February 17, 2009

CANFOR PULP INCOME FUND ANNOUNCES FOURTH QUARTER 2008 RESULTS

Vancouver, BC – Canfor Pulp Income Fund (the "Fund") (TSX: CFX.UN) announced today its fourth quarter 2008 results as well as the results of Canfor Pulp Limited Partnership (the "Partnership") in which the Fund has a 49.8% ownership.

The Partnership reported sales of $186.1 million and a net loss of $26.0 million, or $0.36 per unit, for the quarter ended December 31, 2008. Non-operating items impacting the Partnership's net loss include an $18.1 million foreign exchange loss on translation of US dollar denominated long-term debt and a $3.3 million charge to net income representing a reduction in the value of outstanding natural gas and US dollar working capital foreign exchange hedging contracts.

The Partnership generated standardized distributable cash of $13.3 million, or $0.19 per unit, and adjusted distributable cash of $1.5 million, or $0.02 per unit, in the fourth quarter and $96.1 million or $1.35 per unit, for the year ended December 31, 2008. Capital expenditures, net of amounts funded from insurance proceeds, were $6.8 million in the quarter and $25.3 million for the year. For the fourth quarter, the Partnership and the Fund declared distributions of $0.28 per unit, for a total distribution for the year of $1.36 per unit.

Sales and earnings in the fourth quarter of 2008 were significantly impacted by the global financial crisis resulting in reduced demand for the Partnership's pulp and paper products, increased inventory levels and pressure on NBSK pulp list prices, causing the Partnership to take a market curtailment at the end of the fourth quarter to control rising inventory levels. The nine day market curtailment at all of the manufacturing operations reduced market pulp production by approximately 26,000 tonnes and reduced paper production by approximately 3,400 tonnes. Reduced demand, particularly in the US printing and writing paper grades, also resulted in reduced pulp and paper selling prices, and although the US dollar list price reductions were offset by the relative strength of the US dollar, an increased proportion of the Partnership's sales in the quarter were to lower margin Asian and spot markets.

The Intercontinental Pulp Mill and Prince George Pulp and Paper Mill completed their scheduled maintenance outages in the fourth quarter of 2008, which resulted in approximately 16,000 tonnes of reduced production. The Intercontinental Pulp Mill completed a capital project to increase the capacity of its pulp machine during the outage and the Prince George Pulp and Paper Mill completed construction of the permanent chip screening system, replacing the temporary system in place as a result of the fire in the first quarter of 2008. There were no scheduled maintenance outages in the third quarter of 2008.

The Fund reported a net loss of $13.7 million, or $0.39 per Fund unit in the quarter and net income of $20.2 million, or $0.57 per unit for the year. Net loss before future income taxes of $12.9 million in the quarter and net income before future income taxes of $23.3 million for the year, represent the Fund's share of the Partnership's earnings and loss in those periods.

In light of the current market conditions, and the continuing uncertainty over the impacts of the global financial market turmoil, the Fund also announced a reduction in the cash distribution for the month of February to $0.01 per Fund unit to be paid on March 13, 2009 to unitholders of record at the close of business on February 27, 2009.

Mr. William W. Stinson was appointed to the Board of Directors and a member of the Audit Committee and Compensation Committee effective February 17, 2009. Mr. Stinston is Chairman and Chief Executive Officer of Westshore Terminals Income Fund and a Director of Grant Forest Products Ltd.

Additional Information

A conference call to discuss the fourth quarter and full year 2008 financial and operating results will be held on Wednesday, February 18, 2009 at 8:00 a.m. Pacific time.

To participate in the call, please dial 416-641-2140 or Toll-Free 1-800-952-4972. For instant replay access, please dial 416-695-5800 or Toll-Free 1-800-408-3053 and enter participant pass code 3281121. The conference call will be webcast live and will be available at www.canforpulp.com/investors/webcasts.asp.

This news release is available on the Partnership's website at www.canforpulp.com.

Investor Presentation

Mr. Paul Richards, Chief Executive Officer and President, and Mr. Terry Hodgins, Chief Financial Officer and Secretary, will be presenting and meeting institutional investors at the CIBC World Markets Whistler conference on February 20, 2009. Presentation materials and a webcast of the presentation will be available on the Company's website at http://www.canforpulp.com/investors/calendar.asp.

About Canfor Pulp Income Fund

The Fund is an unincorporated, open-ended trust established under the laws of Ontario, created to indirectly acquire and hold an interest in the Canfor Pulp Limited Partnership. The Fund indirectly holds a 49.8% interest in the Partnership with Canadian Forest Products Ltd. (a subsidiary of Canfor Corporation) holding the remaining 50.2% interest in the Partnership.

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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" on page 5;*
- *"Markets – Pulp" on page 10, the last paragraph under that heading;*
- *"Outlook – Pulp" on page 10;*
- *"Markets – Paper" on page 12, the last paragraph under that heading;*
- *"Outlook – Kraft Paper" on page 12;*
- *"Critical Accounting Estimates" on page 16;*
- *"Distributable Cash and Cash Distributions" on page 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 25, 2008, which is available on www.sedar.com.

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
Fourth Quarter 2008
The information in this report is as at February 17, 2009.

CANFOR PULP INCOME FUND

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

At February 17, 2009, there are a total of 35,493,505 Fund units issued and outstanding, and the Fund indirectly holds a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership and Canfor holds 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership.

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

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

OPERATING RESULTS AND LIQUIDITY

For the quarter ended December 31, 2008, the Fund had a net loss of $13.7 million or $0.39 per Fund unit. Net loss is the Fund's share of the Partnership's loss for the fourth quarter of 2008, less a future income tax expense of $0.7 million. The Fund's results are lower than those in the prior quarter due to the Fund's share of lower operating earnings, and non-operating items included in equity loss of the Partnership. Non-operating items included in equity loss of the Partnership for the fourth quarter of 2008 totaled $12.5 million, and are primarily the result of a foreign exchange loss on translation of US dollar denominated long-term debt and a reduction in the value of derivative instruments. Distributions declared by the Partnership and accruing to the Fund were $9.9 million of which $1.4 million was receivable at December 31, 2008. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund's requirements for administrative services are minimal and are funded and expensed by the Partnership. 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 fourth quarter of 2008, the Fund declared distributions of $0.28 per Fund unit or $9.9 million.

Monthly cash distributions from the Partnership are not directly equal to the Fund's pro-rata share of the Partnership's income (loss) under the equity method, primarily due to capital expenditures, 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 25, 2008, which is available on www.sedar.com.

FUND UNITS

At February 17, 2009, there are 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 December 31, 2008 were $9.9 million of which $8.5 million was received, with the balance of $1.4 million receivable on December 31, 2008.

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. 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. Changes in these estimates could have a material impact on the calculation of the liability.

