)
Funded status of plans – surplus (deficit)	(21.1)	(58.5)	(20.8)	(45.9)
Accrued benefit liability	(21.1)	(58.5)	(20.8)	(45.9)
Other pension plans	(0.2)	-	(0.1)	-
Total accrued benefit liability, net	$ (21.3)	$ (58.5)	$ (20.9)	$ (45.9)
The net accrued benefit liability is included in the Partnership's balance sheet as follows:				
Accounts payable and accrued liabilities	$ -	$ -	$ (0.8)	$ -
Post employment benefits	(21.3)	(58.5)	(20.1)	(45.9)
Total accrued benefit liability, net	$ (21.3)	$ (58.5)	$ (20.9)	$ (45.9)

Components of pension cost

The following table shows the before tax impact on net income and other comprehensive income of the Partnership's pension and other defined benefit plans.

	2010	
(millions of dollars, unaudited)	Pension Benefit Plans	Other Benefit Plans
Recognized in net income		
Current service cost	$ 3.3	$ 0.8
Interest cost	4.6	3.0
Expected return on plan assets	(4.2)	-
Other	-	1.3
Total pension cost recognized in net income	$ 3.7	$ 5.1
Recognized in other comprehensive income		
Actuarial loss (gain) immediately recognized	$ 4.8	$ 8.8
Total pension cost recognized in other comprehensive income	$ 4.8	$ 8.8

The expected return on plan assets is determined by considering the expected returns available on the assets based on the Partnership's current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Significant assumptions

The actuarial assumptions used in measuring the Partnership's benefit plan provisions are as follows:

(weighted average assumptions)	December 31, 2010 Pension Benefit Plans	December 31, 2010 Other Benefit Plans	January 1, 2010 Pension Benefit Plans	January 1, 2010 Other Benefit Plans
Accrued benefit obligation at reporting date:				
Discount rate	5.50%	5.75%	6.25%	6.75%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Benefit costs for year ended December 31:				
Discount rate	6.25%	6.75%	n/a	n/a
Expected rate of return on plan assets	7.50%	n/a	n/a	n/a
Future salary increases	3.00%	n/a	n/a	n/a

Assumed health care cost trend rates

(weighted average assumptions)	December 31, 2010	January 1, 2010
Initial health care cost trend rate	7.16%	7.4%
Ultimate health care trend rate	4.10%	4.10%
Year ultimate rate is reached	2029	2029

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefit plans. A one percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

(millions of dollars, unaudited)	1% Increase	1% Decrease
Effect on the aggregate service and interest cost	$ 0.9	$ (0.7)
Effect on defined benefit obligation	$ 10.5	$ (8.4)

9. Credit Facilities and Long-term Debt

At March 31, 2011 the Partnership had outstanding long-term debt of $106.9 million (December 31, 2010 – $109.4 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 Partnership has a $40.0 million bank credit facility with a maturity date of November 30, 2013, of which $0.5 million was utilized at March 31, 2011 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2013, to cover the $13.0 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. During the quarter the Partnership has established a $30.0 million bridge loan credit facility to address timing difference between expenditures and reimbursements for projects funded under the Canadian Federal Government Green Transformation Program. Interest and other costs of the credit facilities are at prevailing market rates. The leverage ratio and interest coverage ratio are consistent with the financial covenants under the Note Agreement.

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at March 31, 2011 and throughout the period.

The fair value of long-term debt at March 31, 2011 was $115.2 million (US$118.5 million).

10. Related Party Transactions

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2010 audited consolidated financial statements and are based on agreed upon amounts between the parties, and are summarized below:

(millions of dollars, unaudited)	Three months ended **March 31, 2011**	March 31, 2010
Transactions		
Canfor	**29.0**	34.2
CPPI administrative cost recovery	**0.9**	-
Howe Sound LP – commission	**-**	0.6
Lakeland Mills Ltd. – purchase of wood chips	**3.4**	1.2

	March 31, 2011	December 31, 2010
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**40.5**	44.5
Lakeland Mills Ltd.	**1.2**	0.4
Included in other accounts receivable:		
CPPI	**1.0**	-
Included in trade accounts receivable:		
Product marketed for Canfor	**25.8**	23.2

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

11. Derivative Financial Instruments

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

For the first quarter of 2011 the Partnership recorded a net gain on derivative financial instruments of $1.6 million (first quarter 2010 – $0.4 million) relating to the settlement of maturing contracts during the quarter, and the revaluation to market of outstanding contracts at the end of the quarter, for natural gas swaps and US dollar forward contracts.