CHANGES IN ACCOUNTING POLICIES

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

Section 1535 – Capital Disclosures

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

Section 3862 – Financial Instruments – Disclosures

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

Section 3863 – Financial Instruments – Presentation

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

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

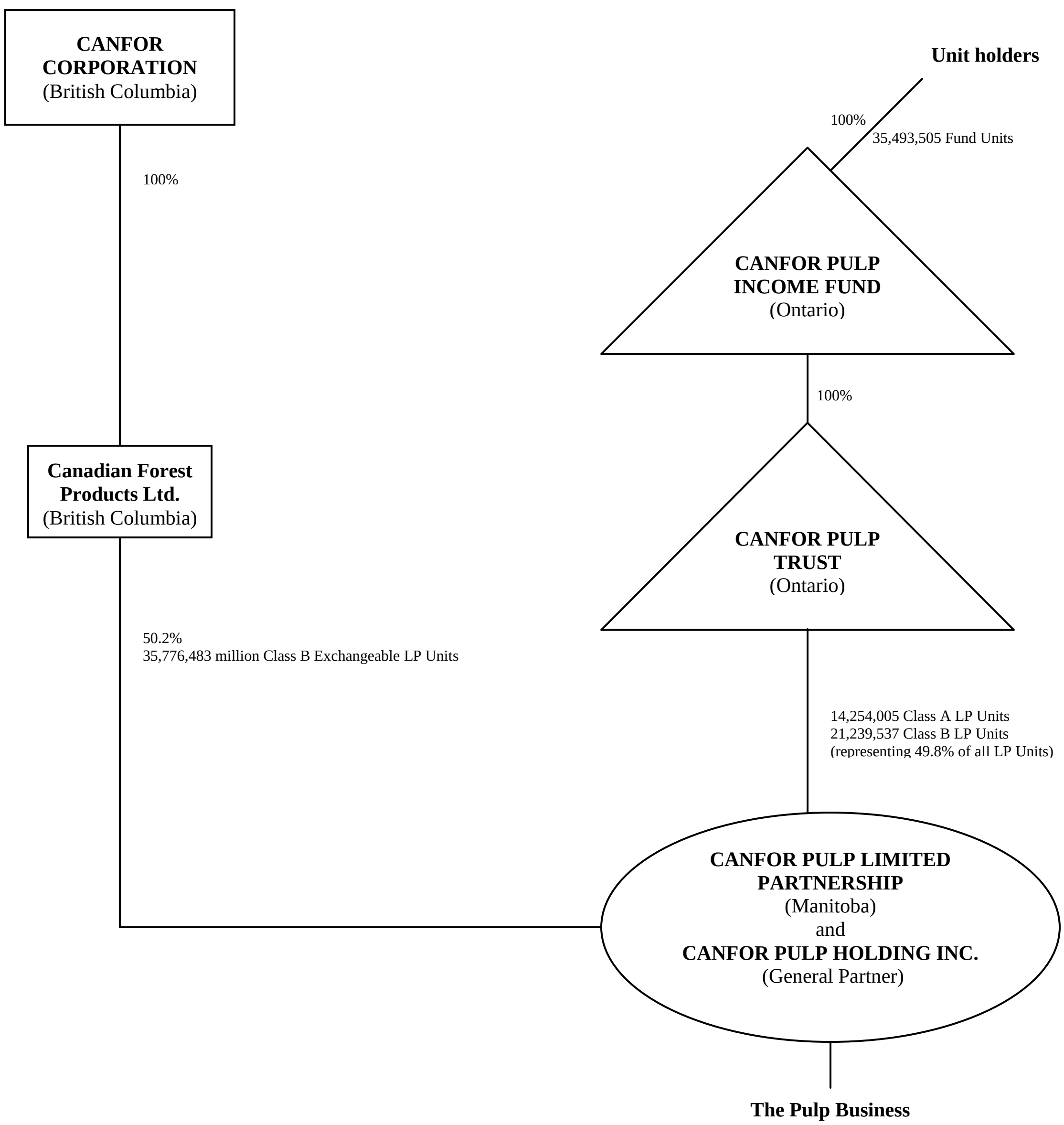
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

At February 17, 2009, the Fund indirectly holds a total of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units, representing 49.8% of the Partnership and Canfor owns the remaining 50.2%. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the General Partner. Below is a simplified schematic of the ownership structure.

Partnership Structure



Business

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

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

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	**Q4 2008**	Q3 2008	**Year 2008**	Q4 2007	Year 2007
Sales	**186.1**	215.4	**825.5**	215.1	921.6
EBITDA [1]	**9.8**	40.6	**116.9**	27.9	188.5
Operating income (loss)	**(1.0)**	27.5	**68.7**	11.7	134.3
Net income (loss)	**(26.0)**	11.1	**46.8**	12.1	129.8
Per Partnership unit, basic and diluted					
Net income (loss)	**(0.36)**	0.15	**0.66**	0.17	1.82
EBITDA	**0.14**	0.57	**1.64**	0.39	2.65
Average exchange rate (US$/Cdn$) [2]	**0.825**	0.960	**0.938**	1.019	0.930

Notes: [1] For calculation of EBITDA, see supplementary financial information on page 18.
[2] Source – Bank of Canada (average noon rate for the period).

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

When compared to the fourth quarter of 2007, the $18.1 million decrease in EBITDA was primarily attributable to lower production volumes resulting in higher unit manufacturing costs, lower sales volumes and lower US dollar denominated NBSK pulp list prices, partially offset by a weaker Canadian dollar and higher realized paper prices in Canadian dollar terms. Higher unit manufacturing costs are the result of significantly lower production volumes and higher fibre costs. Production volumes were lower as a result of scheduled maintenance outages and the commencement of a market curtailment in the third week of December 2008. Fibre costs increased 7% over the fourth quarter of 2007 due to higher price for sawmill residual chips and a higher percentage of whole log chip consumption. Realized paper prices in Canadian dollar terms increased 22% when compared to the fourth quarter of 2007.

For the year ended December 31, 2008, EBITDA of $116.9 million decreased $71.6 million when compared to the same period in 2007. EBITDA was significantly impacted by the global financial crisis resulting in reduced demand for the Partnership's pulp and paper products, increased inventory levels and pressure on NBSK pulp list prices, causing the Partnership to take a market curtailment at the end of the year to control rising inventory levels. The nine day curtailment at all of the manufacturing operations reduced market pulp production by approximately 26,000 tonnes and reduced paper production by approximately 3,400 tonnes. This reduction in production was in addition to approximately 49,000 tonnes of market pulp and approximately 1,200 tonnes of paper production impact of the scheduled maintenance outages in 2008. These factors resulted in higher unit manufacturing costs and lower pulp sales volumes, partially offset by an 8% increase of realized paper prices in Canadian dollar terms. Pulp sales volumes decreased by 12% when compared to 2007 due to the impact of the Prince George Pulp and Paper Mill fire in January 2008, increased scheduled maintenance downtime during the year and the market curtailment in December. Unit manufacturing costs increased by 12% due to the impact of lower production volumes and higher energy, chemical and fibre costs. Unit freight costs increased 10% when compared to 2007.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**Q4 2008**	Q3 2008	**Year 2008**	Q4 2007	Year 2007
Sales	**159.4**	182.0	**696.6**	186.0	798.0
EBITDA [1]	**9.5**	38.8	**116.7**	31.2	202.5
EBITDA margin [1]	**6%**	21%	**17%**	17%	25%
Operating income (loss) [1]	**(0.4)**	26.8	**72.5**	16.0	152.6
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**787**	880	**857**	857	823
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**954**	917	**914**	841	885
Production – pulp (000 mt)	**219.6**	255.6	**932.8**	261.4	1,044.3
Shipments – Partnership-produced pulp (000 mt)	**208.2**	234.5	**905.4**	253.6	1,023.6
Marketed on behalf of HSLP & Canfor (000 mt)	**79.9**	135.5	**495.7**	148.0	571.9

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

Fourth quarter 2008 operating income of the pulp segment was $27.2 million lower than the third quarter of 2008. Compared to the third quarter of 2008, the decrease is primarily due to lower production volume resulting in higher unit manufacturing costs, lower sales volumes and lower US dollar denominated NBSK pulp list prices, partially offset by a weaker Canadian dollar. Higher unit manufacturing costs are the result of significantly lower production volumes and higher spending on fixed costs, partially offset by lower fibre costs. Production volumes were lower as a result of scheduled maintenance outages and the commencement of a market curtailment in the third week of December. Higher spending on fixed costs in the fourth quarter of 2008, as compared to the prior quarter, was primarily attributable to the scheduled maintenance outages. Fibre costs decreased approximately 3% due to lower prices for sawmill residual chips and the cessation of several high cost whole log chipping initiatives. Sales volumes in the fourth quarter of 2008 were 26,300 tonnes lower than the prior quarter. Overall realized pulp prices in Canadian dollar terms decreased approximately 1% due to an 11% drop in NBSK pulp list prices and a higher proportion of sales into lower margin Asia and spot markets, all of which was partially offset by a 14% weakening of the Canadian dollar. Pulp production volume reduction as a result of the Prince George Pulp and Paper Mill fire and subsequent operation using the temporary chip screening system is approximately 1,500 tonnes in the fourth quarter of 2008 and 7,400 tonnes in the third quarter of 2008. The new chip screening system commenced operation at the beginning of November. The financial impact of this reduced production volume was offset by accrued business interruption insurance recoveries of $0.9 million in the fourth quarter of 2008 and $3.5 million in the third quarter of 2008.

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

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

Operations

NBSK market pulp production during the fourth quarter was 36,000 tonnes lower than the third quarter of 2008, and 41,800 tonnes less than the fourth quarter of 2007. For the year ended December 31, 2008, production was lower by 111,500 tonnes when compared to 2007. The major components of the reduced production in the fourth quarter of 2008 are increased scheduled maintenance outages (16,000 tonnes) and a market curtailment in December 2008 (26,000 tonnes). The major components of the reduced production for the full year 2008 are increased scheduled maintenance outages (2008 – 49,000 tonnes, 2007 – 22,000 tonnes), a market curtailment in December 2008 (26,000 tonnes) and the impact of the fire at the Prince George Pulp and Paper Mill in January 2008 (37,000 tonnes).

The Prince George Pulp and Paper Mill continued to operate at a slightly reduced rate on the temporary chip screening system until the end of October when construction of the permanent chip screening system was completed.

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

Markets - Pulp

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

As a result of the lower shipments, producers' market pulp inventories increased during the fourth quarter, from 44 days to 46 days of supply for total chemical market pulp and from 36 days to 40 days of supply for softwood market pulp. By comparison, producer inventories at the end of 2007 were 29 days for total chemical pulp and 27 days of supply for softwood market pulp. The market is considered balanced when inventories are at approximately 30 days of supply.

The decline in market pulp shipments was mainly caused by decreased demand for printing and writing papers, the largest consuming segment of market pulp. In particular, fourth quarter demand for printing and writing papers in North America declined by 10.6% compared to the third quarter of 2008, and by 18.9% compared to the fourth quarter of 2007. For the full year 2008, North American printing and writing paper demand was down by 9.2% or 2.75 million tonnes.

The rapid decline in pulp demand has resulted in oversupply and thus rapidly falling prices. List prices declined from US$870 and US$860 at the beginning of the fourth quarter of 2008 in the North American and European markets respectively, to US$730 and US$635 respectively at the end of the fourth quarter.

Outlook – Pulp

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

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

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

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q4 2008**	Q3 2008	**Year 2008**	Q4 2007	Year 2007
Sales	**26.7**	33.4	**128.9**	29.1	123.6
EBITDA [1]	**3.3**	4.7	**13.1**	0.1	2.0
EBITDA margin [1]	**12%**	14%	**10%**	0%	2%
Operating income (loss) [1]	**2.5**	3.7	**9.4**	(0.9)	(2.1)
Production – paper (000 mt)	**30.1**	35.9	**132.6**	33.1	131.6
Shipments – paper (000 mt)	**24.4**	31.6	**124.8**	32.4	129.5

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

Operating income of the paper segment for the fourth quarter of 2008 was $1.2 million lower than the third quarter of 2008 and $3.4 million higher than the fourth quarter last year. Coinciding with the market curtailment of pulp production, the Partnership commenced a curtailment of paper production in the third week of December 2008 which extended into January 2009, reducing paper production by approximately 3,400 tonnes in 2008 and approximately 4,800 tonnes in January 2009. The lower production in the fourth quarter compared to the third quarter of 2008 resulted in higher unit manufacturing costs and lower sales volumes, the effects of which were partially offset by a 3% improvement in realized prices in Canadian dollar terms. The increase in manufacturing costs was primarily the result of lower production volumes due to a scheduled maintenance outage and a production curtailment due to poor market conditions. When compared to the fourth quarter of 2007 the improved operating earnings were due to a 22% increase in realized prices in Canadian dollar terms, partially offset by lower sales volumes and higher unit manufacturing costs.

For the year ended December 31, 2008, operating income of $9.4 million increased by $11.5 million when compared to the same period in 2007. The increase was attributable to an 8% increase in realized prices in Canadian dollar terms, and lower unit manufacturing costs, partially offset by lower sales volumes. Unit manufacturing costs improved by 1% due to lower raw material costs for slush pulp and slightly higher production volume.

Operations

The paper machine set an annual production record averaging 379 tonnes per day, eclipsing the previous record set in 2007 of 375 tonnes per day. In addition, an annual record for tonnes made to customer orders of 363 tonnes per day surpassed the previous record also set in 2007 of 361 tonnes per day. Paper production in the fourth quarter of 2008 decreased 5,800 tonnes when compared to the third quarter of 2008, and was 3,000 tonnes lower than the same period in 2007. Reduced production volumes in the fourth quarter were the result of three days of scheduled maintenance downtime taken in conjunction with the commissioning of the new chip screening system and nine days of market curtailment taken at the end of the quarter. In the first quarter of 2008, the fire at the Prince George Pulp and Paper Mill resulted in reduced production of approximately 2,500 tonnes. There was no further scheduled maintenance taken during 2008 with 5,500 tonnes of reduced production in 2007 due to scheduled maintenance outages.

Markets - Paper

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

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

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

Outlook – Kraft Paper

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

Non-Segmented Costs

(millions of dollars, unaudited)	**Q4 2008**	Q3 2008	**Year 2008**	Q4 2007	Year 2007
Unallocated costs	**3.1**	3.0	**13.2**	3.4	16.2
Interest expense, net	**2.6**	2.1	**8.1**	1.7	6.7
Reduction (increase) in value of derivative instruments	**3.3**	12.7	**1.1**	(1.8)	3.3
Foreign exchange loss (gain) on long-term debt	**18.1**	5.2	**26.0**	(0.9)	(19.5)
Loss on settlement of US dollar forward sales contracts	**7.8**	-	**7.8**	-	-
Foreign exchange loss (gain) on working capital	**(7.0)**	(3.8)	**(13.1)**	0.6	13.8
Net property damage insurance gain[1]	**0.3**	-	**(8.2)**	-	-
Other (income) expense	**(0.1)**	0.2	**0.2**	-	0.2
	28.1	19.4	**35.1**	3.0	20.7

Note: [1] An adjustment of $0.3 million in the fourth quarter of 2008 reflects management's current estimate of final costs to complete the new chip screening system.