The Partnership recorded losses of $1.1 million during the first quarter of 2011 (first quarter 2010 – $0.9 million) relating to settlement of maturing natural gas contracts as a charge to non-operating income. At March 31, 2011 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 0.3 million gigajoules extending to October 2011. At March 31, 2011 the unrealized loss of $1.5 million (March 31, 2010 – loss of $4.6 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 $2.3 million during the first quarter of 2011 (first quarter 2010 –$2.5 million) on settlement of maturing US dollar forward contracts as a charge to non-operating income. At March 31, 2011 the Partnership had outstanding US dollar forward contracts of $61.3 million extending to July 2011. At March 31, 2011 the unrealized gain of $0.5 million (March 31, 2010 –$1.0 million) on these outstanding US dollar forward contracts was recorded as an asset in other accounts receivable.

12. Distributions

The Partnership declared distributions in the first three months of 2011 as follows:

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

Record Date	Payable Date	Amount per Partnership Unit $	Amount $
January 31, 2011	February 15, 2011	0.26	**18.5**
February 28, 2011	March 15, 2011	0.26	**18.6**
March 31, 2011	April 15, 2011	0.26	**18.5**
		0.78	**55.6**

13. Green Transformation Program

On October 9, 2009 the Canadian Federal Government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the Program). The Partnership has been allocated $122.2 million from the Program. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the Program end date of March 31, 2012. The Partnership has received Program approval to proceed with four projects totaling $157.4 million of which $122.2 million will be funded under the Program. As of March 31, 2011 the Partnership has incurred $55.8 million and received reimbursements totaling $29.8 million with the balance of $26.0 million receivable on March 31, 2011**.** The Partnership submits claims for expenditures on approved projects under the Program on a monthly basis. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

14. Segmented Information [(a)]

The Partnership is a producer of market NBSK Pulp and fully bleached, high performance Kraft Paper. For management purposes, the Partnership has two reporting segments which operate as separate business units: Pulp and Paper. These divisions are the basis on which the Partnership reports its primary segment information. This segment reporting is consistent with the internal reporting provided to the executive management team, who operate as the Partnerships chief operating decision maker. The executive management team is responsible for allocating resources and assessing performance of the operating segments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The Partnership accounts for interdivisional sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

(millions of dollars, unaudited)	**Pulp**	**Paper**	**Unallocated Costs**	**Total**
Three months ended March 31, 2011				
Sales to external customers [(b)]	**217.3**	**34.0**	**1.0**	**252.3**
Sales of pulp to paper segment [(c)]	**22.5**	**(22.5)**	**-**	**-**
Operating income (loss)	**50.8**	**2.0**	**(2.9)**	**49.9**
Amortization	**15.6**	**0.8**	**0.1**	**16.5**
Capital expenditures, net	**4.3**	**0.8**	**0.6**	**5.7**
Identifiable assets	**695.5**	**60.9**	**68.0**	**824.4**
Three months ended March 31, 2010				
Sales to external customers [(b)]	204.8	34.5	0.2	239.5
Sales of pulp to paper segment [(c)]	18.7	(18.7)	-	-
Operating income (loss)	37.5	(0.5)	(4.0)	33.0
Amortization	15.4	0.8	0.1	16.3
Capital expenditures, net	7.3	0.4	0.2	7.9
Identifiable assets	738.4	63.6	44.6	846.6

(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 31% (Year 2010 – 37%).

(b) Sales to the largest customer represented approximately 8% of pulp segment sales (Year 2010 – 12%).

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