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled $3.1 million in the fourth quarter of 2008 compared to $3.0 million in the third quarter of 2008 and $3.4 million in the fourth quarter of 2007. Unallocated costs decreased slightly when compared to the fourth quarter of 2007 due to lower accruals for performance based incentive plans.

For the year ended December 31, 2008 unallocated costs of $13.2 million were $3.0 million lower than the same period a year ago due to lower accruals for performance based incentive plans and a reduction in charges for corporate services provided by Canfor.

Interest Expense

Increased net interest expense in 2008 compared to 2007 is due to the cost of funding short-term working capital requirements.

Other Non-segmented Items

The reduction in the value of derivative instruments recorded in the quarter of $3.3 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. This is the result of decreases in the market price of natural gas and the weakening of the Canadian dollar during the quarter. For the year ended December 31, 2008, the Partnership has recorded a net reduction in the value of derivative instruments of $1.1 million.

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

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

The declining value of the Canadian dollar in the fourth quarter of 2008 resulted in a loss for the quarter and year of $7.8 million on settlement of US dollar foreign exchange hedging contracts to hedge the impact of currency fluctuations on US dollar working capital. This loss was offset by the foreign exchange gain on working capital of $7.0 million in the quarter and $13.1 million for the year, resulting from translation of US dollar working capital, primarily accounts receivable.

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)	**Q4 2008**	**Year 2008**	Q4 2007	Year 2007
Ratio of current assets to current liabilities	**1.91**	**1.91**	1.88	1.88
Ratio of net debt to partners' equity [1]	**0.30**	**0.30**	0.18	0.18
Increase (decrease) in cash and cash equivalents	**6.4**	**(2.2)**	(37.9)	(25.8)
Comprised of cash flow from (used in):				
Operating activities [2]	**22.0**	**105.2**	4.9	146.2
Financing activities	**(4.7)**	**(77.5)**	(31.4)	(148.3)
Investing activities [2]	**(10.9)**	**(29.9)**	(11.4)	(23.7)

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

Changes in Financial Position

Cash generated from operating activities was $22.0 million in the fourth quarter of 2008 compared to $4.9 million in the fourth quarter of 2007. The increase was primarily due to a decrease of cash used in working capital, partially offset by lower cash generated from operations. Cash generated from operating activities for the year ended December 31, 2008 totalled $105.2 million compared to $146.2 million in 2007. The decrease was primarily the result of lower cash generated from operations due to lower earnings, partially offset by a decrease of cash used in working capital. The decrease of cash used in working capital in 2008 is primarily due to lower trade receivables as a result of lower shipment volumes of the Partnership's products and lower shipment volumes of product sold under sales agency agreements with Canfor and Howe Sound Limited Partnership, and accelerated collection of accounts receivable through discounting of letters of credit, partially offset by increased cost and volume of finished goods and an increase in insurance receivables for the Prince George Pulp and Paper Mill fire insurance claim.

The cash used in financing activities of $4.7 million in the quarter represents $25.7 million of distributions paid to the limited partners, namely Canfor and the Fund, and a draw of $21.0 million on the Partnership's operating line. For the year ended December 31, 2008 cash used in financing activities of $77.5 million represents $102.7 million of distributions paid to the limited partners, and a net draw of $25.2 million on the Partnership's operating line.

The cash used in investing activities in the quarter is comprised of $12.4 million relating to capital expenditures net of accruals, partially offset by $1.5 million of insurance proceeds for property damage relating to the Prince George Pulp and Paper Mill fire insurance claim. Total cash used in 2008 for investing activities is comprised of $39.4 million relating to capital expenditures net of accruals offset by $9.5 million in insurance proceeds for property damage.

LIQUIDITY AND FINANCIAL REQUIREMENTS

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

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

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

OUTSTANDING UNITS

At February 17, 2009, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) are owned by the Fund through Canfor Pulp Trust and 35,776,483 Class B Exchangeable Limited Partnership Units are owned indirectly by Canfor.

RELATED PARTY TRANSACTIONS

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2007 audited consolidated financial statements and are based on agreed upon amounts, and are summarized in note 12 of the unaudited interim consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending December 31, 2008, 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 25, 2008, which is available on www.sedar.com.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

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

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

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and EBITDA are primarily impacted by the level of sales, freight costs and fluctuations of fibre, chemicals and energy prices, level of spending and the timing of scheduled maintenance downtime, and production curtailments. Net income (loss) is also impacted by fluctuations in the Canadian dollar exchange rates, market price of natural gas, the revaluation to the period end rate of US dollar denominated working capital balances and long-term debt, and revaluation of outstanding natural gas commodity swaps and US dollar forward sales contracts. Included in 2008 net income is an $8.2 million net gain for property damage insurance, relating to the fire at the Prince George Pulp and Paper Mill.

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.

CHANGES IN ACCOUNTING POLICIES

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

Section 1535 – Capital Disclosures

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

Section 3031 – Inventories

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

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

Section 3862 – Financial Instruments – Disclosures

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

Section 3863 – Financial Instruments – Presentation

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

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Three months ended December 31, 2008	December 31, 2007	Year ended December 31, 2008	December 31, 2007
RECONCILIATION OF NET INCOME TO EBITDA				
Net Income (loss)	**$ (26.0)**	$ 12.1	**$ 46.8**	$ 129.8
Add (deduct):				
Amortization	**10.8**	14.8	**47.6**	52.8
Net interest expense	**2.6**	1.7	**8.1**	6.7
Foreign exchange loss (gain) on long-term debt	**18.1**	(0.9)	**26.0**	(19.5)
Reduction (increase) in value of outstanding derivative instruments	**3.3**	(1.8)	**1.1**	3.3
Loss on settlement of US dollar forward sales contracts	**7.8**	-	**7.8**	-
Foreign exchange loss (gain) on working capital	**(7.0)**	0.6	**(13.1)**	13.8
Loss on disposal of fixed assets	**-**	1.1	**1.2**	1.1
Net property damage insurance loss (gain)	**0.3**	-	**(8.2)**	-
Gain on settlement of asset retirement obligation	**-**	-	**(0.9)**	-
Other expense (recovery)	**(0.1)**	0.3	**0.5**	0.5
EBITDA	**$ 9.8**	$ 27.9	**$ 116.9**	$ 188.5
EBITDA per Partnership unit	**$ 0.14**	$ 0.39	**$ 1.64**	$ 2.65

(millions of dollars, unaudited)	Three months ended December 31, 2008	December 31, 2007	Year ended December 31, 2008	December 31, 2007
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH				
Cash flow from operating activities [1]	**$ 22.0**	$ 4.9	**$ 105.2**	$ 146.2
Deduct: Capital expenditures – cash, net of related property damage insurance proceeds [1]	**(8.7)**	(11.4)	**(30.0)**	(23.7)
Standardized distributable cash [1]	**$ 13.3**	$ (6.5)	**$ 75.2**	$ 122.5
Adjustments to standardized distributable cash:				
Add (deduct):				
Increase (decrease) in non-cash working capital [1]	**(14.5)**	23.3	**14.4**	25.0
Net long-term deferred maintenance [1]	**0.6**	(1.1)	**(0.5)**	(1.7)
Capital expenditures – accruals [1]	**1.9**	(3.3)	**4.7**	(5.8)
Asset retirement obligation – current expenditures and accruals [1]	**0.2**	0.1	**2.3**	(2.3)
Adjusted distributable cash [1]	**$ 1.5**	$ 12.5	**$ 96.1**	$ 137.7
Standardized distributable cash – per Partnership unit (in dollars) [1]	**$ 0.19**	$ (0.09)	**$ 1.06**	$ 1.72
Adjusted distributable cash – per Partnership unit (in dollars) [1]	**$ 0.02**	$ 0.18	**$ 1.35**	$ 1.93
Cash distributions declared (paid and payable)	**$ 19.9**	$ 27.1	**$ 96.9**	$ 131.1
Cash distributions declared – per Partnership unit (in dollars)	**$ 0.28**	$ 0.38	**$ 1.36**	$ 1.84

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

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

In accordance with the Canadian Institute of Chartered Accountants July 2007 interpretive release “Standardized Distributable Cash in Income Trusts and other Flow-Through Entities”, the Partnership has adopted the distributable cash calculation which conforms to the current guidance. In summary, for the purposes of the Partnership, standardized distributable cash is defined as the periodic cash flows from operating activities as reported in the

GAAP financial statements, including the effects of changes in non-cash working capital less total capital expenditures as reported in the GAAP financial statements.

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

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

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

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

(thousands of dollars, except unit and per unit amounts, unaudited)	Three months ended December 31, 2008	Three months ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2007
Income				
Equity income (loss) in Canfor Pulp Limited Partnership	**$ (12,947)**	$ 5,999	**$ 23,280**	$ 64,643
Net income (loss) before future income taxes	**(12,947)**	5,999	**23,280**	64,643
Future income taxes (recovery) (note 7)	**739**	(2,704)	**3,076**	36,633
Net income (loss)	**(13,686)**	8,703	**20,204**	28,010
Distributions declared (note 5)	**(9,938)**	(13,487)	**(48,271)**	(65,308)
Distributions in excess of earnings	**$ (23,624)**	$ (4,784)	**$ (28,067)**	$ (37,298)
Net income (loss) per unit, basic and diluted	**$ (0.39)**	$ 0.25	**$ 0.57**	$ 0.79
Weighted average number of units	**35,493,505**	35,493,542	**35,493,514**	35,493,542

Net income (loss) for the period	**$ (13,686)**	$ 8,703	**$ 20,204**	$ 28,010
Equity interest in other comprehensive income (loss) of Canfor Pulp Limited Partnership	**91**	(20)	**(193)**	1,185
Comprehensive income (loss)	**$ (13,595)**	$ 8,683	**$ 20,011**	$ 29,195

Accumulated Earnings and Distributions				
Balance, beginning of period – distributions in excess of earnings	**$ (49,239)**	$ (40,012)	**$ (44,796)**	$ (7,498)
Distributions in excess of earnings – current period	**(23,624)**	(4,784)	**(28,067)**	(37,298)
Balance, end of period – Accumulated distributions in excess of earnings	**$ (72,863)**	$ (44,796)	**$ (72,863)**	$ (44,796)

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 **December 31, 2008**	Three months ended December 31, 2007	Year ended **December 31, 2008**	Year ended December 31, 2007
Cash generated from (used in)				
Operating activities				
Net income (loss)	**$ (13,686)**	$ 8,703	**$ 20,204**	$ 28,010
Items not affecting cash:				
Equity (income) loss in Canfor Pulp Limited Partnership	**12,947**	(5,999)	**(23,280)**	(64,643)
Future income taxes	**739**	(2,704)	**3,076**	36,633
Distributions received from Canfor Pulp Limited Partnership	**12,778**	15,617	**51,111**	73,827
	12,778	15,617	**51,111**	73,827
Financing activities				
Distributions paid to Unitholders	**$ (12,778)**	$ (15,617)	**$ (51,111)**	$ (73,827)
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 December 31, 2008**		As at December 31, 2007
ASSETS				
Current assets				
Distributions receivable from Canfor Pulp Limited Partnership (notes 5,6)	$	**1,420**	$	4,259
Total current assets		**1,420**		4,259
Equity investment in Canfor Pulp Limited Partnership (note 4)		**266,274**		291,458
	$	**267,694**	$	295,717
LIABILITIES				
Current liabilities				
Distributions payable (note 5)	$	**1,420**	$	4,259
Total current liabilities		**1,420**		4,259
Future income taxes (note 7)		**39,709**		36,633
	$	**41,129**	$	40,892
UNITHOLDERS' EQUITY				
Unitholders' equity – 35,493,505 Fund units outstanding	$	**299,351**	$	299,351
Accumulated earnings and distributions		**(72,863)**		(44,796)
Accumulated other comprehensive income (note 8)		**77**		270
Total Unitholders' Equity		**226,565**		254,825
	$	**267,694**	$	295,717

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.

Canfor Pulp Income Fund

Notes to the Unaudited Interim Consolidated Financial Statements as at December 31, 2008

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 2007 Annual Report. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2007 audited consolidated financial statements, except as noted below.

3. Changes in Accounting Policies

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

Section 1535 – Capital Disclosures

This section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Fund is required to disclose qualitative and quantitative information that enables users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital (note 9).

Section 3862 – Financial Instruments – Disclosures

This section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks (note 10).

Section 3863 – Financial Instruments – Presentation

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

4. Equity Investment in Canfor Pulp Limited Partnership

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

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

5. Distributions

The Fund declared distributions during the twelve months of 2008 as follows:

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

Record Date	**Payable Date**	**Amount per Fund Unit $**	**Amount $**
January 31, 2008	February 15, 2008	0.12	4,260
February 29, 2008	March 14, 2008	0.12	4,260
March 31, 2008	April 15, 2008	0.12	4,259
April 30, 2008	May 15, 2008	0.12	4,259
May 30, 2008	June 13, 2008	0.12	4,259
June 30, 2008	July 15, 2008	0.12	4,259
July 31, 2008	August 15, 2008	0.12	4,259
August 29, 2008	September 15, 2008	0.12	4,259
September 30, 2008	October 15, 2008	0.12	4,259
October 31, 2008	November 14, 2008	0.12	4,259
November 28, 2008	December 15, 2008	0.12	4,259
December 31, 2008	January 15, 2009	0.04	1,420
		1.36	48,271

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.

6. 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 December 31, 2008 was $9.9 million of which $8.5 million was received, with the balance of $1.4 million receivable on December 31, 2008.

7. 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)	**Year ended December 31, 2008**	Year ended December 31, 2007
Expected income tax expense at statutory tax rate of nil (2007 – nil)	**-**	-
Future income taxes on temporary differences	**3,076**	36,633
	3,076	36,633

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

(thousands of dollars, unaudited)	**December 31, 2008**	December 31, 2007
Future income tax liability:		
Equity investment in the Partnership	**43,499**	46,747
Expected reversal of temporary differences prior to 2011	**(3,790)**	(10,114)
	39,709	36,633

Based on a current estimate of the income tax liability at the beginning of 2011, the Fund has recorded a future income tax liability and corresponding non-cash future tax charge to net income. This non-cash charge 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.

8. Accumulated Other Comprehensive Income (Loss)

(thousands of dollars, unaudited)	**Year ended December 31, 2008**	Year ended December 31, 2007
Balance, beginning of period	**270**	(915)
Other comprehensive income (loss)	**(193)**	1,185
Balance, end of period	**77**	270

9. Capital Disclosures

The Fund's capital is comprised of unitholders' equity and cumulated earnings and distributions. The Fund's only source of liquidity is distributions received from the Partnership. The Fund's objective when managing capital is to make its own distributions to unitholders based on the distributions received from the Partnership.

(thousands of dollars, unaudited)	**December 31, 2008**	December 31, 2007
Unitholders' equity [1]	**226,488**	254,555

Note: [1]Excludes accumulated other comprehensive income.

The Fund has no external capital requirements or covenants.

10. 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.

11. 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 December 31, 2008	Three months ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2007
Revenue				
Sales	**$ 186.1**	$ 215.1	**$ 825.5**	$ 921.6
Business interruption insurance (note 18)	**0.9**	-	**19.1**	-
	187.0	215.1	**844.6**	921.6
Costs and expenses				
Manufacturing and product costs	**144.3**	155.5	**595.8**	597.7
Freight and other distribution costs	**26.5**	26.3	**108.8**	111.0
Amortization	**10.8**	14.8	**47.6**	52.8
Selling and administration costs	**6.4**	6.8	**24.6**	25.8
Settlement of asset retirement obligation (note 8)	**-**	-	**(0.9)**	-
	188.0	203.4	**775.9**	787.3
Operating income (loss)	**(1.0)**	11.7	**68.7**	134.3
Net property damage insurance gain (note 18)	**(0.3)**	-	**8.2**	-
Interest expense, net	**(2.6)**	(1.7)	**(8.1)**	(6.7)
Foreign exchange (loss) gain on long-term debt	**(18.1)**	0.9	**(26.0)**	19.5
Reduction (increase) in value of derivative instruments (note 14)	**(3.3)**	1.8	**(1.1)**	(3.3)
Loss on settlement of US dollar forward sales contracts (note 14)	**(7.8)**	-	**(7.8)**	-
Foreign exchange (loss) gain on working capital	**7.0**	(0.6)	**13.1**	(13.8)
Other expense (income)	**0.1**	-	**(0.2)**	(0.2)
	(25.0)	0.4	**(21.9)**	(4.5)
Net income (loss)	**(26.0)**	12.1	**46.8**	129.8
Other comprehensive income (loss)				
Exchange translation adjustment	**0.2**	-	**0.2**	-
Adjustment for derivatives (note 17)	**(0.1)**	(0.1)	**(0.6)**	2.3
Comprehensive income (loss)	**$ (25.9)**	$ 12.0	**$ 46.4**	$ 132.1
Net income (loss) per Partnership unit (in dollars) (note 13)				
Basic and diluted	**$ (0.36)**	$ 0.17	**$ 0.66**	$ 1.82
Weighted average Partnership units outstanding	**71,270,025**	71,270,025	**71,270,025**	71,270,025
Partners' Equity				
Balance, beginning of period	**$ 580.2**	$ 600.0	**$ 584.9**	$ 583.9
Net income (loss)	**(26.0)**	12.1	**46.8**	129.8
Distributions declared to partners (note 16)	**(19.9)**	(27.1)	**(96.9)**	(131.1)
Other comprehensive income (loss) (note 17)	**0.1**	(0.1)	**(0.4)**	2.3
Balance, end of period	**$ 534.4**	$ 584.9	**$ 534.4**	$ 584.9

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 December 31, 2008	Three months ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2007
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income (loss)	**$ (26.0)**	$ 12.1	**$ 46.8**	$ 129.8
Items not affecting cash:				
Amortization	**10.8**	14.8	**47.6**	52.8
Foreign exchange loss (gain) on long-term debt	**18.1**	(0.9)	**26.0**	(19.5)
Reduction (increase) in value of derivative instruments	**3.3**	(1.8)	**1.1**	3.3
Employee future benefits	**2.3**	2.3	**8.4**	9.6
Loss on disposal of fixed assets	**-**	1.1	**1.2**	1.1
Net property damage insurance gain (note 18)	**0.3**	-	**(8.2)**	-
Settlement of asset retirement obligation	**-**	-	**(0.9)**	-
Change in deferred maintenance provision	**0.9**	1.4	**9.2**	6.4
Other	**0.2**	0.4	**0.6**	0.3
Asset retirement obligation expenditures	**(0.2)**	(0.1)	**(1.4)**	(0.1)
Salary pension plan contribution	**(0.7)**	(0.8)	**(2.1)**	(7.8)
Long-term deferred maintenance expenditure	**(1.5)**	(0.3)	**(8.7)**	(4.7)
Cash flow from operations before working capital changes	**7.5**	28.2	**119.6**	171.2
Changes in non-cash working capital (note 15)	**14.5**	(23.3)	**(14.4)**	(25.0)
	22.0	4.9	**105.2**	146.2
Financing activities				
Distributions paid to partners	**(25.7)**	(31.4)	**(102.7)**	(148.3)
Operating loan draw (note 9)	**21.0**	-	**25.2**	-
	(4.7)	(31.4)	**(77.5)**	(148.3)
Investing activities				
Property, plant and equipment, net (note 15)	**(12.4)**	(11.4)	**(39.4)**	(23.7)
Insurance proceeds (note 18)	**1.5**	-	**9.5**	-
	(10.9)	(11.4)	**(29.9)**	(23.7)
Increase (decrease) in cash and cash equivalents	**6.4**	(37.9)	**(2.2)**	(25.8)
Cash and cash equivalents, beginning of period	**(6.0)**	40.5	**2.6**	28.4
Cash and cash equivalents, end of period	**$ 0.4**	$ 2.6	**$ 0.4**	$ 2.6

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 15).

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 December 31, 2008		As at December 31, 2007
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**0.4**	$	2.6
Accounts receivable (notes 12, 18)				
Trade		**77.0**		145.6
Insurance		**7.4**		-
Other		**7.5**		9.9
Inventories (notes 3, 4)		**176.7**		136.8
Prepaid expenses and other assets		**16.5**		15.6
Total current assets		**285.5**		310.5
Property, plant and equipment (note 3, 5)		**570.2**		585.6
Other long-term assets (note 6)		**13.2**		12.9
	$	**868.9**	$	909.0
LIABILITIES				
Current liabilities				
Operating loan (note 9)		**25.2**		-
Accounts payable and accrued liabilities (note 12)		**121.6**		156.9
Distributions payable (note 16)		**2.8**		8.6
Total current liabilities		**149.6**		165.5
Long-term debt (note 9)		**134.7**		108.7
Long-term liabilities (note 10)		**50.2**		49.9
	$	**334.5**	$	324.1
PARTNERS' EQUITY – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units (note 1)		**534.4**		584.9
	$	**868.9**	$	909.0

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

Subsequent event (note 18).

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

Canfor Pulp Limited Partnership

Notes to the Unaudited Interim Consolidated Financial Statements as at December 31, 2008

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 December 31, 2008, 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 64% (2007 Year – 66%) of its fibre supply as well as to provide certain key business and administrative services as described in the Fund's 2007 Annual Report. 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. Except as described in note 3, the Partnership's accounting policies are as disclosed in the annual consolidated financial statements of the Partnership included in the Fund's 2007 Annual Report available at www.canforpulp.com or www.sedar.com.

3. Changes in Accounting Policies

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

Section 1535 – Capital Disclosures

This section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Partnership is required to disclose qualitative and quantitative information that enables users of the financial statements to evaluate the Partnership's objectives, policies and processes for managing capital (note 11).

Section 3031 – Inventories

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

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

Section 3862 – Financial Instruments – Disclosures

This section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management’s objectives, policies and procedures for managing such risks (note 14).

Section 3863 – Financial Instruments – Presentation

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

4. Inventories

(millions of dollars, unaudited)	**December 31, 2008**	December 31, 2007
Pulp	**86.7**	63.7
Paper	**20.6**	14.0
Wood chips	**23.3**	10.7
Processing materials and supplies (note 3)	**46.1**	48.4
	176.7	136.8

Pulp and paper finished goods inventory balances at December 31, 2008 are presented net of a write down from cost to net realizable value totalling $1.9 million (December 31, 2007 – $0.2 million).

5. Property, Plant and Equipment

	December 31, 2008		
(millions of dollars, unaudited)	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**

(millions of dollars, unaudited)	December 31, 2007 Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	9.1	0.2	8.9
Buildings, machinery and equipment	1,294.7	726.6	568.1
Construction in progress	3.2	-	3.2
	1,312.4	726.8	585.6

6. Other Long-term Assets

(millions of dollars, unaudited)	**December 31, 2008**	December 31, 2007
Pension benefit plan	**11.7**	11.3
Maintenance shutdown costs	**0.9**	1.4
Other	**0.6**	0.2
	13.2	12.9

7. 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		**Year ended**	
(millions of dollars, unaudited)	**December 31, 2008**	December 31, 2007	**December 31, 2008**	December 31, 2007
Pension plans	**0.9**	1.2	**3.7**	4.8
Other employee future benefit plans	**1.5**	1.5	**6.0**	6.1
Contributions to forest industry union plans	**1.2**	1.3	**6.3**	6.3
	3.6	4.0	**16.0**	17.2

8. Asset Retirement Obligations

(millions of dollars, unaudited)	**December 31, 2008**	December 31, 2007
Balance beginning of period	**11.3**	-
Accrued obligation	**-**	11.3
Accretion expense	**0.4**	0.1
Current expenditures	**(1.2)**	(0.3)
Gain on settlement	**(0.9)**	-
Change in estimate	**(6.8)**	0.2
Balance end of period	**2.8**	11.3
Less current portion – included in accounts payable and other accrued liabilities	**-**	(2.1)
Long-term portion	**2.8**	9.2

9. Credit Facilities and Long-term Debt

The Partnership has a $75.0 million syndicated unsecured revolving bank credit facility (the Revolving Facility), maturing in November 2009, of which $25.7 million is available with $24.1 million of the Revolving Facility reserved for a standby letter of credit issued to BC Hydro and $25.2 million drawn to fund working capital requirements as of December 31, 2008. The Revolving Facility bears interest and fees at rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation and amortization (EBITDA) and which may, at the Partnership's option, be based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate. The effective interest rate on the revolving facility for the quarter and year ended December 31, 2008 was 4.4% and 4.6% respectively.

At December 31, 2008 the Partnership has outstanding long-term debt of $134.7 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.

Each agreement relative to the Notes and Revolving Facility contains similar financial covenants including maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio and the Partnership remained in compliance with all covenants at December 31, 2008.

The fair value of long-term debt at December 31, 2008 was $133.9 million (US$109.4 million).

10. Long-term Liabilities

(millions of dollars, unaudited)	**December 31, 2008**	December 31, 2007
Accrued pension obligations	**5.9**	4.3
Post-employment benefits	**40.8**	35.6
Derivative financial instruments (note 14)	**0.7**	0.8
Asset retirement obligations (note 8)	**2.8**	9.2
	50.2	49.9

11. Capital Disclosures

The Partnership's objectives when managing capital are to safeguard its assets and maintain a globally competitive cost structure, continue as a going concern and provide returns to its partners in the form of distributions and capital appreciation. In addition, the Partnership works with all relevant stakeholders to ensure the safety of its operations and employees, and remain in compliance with all environmental regulations.

The Partnership's capital is comprised of net debt and Partners' equity:

(millions of dollars, unaudited)	**December 31, 2008**	December 31, 2007
Total debt	**159.9**	108.7
Cash and cash equivalents	**(0.4)**	(2.6)
Net debt	**159.5**	106.1
Total Partners' equity[1]	**534.3**	584.4
	693.8	690.5

Note: [1] Excludes accumulated other comprehensive income – note 17.

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, 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 non-cash working capital will be funded from cash resources or the revolving short-term credit facility, and thus will not significantly affect the level of distributions.

The Partnership believes its objectives for managing capital in the current economic environment are still appropriate.

The Partnership's long-term debt and short-term credit facility agreements contain leverage and interest ratio covenants, as described in note 9.

12. Related Party Transactions

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2007 audited consolidated financial statements and are based on agreed upon amounts between the parties, and are summarized below:

	Three months ended		**Year ended**	
(millions of dollars, unaudited)	**December 31, 2008**	December 31, 2007	December 31, 2008	December 31, 2007
Transactions				
Canfor	**34.3**	35.7	**145.3**	144.8
Howe Sound LP – commission	**0.5**	0.6	**2.6**	2.9
Howe Sound LP – sale of wood chips	**0.2**	-	**0.7**	-
Howe Sound LP – purchase of wood chips	**-**	0.7	**-**	0.7
Lakeland Mills Ltd. and Winton Global Lumber Ltd. – purchase of wood chips	**0.9**	1.9	**6.0**	11.5

	December 31, 2008	December 31, 2007
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**27.4**	31.1
Howe Sound LP	**20.4**	35.0
Lakeland Mills Ltd. and Winton Global Lumber Ltd.	**0.2**	0.3
Included in trade accounts receivable:		
Product marketed for Canfor	**9.9**	14.2
Product marketed for Howe Sound LP	**16.9**	31.8

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

13. 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.

14. 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 Partnership does not have holdings in asset backed commercial paper. The cash and cash equivalents balance at December 31, 2008 was $0.4 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 82% of the outstanding trade receivables are covered under credit insurance while the majority of the balance is with large and financially sound customers. 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 December 31, 2008, the Partnership had reduced the trade accounts receivable balance by $20.6 million due to discounting of letters of credit. The Partnership's trade receivable balance at December 31, 2008 was $77.0 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 Revolving Facility to meet short-term working capital requirements. The Partnership's Revolving Facility matures in November 2009. The Partnership expects to renew the Revolving Facility for a similar amount, with terms and interest rates based on prevailing market conditions at the time of renewal.

Due to the current global financial crisis, the Partnership is also actively reviewing on an ongoing basis, the level of distributions, capital expenditures and timing of scheduled major maintenance outages and may adjust these amounts periodically to manage cash resources. In addition, the Partnership is utilizing discounting of letters of credit on outstanding trade receivables to manage liquidity risk. At December 31, 2008, the impact of discounting of letters of credit accelerated cash collection and reduced the trade accounts receivable balance by $20.6 million. The Partnership believes it will be able to meet all financial obligations as they come due.

At December 31, 2008, the Partnership accounts payable and accrued liabilities totalled $121.6 million, all of which fall due for payment within one year of the balance sheet date. The Partnership's distributions payable at December 31, 2008 totalled $2.8 million, which fall due for payment on January 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 rate and through its off-balance sheet lease obligations. The Partnership's cash and cash equivalents include term deposits with an original maturity date of 90 days or less.

The Partnership manages interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to meet day-to-day operating cash flow requirements and payment of monthly declared distributions to unitholders.

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. Subsequently, 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 year ended December 31, 2008 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 prices and natural gas.

For the three months ended December 31, 2008 the Partnership recorded losses of $0.6 million (December 31, 2007 – loss of $1.1 million) relating to settlement of maturing natural gas contracts as a credit to manufacturing and product costs. For the year ended December 31, 2008 the Partnership recorded gains of $0.5 million as a credit to manufacturing and product costs (December 31, 2007 – loss of $2.2 million). At December 31, 2008 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 3.5 million gigajoules extending to October, 2011. At December 31, 2008 the loss of $3.2 million (December 31, 2007 – $2.7 million) on these outstanding commodity swaps is recorded as a liability in accounts payable and accrued liabilities and in long-term liabilities.

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

15. Supplementary Cash Flow Information

(millions of dollars, unaudited)	Three months ended December 31, 2008	Three months ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2007
Changes in non-cash working capital				
Accounts receivable – trade and other	**49.4**	(3.0)	**71.0**	(18.1)
Insurance receivable	**1.3**	-	**(7.5)**	-
Inventories	**(13.0)**	(5.0)	**(46.7)**	(25.8)
Prepaid expenses and other assets	**6.8**	6.9	**(0.9)**	(2.5)
Accounts payable and accrued liabilities	**(30.0)**	(22.2)	**(30.3)**	21.4
	14.5	(23.3)	**(14.4)**	(25.0)
Capital expenditures				
Capital expenditures – cash	**12.4**	11.4	**39.4**	23.7
Less Property damage insurance proceeds	**(3.7)**	-	**(9.4)**	-
Net capital expenditures – cash	**8.7**	11.4	**30.0**	23.7
Capital expenditures – net accruals	**(1.9)**	3.3	**(4.7)**	8.2
Change in asset retirement obligations – long-term	**(6.8)**	0.2	**(6.8)**	9.1
	-	14.9	**18.5**	41.0
Net interest paid	**4.4**	3.0	**8.1**	6.8

16. Distributions

The Partnership declared distributions in the twelve months of 2008 as follows:

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

Record Date	Payable Date	Amount per Partnership Unit $	Amount $
January 31, 2008	February 15, 2008	0.12	**8.5**
February 29, 2008	March 14, 2008	0.12	**8.5**
March 31, 2008	April 15, 2008	0.12	**8.6**
April 30, 2008	May 15, 2008	0.12	**8.5**
May 30, 2008	June 13, 2008	0.12	**8.6**
June 30, 2008	July 15, 2008	0.12	**8.6**
July 31, 2008	August 15, 2008	0.12	**8.5**
August 29, 2008	September 15, 2008	0.12	**8.6**
September 30, 2008	October 15, 2008	0.12	**8.6**
October 31, 2008	November 14, 2008	0.12	**8.6**
November 28, 2008	December 15, 2008	0.12	**8.5**
December 31, 2008	January 15, 2009	0.04	**2.8**
		1.36	**96.9**

17. Accumulated Other Comprehensive Income (loss)

(millions of dollars, unaudited)	**Year ended December 31, 2008**	Year ended December 31, 2007
Balance, beginning of period	**0.5**	(1.8)
Adjustment for exchange translation	**0.2**	-
Adjustment for derivatives recorded in other comprehensive income (loss)	**(0.6)**	2.3
Balance, end of period	**0.1**	0.5

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

(millions of dollars, unaudited)	**December 31, 2008**
Cumulative comprehensive income	**263.4**
Cumulative distributions	**(316.5)**
	(53.1)
Partners' capital – at July 1, 2006	**587.5**
Partner's equity, end of period	**534.4**

18. Prince George Pulp and Paper Mill Fire and Insurance

On January 15, 2008 a fire at the Prince George Pulp & Paper Mill destroyed the chip screening and in-feed system. The Partnership has accrued a property damage insurance receivable of $12.2 million in 2008, which is net of aggregate policy deductibles of $3.25 million. Net insurance proceeds, less the write-off of the net book value of the damaged assets, were recorded as a non-operating gain on disposal of assets of $8.2 million. An adjustment to the non-operating gain on disposal of assets of $0.3 million in the fourth quarter of 2008 reflects management's current estimate of final costs to complete the new chip screening system.

The Partnership also accrued business interruption insurance proceeds totalling $19.1 million to recover the estimated $20.1 million impact of lost production during the year, less a three day equivalent deductible of $1.0 million.

The Partnership has received cash advances totalling $27.1 million, of which $15.9 million related to the business interruption claim and $11.2 million for property damage, of which $9.5 million has been classified as an investing activity on the cash flow statement, with the balance of $1.7 million representing a reimbursement of demolition costs. Subsequent to December 31, 2008, a further $2.7 million has been received as partial payment against the accrued insurance receivable.

19. Segmented Information [a]

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs	Total
Three months ended December 31, 2008				
Sales to external customers [b]	**159.4**	**26.7**	**-**	**186.1**
Sales of pulp to paper segment [c]	**17.3**	**(17.3)**	**-**	**-**
Operating income (loss)	**(0.4)**	**2.5**	**(3.1)**	**(1.0)**
Amortization	**9.9**	**0.8**	**0.1**	**10.8**
Capital expenditures, net	**3.2**	**-**	**0.5**	**3.7**
Three months ended December 31, 2007				
Sales to external customers [b]	186.0	29.1	-	215.1
Sales of pulp to paper segment [c]	18.9	(18.9)	-	-
Operating income (loss)	16.0	(0.9)	(3.4)	11.7
Amortization	13.6	1.1	0.1	14.8
Capital expenditures, net	14.5	0.3	0.1	14.9
Year ended December 31, 2008				
Sales to external customers [b]	**696.9**	**128.9**	**-**	**825.5**
Sales of pulp to paper segment [c]	**78.7**	**(78.7)**	**-**	**-**
Operating income (loss)	**72.5**	**9.4**	**(13.2)**	**68.7**
Amortization	**43.7**	**3.7**	**0.2**	**47.6**
Capital expenditures, net	**26.7**	**0.4**	**0.8**	**27.9**
Identifiable assets	**772.6**	**73.9**	**22.4**	**868.9**
Year December 31, 2007				
Sales to external customers [b]	798.0	123.6	-	921.6
Sales of pulp to paper segment [c]	79.9	(79.9)	-	-
Operating income (loss)	152.6	(2.1)	(16.2)	134.3
Amortization	48.5	4.1	0.2	52.8
Capital expenditures, net	39.1	1.8	0.1	41.0
Identifiable assets	811.8	71.7	25.5	909.0

(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 43% (Year 2007 – 41%).

(b) Sales to the largest customer represented approximately 12% of pulp segment sales (Year 2007 – 24%). Excludes business interruption insurance of $19.1 million.

(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.